

Skiff Medical Center
Newton, Iowa

**Basic Financial Statements and
Supplementary Information
June 30, 2013 and 2012**

Together with Independent Auditor's Report

Skiff Medical Center

Table of Contents

	<u>Page</u>
Officials - June 30, 2013	1
Independent Auditor's Report	2 – 3
Management's Discussion and Analysis	4 – 11
Financial Statements:	
Statements of Net Position	
June 30, 2013 and 2012	12
Statements of Revenue, Expenses and Changes in Net Position	
For the Years Ended June 30, 2013 and 2012	13
Statements of Cash Flows	
For the Years Ended June 30, 2013 and 2012	14 – 15
Notes to Financial Statements	
June 30, 2013 and 2012	16 – 29
Required Supplementary Information:	
Schedule of Funding Progress for the Retiree Health Plan	30
Budgetary Comparison Schedule of Revenue, Expenses and	
Changes in Net Position – Budget and Actual (Cash Basis)	31
Other Supplementary Information:	
Exhibit 1 - Net Patient Service Revenue	32
Exhibit 2 - Other Operating Revenue	33
Exhibit 3 - Departmental Expenses	34
Exhibit 4 - Patient Receivables and Allowance	
for Doubtful Accounts	35
Exhibit 5 - Inventories / Prepaid Expenses	36
Exhibit 6 - Financial Statistical Highlights	37
Independent Auditor's Report on Internal Control over Financial Reporting and on	
Compliance and Other Matters Based on an Audit of Financial Statements	
Performed in Accordance with Government Auditing Standards	38 – 39
Schedule of Findings and Responses	40
Audit Staff	41

Skiff Medical Center

Officials
June 30, 2013

<u>Board of Trustees</u>	<u>Title</u>	<u>Term Expires</u>
Jeff King, Ph.D	Chair	December 2015
Debby Pence	Vice Chair	December 2015
Lois Vogel	Secretary	December 2013
Rick Hartz	Treasurer	December 2015
Larry DeCook, OD	Member	December 2013

<u>Medical Center Officials</u>	<u>Title</u>
Steve Long	President and CEO
Brett Altman	Clinical Operations Officer
Katie Heldt	Chief Nursing Officer

Independent Auditor's Report

To the Board of Trustees of
Skiff Medical Center
Newton, Iowa:

Report on the Financial Statements

We have audited the accompanying financial statements of Skiff Medical Center (Medical Center) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of June 30, 2013 and 2012, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, schedule of funding progress for the retiree health plan on page 30, and the budgetary comparison information on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements. The supplementary information included in Exhibits 1 – 6 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information in Exhibits 1 – 6 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in Exhibits 1 – 6 is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013 on our consideration of the Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.



Omaha, Nebraska,
October 18, 2013.

Skiff Medical Center

Management's Discussion and Analysis June 30, 2013 and 2012

As management of Skiff Medical Center (Medical Center), we offer readers of the Medical Center's financial statements this narrative overview and analysis of the Medical Center's financial performance during the fiscal years ending June 30, 2013, 2012 and 2011. Please read it in conjunction with the Medical Center's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Medical Center. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Medical Center report information using accounting methods similar to those used by private sector companies. These statements offer short-and long-term financial information about its activities. The statement of net position includes all of the Medical Center's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Medical Center creditors (liabilities). It also provides the basis for evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position. This statement measures the success of the Medical Center's operations over the past year and can be used to determine whether the Medical Center has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE MEDICAL CENTER

The statement of net position and the statement of revenues, expenses, and changes in net position report the net position of the Medical Center and the changes in them. The Medical Center's net position-the difference between assets and liabilities-are a way to measure financial health or financial position. Over time, sustained increases or decreases in the Medical Center's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors, such as changes in economic conditions, population growth and new or changed governmental legislation, should also be considered.

Skiff Medical Center

Management's Discussion and Analysis June 30, 2013 and 2012

NET POSITION

A summary of the Medical Center's statements of net position at June 30, 2013, 2012 and 2011 are presented in Table 1 as follows:

Table 1- Condensed Statements of Net Position (In Thousands)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Current and other assets	\$ 11,598	13,105	11,529
Capital assets	<u>15,806</u>	<u>18,268</u>	<u>15,973</u>
Total assets	<u>\$ 27,404</u>	<u>31,373</u>	<u>27,502</u>
Long-term debt outstanding	\$ 2,574	3,293	575
Other liabilities	<u>2,502</u>	<u>2,985</u>	<u>2,779</u>
Total liabilities	<u>\$ 5,076</u>	<u>6,278</u>	<u>3,354</u>
Net investment in capital assets	\$ 13,232	14,975	15,398
Unrestricted	9,046	10,070	8,709
Restricted	<u>50</u>	<u>50</u>	<u>41</u>
Total net position	<u>\$ 22,328</u>	<u>25,095</u>	<u>24,148</u>

Skiff Medical Center

Management's Discussion and Analysis June 30, 2013 and 2012

REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The following table presents a summary of the Medical Center's historical revenues and expenses for each of the fiscal years ended June 30, 2013, 2012 and 2011.

Table 2- Condensed Statements of Revenue, Expenses, and Changes in Net Position (In Thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net patient service revenue	\$ 33,742	35,145	31,456
Other operating revenue	1,192	3,057	1,418
Total revenue	<u>34,934</u>	<u>38,202</u>	<u>32,874</u>
Operating expenses:			
Salaries	17,441	17,624	16,694
Employee benefits	5,843	6,073	5,190
Purchased services and professional fees	3,611	2,885	2,839
Utilities	796	750	780
Supplies and other expense	7,368	7,203	6,591
Depreciation and amortization	2,750	2,583	2,322
Insurance	194	266	195
Interest	55	39	22
Total operating expenses	<u>38,058</u>	<u>37,423</u>	<u>34,633</u>
Operating income (loss)	(3,124)	779	(1,759)
Non-operating revenue (expense) - Investment income (loss)	223	(11)	897
Excess of revenues over (under) expenses before contributions/grants	(2,901)	768	(862)
Grants and contributions	134	179	170
Increase (decrease) in net position	(2,767)	947	(692)
Total net position, beginning of year	<u>25,095</u>	<u>24,148</u>	<u>24,840</u>
Total net position, end of year	<u>\$ 22,328</u>	<u>25,095</u>	<u>24,148</u>

Skiff Medical Center

Management's Discussion and Analysis June 30, 2013 and 2012

Operating and Financial Performance

The following summarizes the Medical Center's statements of revenue, expenses, and changes in net position during the past fiscal year (FY13)

Volume:

Significant volume increases were experienced in 2013. Though total admissions remained relatively flat compared to FY12, total patient days increased by more than 7%. This was primarily due to increases in swing bed admissions and lengths of stay. Outpatient visits increased by more than 8% with the majority of this growth happening in the emergency room and rehabilitation therapy departments. This increase in overall volume led to a nearly 7% increase in gross patient service revenue.

Gross Patient Service Revenue:

Gross patient service revenue increased 6.7% over FY12. Approximately 50% of the increase can be attributed to targeted price increases in a number of service lines, with the remainder attributable to year-on-year volume growth.

As noted in the following chart, payer mix remained stable, with a slight shift from Medicare to Commercial payers. This shift is associated with an increase in the number of patients choosing a "Medicare Advantage" plan. These plans are included in the "Commercial" payer bucket.

Table 3- Payor Mix by Percentage

<u>Year Ended June 30,</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Medicare	44.7%	46.4%	46.5%
Wellmark / Blue Cross	19.6%	19.8%	19.4%
Commercial	21.4%	19.6%	19.4%
Medicaid	10.8%	10.7%	10.6%
Self Pay	3.5%	3.5%	4.1%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Revenue Adjustments:

Revenue adjustments were significantly impacted by a number of issues for FY13.

- Revenue Audit Contractor (RAC) adjustments
- Repayment of Medicare Low Volume Adjustment (LVA) reimbursement
- Shift to Medicare Advantage plans
- Shift to high deductible commercial plans
- Changes in commercial payer contracts and movement of local employers to payers with lower reimbursement rates

The Medicare RAC program was a significant factor in FY13 with a cumulative impact of nearly \$750,000 during the fiscal year. The purpose of this program is to allow Medicare contractors to review payments made to hospitals for care provided to Medicare beneficiaries in the past. If the contractor determines that incorrect payment was made, it requires the hospital to repay that amount to Medicare and the contractor is paid a percentage of that amount as a "finder's fee". The contractor is allowed a three year "look back" period. Unfortunately, if the contractor identifies a service delivered more than 12 months in the past, it can request repayment from the hospital, but the hospital is not allowed to re-bill those claims appropriately. The amount recouped by the RAC contractor in FY 13 included amounts associated with the two prior fiscal years as well as the current year.

Skiff Medical Center

Management's Discussion and Analysis June 30, 2013 and 2012

As a part of the Affordable Care Act, rural hospitals were provided supplemental Medicare reimbursement in the form of "Low Volume Adjustment" (LVA) increases of up to 25%, based on a sliding scale associated with the number of inpatient admissions a hospital experiences. The impact on a per-inpatient-claim basis for Skiff Medical Center was approximately 12%. This program began in October 2010 and was slated to be in effect for two years, with recertification required at the end of the first year. In July 2011, Skiff Medical Center was also admitted to the Medicare Rural Community Hospital (RCH) demonstration program, a five year program allowing cost-based reimbursement for inpatient services provided to Medicare beneficiaries. That same month Medicare issued a notice casting doubt on the ability of a rural hospital to engage in both the LVA and RCH programs. In October 2011 the hospital reapplied to the LVA program with the Medicare Administrative Contractor and was again accepted into the program. In September 2012, the program expired and the hospital ceased receiving the payments. In January 2013 the LVA program was extended by congress for an additional year and in April 2013 the hospital was informed by the Medicare Administrative Contractor that payments, retroactive to October 2012, would be issued to the hospital. Less than a month later, in May 2013, the Medicare Administrative Contractor sent another letter noting that it had been incorrectly paying the hospital LVA payments since July 1, 2011 and requested repayment of approximately \$750,000. Though Skiff Medical Center, and other hospitals similarly impacted, argued strongly against this finding, with the support of our congressmen, the appeal was unsuccessful.

The RCH demonstration program provides exceptional value to the hospital, but it applies only to patients enrolled in traditional Medicare. Unfortunately over the past year we have experienced an increasing number of beneficiaries selecting Medicare Advantage plans. In addition to removing these patients from the demonstration program, Medicare Advantage plans tend to have extremely poor reimbursement rates, thus negatively impacting the reimbursement rate for our "commercial insurance" bucket.

Contractual adjustments have also been negatively impacted by reductions in reimbursements by commercial payers, especially for outpatient services. For example, Wellmark BC/BS implementation of enhanced ambulatory patient grouping (EAPG) reimbursement methodology. In addition, we have seen the largest employer in our community, TPI Composites, switch from a BC/BS plan to a United Health Care plan which provides lower reimbursement.

Additionally, with rising health care costs, we have experienced an increase in the number of commercially insured patients choosing high-deductible health plans. Our own health plan was significantly revised for the last half of FY 13 with deductibles more than doubling. This led to an increase in self-pay balances and a commensurate increase in bad-debt write-offs (10.5% increase) and charity care requests (15.8% increase).

Finally, the federal "sequester" reduced Medicare reimbursement and the implementation of the value-based-purchasing concept placed a portion of Medicare reimbursement at risk.

Net Patient Service Revenue:

Though the hospital experienced strong volume growth during FY 13 that, coupled with increased prices, led to record gross revenue of more than \$77.5M (nearly 7% higher than the previous year), the more than 16% increase in revenue adjustments wiped away the positive impact of this growth in volume. Fortunately, the RCH demonstration program continued to provide additional funding to the hospital and serves to partially offset significant revenue declines from other sources. Even with RCH revenues, the hospital experienced a decline in net patient revenue of 4%, even though gross revenue increased more than 6%

Other Operating Revenue:

Other operating revenue declined significantly due primarily to a lack of funds associated with the federal electronic health records (EHR) program. This funding is expected to return in FY14.

Total Operating Expense:

Salaries: Salaries declined in FY13 due to an attrition program driven by labor productivity benchmarking. A number of positions in which the incumbents retired were not replaced and the duties of those positions were absorbed into other positions or multiple positions were combined prior to new personnel being hired. The decline in salary expense was realized despite a 3.1% merit increase in January 2013.

Skiff Medical Center

Management's Discussion and Analysis June 30, 2013 and 2012

Employee Benefits: The decrease in employee benefits was associated with a decline in health insurance expenses due to the move from self-funded to a fully-funded plan and the implementation of a high deductible health plan. Total benefits declined despite an increase in the required employer contribution to the IPERS pension plan.

Purchased Services and Professional Fees: An increase in these expenses is primarily associated with radiology equipment (MRI, CT, Rad room) coming off warranty and into a service contract period. Additional increases were experienced in the area of physician recruitment expenses and pharmacy service contracts.

Supplies and Other Expenses: Supplies expenses rose in relation to volume increases with the largest increases experienced in the areas of pharmaceuticals, infusions, and blood. These last items are associated with exceptional growth in the cancer clinic and outpatient infusion center.

Depreciation Expense: Depreciation expense increased due to the addition of fixed assets and the sale of a building.

Non-Operating Gain/ (Loss):

Overall, Skiff Medical Center realized a non-operating gain in FY13 due to positive returns in the equity market.

CAPITAL ASSETS

Minimal investments in capital assets were made in FY13 with the majority being infrastructure improvements and renovation projects funded by gifts.

DEBT ADMINISTRATION

Capital Leases

The outstanding long term debt decreased in FY13 due to the reduction in outstanding balances of capital leases.

ECONOMIC FACTORS

The economy of Newton continues to mend slowly. The unemployment rate in the county decreased from 8.1% in 2010 to 6.9% in 2012 and currently stands at 5.8%. Even with this improvement, Jasper County still ranks as fourth highest in the state in terms of unemployment. In addition, the demographics of the county continue to shift toward an older, poorer population.

Though Newton and Jasper County are now essentially operating as a far-flung eastern suburb of Des Moines, there is continued growth in local industry. TPI, a manufacturer of blades for large wind turbines, continues to employ nearly 1,000 people. Trinity, a manufacturer of wind towers, employs another 250 workers. Other firms that entered the market in the last few years are in a stable to growing condition. Nine companies and more than 1,500 manufacturing jobs have come to Newton since the closure of Maytag in 2007. Though the return of manufacturing to the area has been a God send, it is important to note that the new jobs are much lower-paying and less robust in terms of benefits than the jobs they replaced at Maytag.

The Newton area is hard at work in developing and implementing a vision for vigorous growth over the next several years. These efforts are being spear-headed by the city, the economic development organization, and the chamber of commerce. Efforts are being guided by the comprehensive plan developed by the city in 2012. This plan includes the following elements:

- Grow Newton's population, specifically targeting young families
- Increase employment opportunities
- Improve the city's curb appeal
- Fill vacant buildings, and increase local shopping options

Skiff Medical Center

Management's Discussion and Analysis June 30, 2013 and 2012

Significant progress is being made in each of these areas and includes the development of a significant plan to invest in housing infrastructure, participation in a consulting engagement aimed at identifying retail niches, application to the "Main Street" program by the Chamber of Commerce focused on downtown revitalization, and development of a branding campaign to change the image of the community.

The commitment of the community to the hospital is evident in the following excerpt from the "guiding principle on healthcare" contained in the comprehensive plan: "Newton will support the local hospital and health care providers and recognizes that maintaining Skiff Medical Center is of utmost importance for the community."

The hospital strategic plan includes elements related to quality, patient satisfaction, caregiver engagement, and growth (financial performance):

1. Put people first by fostering a culture of ownership focused on our fundamental values with a shared hopefulness on the part of each caregiver (employee, volunteer, or medical staff member), having a desire to make Skiff the best possible place to work and provide patient care.
2. Identify opportunities to partner with other organizations to provide existing or new service lines in a manner which enhances the level of service provided to patients, and broadens our economic impact on the communities we serve.
3. Continuously evaluate our services based on environmental trends, community needs, and financial performance to ensure we are providing core hospital services to the best of our ability and filling a niche in areas where we have, or can develop, specific expertise.
4. Build confidence in our abilities by:
 - a. Improving our ability to handle higher acuity patients in the in-patient environment as we seek to grow the in-patient practice and keep patient care local.
 - b. Developing advanced diagnostic and therapeutic capabilities to ensure local access to the highest level of care in both the inpatient and outpatient environments.
 - c. Ensuring the appropriate number and type of medical providers are available in our service area by partnering with medical practices to recruit them.
5. Implement benchmarking processes and increase performance in all areas compared to those benchmarks by:
 - a. Increasing the quality of, and satisfaction with, the patient care we provide through the implementation of national best practices and benchmarking tools and by creating a sense of urgency throughout Skiff in regards to the importance of keeping our promise to achieve positive care outcomes and exceed the expectations of our patients.
 - b. Better manage our resources and reduce our operating costs through the use of operational improvement strategies such as "lean" and labor productivity management and by actively benchmarking our operations against peer institutions.
6. Be intentional in telling the Skiff story to the community and focus our efforts on increasing physician referrals, building good will, and increasing awareness about our service offerings.

With this plan in mind, the hospital continued to partner with the existing medical group in hiring two new providers in FY13 and assisted in the development of a second physician group in Newton by providing physician recruitment incentives. This group has added four providers to the community with a fifth scheduled to come on board in 2014. In addition, the hospital partnered with Health Enterprises of Iowa to develop a regional medical laboratory in Newton. This lab, slated to open in early 2014 will provide the hospital with state of the art anatomic and clinical pathology services while setting the stage for significant lab expense reductions in the future.

FY13 provided a preview of the future of health care with volume increases washed out by significant reductions in reimbursements. This calls for even greater attention to expense reduction initiatives in the future. The current focus on decreasing labor costs using productivity benchmarking and attrition are beginning to be realized. Continued reduction in health insurance expenses are expected and supply costs will decline with the implement of the Ascend program via Health Enterprises. Growth in the number of physicians should positively impact volumes in the coming year.

Skiff Medical Center

Management's Discussion and Analysis June 30, 2013 and 2012

Uncertainties in the future will be associated with the implementation of health care reform and the impact this will have on reimbursement rates. The move from a volume-based reimbursement system to a value-based system is well underway. The future of population-health-based reimbursement is still unclear, but additional reductions in reimbursement to hospitals are the likely outcome.

The key to a successful future is a focus on the foundational elements of quality/patient safety, patient experience, and caregiver engagement. We have made tremendous progress in each of these areas over the past few years and the result has been volume growth. We will continue our focus on these key elements while giving even more attention to the expense reduction initiatives currently underway, all while developing a plan to weather a fundamental transformation of the health care industry over the next several years.

CONTACTING THE MEDICAL CENTER'S ADMINISTRATION

The Medical Center's financial statements are designed to present users with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability. If you have questions about the report or need additional information, please contact the hospital's CEO, Steve Long, at 641-791-4333 or via mail at 204 N. 4th Ave. East, Newton, Iowa 50208.

Skiff Medical Center

Statements of Net Position June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 773,534	1,562,086
Investments limited as to use or restricted	--	300,000
Patient receivables, net of allowance for doubtful accounts of \$1,388,704 in 2013 and \$1,291,004 in 2012	5,134,435	5,066,257
Inventories	423,264	512,879
Prepaid expenses	187,539	173,058
Estimated third-party payor settlements	<u>448,443</u>	<u>809,350</u>
Total current assets	6,967,215	8,423,630
Investments limited as to use or restricted - less amounts required for current obligations	4,631,011	4,682,000
Capital assets, net	<u>15,805,917</u>	<u>18,267,864</u>
Total assets	<u>\$ 27,404,143</u>	<u>31,373,494</u>
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	\$ 821,783	789,246
Accounts payable	658,962	860,527
Accrued expenses -		
Accrued payroll and payroll taxes	512,567	460,731
Accrued employee benefits	<u>1,330,909</u>	<u>1,663,861</u>
Total current liabilities	3,324,221	3,774,365
Long-term debt, net of current maturities	<u>1,751,975</u>	<u>2,503,710</u>
Total liabilities	<u>5,076,196</u>	<u>6,278,075</u>
NET POSITION		
Net investment in capital assets	13,232,159	14,974,908
Restricted, nonexpendable permanent endowment	50,500	50,500
Unrestricted	<u>9,045,288</u>	<u>10,070,011</u>
Total net position	<u>22,327,947</u>	<u>25,095,419</u>
Total liabilities and net position	<u>\$ 27,404,143</u>	<u>31,373,494</u>

See notes to the financial statements

Skiff Medical Center

Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUE:		
Net patient service revenue, net of provision for bad debts of \$3,151,770 in 2013 and \$2,852,497 in 2012	\$ 33,741,592	35,144,719
Other operating revenue	<u>1,191,585</u>	<u>3,057,356</u>
Total operating revenue	<u>34,933,177</u>	<u>38,202,075</u>
OPERATING EXPENSES:		
Salaries	17,440,640	17,624,428
Employee benefits	5,842,868	6,072,111
Purchased services and professional fees	3,610,789	2,884,949
Utilities	796,143	750,099
Supplies and other expenses	7,368,080	7,203,605
Depreciation and amortization	2,750,237	2,582,707
Insurance	193,962	266,249
Interest	<u>54,992</u>	<u>39,256</u>
Total operating expenses	<u>38,057,711</u>	<u>37,423,404</u>
OPERATING INCOME (LOSS)	(3,124,534)	778,671
NONOPERATING REVENUE (EXPENSES), NET:		
Investment income (loss), net	<u>223,118</u>	<u>(10,812)</u>
EXCESS OF REVENUE OVER (UNDER) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS AND ADDITIONS TO PERMANENT ENDOWMENTS	(2,901,416)	767,859
CAPITAL GRANTS AND CONTRIBUTIONS	133,944	170,249
ADDITIONS TO PERMANENT ENDOWMENTS	<u>--</u>	<u>9,000</u>
INCREASE (DECREASE) IN NET POSITION	(2,767,472)	947,108
NET POSITION, Beginning of year	<u>25,095,419</u>	<u>24,148,311</u>
NET POSITION, End of year	<u>\$ 22,327,947</u>	<u>25,095,419</u>

See notes to financial statements

Skiff Medical Center

Statements of Cash Flows For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 34,034,321	33,052,219
Cash paid for employee salaries and benefits	(23,564,624)	(23,267,302)
Cash paid to suppliers and contractors	(12,095,405)	(10,833,673)
Other operating receipts	<u>1,309,620</u>	<u>3,015,621</u>
Net cash provided by (used in) operating activities	<u>(316,088)</u>	<u>1,966,865</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Endowment gifts received	<u>--</u>	<u>9,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of capital assets	182,604	50,000
Purchase of capital assets	(508,206)	(1,635,376)
Capital grants and contributions	133,944	170,249
Payments on long term debt	(799,921)	(532,391)
Interest paid on debt	<u>(54,992)</u>	<u>(39,256)</u>
Net cash used in capital and related financing activities	<u>(1,046,571)</u>	<u>(1,986,774)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to investments limited as to use, net	350,989	(6,163)
Investment income, net	<u>223,118</u>	<u>(10,812)</u>
Net cash provided by (used in) investing activities	<u>574,107</u>	<u>(16,975)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(788,552)	(27,884)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,562,086</u>	<u>1,589,970</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 773,534</u>	<u>1,562,086</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Equipment acquired under capital lease obligations	<u>\$ 80,723</u>	<u>3,250,689</u>

See notes to financial statements

Skiff Medical Center

Statements of Cash Flows (Continued) For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (3,124,534)	778,671
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,750,237	2,582,707
Gain (loss) on sale of capital assets	118,035	(41,735)
Interest expense included in operating expenses	54,992	39,256
(Increase) decrease in current assets -		
Patient receivables	(68,178)	(782,620)
Inventories	89,615	(287)
Prepaid expenses	(14,481)	(6,300)
Estimated third-party payor settlements - Medicare and Medicaid	360,907	(809,350)
Increase (decrease) in current liabilities -		
Accounts payable	(201,565)	277,816
Accrued payroll and payroll taxes	51,836	212,824
Accrued employee benefits	(332,952)	216,413
Estimated third-party payor settlements - Medicare and Medicaid	--	(500,530)
Net cash provided by (used in) operating activities	<u>\$ (316,088)</u>	<u>1,966,865</u>

See notes to financial statements

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

(1) Reporting Entity and Summary of Significant Accounting Policies

Skiff Medical Center (Medical Center) is a municipal hospital and is an enterprise fund of the City of Newton, Iowa, organized under Chapter 392 of the Code of Iowa and as such, is not subject to taxes on income or property. The Medical Center grants credit to patients, substantially all of whom are residents of Jasper County, Iowa.

The following is a summary of significant accounting policies of Skiff Medical Center (Medical Center). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. Reporting Entity

For financial reporting purposes, the Medical Center has included all the funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Medical Center has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Medical Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Medical Center. The Medical Center has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

B. Industry Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Medical Center is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Medical Center's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

C. Basis of Presentation

The statements of net position display the Medical Center's assets and liabilities, with the differences reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

Restricted net position:

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Medical Center.

Expendable – Expendable net position results when constraints are placed on net position use and are either externally imposed or imposed by law through constitutional provisions or enabling legislation. The Medical Center had no expendable restricted net position at June 30, 2013 and 2012.

Unrestricted net position consist of net position not meeting the definition of the two preceding categories. Unrestricted net position often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Medical Center's policy to use restricted resources first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

E. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding amounts limited as to use by the Board of Trustees or donors.

G. Patient Receivables, Net

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

H. *Inventories*

Inventories are stated at cost (principally on the first-in, first-out basis) not in excess of market value. Market value is determined by comparison with recent purchases or realizable value.

I. *Investments Limited as to Use or Restricted*

Investments limited as to use or restricted consist of the following:

By Board of Trustees – Periodically, the Medical Center's Board of Trustees has set aside assets for future capital improvements and expansion and for unexpected fluctuations in self-funded health insurance claims. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

By Donor – These funds have been restricted by donors for specific capital improvements and operating expenses of the Medical Center.

J. *Capital Assets*

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. Donated capital assets are recorded at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Equipment under capital leases is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Capital assets are depreciated or amortized using the following asset lives:

Land improvements	5 to 56 years
Buildings	5 to 40 years
Fixed equipment	5 to 30 years
Major movable equipment	3 to 20 years

The Medical Center's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as capital grants and contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restriction are reported when the donated or acquired long-lived assets are placed in service.

K. *Compensated Absences*

Paid time off is accrued as an expense and a liability as earned and may be carried forward by employees up to a specified maximum based upon years of service. The cost of paid time off is recorded as a current liability on the statements of net position. The paid time off liability has been computed based on rates of pay in effect at June 30, 2013 and 2012.

L. *Statements of Revenue, Expenses, and Changes in Net Position*

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provisions of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating revenue and expenses.

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

M. Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimate basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

N. Charity Care

To fulfill its mission of community service, the Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges excluded from patient service revenue under the Medical Center's charity care policy amounted to \$345,094 and \$298,062 for the years ended June 30, 2013 and 2012, respectively.

O. Grants and Contributions

From time to time, the Medical Center receives contributions from Skiff Medical Center Foundation, as well as grants and contributions from individuals, governmental and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met.

Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

P. Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Q. Insurance

The Medical Center is commercially insured for property and casualty, general and professional liability and worker's compensation risks. The Medical Center was self-insured under its employee group health program through December 31, 2012, in which claims are charged to expense in the period in which they are incurred. Effective January 1, 2013, the employee group health program is also covered under a commercial insurance carrier.

R. Change in Accounting Principle

During 2013, the Medical Center adopted the provisions of GASB Statement No. 63, which requires the Medical Center to now refer to "Net Assets" as "Net Position" on the statements of net position.

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

S. *Reclassification*

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 reporting format.

T. *Subsequent Events*

The Medical Center considered events occurring through October 18, 2013 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Cash and Investments Limited as to Use or Restricted

The Medical Center's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Medical Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Medical Center manages the following risks in accordance with their formal investment policy:

Concentration of Credit Risk: The Medical Center's investment policy limits the amounts the Medical Center may investment in any one sector of the market up to 50% of total investments.

Interest Rate Risk: The Medical Center's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Medical Center.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Medical Center's investment policy requires funds to be deposited into the banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

The composition of investments limited as to use or restricted as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Investments limited as to use or restricted:		
By Board of Trustees for capital improvements -		
Cash and cash equivalents	\$ 127,273	711,947
Certificates of deposit	624,100	324,100
Mutual funds -		
Fixed Income	2,204,190	2,267,294
Equities	1,618,659	1,323,136
Accrued interest	2,189	923
By Board of Trustees for self funded health insurance claims -		
Certificates of deposit	--	300,000
	<u>4,576,411</u>	<u>4,927,400</u>
By Donor:		
Cash and cash equivalents	4,100	4,100
Certificates of deposit	50,500	50,500
	<u>54,600</u>	<u>54,600</u>
Total investments limited as to use or restricted	4,631,011	4,982,000
Less amounts required for current obligations	<u>--</u>	<u>(300,000)</u>
Long term portion	<u>\$ 4,631,011</u>	<u>4,682,000</u>

(3) Patient Receivables

Patient receivables reported as current assets consisted of these amounts:

	<u>2013</u>	<u>2012</u>
Total patient receivables	\$ 11,232,971	11,042,187
Less allowance for doubtful accounts	(1,388,704)	(1,291,004)
Less allowance for contractual adjustments	<u>(4,709,832)</u>	<u>(4,684,926)</u>
Net patient receivables	<u>\$ 5,134,435</u>	<u>5,066,257</u>

The Medical Center grants credits without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivable from patients and third-party payors was as follows:

	<u>2013</u>	<u>2012</u>
Medicare	32%	31%
Medicaid	8	10
Commercial insurance	38	37
Patients	<u>22</u>	<u>22</u>
	<u>100%</u>	<u>100%</u>

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

(4) Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - Effective July 1, 2011, the Medical Center is reimbursed for inpatient acute care and swing-bed services rendered to Medicare program beneficiaries based on Medicare defined costs of providing the services pursuant to the terms of the Rural Community Hospital Demonstration Program. Prior to July 1, 2011, inpatient acute care and swing-bed services rendered to Medicare program beneficiaries are paid at prospectively determined rates per patient classification. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Under a provision of the Balanced Budget Refinement Act (as amended by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and the Deficit Reduction Act of 2005) for services furnished before January 1, 2010, the Medical Center's prospectively determined payments for certain outpatient services cannot be less than reimbursement based on annual costs and payment-to-cost ratios of their June 30, 1996 years. Final settlement is determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare Administrative Contractor. Unless extended, after January 1, 2010, the payment for outpatient services is limited to the prospectively determined amounts. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited by the Medicare Administrative Contractor through June 30, 2010.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. The "American Taxpayer Relief Act of 2012" postponed sequestration for two months. As required by law, a sequestration order was issued on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, will incur a two percent reduction in Medicare payment.

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined rates per outpatient ambulatory patient group.

Blue Cross - Inpatient services are paid at prospectively determined rates per discharge. Payments for outpatient services are based upon the lesser of the Medical Center's billed charges, a maximum allowable fee or a percentage of charges.

The Medical Center has also entered into payment agreements with certain health maintenance organizations and a managed care program. The basis for payment to the Medical Center under these agreements includes prospectively determined daily rates, prospectively determined rates for ambulatory surgery services and home health services, and discounts from established rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 50% and 51% of the Medical Center's net patient service revenue for the years ended June 30, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2013 net patient service revenue decreased approximately \$70,000 and the 2012 net patient service revenue increased approximately \$60,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years no longer subject to audits, reviews and investigations.

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

The following illustrates the Medical Center's patient service revenue at its established rates and revenue deductions by major third party payors:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue -		
Inpatient	\$ 25,456,794	22,993,955
Outpatient	48,612,649	46,426,844
Home health and hospice	3,458,350	3,227,845
	<u>77,527,793</u>	<u>72,648,644</u>
Deductions from gross patient service revenue -		
Medicare	(21,455,736)	(18,629,285)
Medicaid	(5,301,926)	(4,899,315)
Blue Cross	(6,475,624)	(6,256,320)
Commercial insurance and other	(7,056,051)	(4,568,446)
Charity care	(345,094)	(298,062)
	<u>(40,634,431)</u>	<u>(34,651,428)</u>
Provision for bad debts	<u>(3,151,770)</u>	<u>(2,852,497)</u>
Net patient service revenue	<u>\$ 33,741,592</u>	<u>35,144,719</u>

(5) Capital Assets

Capital assets and the related accumulated depreciation and amortization are summarized as follows:

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2013</u>
Capital assets not being depreciated/amortized:				
Land	\$ 2,144,173	--	(52,615)	2,091,558
Construction in progress	91,973	194,773	(167,427)	119,319
Total capital assets not being depreciated/amortized	<u>2,236,146</u>	<u>194,773</u>	<u>(220,042)</u>	<u>2,210,877</u>
Capital assets being depreciated/amortized:				
Land improvements	2,247,002	9,560	5,414	2,261,976
Buildings	21,770,518	73,482	(304,068)	21,539,932
Fixed equipment	7,108,397	36,697	42,957	7,188,051
Major moveable equipment, including equipment under capital lease	20,144,568	365,214	(1,551,888)	18,957,894
Total capital assets being depreciated/amortized	<u>51,270,485</u>	<u>484,953</u>	<u>(1,807,585)</u>	<u>49,947,853</u>
Less accumulated depreciation/amortization:				
Land improvements	2,008,580	99,502	--	2,108,082
Buildings	13,078,155	796,800	(77,677)	13,797,278
Fixed equipment	5,775,381	330,108	(20,026)	6,085,463
Major moveable equipment including equipment under capital lease	14,376,651	1,523,827	(1,538,488)	14,361,990
Total accumulated depreciation/amortization	<u>35,238,767</u>	<u>2,750,237</u>	<u>(1,636,191)</u>	<u>36,352,813</u>
Total capital assets being depreciated/amortized, net	<u>16,031,718</u>	<u>(2,265,284)</u>	<u>(171,394)</u>	<u>13,595,040</u>
Total capital assets, net	<u>\$ 18,267,864</u>	<u>(2,070,511)</u>	<u>(391,436)</u>	<u>15,805,917</u>

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2012</u>
Capital assets not being depreciated/amortized:				
Land	\$ 2,144,173	--	--	2,144,173
Construction in Progress	153,035	873,008	(934,070)	91,973
Total capital assets not being depreciated/amortized	<u>2,297,208</u>	<u>873,008</u>	<u>(934,070)</u>	<u>2,236,146</u>
Capital assets being depreciated/amortized:				
Land improvements	2,241,002	6,000	--	2,247,002
Buildings	21,100,298	95,933	574,287	21,770,518
Fixed equipment	6,956,051	152,346	--	7,108,397
Major moveable equipment, including equipment under capital lease	18,155,230	3,758,778	(1,769,440)	20,144,568
Total capital assets being depreciated/amortized	<u>48,452,581</u>	<u>4,013,057</u>	<u>(1,195,153)</u>	<u>51,270,485</u>
Less accumulated depreciation and amortization:				
Land improvements	1,908,748	99,832	--	2,008,580
Buildings	12,268,997	809,158	--	13,078,155
Fixed equipment	5,448,298	327,083	--	5,775,381
Major moveable equipment including equipment under capital lease	15,150,975	1,346,634	(2,120,958)	14,376,651
Total accumulated depreciation/amortization	<u>34,777,018</u>	<u>2,582,707</u>	<u>(2,120,958)</u>	<u>35,238,767</u>
Total capital assets being depreciated/amortized, net	<u>13,675,563</u>	<u>1,430,350</u>	<u>925,805</u>	<u>16,031,718</u>
Total capital assets, net	<u>\$ 15,972,771</u>	<u>2,303,358</u>	<u>(8,265)</u>	<u>18,267,864</u>

(6) Long-Term Debt

Long-term debt activity of the Medical Center as of June 30, 2013 and 2012 is summarized as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
Obligations under capital leases	\$ 3,292,956	80,723	799,921	2,573,758	821,783
	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Obligations under capital leases	\$ 574,658	3,250,689	532,391	3,292,956	789,246

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

Obligations Under Capital Leases

The Medical Center leases various medical equipment and information system hardware and software under capital lease agreements. The property cost and the related liability under each capital lease was recorded at the present value of the future minimum payments due under the lease, as determined with imputed interest rates ranging from 0.3% to 5.0%.

Principal and interest maturities of the capital lease obligations at June 30, 2013 are summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 821,783	38,719	860,502
2015	757,058	22,979	780,037
2016	701,064	11,437	712,501
2017	286,184	2,629	288,813
2018	7,669	--	7,669
	<u>\$ 2,573,758</u>	<u>75,764</u>	<u>2,649,522</u>

(7) Other Operating Revenue

Other operating revenue for the years ended June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Facilities management	\$ 327,351	355,126
Grant revenue for home health services	310,992	219,681
Cafeteria and dietary revenue	208,929	210,306
Lifeline rental	106,382	110,888
Other grant revenue	76,552	110,838
Grants and contributions for hospice services	62,481	81,711
Clinic rental	46,938	13,509
CMS Electronic health record incentive payment	--	1,744,156
Gain (loss) on sale of capital assets	(118,035)	41,735
Other	169,995	169,406
	<u>\$ 1,191,585</u>	<u>3,057,356</u>

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2013 and 2012, the Medical Center qualified for the financial incentives payments by attesting it met specific criteria set by the Center for Medicare and Medicaid services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2014. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurred. Amounts recognized as incentive payments are included in other operating revenue in the amount of \$-0- and \$1,744,156 for the years ended June 30, 2013 and 2012, respectively.

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

(8) Operating Leases

The Medical Center has entered into a leasing arrangement to lease space in the Medical Arts Building to physicians. The lease requires annual rentals of \$30,330 through December 2013.

The Medical Center also leases a portion of its building to a corporation which provides dialysis services. This lease agreement requires annual rents of \$44,179 through January 2018. Either party may cancel this lease on February 1 of each year by giving sixty days notice.

The Medical Center has also entered into an arrangement to lease the land upon which the Medical Arts Building was erected to the developer for a term of ninety-nine years beginning January 1, 1993. The lease calls for annual rentals with the rental rate being adjusted every 10 years to reflect any changes in the Consumer Price Index. The current annual rental rate is \$6,264, of which the Medical Center is responsible for 59.72% of the annual lease payment. The Developer also requires a monthly assessment payment for utilities, maintenance, and management of the Medical Arts Building. The current monthly assessment payment amounts to \$9,347 per month.

(9) Other Postemployment Benefits (OPEB)

Plan Description

The Medical Center operates a single-employer retiree benefit plan which provides medical benefits/prescription drug benefits for retirees and their spouses. There are 218 active and 5 retired members in the plan. Participants must be age 55 or older and have seven years of service at retirement.

The medical/prescription drug coverage was provided through a self-insured plan through December 31, 2012. Effective January 1, 2013, benefits are provided through a fully insured plan. Retirees under age 65 pay the same contribution for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Medical Center. The Medical Center currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The Medical Center's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Medical Center, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Medical Center's annual OPEB cost for the years ended June 30, 2013 and 2012, the amount actually contributed to the plan and changes in the Medical Center's net OPEB obligations:

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 28,475	44,630
Interest on net OPEB obligation	175	--
Adjustment to annual required contribution	<u>(481)</u>	<u>--</u>
Annual OPEB cost	28,169	44,630
Contributions made	<u>19,532</u>	<u>32,996</u>
Increase in net OPEB obligation	8,637	11,634
Net OPEB obligation, beginning of year	<u>11,641</u>	<u>7</u>
Net OPEB obligation, end of year	<u>\$ 20,278</u>	<u>11,641</u>

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2012. The end of year net OPEB benefit was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

The Medical Center's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB benefit as of June 30, 2013 and 2012 are summarized as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 44,630	74%	\$ 11,641
June 30, 2013	28,475	69	20,278

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2014, the actuarial accrued liability was \$296,400 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$296,400. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$17,441,000 and the ratio of the UAAL to the covered payroll was 1.7%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the notes to financial statements, will present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 1.5% discount rate based on the Medical Center's funding policy. The projected annual medical trend rate is 8%. The ultimate medical trend rate is 3%. The medical trend rate is reduced 1% each year until reaching the 3% ultimate trend rate. An inflation rate of 0% is assumed for the purpose of this computation.

Mortality rates are from the RP2000 Group Annuity Generational Mortality Rates for Male and Female. Termination rates were based upon national termination studies performed by the Society of Actuaries, adjusted to reflect the recent lower termination rates experienced by the Medical Center. Retirement rates were developed based upon recent Medical Center experience.

Projected claim costs of the medical plan are \$873 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

(10) Defined Benefit Pension Plan

The Medical Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% and 5.38% of their annual salary and the Medical Center is required to contribute 8.67% and 8.07% of annual covered payroll for the years ended June 30, 2013 and 2012, respectively. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$1,394,790; \$1,317,473; and \$1,098,744; respectively, equal to the required contributions for each year.

(11) Employee Health Insurance

Through December 31, 2012, the Medical Center had a self-insurance program for hospitalization and medical coverage for its employees. The Medical Center limits its losses through the use of stop-loss policies from reinsurers. Specific individual losses for claims are limited to \$60,000 per year. The Medical Center's aggregate annual loss limitation is limited to 120% of estimated claims each year. Effective January 1, 2013, health insurance was covered through a fully insured plan.

The Medical Center's expense for health insurance for the years ended June 30, 2013 and 2012 was \$2,934,239 and \$3,165,734, respectively.

(12) Malpractice Claims

The Medical Center carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Medical Center carries an umbrella policy which provides \$5,000,000 coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Medical Center should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Medical Center's claims experience, no such accrual has been made.

(13) Related Party Transactions

Because of the existence of common trustees and other factors, the Medical Center and Skiff Medical Center Foundation (Foundation) are related parties. The Foundation was formed to promote the recruitment of medical personnel to practice in Jasper County and the Medical Center for the purpose of maintaining and improving the medical-health care services available to all residents of Jasper County, Iowa.

A summary of the Foundation's assets, liabilities and net position as of June 30, 2013 and 2012 follows:

Skiff Medical Center

Notes to the Financial Statements June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets	\$ <u>362,519</u>	<u>316,047</u>
Net position	\$ <u>362,519</u>	<u>316,047</u>

The Foundation contributed \$101,128 and \$155,065 to the Medical Center during the years ended June 30, 2013 and 2012, respectively, for capital improvements and the purchase of medical and other equipment.

(14) Nonexpendable Permanent Endowment

Nonexpendable permanent endowment consists of contributions from the Geisler Penquite Charitable Corporation. The funds are currently invested in a certificate of deposit. The interest from the funds is to be used for hospice programs as the Board of Trustees shall direct.

(15) Risks and Uncertainties

Regulatory Environment

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of the Medicare Recovery Audit Contract (RAC) program. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. The Medical Center has experienced repayments over the last three years as a result of the RAC program related to services rendered during fiscal years 2009 – 2013, and has reserved for possible repayments in each of those years as part of the amount designated as estimated third-party settlements on the statements of net position totaling \$250,000 at June 30, 2013, and \$125,000 at June 30, 2012.

Current Economic Conditions

The current economic environment presents organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Medical Center.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Medical Center's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Medical Center's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medical program.

Given the volatility of current economic conditions the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for patient receivables that could negatively impact the Medical Center's ability to maintain sufficient liquidity.

Skiff Medical Center

Required Supplementary Information Schedule of Funding Progress for the Retiree Health Plan For the Years Ended June 30, 2013 and 2012

<u>Year Ended June 30</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
2009	July 1, 2008	\$ --	\$ 416,532	\$ 416,532	0.0%	\$ 19,942,000	2.1%
2010	July 1, 2008	\$ --	\$ 416,532	\$ 416,532	0.0%	\$ 17,377,000	2.4%
2011	July 1, 2010	\$ --	\$ 428,494	\$ 428,494	0.0%	\$ 16,694,000	2.6%
2012	July 1, 2010	\$ --	\$ 428,494	\$ 428,494	0.0%	\$ 17,624,000	2.4%
2013	July 1, 2012	\$ --	\$ 296,400	\$ 296,400	0.0%	\$ 17,441,000	1.7%

See accompanying independent auditor's report

See Note 9 in the accompanying notes to financial statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

Skiff Medical Center

**Required Supplementary Information
 Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position
 Budget and Actual (Cash Basis)
 June 30, 2013 and 2012**

	<u>Accrual Basis</u>			<u>Budgeted Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>General</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>		
Estimated other revenues/ receipts	\$ 35,290,239	593,368	35,883,607	36,556,960	673,353
Expenses/Disbursements	<u>38,057,711</u>	<u>(1,034,563)</u>	<u>37,023,148</u>	<u>37,732,444</u>	<u>709,296</u>
Net	(2,767,472)	1,627,931	(1,139,541)	(1,175,484)	\$ <u>35,943</u>
Balance, beginning of year	<u>25,095,419</u>	<u>(18,551,333)</u>	<u>6,544,086</u>	<u>6,544,086</u>	
Balance, end of year	\$ <u>22,327,947</u>	<u>(16,923,402)</u>	<u>5,404,545</u>	<u>5,368,602</u>	

See accompanying independent auditor's report

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Medical Center preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Medical Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the city council. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2013, the Medical Center's expenditures did not exceed the amount budgeted.

**Schedules of Net Patient Service Revenue
For the Years Ended June 30, 2013 and 2012**

	2013				2012			
	Inpatient	Outpatient	Home Health and Hospice Services	Total	Inpatient	Outpatient	Home Health and Hospice Services	Total
DAILY PATIENT SERVICES:								
Medical and surgical	\$ 5,500,919	412,121	--	5,913,040	4,946,530	392,675	--	5,339,205
Swing bed - skilled care	865,732	--	--	865,732	598,000	--	--	598,000
Coronary care	621,957	--	--	621,957	560,365	--	--	560,365
Obstetric	547,033	--	--	547,033	501,705	2,190	--	503,895
Nursery	245,604	--	--	245,604	233,700	--	--	233,700
	<u>7,781,245</u>	<u>412,121</u>	<u>--</u>	<u>8,193,366</u>	<u>6,840,300</u>	<u>394,865</u>	<u>--</u>	<u>7,235,165</u>
OTHER NURSING SERVICES:								
Operating room	4,993,780	4,827,762	--	9,821,542	4,594,146	4,937,912	--	9,532,058
Emergency services	869,081	6,832,572	--	7,701,653	867,964	6,176,478	--	7,044,442
Hospice services	--	--	1,810,474	1,810,474	--	--	1,606,027	1,606,027
Home health services	--	--	1,402,641	1,402,641	--	--	1,409,104	1,409,104
Recovery room	292,148	734,866	--	1,027,014	250,581	745,981	--	996,562
Delivery and labor room	317,971	188,778	--	506,749	281,278	193,883	--	475,161
	<u>6,472,980</u>	<u>12,583,978</u>	<u>3,213,115</u>	<u>22,270,073</u>	<u>5,993,969</u>	<u>12,054,254</u>	<u>3,015,131</u>	<u>21,063,354</u>
OTHER PROFESSIONAL SERVICES:								
Pharmacy	2,464,619	4,894,429	--	7,359,048	2,288,151	4,152,883	--	6,441,034
Laboratory	1,715,124	4,032,603	--	5,747,727	1,605,248	3,730,870	--	5,336,118
CT scans	883,006	3,954,302	--	4,837,308	892,444	3,680,653	--	4,573,097
Anesthesiology	1,173,560	3,098,170	--	4,271,730	1,081,885	2,954,971	--	4,036,856
Clinics	--	3,152,916	--	3,152,916	--	3,895,943	--	3,895,943
Radiology and mammography	395,740	3,579,034	--	3,974,774	369,673	3,263,496	--	3,633,169
Nuclear scans and ultrasound	260,309	3,084,752	--	3,345,061	242,944	2,980,253	--	3,223,197
Physical therapy	700,501	2,550,962	133,515	3,384,978	486,687	2,328,931	118,679	2,934,297
Magnetic resonance imaging	153,553	2,666,538	--	2,820,091	241,483	2,599,905	--	2,841,388
Respiratory therapy	1,604,005	206,850	--	1,810,855	1,441,248	153,582	--	1,594,830
Electrocardiology and cardiovascular	343,809	1,164,029	--	1,507,838	347,759	1,207,944	--	1,555,703
Occupational therapy	729,123	342,036	104,625	1,175,784	470,801	372,212	88,875	931,888
Intravenous therapy	451,535	321,945	--	773,480	475,497	318,826	--	794,323
Sleep disorder	3,096	405,339	--	408,435	2,920	534,417	--	537,337
Sports rehabilitation	--	606,105	--	606,105	--	479,224	--	479,224
Speech therapy	148,864	535,214	7,095	691,173	55,071	385,858	5,160	446,089
Audiology	16,210	395,054	--	411,264	16,385	314,547	--	330,932
Blood transfusions	156,705	144,762	--	301,467	139,580	153,817	--	293,397
Cancer center	2,304	276,124	--	278,428	--	229,584	--	229,584
Cardiac rehabilitation	--	187,738	--	187,738	--	215,126	--	215,126
Alternative health services	--	10,561	--	10,561	--	15,610	--	15,610
Electroencephalography	506	7,087	--	7,593	1,910	9,073	--	10,983
	<u>11,202,569</u>	<u>35,616,550</u>	<u>245,235</u>	<u>47,064,354</u>	<u>10,159,686</u>	<u>33,977,725</u>	<u>212,714</u>	<u>44,350,125</u>
GROSS PATIENT SERVICE REVENUE	\$ 25,456,794	48,612,649	3,458,350	77,527,793	22,993,955	46,426,844	3,227,845	72,648,644
LESS:								
Contractual adjustments and other deductions, primarily Medicare and Medicaid				(40,289,337)				(34,353,366)
Charity care services and other discounts, based on charges forgone				(345,094)				(298,062)
Provision for bad debts				(3,151,770)				(2,852,497)
NET PATIENT SERVICE REVENUE				\$ 33,741,592				35,144,719

See accompanying independent auditor's report

Other Operating Revenue
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Grant revenue for home health services -		
Jasper County	\$ 202,201	119,188
Iowa Department of Health and other grants	<u>108,791</u>	<u>100,493</u>
Total grant revenue for home health services	310,992	219,681
Facilities management	327,351	355,126
Cafeteria and dietary revenue	208,929	210,306
Lifeline rental	106,382	110,888
Other grant revenue	76,552	110,838
Grants and contributions for hospice services	62,481	81,711
Clinic rental	46,938	13,509
CMS Electronic health record incentive payment	--	1,744,156
Gain (loss) on sale of capital assets	(118,035)	41,735
Other	<u>169,995</u>	<u>169,406</u>
	<u>\$ 1,191,585</u>	<u>3,057,356</u>

See accompanying independent auditor's report

**Departmental Expenses
For the Years Ended June 30, 2013 and 2012**

	2013				2012			
	Salaries and Benefits	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Benefits	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Adult and pediatric	\$ 2,385,076	317,909	147,196	2,850,181	1,941,945	115,567	147,627	2,205,139
Home health	890,294	62,887	156,394	1,109,575	911,421	63,131	114,606	1,089,158
Hospice	317,423	6,712	186,531	510,666	814,622	4,926	199,941	1,019,489
Nursing administration	422,739	5,327	15,705	443,771	420,632	2,472	14,598	437,702
Coronary care	304,777	81,866	9,030	395,673	336,221	55,317	9,559	401,097
	<u>4,320,309</u>	<u>474,701</u>	<u>514,856</u>	<u>5,309,866</u>	<u>4,424,841</u>	<u>241,413</u>	<u>486,331</u>	<u>5,152,585</u>
OTHER PROFESSIONAL SERVICES:								
Emergency room	2,426,426	316,529	154,385	2,897,340	2,262,917	323,359	176,275	2,762,551
Operating and recovery room	975,260	2,729	1,781,479	2,759,468	934,411	69	1,834,152	2,768,632
Clinic	1,546,141	457,402	239,735	2,243,278	2,298,578	228,512	459,194	2,986,284
Pharmacy	438,283	121,610	1,602,219	2,162,112	428,314	--	1,353,974	1,782,288
Radiology	1,070,923	252,356	484,733	1,808,012	1,073,280	159,106	410,843	1,643,229
Laboratory	760,538	276,507	615,445	1,652,490	775,048	195,499	598,607	1,569,154
Physical therapy	973,063	138,546	53,942	1,165,551	904,910	74,562	57,202	1,036,674
Anesthesiology	696,382	195,263	86,365	978,010	566,684	315,932	85,253	967,869
OB/delivery/nursery	638,467	61,593	56,958	757,018	628,216	117,385	59,813	805,414
Health information management	435,527	26,872	54,944	517,343	425,296	15,212	40,729	481,237
Respiratory therapy	381,540	7,038	48,236	436,814	336,540	4,267	39,649	380,456
Occupational therapy	231,591	123,245	7,772	362,608	139,585	118,144	13,110	270,839
Central services and supply	241,889	2,750	83,669	328,308	255,998	3,244	79,850	339,092
Social services	239,022	--	11,235	250,257	180,470	--	13,004	193,474
Audiology	78,198	--	152,494	230,692	74,067	2,325	118,145	194,537
Speech therapy	161,871	--	360	162,231	90,159	638	2,931	93,728
Cardiac rehab	106,540	--	1,697	108,237	113,083	--	3,319	116,402
Sleep lab	2,835	94,500	170	97,505	3,926	128,250	3,391	135,567
Cancer center	57,770	--	9,406	67,176	43,638	2,260	12,978	58,876
Electrocardiology	--	27,063	3,530	30,593	6,616	18,720	1,453	26,789
Alternative health	--	7,120	333	7,453	--	10,435	698	11,133
	<u>11,462,266</u>	<u>2,111,123</u>	<u>5,449,107</u>	<u>19,022,496</u>	<u>11,541,736</u>	<u>1,717,919</u>	<u>5,364,570</u>	<u>18,624,225</u>
GENERAL SERVICES:								
Plant operation and maintenance	360,264	60,990	846,940	1,268,194	410,134	65,154	828,346	1,303,634
Dietary	578,920	12,235	330,672	921,827	562,771	13,095	328,738	904,604
Housekeeping	302,919	1,013	51,645	355,577	256,091	2,518	59,607	318,216
Laundry and linen	123,605	--	22,656	146,261	123,968	--	18,522	142,490
	<u>1,365,708</u>	<u>74,238</u>	<u>1,251,913</u>	<u>2,691,859</u>	<u>1,352,964</u>	<u>80,767</u>	<u>1,235,213</u>	<u>2,668,944</u>
ADMINISTRATIVE SERVICES	<u>2,810,890</u>	<u>950,727</u>	<u>948,347</u>	<u>4,709,964</u>	<u>2,777,340</u>	<u>844,850</u>	<u>867,590</u>	<u>4,489,780</u>
NONDEPARTMENTAL:								
Employee benefits	3,324,335	--	--	3,324,335	3,599,658	--	--	3,599,658
Depreciation and amortization	--	--	2,750,237	2,750,237	--	--	2,582,707	2,582,707
Insurance	--	--	193,962	193,962	--	--	266,249	266,249
Interest	--	--	54,992	54,992	--	--	39,256	39,256
	<u>3,324,335</u>	<u>--</u>	<u>2,999,191</u>	<u>6,323,526</u>	<u>3,599,658</u>	<u>--</u>	<u>2,888,212</u>	<u>6,487,870</u>
\$	<u><u>23,283,508</u></u>	<u><u>3,610,789</u></u>	<u><u>11,163,414</u></u>	<u><u>38,057,711</u></u>	<u><u>23,696,539</u></u>	<u><u>2,884,949</u></u>	<u><u>10,841,916</u></u>	<u><u>37,423,404</u></u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2013 and 2012**

ANALYSIS OF AGING:

Days Since Discharge	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
0 - 30	\$ 5,631,236	50.13 %	6,041,763	54.72 %
31 - 60	1,410,299	12.55	1,258,066	11.39
61 - 90	1,014,224	9.03	1,053,973	9.54
91 - 120	606,307	5.40	725,472	6.57
120 - 150	548,331	4.88	593,076	5.37
> 150	2,022,574	18.01	1,369,837	12.41
	<u>11,232,971</u>	<u>100.00 %</u>	<u>11,042,187</u>	<u>100.00 %</u>
Less:				
Allowance for doubtful accounts	(1,388,704)		(1,291,004)	
Allowance for contractual adjustments	<u>(4,709,832)</u>		<u>(4,684,926)</u>	
	<u>\$ 5,134,435</u>		<u>5,066,257</u>	

	<u>2013</u>	<u>2012</u>
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	55.54 days	52.76 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 1,291,004	1,206,738
Provision of uncollectible accounts	3,151,770	2,852,497
Recoveries of accounts previously written off	324,564	304,987
Accounts written off	<u>(3,378,634)</u>	<u>(3,073,218)</u>
Balance, end of year	<u>\$ 1,388,704</u>	<u>1,291,004</u>

See accompanying independent auditor's report

Inventories / Prepaid Expenses
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
INVENTORY:		
Operating room	\$ 233,598	329,576
General stores	93,679	104,057
Pharmacy	<u>95,987</u>	<u>79,246</u>
	<u>\$ 423,264</u>	<u>512,879</u>
PREPAID EXPENSES:		
Service contracts	\$ 123,032	127,819
Insurance	46,165	25,293
Dues	<u>18,342</u>	<u>19,946</u>
	<u>\$ 187,539</u>	<u>173,058</u>

See accompanying independent auditor's report

**Financial Statistical Highlights
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Patient Days:		
Hospital -		
Adult and pediatric -		
Medicare	3,952	3,928
All other	2,251	1,959
Swing bed - skilled	2,111	1,486
Nursery	391	380
Hospice	584	818
	<u>9,289</u>	<u>8,571</u>
Discharges:		
Hospital -		
Adult and pediatric -		
Medicare	826	843
All other	606	621
Swing bed	202	165
	<u>1,634</u>	<u>1,629</u>
Average length of stay:		
Hospital -		
Adult and pediatric -		
Medicare	4.78	4.66
All other	3.71	3.15
Swing bed	10.45	9.01
Observation equivalent days	401	365
Surgical procedures	3,340	3,452
Emergency Room visits	10,513	9,903
Clinic visits	9,462	11,899
Home Health visits	5,827	5,734
Total Hospice days and visits	4,056	5,748
Full-time equivalents personnel	291.83	299.18

See accompanying independent auditor's report

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards**

Independent Auditor's Report

To the Board of Trustees of
Skiff Medical Center
Newton, Iowa:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Skiff Medical Center (Medical Center) as of and for the years ended June 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Medical Center's basic financials statements, and have issued our report thereon dated October 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying schedule of findings and responses.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

A handwritten signature in cursive script that reads "Simon Johnson, CPA". The signature is written in black ink and is positioned above the typed name and date.

Omaha, Nebraska,
October 18, 2013.

Skiff Medical Center

Schedule of Findings and Responses June 30, 2013

Part I: Summary of the Independent Auditor's Results

- (a) An unmodified opinion was issued on the financial statements.
- (b) There were no significant deficiencies or material weaknesses in internal control over financial reporting disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance or other matters which are material to the financial statements.

Part II: Findings Related to the Financial Statements

There were no findings related to the financial statements reported.

Part III: Other Findings Related to Required Statutory Reporting

- III-A-13 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2013.
- III-B-13 Certified Budget: Medical Center disbursements during the year ended June 30, 2013 did not exceed budgeted amounts.
- III-C-13 Questionable Expenditures: We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-13 Travel Expense: No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.
- III-E-13 Business Transactions: No business transactions were found between Medical Center and Medical Center officials and/or employees.
- III-F-13 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-12 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.

Skiff Medical Center

**Audit Staff
For the Year Ended June 30, 2013**

This audit was performed by:

Harvey D. Johnson, FHFMA, CPA, Partner

Darren R. Osten, FHFMA, CPA, Partner

Amanda L. Patrick, CPA, In-Charge

Jeffrey A. Faltys, Associate