SPENCER MUNICIPAL HOSPITAL
FINANCIAL STATEMENTS,
MANAGEMENT'S DISCUSSION AND ANALYSIS,
REQUIRED SUPPLEMENTARY INFORMATION,
SUPPLEMENTAL INFORMATION,
SCHEDULE OF FINDINGS, AND
INDEPENDENT AUDITORS' REPORTS
FOR THE YEARS ENDED
JUNE 30, 2004 AND 2003

SPENCER MUNICIPAL HOSPITAL
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SPENCER MUNICIPAL HOSPITAL
BOARD OF TRUSTEES AND OFFICIALS
JUNE 30, 2004

BOARD OF TRUSTEES	TITLE	TERM EXPIRES
Gary VanHofwegen, DDS	Chairman	December 31, 2005
Charles T. Gass	Vice Chairman	December 31, 2007
Neal Conover	Secretary/Treasurer	December 31, 2005
John Rahn	Trustee	December 31, 2007
Nancy Whittenburg	Trustee	December 31, 2007

HOSPITAL OFFICIALS

John Allen	President & CEO
Doug Doorn	Vice-President - Finance & CFO
Jeanne Hoag	Vice-President - Patient Care Services
Michael Hansen	Vice-President - Human Resources & Support Services

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Spencer Municipal Hospital

We have audited the accompanying basic financial statements, listed as exhibits in the table of contents of this report, of Spencer Municipal Hospital's primary government as of and for the years ended June 30, 2004 and 2003. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The financial statements referred to above include only the primary government of the Hospital, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the Hospital's legal entity. The financial statements do not include financial data for the Hospital's legally separate component units, which the U.S. generally accepted accounting principles require to be reported with the financial data of the Hospital's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the Spencer Municipal Hospital as of June 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position for the primary government of Spencer Municipal Hospital as of June 30, 2004 and 2003, and the results of its operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Member Private Companies Practice Section,
American Institute of Certified Public Accountants

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2004 on our consideration of Spencer Municipal Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 - 10 and budgetary comparison schedule on page 28 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the primary government financial statements of Spencer Municipal Hospital taken as a whole. The supplemental information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the primary government financial statements. Such information, except for Schedules 4 and 7 which are marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the primary government financial statements taken as a whole.

Winthell, Stave & Co., LLP

August 13, 2004

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Spencer Municipal Hospital (the Hospital) offers readers of our financial statements this narrative overview and analysis of the financial activities of the Hospital for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Hospital's audited financial statements. The financial statements are composed of the balance sheet, statement of revenues, expenses, and changes in net assets, and the statement of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's financial position.

Required Financial Statements

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

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures the success of the Hospital's operations over the past two years and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. The Hospital does not receive any funding from the City of Spencer. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

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

Financial Highlights for 2004

- Total assets increased by $14,630,400 to $63,342,981.
- Net capital assets increased by $9,519,083.
- Total noncurrent cash and investments increased by $823,385.
- Total liabilities increased by $11,599,729.
- The operating margin for fiscal year 2004 was 5.48%.

Financial Analysis of the Hospital

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

Net Assets

A summary of the Hospital's balance sheets at June 30, 2004, 2003, and 2002 are presented in Table 1 below:

Table 1

Condensed Balance Sheets

	June 30, 2004	June 30, 2003	June 30, 2002
Current and other assets	$29,944,730	$24,833,413	$24,118,271
Capital assets	33,398,251	23,879,168	21,375,509
TOTAL ASSETS	$63,342,981	$48,712,581	$45,493,780
Long-term debt outstanding	$10,294,580	$ 533,150	$ 759,535
Other liabilities	7,712,312	5,874,013	4,808,504
TOTAL LIABILITIES	$18,006,892	$ 6,407,163	$ 5,568,039
Invested in capital assets - net of related debt	$23,070,912	$23,119,633	$20,401,144
Unrestricted	20,274,888	17,027,602	17,350,413
Restricted	1,990,289	2,158,183	2,174,184
TOTAL NET ASSETS	$45,336,089	$42,305,418	$39,925,741

Net assets increased by $3,030,671 to $45,336,089 in fiscal year 2004, up from $42,305,418 in fiscal year 2003. The change in net assets results primarily from operating income.

During fiscal year 2004, the Hospital continued the construction of a $21 million surgery center to be attached to the west side of the existing facility. The completion and opening of the surgery center is slated for the spring of 2005. The Hospital completed construction of additional physician specialty clinic space which was occupied beginning in July 2003. Construction costs to date have been funded using cash generated by operations and proceeds of debt financing.

Revenues, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues, expenses, and changes in net assets for each of the fiscal years ended June 30, 2004, 2003, and 2002.

Table 2

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,		
	2004	2003	2002
Operating revenues	$40,849,904	$35,982,895	$35,164,999
Operating expenses	38,609,360	34,377,676	31,300,288
Operating income	2,240,544	1,605,219	3,864,711
Nonoperating income	757,192	125,799	197,517
Excess of revenues over expenses before contributions	2,997,736	1,731,018	4,062,228
Contributions	32,935	648,659	49,994
Changes in net assets	3,030,671	2,379,677	4,112,222
Total net assets - beginning of year	42,305,418	39,925,741	35,813,519
TOTAL NET ASSETS - END OF YEAR	$45,336,089	$42,305,418	$39,925,741

Operating and Financial Performance

The following discusses the Hospital's operations and statements of revenue, expenses, and changes in net assets between June 30, 2004 and 2003.

Volume: Inpatient admissions (excluding normal newborns) for fiscal year 2004 were 2,999 compared to 2,846 in fiscal year 2003. Patient days increased by 977 from 12,458 in 2003. Outpatient surgical visits increased during the year. Volumes increased in these outpatient areas: dialysis, speech therapy, occupational therapy, medical oncology, laboratory, emergency room, sleep studies, diagnostic imaging, ultrasound, CT scans, nuclear medicine, EEGs, and EKGs. Adjusted patient days, which factor in outpatient volume based on ratio of outpatient revenues to total revenues, increased during fiscal year 2004.

Net Patient Service Revenue - Due to a rate increase of 9.5% effective July 1, 2003, and changes in patient volumes discussed above, net patient service revenues increased by $4,253,334 or 12.5% in comparison to fiscal year 2003. During the fiscal year, the Hospital's reimbursement for Medicare inpatients under the prospective payment system saw an increase of 4%. For inpatient Medicare services, the Hospital is classified as a rural health care provider for purposes of determining the wage index. The wage index impacts the labor component (71%) of the Medicare DRG (diagnostic related groups) base rate.

The following table presents the relative percentages of gross charges billed for patient services by payer for the years ended June 30, 2004, 2003, and 2002.

Table 3

Payor Mix by Percentage

	Year Ended June 30,		
	2004	2003	2002
Medicare	54.70%	53.51%	54.51%
Wellmark	20.47%	18.26%	15.32%
Managed Care/Commercial	14.22%	14.08%	17.04%
Medicaid	7.05%	7.50%	6.53%
All other	3.56%	6.65%	6.60%
TOTAL	100.00%	100.00%	100.00%

Other Operating Revenue - Net income from the Hospital's investment in Abben Cancer Center, LLC increased by $567,723, from $235,733 in 2003 to $803,456 in 2004.

Salaries - Salaries increased by $1,011,230 from the prior year. For the fiscal year ended June 30, 2004, the Hospital employed a total of 411 full time equivalent employees, compared to 406 for the fiscal year ended June 30, 2003. The Hospital is in a competitive wage market and utilizes numerous surveys to ensure a competitive compensation package is offered.

Employee Benefits - The Hospital is self-insured for its employee health benefits. The Hospital's health claims losses incurred during fiscal year 2004 were approximately $1.9 million, compared to $1.5 million in the prior year. The Hospital had 9 claims that exceeded $35,000 for a total of $471,000 and one claim that exceeded the Hospital's stop loss amount of $70,000.

Nonoperating Income - Nonoperating income consists primarily of earnings from investments, income from rental properties, interest expense, and gain or loss on disposal of assets. Unrealized gains caused primarily by the recovery of the stock market led to a gain from investments of $612,109 recognized for fiscal year 2004, compared to a loss of $107,847 recognized in fiscal year 2003. Interest income is lower due to lower interest rates in 2004 over 2003.

Capital Assets

At June 30, 2004, the Hospital had $61,025,341 invested in capital assets as shown in Table 4. The $11,787,060 increase in capital assets is primarily a result of increases in buildings, construction in progress, and equipment. Buildings increased by $1,708,342 primarily due to the completion of physician office space during the current year. Construction in progress increased by $9,246,142 due to continued work on the surgery center project.

The following table summarizes the Hospital's capital assets as of June 30, 2004, 2003, and 2002.

Table 4

Capital Assets

	June 30, 2004	June 30, 2003	June 30, 2002
Land	$ 1,432,384	$ 1,208,228	$ 866,503
Land improvements	669,025	735,764	627,158
Buildings	17,978,993	16,270,651	15,025,220
Fixed equipment	7,585,496	7,515,715	7,515,715
Major movable equipment	21,092,438	20,487,060	19,939,984
Construction in progress	12,267,005	3,020,863	1,464,629
Subtotal	61,025,341	49,238,281	45,439,209
Less accumulated depreciation	(27,627,090)	25,359,113	24,063,700
CAPITAL ASSETS - NET	$33,398,251	$23,879,168	$21,375,509

Long-Term Debt and Capital Leases

At June 30, 2004, the Hospital had $533,150 in long-term debt related to a capital lease obligation for medical equipment and bonds payable in the amount of $10,666,664. This increased from $759,535 at June 30, 2003 due to the borrowing of $11,000,000 to fund the surgery center project. More detailed information about the Hospital's outstanding debt is presented in the Notes to the Financial Statements. Total long-term debt represents 57.2% of the Hospital's total liabilities as of year-end.

Performance Compared to Budget

Net patient revenue was over budget by $1,295,413 or 3.15% for fiscal year 2004. This was primarily due to increased patient volumes.

Operating expenses were over budget by $453,360 or 1.2% for fiscal year 2004.

Nonoperating income was $757,192 over budget during fiscal year 2004, which was due primarily to the recovery of the stock market.

The following table compares fiscal year 2004 actual to budget information for the statement of revenues, expenses, and changes in net assets.

Table 5

Budget vs. Actual

	FY 2004 Budget	FY 2004 Actual	Dollar Variance
Gross patient service revenue	$63,284,439	$67,234,792	$3,950,353
Contractual adjustments	(26,300,000)	(28,954,940)	(2,654,940)
Net patient service revenue	36,984,439	38,279,852	1,295,413
Other operating revenue	2,265,561	2,570,052	304,491
Total operating revenue	39,250,000	40,849,904	1,599,904
Operating expenses	(38,156,000)	(38,609,360)	(453,360)
Operating income	1,094,000	2,240,544	1,146,544
Nonoperating income		757,192	757,192
Excess of revenues over expenses	$ 1,094,000	$ 2,997,736	$1,903,736

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considered many factors when setting the fiscal year 2005 budget. Of primary importance in setting the 2005 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare and Medicaid reimbursement rates
- Privacy legislation (HIPAA)
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies
- Surging drug costs
- Increasing number of uninsured patients
- Increasing insurance deductibles

Patient Satisfaction; Community Contribution

The Hospital's leadership believes that employees working in a positive environment provide great customer services, yielding satisfied patients.

The Hospital subscribes to a national service, Press Ganey, which performs patient satisfaction surveys for more than 800 hospitals across the country. Over the past 12 months, the Hospital exceeded the 90th percentile in patient satisfaction for three out of four quarters. This means the Hospital's patients rate the hospital higher than the patients at 90 percent of the other participating hospitals.

During fiscal year 2004, the Hospital contributed much to the community. Charity care and uncompensated care totaled $1,509,348 for the fiscal year. In addition, many programs were provided without receiving compensating revenue. Examples of this include: emergency services coverage at community events, wellness screenings, various health education classes, and providing the use of facilities to community groups.

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. The Hospital's component unit, Abben Cancer Center, LLC, has prepared a separate financial statement. If you have questions about the report, the Hospital's report, or need additional financial information, please contact the finance department at Spencer Municipal Hospital, 1200 First Avenue East, Spencer, Iowa 51301.

Exhibit A

SPENCER MUNICIPAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2004 AND 2003

ASSETS

	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$12,291,230	$ 9,825,819
Patient receivables (less allowance for doubtful accounts and contractual adjustments of $4,500,000 in 2004 and $3,580,000 in 2003)	5,497,571	5,059,504
Other receivables (Note 9)	375,728	467,177
Investments (Note 2)	3,251,685	2,367,054
Inventory	1,582,394	1,384,995
Prepaid expenses	192,504	106,784
TOTAL CURRENT ASSETS	23,191,112	19,211,333
NONCURRENT CASH AND INVESTMENTS (Note 2):		
Restricted by board for capital improvements	3,084,956	2,861,457
Restricted by bond resolution	1,029,051	
Restricted by donors for capital improvements	957,452	1,391,784
Restricted by donors for operations	170,087	167,148
Principal of permanent endowments	601,479	599,251
TOTAL NONCURRENT CASH AND INVESTMENTS	5,843,025	5,019,640
CAPITAL ASSETS (Notes 4, 7, 10, and 11):		
Land	1,432,384	1,208,228
Construction in progress	12,267,005	3,020,863
Depreciable property, plant, and equipment	47,325,952	45,009,190
TOTAL CAPITAL ASSETS	61,025,341	49,238,281
Less accumulated depreciation	27,627,090	25,359,113
CAPITAL ASSETS - NET	33,398,251	23,879,168
OTHER ASSETS:		
Investment in Cancer Center (Notes 5, 9, and 10)	805,896	602,440
Deferred finance costs - net of accumulated amortization of $3,923 and $0, respectively	104,697	
TOTAL OTHER ASSETS	910,593	602,440
TOTAL ASSETS	$63,342,981	$48,712,581

See Accompanying Notes to Financial Statements

Exhibit A

SPENCER MUNICIPAL HOSPITAL
BALANCE SHEETS - Continued
JUNE 30, 2004 AND 2003

LIABILITIES AND NET ASSETS

	2004	2003
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 7)	$ 905,234	$ 226,385
Accounts payable	2,316,677	1,288,920
Accrued salaries and wages	2,627,655	2,029,421
Payroll taxes payable	153,878	125,466
Estimated third-party payor settlements (Note 3)	1,200,000	1,820,500
Other current liabilities (Note 8)	508,868	383,321
TOTAL CURRENT LIABILITIES	7,712,312	5,874,013
LONG-TERM DEBT - NET OF CURRENT PORTION (Note 7)	10,294,580	533,150
TOTAL LIABILITIES	18,006,892	6,407,163
NET ASSETS:		
Invested in capital assets, net of related debt	23,070,912	23,119,633
Restricted for debt service	261,273	
Net assets restricted by donor - nonexpendable	601,479	599,251
Net assets restricted by donor - expendable	1,127,537	1,558,932
Unrestricted net assets	20,274,888	17,027,602
TOTAL NET ASSETS	45,336,089	42,305,418
TOTAL LIABILITIES AND NET ASSETS	$63,342,981	$48,712,581

See Accompanying Notes to Financial Statements

Exhibit B

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
OPERATING REVENUE:		
Net patient service revenue (Note 3)	$38,279,852	$34,026,518
Other Hospital operating revenue	2,109,155	1,522,583
Clinic revenue	460,897	433,794
TOTAL OPERATING REVENUE	40,849,904	35,982,895
OPERATING EXPENSES:		
Salaries	15,231,159	14,219,929
Employee benefits	5,094,016	4,138,843
Professional services	5,608,758	4,557,999
Supplies and other	7,790,722	7,124,323
Clinic expenses	714,626	593,896
Provision for depreciation	2,725,732	2,837,339
Provision for bad debts	1,444,347	905,347
TOTAL OPERATING EXPENSES	38,609,360	34,377,676
OPERATING INCOME	2,240,544	1,605,219
NONOPERATING INCOME:		
Interest income	175,627	263,409
Investment income (loss)	612,109	(107,847)
Interest expense	(34,482)	(46,054)
Gain on sale of equipment and real estate	5,188	19,291
Scholarships granted	(1,250)	(3,000)
TOTAL NONOPERATING INCOME	757,192	125,799
EXCESS OF REVENUES OVER EXPENSES BEFORE CONTRIBUTIONS	2,997,736	1,731,018
CAPITAL CONTRIBUTIONS RECEIVED FROM DONORS	32,935	648,659
CHANGE IN NET ASSETS	3,030,671	2,379,677
TOTAL NET ASSETS - BEGINNING OF YEAR	42,305,418	39,925,741
TOTAL NET ASSETS - END OF YEAR	$45,336,089	$42,305,418

See Accompanying Notes to Financial Statements

Exhibit C

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patient services	$36,237,835	$33,490,981
Cash payments to suppliers for goods and services	(14,006,667)	(12,208,141)
Cash payments to employees for services	(19,698,529)	(18,373,727)
Other operating revenues	1,397,150	1,189,520
Other payments	(1,250)	(3,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,928,539	4,095,633
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Property, plant, and equipment purchases	(11,495,908)	(4,785,524)
Proceeds from sale of equipment and real estate	22,950	33,166
Proceeds from long-term debt	11,000,000	
Payments on long-term debt	(559,721)	(214,830)
Cash payments for deferred finance costs	(108,620)	
Interest paid on long-term debt	(34,482)	(46,054)
Capital contributions received from donors	32,935	648,659
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,142,846)	(4,364,583)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(2,042,667)	(1,521,417)
Proceeds from sale and maturities of investments	1,775,191	5,925,099
Income on investments	170,579	228,695
Distributions from Cancer Center	600,000	550,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	503,103	5,182,377
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,288,796	4,913,427
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,586,689	9,673,262
CASH AND CASH EQUIVALENTS AT END OF YEAR	$17,875,485	$14,586,689

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:		
Cash and cash equivalents per balance sheets:		
Current assets	$12,291,230	$ 9,825,819
Noncurrent assets	5,584,255	4,760,870
TOTAL CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS	$17,875,485	$14,586,689

See Accompanying Notes to Financial Statements

Exhibit C

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS - Continued
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
RECONCILIATION OF OPERTING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 2,240,544	$ 1,605,219
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,725,732	2,837,339
Equity in earnings of Cancer Center	(803,456)	(235,733)
Components of non-operating and operating expenses reclassified for purposes of reporting cash flows:		
Scholarships awarded	(1,250)	(3,000)
(Increase) decrease in:		
Net patient receivables	(438,067)	(559,484)
Other receivables	91,451	(97,330)
Inventory	(197,399)	(101,564)
Prepaid expenses	(85,720)	(28,565)
Increase (decrease) in:		
Accounts payable	265,011	77,255
Accrued salaries and wages	598,234	(22,987)
Payroll taxes payable	28,412	8,032
Amounts due to contracting agencies	(620,500)	495,500
Other current liabilities	125,547	120,951
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,928,539	$ 4,095,633
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Property, plant, and equipment purchases	$12,262,577	$ 5,354,873
Change in construction accounts payable	(762,746)	(375,203)
Transfer of real estate from noncurrent assets	-	(194,146)
Deferred finance costs amortization capitalized	(3,923)	-
Cash paid to purchase property, plant, and equipment	$11,495,908	$ 4,785,524
Total interest expense paid	$ 246,917	$ 46,054
Less interest expense capitalized	212,435	
Net interest expense	$ 34,482	$ 46,054

See Accompanying Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity
Spencer Municipal Hospital (the Hospital) is a city public hospital organized under Chapter 392.6 of the Code of Iowa and operates a hospital in Spencer, Iowa, and two medical clinics in nearby communities. The Hospital is governed by a five-member board of trustees elected by the residents of Spencer for terms of four years. The majority of the Hospital's patients are from Spencer and northwest Iowa.

For financial reporting purposes, the Hospital is considered a primary government and has excluded the financial data of its component unit, the Abben Cancer Center, LLC (the Cancer Center) (formerly known as the Northwest Iowa Radiation Treatment Center, LC). A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. Since these financial statements do not include the Hospital's component unit, they do not purport to be prepared in conformity with U.S. generally accepted accounting principles, as they relate to the exclusion of this component unit.

Basis of Presentation
The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Effective July 1, 2002, the Hospital adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The adoption of these pronouncements had no financial impact on the Hospital.

Cash and Cash Equivalents
For purposes of the statements of cash flows, the Hospital considers savings accounts, money market mutual funds, and all other highly liquid investments (including restricted assets) with original maturities of three months or less to be cash equivalents.

Noncurrent Cash and Investments
Noncurrent cash and investments include proceeds from debt issues and funds of the Hospital deposited with a trustee which are restricted in accordance with the requirements of a bond resolution and related documents; funds restricted by donors for capital improvements or specific operations of the Hospital; permanently endowed funds; and assets set aside by the Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Permanent endowments require that the principal be retained in perpetuity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Patient Receivables
Patient receivables are shown at the amount expected to be collected after estimating the allowance for doubtful accounts based on an aging of all the individual patient balances and estimating the contractual adjustments. Retroactively-calculated third party contractual adjustments are accrued on an estimated basis in the period the related services are rendered.

Inventory
Inventory is valued at the lower of cost or market using the first-in, first-out method.

Capital Assets
Capital assets are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets in accordance with the guidelines set forth by the American Hospital Association. Lives for the buildings and land improvements are five to fifty years while the equipment lives range from three to twenty years. Amortization expense of assets capitalized under lease obligations are included in depreciation expense.

Investments
Investments in common stocks are carried at fair value based on quoted market prices. Investments in real estate are carried at cost. Donated investments are reported at fair value at the date of receipt, which is then treated as cost.

The investment in the Cancer Center is accounted for by using the equity method, where the Hospital records its share of the earnings or losses.

Deferred Finance Costs
Deferred finance costs are stated at cost and are amortized over the term of the revenue bonds using the straight-line method. Amortization expense during the construction period is capitalized in the same manner as interest expense.

Operating Revenues and Expenses
The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenue
Net patient service revenue and clinic revenue are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Interest and Investment Income
Interest and investment income are recorded as non-operating revenue. Investment income includes dividends, net rental income, and gains and losses, both realized and unrealized, on equity securities.

Interest Expense
Interest costs incurred on borrowed funds during the construction period of capital assets are capitalized as a component of the constructed assets. All of the borrowings from revenue bonds have been used to fund the construction projects.

Net Assets
Net assets are presented in the following components:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted for debt service consists of a cash account established in accordance with the requirements of a bond resolution.

Restricted nonexpendable net assets consists of the principal portion of permanent endowments.

Restricted expendable net assets consist of noncapital net assets that must be used for a particular purpose as specified by the donors.

Unrestricted net assets have no third-party restrictions on use.

Charity Care
The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Hospital maintains records to identify and monitor the level of charity it provides. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The amount of charges forgone, based on established rates, for 2004 and 2003, were $65,001 and $63,484, respectively.

Income Taxes
The Hospital is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code of 1986.

Use of Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2004 and 2003 were entirely covered by FDIC or SIPC insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against members of the pool to insure there will be no loss of public funds.

The Hospital 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 of the Hospital and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; investments in common stocks; and warrants or improvement certificates of a drainage district.

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year-end. The Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name.

The Hospital's cash and investments at June 30, 2004 and 2003 are as follows:

	2004	2003
Cash and cash equivalents	$17,875,485	$14,586,689
Certificates of deposit	200,000	600,000
Common stocks	3,051,685	1,767,054
Real estate	258,770	258,770
TOTAL CASH AND INVESTMENTS	$21,385,940	$17,212,513

The cash and investments shown above are included in the Hospital's balance sheets as follows:

	2004	2003
Current assets:		
Cash and cash equivalents	$12,291,230	$ 9,825,819
Investments	3,251,685	2,367,054
Noncurrent cash and investments - total	5,843,025	5,019,640
TOTAL CASH AND INVESTMENTS	$21,385,940	$17,212,513

The common stock investments are carried at quoted market prices. The net unrealized loss on the common stock investments at June 30, 2003 was $36,141. The net unrealized gain on common stock investments at June 30, 2004 was $399,921.

3. NET PATIENT SERVICE REVENUE

As a provider of health care services, the Hospital has agreements with third-party payors that provide for payment of services at amounts different from established rates. The basis for payment varies by payor and includes prospectively determined rates per discharge, discounts from established charges, and retroactively determined cost-based rates. Approximately 92 percent of gross patient charges determined at established rates for the years ended June 30, 2004 and 2003 resulted from patients covered by these third-party reimbursement programs. Significant changes have been made and may be made in certain of these programs which could have a material adverse impact on the financial condition of the Hospital in future years.

The following summarizes the differences between gross patient service revenue determined at established rates and net patient service revenue:

	2004	2003
Gross patient service revenue - at established rates	$67,234,792	$57,525,525
Deductions:		
Medicare program	(21,574,215)	(18,151,430)
Medicaid program	(2,668,544)	(1,979,441)
Blue Cross	(3,938,137)	(2,484,687)
Other payors	(709,043)	(819,965)
Charity care	(65,001)	(63,484)
Net Patient Service Revenue	$38,279,852	$34,026,518

4. CAPITAL ASSETS

A summary of changes in capital assets for 2004 and 2003 is as follows:

	Year Ended June 30, 2004			
	Beginning Balance	Additions	Disposals and Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,208,228	$ 52,486	$ 171,670	$ 1,432,384
Construction in progress	3,020,863	11,522,671	(2,276,529)	12,267,005
Total capital assets not being depreciated	4,229,091	11,575,157	(2,104,859)	13,699,389
Other capital assets:				
Land improvements	735,764	6,146	(72,885)	669,025
Buildings	16,270,651	29,657	1,678,685	17,978,993
Fixed equipment	7,515,715	-	69,781	7,585,496
Major moveable equipment	20,487,060	651,617	(46,239)	21,092,438
Total other capital assets	45,009,190	687,420	1,629,342	47,325,952
Total capital assets	49,238,281	12,262,577	(475,517)	61,025,341
Less accumulated depreciation for:				
Land improvements	384,363	38,264	(36,425)	386,202
Buildings	6,192,120	620,742	(5,433)	6,807,429
Fixed equipment	4,721,621	271,262	-	4,992,883
Major moveable equipment	14,061,009	1,795,464	(415,897)	15,440,576
Total accumulated depreciation	25,359,113	2,725,732	(457,755)	27,627,090
CAPITAL ASSETS - NET	$23,879,168	$ 9,536,845	$ (17,762)	$33,398,251

4. CAPITAL ASSETS - Continued

	Year Ended June 30, 2003			
	Beginning Balance	Additions	Disposals and Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 866,503	$ 164,867	$ 176,858	$ 1,208,228
Construction in progress	1,464,629	4,333,298	(2,777,064)	3,020,863
Total capital assets not being depreciated	2,331,132	4,498,165	(2,600,206)	4,229,091
Other capital assets:				
Land improvements	627,158	1,064	107,542	735,764
Buildings	15,025,220	110,659	1,134,772	16,270,651
Fixed equipment	7,515,715	-	-	7,515,715
Major moveable equipment	19,939,984	744,985	(197,909)	20,487,060
Total other capital assets	43,108,077	856,708	1,044,405	45,009,190
Total capital assets	45,439,209	5,354,873	(1,555,801)	49,238,281
Less accumulated depreciation for:				
Land improvements	346,237	38,126	-	384,363
Buildings	5,633,510	564,566	(5,956)	6,192,120
Fixed equipment	4,444,714	276,907	-	4,721,621
Major moveable equipment	13,639,239	1,957,740	(1,535,970)	14,061,009
Total accumulated depreciation	24,063,700	2,837,339	(1,541,926)	25,359,113
CAPITAL ASSETS - NET	$21,375,509	$ 2,517,534	$ (13,875)	$23,879,168

Included in major moveable equipment is medical equipment capitalized under the lease obligation described in Note 7. The cost of the equipment was $1,150,000 at June 30, 2004 and 2003 and the related accumulated depreciation was $670,833 and $440,833 at June 30, 2004 and 2003, respectively.

5. INVESTMENT IN ABBEN CANCER CENTER, LLC

The Cancer Center is an Iowa limited liability company that operates a cancer radiation treatment center in Spencer, Iowa, which began operations in 1998. The Hospital owns 100% of the Cancer Center. Condensed financial information of the Cancer Center is as follows:

	2004	2003
Current and total assets	$ 750,322	$ 676,674
Current and total liabilities	$ 200,892	$ 330,700
Member's equity	549,430	345,974
Total liabilities and member's equity	$ 750,322	$ 676,674
Net revenue	$ 2,736,722	$ 2,062,775
Total expenses	1,933,266	1,827,042
Net income	$ 803,456	$ 235,733

The investment in the Cancer Center was approximately $256,000 greater than the underlying member's equity at June 30, 2004 and 2003. The difference is attributable to goodwill which is tested for impairment on an annual basis.

Complete financial statements for the Cancer Center can be obtained from the administrative office of the Hospital. See Note 9 for related party transaction information.

6. RETIREMENT PLAN

The Hospital 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 3.70% of their annual covered salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for 2004, 2003, and 2002 were $880,422, $824,292, and $774,154, respectively, equal to the required contributions for each year.

7. LONG-TERM DEBT

The following is a summary of long-term debt and related information as of June 30, 2004 and 2003:

	2004	2003
Capital lease obligation for medical equipment with 60 monthly payments of $21,739 through September 2006 at an annual imputed interest rate of 5.25%	$ 533,150	$ 759,535
Series A revenue bond payable that allows borrowings up to $10 million through June 30, 2005. Interest only payments at variable rates set at 77.1% of a LIBOR rate plus 2.25% (2.591% at June 30, 2004) adjustable monthly. Payments are due monthly through June 30, 2005 with principal payments of $61,728 plus interest due thereafter through November 2018.	1,000,000	-
Series B revenue bond payable with monthly principal payments of $55,556 through December 2018 plus interest at 4.02%. The interest rate is fixed for 5 year increments; to be reset in 2008 and 2013 at 77.1% of the 5-year U.S. Treasury constant maturity rate plus 2%.	9,666,664	-
TOTAL LONG-TERM DEBT	11,199,814	759,535
Less current installments of long-term debt	905,234	226,385
LONG-TERM DEBT EXCLUDING CURRENT INSTALLMENTS	$10,294,580	$ 533,150

The maturities and payment components of the Hospital's long-term debt are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	2.591 - 5.25%	$ 905,234	$ 422,373	$1,327,607
2006	2.591 - 5.25%	1,658,802	376,104	2,034,906
2007	2.591 - 4.020%	969,130	324,466	1,293,596
2008	2.591 - 4.020%	666,672	295,916	962,588
2009	2.591 - 4.020%	666,672	269,116	935,788
2010 - 2014	2.591 - 4.020%	3,333,360	943,575	4,276,935
2015 - 2019	2.591 - 4.020%	2,999,944	276,363	3,276,307
TOTAL		$11,199,814	$2,907,913	$14,107,727

The revenue bonds were issued under the provisions of Chapter 384.24A of the Code of Iowa and as such the principal and interest payments are payable solely from the revenues of the Hospital and do not constitute a liability or obligation of the City of Spencer.

8. HOSPITAL RISK MANAGEMENT

The Hospital 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 illness; natural disasters; and employee health and accident benefits. Certain of these risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Hospital is self-insured for the following types of risk exposures:

Health Benefits
The Hospital has established an Employee Health Insurance Plan that self insures health benefits. Self-insurance is in effect up to a specific stop loss amount of $70,000 per individual and an aggregate stop loss amount of approximately $2,170,000. Coverage from private insurance companies is maintained for losses in excess of the aggregate stop loss amount up to a maximum of $1,000,000. All claims handling procedures are performed by an independent claims administrator. Losses are accrued based upon the Hospital's estimates of the aggregate liability for claims incurred using certain assumptions followed in the insurance industry and based on the Hospital's experience. The amounts of unpaid claims included in the financial statements were $349,930 and $277,986 at June 30, 2004 and 2003, respectively, and are included in other current liabilities.

Unemployment Compensation
The Hospital is also self-insured for unemployment compensation claims. Unemployment is charged quarterly as the state assesses the Hospital based upon actual claims paid.

9. RELATED PARTY TRANSACTIONS

Spencer Regional Healthcare Foundation
The Spencer Regional Healthcare Foundation (Foundation) was formed in 1993 and is organized as a non-profit organization to solicit contributions for qualifying health care facilities within a 20-mile radius of Spencer, Iowa. Due to the existence of common board members, the Hospital and the Foundation are considered related parties. The Foundation made charitable contributions to the Hospital in the amount of $27,628 and $490,731 during 2004 and 2003 respectively.

Cancer Center
The Hospital has entered into various agreements with the Cancer Center whereby the Hospital will provide management and operating services and lease a building and related equipment to the Cancer Center. The agreements include defined methodologies to calculate the rates and are cancelable by either party 90 days prior to the anniversary date of the agreements. The following summarizes the transactions with the Cancer Center:

	2004	2003
Personnel service fees	$ 126,456	$ 84,797
Building and equipment rental income	$ 394,604	$ 383,690

9. RELATED PARTY TRANSACTIONS - Continued

At June 30, 2004 and 2003, the receivable from the Cancer Center was $99,930 and $190,646, respectively, which is included in other receivables. The balance consists of the above fees and cash advances for direct operating expenses less cash repayments.

Interest Income
The Hospital has depository accounts at Northwest Federal Savings Bank whose chairman is a Hospital trustee. The Hospital earned $56,325 and $77,187 in interest income on the deposits during 2004 and 2003, respectively.

10. OPERATING LEASES

The Hospital has entered into noncancelable operating lease agreements involving three medical clinics and office equipment. The original terms of the leases expire at various dates through 2008, have optional renewal clauses and are subject to increased rates if the renewal options are exercised. The rental expense for 2004 and 2003, under the agreements was $427,589 and $417,378, respectively.

The following is a schedule of future minimum rental payments to be made:

Year Ending June 30,	Amount
2005	$ 406,622
2006	364,687
2007	309,937
2008	194,458
TOTAL	$1,275,704

The Hospital subleases one of the above clinics and leases office space in its medical office building to unrelated parties under noncancelable operating lease agreements. The original terms of the leases expire at various dates through 2008, have optional renewal clauses, and annual rental increase clauses to recover increased expenses. The rental income under the agreements for 2004 and 2003 was $398,552 and $331,397, respectively, and is included in investment income.

The following is a schedule of future minimum rental payments to be received including the subleases:

Year Ending June 30,	Amount
2005	$ 424,815
2006	425,506
2007	425,506
2008	239,665
TOTAL	$1,515,492

10. OPERATING LEASES - Continued

The cost and accumulated depreciation of the leased property including the property leased to the Cancer Center are as follows:

	2004	2003
Medical office building	$3,157,625	$1,748,812
Medical clinic equipment	70,717	51,171
Cancer Center building	1,267,994	1,267,994
Cancer Center equipment	2,521,321	2,512,960
Other real estate	439,775	342,688
Total property and equipment	7,457,432	5,923,625
Less accumulated depreciation	2,657,349	2,211,484
Net property and equipment	$4,800,083	$3,712,141

11. COMMITMENTS

At June 30, 2004, the Hospital had contractual obligations for the acquisition and construction of capital assets totaling approximately $6,140,000.

Additionally, the Hospital has entered into other commitments for real estate purchases and physician recruitment expenses for an aggregate total of approximately $188,000 that are expected to be settled in 2005.

SPENCER MUNICIPAL HOSPITAL
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2004

SPENCER MUNICIPAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Net patient service revenue	$36,984,439	$38,279,852	$1,295,413
Other operating revenue	2,265,561	2,570,052	304,491
Total operating revenue	39,250,000	40,849,904	1,599,904
Operating expenses	(38,156,000)	(38,609,360)	(453,360)
Nonoperating income		757,192	757,192
Net	1,094,000	2,997,736	$1,903,736
Capital contributions	-	32,935	
Net assets - beginning of year	41,290,741	42,305,418	
NET ASSETS - END OF YEAR	$42,384,741	$45,336,089	

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

SPENCER MUNICIPAL HOSPITAL
SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

Schedule 1

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004					2003
	Inpatient	Outpatient	Skilled Care	Home Health	Total	Total
DAILY PATIENT SERVICE:						
Medical and surgery	$ 3,543,467	$ -	$ -	$ -	$ 3,543,467	$ 3,291,276
Mental health	1,652,794	-	-	-	1,652,794	1,304,925
Nursery	221,679	-	-	-	221,679	174,777
Special care unit	1,162,853	-	-	-	1,162,853	811,312
Skilled care	-	-	636,941	-	636,941	511,523
TOTAL DAILY PATIENT SERVICES	6,580,793	-	636,941	-	7,217,734	6,093,813
OTHER NURSING SERVICES:						
Partial hospitalization	-	317,480	-	-	317,480	307,866
Same day surgery	-	865,850	-	-	865,850	736,579
Intravenous therapy	540,739	486,978	30,951	-	1,058,668	956,546
Delivery and labor rooms	274,362	178,693	-	-	453,055	438,537
Operating rooms	2,852,902	6,947,120	5,736	-	9,805,758	8,695,544
Recovery rooms	409,550	936,282	528	-	1,346,360	1,171,234
Emergency service	851,883	2,779,882	1,959	-	3,633,724	3,281,445
Medical supplies	5,809,792	3,959,049	49,072	3,076	9,820,989	8,226,953
Oncology	24	909,390	-	-	909,414	685,323
TOTAL OTHER NURSING SERVICES	10,739,252	17,380,724	88,246	3,076	28,211,298	24,500,029
OTHER PROFESSIONAL SERVICES:						
Respiratory therapy	1,346,249	76,407	219,242	-	1,641,898	1,485,844
Ambulance	-	857,988	-	-	857,988	820,048
Laboratory	1,182,231	1,674,977	71,571	-	2,928,779	2,434,864
Blood bank	69,467	44,175	4,067	-	117,709	77,581
Electrocardiology	374,125	603,008	7,507	-	984,640	808,563
Electroencephalography	3,047	27,101	-	-	30,148	20,618
Radiology	539,187	1,758,800	25,051	-	2,323,038	2,059,080
Ultrasound	92,383	923,820	-	-	1,016,203	896,943
Stereotactic biopsy	-	99,560	-	-	99,560	128,824

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE - Continued
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004					2003
	Inpatient	Outpatient	Skilled Care	Home Health	Total	Total
OTHER PROFESSIONAL SERVICES- Continued:						
CT scan	$ 526,784	$ 2,476,399	$ -	$ -	$ 3,003,183	$ 2,297,774
MRI	83,225	1,818,572	-	-	1,901,797	2,056,849
Nuclear medicine	50,104	586,738	-	-	636,842	560,950
Pharmacy	1,824,465	7,113,134	240,507	563	9,178,669	7,275,188
Therapy pool	646	133,432	-	-	134,078	149,846
Physical therapy	218,421	804,929	136,914	27,194	1,187,458	1,131,901
Speech therapy	11,802	127,299	13,440	2,984	155,525	139,677
Occupational therapy	64,707	433,284	71,815	-	569,806	397,048
Pulmonary function testing	2,396	37,541	-	-	39,937	34,160
Cardio-pulmonary diagnostics	-	266,171	-	-	266,171	122,692
Invasive procedures	5,225	178	(267)	-	5,136	8,160
Pulmonary rehab	188	9,756	-	-	9,944	15,370
Cardiac rehab	-	165,855	-	-	165,855	142,554
Hemodialysis	-	1,620,749	-	-	1,620,749	1,640,185
Dialysis-Spirit Lake	-	880,099	-	-	880,099	479,028
Home health:						
Registered nurse care	-	-	-	572,769	572,769	577,483
Aides care	-	-	-	319,950	319,950	265,855
County assistance	-	-	-	90,000	90,000	86,000
Other care	-	-	-	1,067,829	1,067,829	818,598
TOTAL OTHER PROFESSIONAL SERVICES	6,394,652	22,539,972	789,847	2,081,289	31,805,760	26,931,683
TOTAL GROSS PATIENT SERVICE REVENUE	$ 23,714,697	$ 39,920,696	$ 1,515,034	$ 2,084,365	$ 67,234,792	$ 57,525,525

See Independent Auditors' Report.

Schedule 2

SPENCER MUNICIPAL HOSPITAL
NET PATIENT SERVICE REVENUE
AND OTHER OPERATING REVENUE
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
GROSS PATIENT SERVICE REVENUE (Schedule 1)	$ 67,234,792	$ 57,525,525
ADJUSTMENTS TO PATIENT SERVICE REVENUE:		
Medicare program	21,574,215	18,151,430
Medicaid program	2,668,544	1,979,441
Blue Cross	3,938,137	2,484,687
Other payors	709,043	819,965
Charity Care	65,001	63,484
TOTAL ADJUSTMENTS TO PATIENT SERVICE REVENUE	28,954,940	23,499,007
NET PATIENT SERVICE REVENUE	$ 38,279,852	$ 34,026,518
OTHER OPERATING REVENUE:		
Cafeteria sales	$ 234,998	$ 226,936
Photo service	1,140	1,242
Medical record transcripts	10,724	11,837
Miscellaneous	78,335	78,876
Steam sold	10,425	9,814
Purchase discounts	7,629	7,043
Education programs	34,169	35,444
AG Health/Safety Clinic	161,908	225,858
Enterostomal therapy	54,103	51,902
Speech therapy	17,200	16,508
Occupational health	30,878	35,954
Physical therapy	525	420
Athletic enhancement	74,023	65,538
Pharmacy services	2,446	3,284
Lifeline	66,136	47,707
Cancer Center Fees:		
Personnel services	126,456	84,797
Building and equipment rental	394,604	383,690
Equity in earnings of Cancer Center	803,456	235,733
TOTAL OTHER OPERATING REVENUE	$ 2,109,155	$ 1,522,583

See Independent Auditors' Report.

Schedule 3

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	Salaries		Professional Services		Supplies and Other Expenses	
	2004	2003	2004	2003	2004	2003
Clinical resources	$ 213,711	$ 190,404	$ 31	$ 44	$ 5,689	$ 3,866
Medical and surgery	1,728,744	1,265,388	9,083	54,621	91,992	66,577
Obstetrics	463,229	407,910	3,258	16,731	33,541	27,869
Mental health	588,830	515,318	75	6,570	24,492	15,524
Special care	471,145	390,799	1,516	46,012	56,226	53,996
Intravenous therapy	-	-	-	1,620	65,384	64,303
Operating room	798,218	729,336	150,000	150,000	361,245	262,879
Recovery room	196,178	179,453	-	-	33,540	27,784
Emergency service	406,658	404,874	734,694	725,181	55,945	52,306
Central sterilization	93,528	84,411	-	-	97,835	93,055
Service aide	31,756	31,007	-	-	-	-
Skilled care	-	389,281	-	-	-	16,013
Same day surgery	528,499	457,635	114	115	23,700	21,770
Home health	768,851	754,907	6,648	9,682	45,906	47,688
Hospice	171,027	151,831	108,527	86,224	14,619	13,524
Enterostomal service	65,614	60,060	524	1,211	8,714	8,907
Hemodialysis	303,240	319,475	8,415	10,865	143,701	153,117
Dialysis - Spirit Lake	161,912	91,085	29,136	39,005	176,482	117,176
Partial hospitalization	88,724	86,735	-	-	6,611	7,207
Oncology	163,050	143,552	-	-	18,750	19,502
Childbirth	2,462	2,800	-	-	451	1,210
Respiratory therapy	201,810	193,148	65,042	22,508	86,112	77,392
Laboratory	478,752	478,226	121,633	104,288	268,242	273,454
Blood bank	-	-	115,188	72,255	2,205	2,084
Electrocardiology	77,980	89,229	55,316	50,065	2,764	5,187
Electroencephalography	-	-	12,162	8,384	-	-

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	Salaries		Professional Services		Supplies and Other Expenses	
	2004	2003	2004	2003	2004	2003
Radiology	$ 277,506	$ 298,926	$ 355,427	$ 116,344	$ 186,599	$ 169,365
Ultrasound	149,250	128,196	80	-	53,315	48,680
Stereotactic biopsy	-	-	43,514	58,174	24	6
MRI	47,849	36,749	-	-	135,518	165,317
Occupational health	20,837	37,109	515	617	3,728	5,185
Athletic enhancement	107,504	104,334	1,900	-	10,789	27,700
Nuclear medicine	55,278	57,750	-	-	138,953	135,780
Pharmacy	488,097	459,741	3,209,929	2,425,235	29,375	35,047
Anesthesiology	-	-	-	-	57,956	48,483
Physical therapy	370,899	374,419	56,662	27,654	27,623	30,901
Ambulance	430,314	426,991	140	1,034	40,205	49,092
Social services	148,860	134,729	-	-	1,819	726
Cardiac rehabilitation	130,642	122,538	-	-	12,340	10,426
Medical records	410,139	376,943	37,897	33,366	80,711	63,388
CT scan	85,362	70,787	-	-	227,440	227,978
Occupational therapy	211,843	186,505	42,995	4,151	14,994	17,677
Infection control	37,171	38,024	892	2,329	1,909	1,636
Speech therapy	96,220	77,328	255	842	13,777	18,543
AG health and safety clinic	84,656	113,165	34,395	101,829	33,145	28,389
AG Health -Grant Expense	-	-	-	-	21,005	17,505
Pulmonary function testing	-	-	-	-	-	981
Cardio-pulmonary diagnostic	12,417	-	-	-	3,117	3,684
Library	-	-	-	-	9,291	8,175
Internal medicine clinic	-	-	-	768	-	-
Sports medicine	-	-	90,492	84,508	74,299	101,266
Lifeline	20,856	12,178	32,581	16,911	27,360	4,411

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	Salaries		Professional Services		Supplies and Other Expenses	
	2004	2003	2004	2003	2004	2003
Therapy pool	$ -	$ -	$ -	$ -	$ 3,373	$ 2,290
Plant	443,463	390,694	-	-	196,048	175,304
Utilities	-	-	-	-	474,368	439,368
Housekeeping	371,701	355,163	959	1,365	60,822	56,145
Laundry	125,803	119,933	2,710	1,831	41,276	29,685
Nutrition services	534,284	491,218	990	933	326,500	297,377
Valet	49,275	35,172	-	-	8,756	11,036
General accounting	198,806	199,239	7,970	5,569	17,086	13,879
Human resources	101,708	98,667	390	-	147,579	167,333
Patient accounts	663,385	627,925	34,858	37,127	67,714	69,679
Information systems	271,675	266,152	20,510	7,871	169,383	139,996
Credit and collections	-	-	-	-	58,042	65,893
Administration	732,787	651,000	151,182	167,944	235,405	195,091
Materials management	87,868	80,428	2,242	2,569	25,998	25,932
Communications	-	-	26,032	22,352	48,185	61,284
Central supply	54,574	45,289	-	-	2,761,179	2,434,819
Printing and duplicating	19,519	19,159	-	-	101,789	100,982
Insurance	-	-	-	-	200,054	167,043
Staff development	88,626	74,944	18,096	18,959	3,493	4,609
Medical care evaluation	298,067	291,670	13,783	12,336	14,234	13,847
TOTAL	$ 15,231,159	$ 14,219,929	$ 5,608,758	$ 4,557,999	$ 7,790,722	$ 7,124,323

See Independent Auditors' Report.

Schedule 4

SPENCER MUNICIPAL HOSPITAL
PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
UNAUDITED

PATIENT RECEIVABLES ANALYSIS OF AGING:

	2004		2003	
	Amount	Percent To Total	Amount	Percent To Total
DAYS SINCE DISCHARGE:				
00 - 30	$2,061,661	20.62%	$ 2,352,575	27.23%
31 - 60	1,230,514	12.32%	1,205,996	13.96%
61 - 90	570,967	5.71%	639,563	7.40%
91 - 120	418,220	4.18%	376,419	4.36%
Over 120	1,757,993	17.58%	1,408,388	16.30%
Clinic receivables	219,274	2.19%	197,514	2.29%
TOTAL RECEIVABLES BILLED	6,258,629	62.60%	6,180,455	71.54%
In Hospital	3,754,232	37.55%	2,663,432	30.83%
Medicare advances	(15,290)	-0.15%	(204,383)	-2.37%
TOTAL PATIENT RECEIVABLES	9,997,571	100.00%	8,639,504	100.00%
Allowance for doubtful accounts	(1,350,000)		(1,046,000)	
Allowance for contractual adjustments	(3,150,000)		(2,534,000)	
PATIENT RECEIVABLES - NET	$5,497,571		$ 5,059,504	

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	2004	2003
BALANCE - BEGINNING OF YEAR	$ 1,046,000	$ 900,000
Provision	1,654,328	1,121,983
Recoveries of accounts previously written off	209,981	216,636
TOTAL	2,910,309	2,238,619
Accounts written off	(1,560,309)	(1,192,619)
BALANCE - END OF YEAR	$ 1,350,000	$ 1,046,000

See Independent Auditors' Report.

Schedule 5

SPENCER MUNICIPAL HOSPITAL
INVENTORY AND PREPAID EXPENSES
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
INVENTORY:		
Store room	$ 195,162	$ 207,130
Nutrition services	11,256	12,507
Laboratory	72,273	64,337
Laundry	6,613	7,335
Pharmacy	288,195	236,597
Radiology	24,390	21,522
Surgery	907,590	743,778
Various other inventories	76,915	91,789
TOTALS	$ 1,582,394	$ 1,384,995

PREPAID EXPENSES:		
Service contracts	$ 116,233	$ 75,269
Association dues	23,475	25,470
Satellite subscription	30,315	1,045
Fees/Licenses	5,000	5,000
Insurance	17,481	-
TOTALS	$ 192,504	$ 106,784

See Independent Auditors' Report.

Schedule 6

SPENCER MUNICIPAL HOSPITAL
INVESTMENT TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions During Year	Sales During Year	Realized & Unrealized Gains	Balance End of Year
Certificates of deposit...	$ 600,000	$ -	$ (400,000)	$ -	$ 200,000
Common stocks.....	1,767,054	2,042,667	(1,375,191)	617,155	3,051,685
TOTAL	$ 2,367,054	$ 2,042,667	$ (1,775,191)	$ 617,155	$ 3,251,685

See Independent Auditors' Report.

Schedule 7

SPENCER MUNICIPAL HOSPITAL
COMPARATIVE STATISTICS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
UNAUDITED

	2004	2003
Admissions:		
Medical/surgery, obstetrics & special care	2,221	2,088
Mental health unit	414	391
Skilled and comfort care	363	367
Newborns	265	249
TOTAL	3,263	3,095
Discharges:		
Medical/surgery, obstetrics & special care	2,185	2,098
Mental health unit	413	395
Skilled and comfort care	401	369
Newborns	266	250
TOTAL	3,265	3,112
Average Length of Stay (Days):		
Medical/surgery, obstetrics & special care	3.40	3.44
Mental health unit	7.31	7.02
Skilled and comfort care	6.25	5.43
Newborns	2.24	2.17
Patient Days:		
Medical/surgery, obstetrics & special care	7,547	7,182
Mental health unit	3,026	2,745
Skilled and comfort care	2,269	1,991
Newborns	593	540
TOTAL	13,435	12,458
Average number of patients per day:		
Medical/surgery, obstetrics & special care	20.68	19.68
Mental health unit	8.29	7.52
Skilled and comfort care	6.22	5.45
Newborns	1.62	1.48
Outpatient occasions of service	32,099	32,073
Licensed beds at end of year:		
Hospital	99	99
Skilled and comfort care	21	21
TOTAL	120	120

See Independent Auditors' Report.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees of
Spencer Municipal Hospital

We have audited the basic financial statements of Spencer Municipal Hospital's primary government as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Spencer Municipal Hospital's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Spencer Municipal Hospital's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of Spencer Municipal Hospital. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer Municipal Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide assurance on the internal control over financial reporting.

Member Private Companies Practice Section,
American Institute of Certified Public Accountants

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the Board of Trustees of Spencer Municipal Hospital, in a separate letter dated August 13, 2004.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Spencer Municipal Hospital and other parties to whom Spencer Municipal Hospital may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spencer Municipal Hospital during the course of our audit.

Winther, Stave & Co., LLP

August 13, 2004

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Primary Government Financial Statements

None

Part II: Other Findings Related to Required Statutory Reporting

01-II-A Official Depository Financial Institutions

A Hospital resolution naming the official depository financial institutions has been approved by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

01-II-B Certified Budget

For the year ended June 30, 2004, the Hospital's revenue and nonoperating income were $2,357,096 more than the certified budget and the Hospital's operating expenses were $453,360 more than certified budget, resulting in a net favorable variance of $1,903,736.

01-II-C Questionable Expenditures

No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

01-II-D Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

01-II-E Business Transactions

Business transactions between the Hospital and Hospital officials or employees are detailed as follows:

Business Connection	Transaction Description	Amount
Neal Conover, Board Member Chairman of Northwest Federal Savings Bank	Interest income from Northwest Federal Savings Bank	$56,325

01-II-F Board Minutes

No transactions were found that we believe should have been approved in Board minutes but were not. The Board minutes were examined and appeared to give a condensed, accurate account of business transacted by the Board.

01-II-G 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 and the Hospital's investment policy were noted.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT COMMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2004

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August 13, 2004

To the Board of Trustees of
Spencer Municipal Hospital
Spencer, IA 51301

In planning and performing our audit of the basic financial statements of Spencer Municipal Hospital's primary government for the year ended June 30, 2004, we considered the Hospital's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the primary government financial statements and not to provide assurance on internal control. However, during the audit, we did become aware of the following matter that warrants your attention.

During our inventory price testing, we noted several price test errors. Due to inventory being maintained in virtually every department, the Hospital employs a multitude of procedures, resources, and methods to price and extend the inventory. Additionally, some departments count, price, and extend their inventory once a year, while others maintain perpetual records. Specifically, one of the errors was due, in part, from receiving incorrect instructions on a recent software upgrade. We understand the Hospital has addressed and corrected this situation. However, our experiences this year coupled with the growth of the Hospital physical plant indicate the need for an evaluation of the inventory locations and a consideration of including more of those locations on the Hospital's comprehensive computer-based system.

We have reported on the Hospital's compliance and on internal control over financial reporting in our report dated August 13, 2004. This letter does not affect the aforementioned report nor does it affect the Independent Auditors' Report dated August 13, 2004 on the financial statements of Spencer Municipal Hospital.

We will review the status of this comment during our next audit engagement. We have already discussed this item with Hospital personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

Winther, Stave & Co., LLP

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