

**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, 2005 AND 2004**

SPENCER MUNICIPAL HOSPITAL
TABLE OF CONTENTS

		<u>Page</u>
Board of Trustees and Officials		1
Independent Auditors' Report		2 - 3
Management's Discussion and Analysis		4 - 10
Basic Government Financial Statements:	<u>Exhibit</u>	
Balance Sheets	A	11 - 12
Statements of Revenues, Expenses, and Changes in Net Assets .	B	13
Statements of Cash Flows	C	14 - 15
Notes to Financial Statements		16 - 27
Required Supplementary Information:		
Budgetary Comparison Schedule and Related Notes		28
Supplemental Information:	<u>Schedule</u>	
Gross Patient Service Revenue	1	29 - 30
Net Patient Service Revenue and Other Operating Revenue	2	31
Salaries, Professional Services, and Supplies and Other Expenses	3	32 - 34
Patient Receivables and Allowance for Doubtful Accounts	4	35
Inventory and Prepaid Expenses	5	36
Investment Transactions	6	37
Comparative Statistics	7	38
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting		39 - 40
Schedule of Findings		41 - 42

SPENCER MUNICIPAL HOSPITAL
BOARD OF TRUSTEES AND OFFICIALS
JUNE 30, 2005

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
Kris Van Berkum	Trustee	December 31, 2007
John Cotton	Trustee	December 31, 2007**

* Resigned August 11, 2005

** Appointed August 11, 2005

HOSPITAL OFFICIALS

Doug Doorn	President & CEO
Lois Morris	Vice-President - Finance & CFO
Brenda Tiefenthaler	Vice-President - Patient Care Services
Michael Hansen	Vice-President - Human Resources & Support Services

WINTHER, STAVE & Co., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Spencer Municipal Hospital

We have audited the accompanying basic financial statements of Spencer Municipal Hospital's primary government as of and for the years ended June 30, 2005 and 2004, as listed as exhibits in the table of contents of this report. 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 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 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, 2005 and 2004 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, 2005 and 2004, and the results of its operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005 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. 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 *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 4 - 10 and budgetary comparison schedule on page 28 are not required parts 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 that collectively comprise Spencer Municipal Hospital's basic financial statements. 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.

Wentzel, Stone & Co., LLP

August 19, 2005

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, 2005. 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 capital and related 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 2005

- Total assets increased by \$12,715,980 to \$76,058,961
- Net capital assets increased by \$9,394,214
- Total noncurrent cash and investments decreased by \$1,804,124
- Total liabilities increased by \$8,271,161
- The operating margin for fiscal year 2005 was 7.9%.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - *Continued*

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, 2005, 2004, and 2003 are presented in Table 1 below:

Table 1

Condensed Balance Sheets

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current and other assets	\$33,266,496	\$29,944,730	\$24,833,413
Capital assets	<u>42,792,465</u>	<u>33,398,251</u>	<u>23,879,168</u>
TOTAL ASSETS	<u>\$76,058,961</u>	<u>\$63,342,981</u>	<u>\$48,712,581</u>
Long-term debt outstanding	\$17,635,779	\$10,294,580	\$ 533,150
Current liabilities	<u>8,642,274</u>	<u>7,712,312</u>	<u>5,874,013</u>
TOTAL LIABILITIES	<u>\$26,278,053</u>	<u>\$18,006,892</u>	<u>\$ 6,407,163</u>
Invested in capital assets - net of related debt	\$23,595,342	\$23,070,912	\$23,119,633
Restricted	775,948	1,990,289	2,158,183
Unrestricted	<u>25,409,618</u>	<u>20,274,888</u>	<u>17,027,602</u>
TOTAL NET ASSETS	<u>\$49,780,908</u>	<u>\$45,336,089</u>	<u>\$42,305,418</u>

Net assets increased by \$4,444,819 to \$49,780,908 in fiscal year 2005, up from \$45,336,089 in fiscal year 2004. The change in net assets results primarily from operating income.

During fiscal year 2005, the Hospital completed the construction of a \$21 million surgery center which is located on the west side of the facility. The opening of the surgery center was May 2005. Construction costs were funded using cash generated by operations and proceeds from debt financing.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

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, 2005, 2004, and 2003.

Table 2

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

	<u>Year Ended June 30,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues	\$45,607,809	\$40,849,904	\$35,982,895
Operating expenses	<u>42,012,533</u>	<u>38,609,360</u>	<u>34,377,676</u>
Operating income	3,595,276	2,240,544	1,605,219
Nonoperating income	<u>645,183</u>	<u>757,192</u>	<u>125,799</u>
Excess of revenues over expenses before contributions	4,240,459	2,997,736	1,731,018
Contributions	<u>204,360</u>	<u>32,935</u>	<u>648,659</u>
Changes in net assets	4,444,819	3,030,671	2,379,677
Total net assets - beginning of year	<u>45,336,089</u>	<u>42,305,418</u>	<u>39,925,741</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$49,780,908</u>	<u>\$45,336,089</u>	<u>\$42,305,418</u>

Operating and Financial Performance

The following discusses the Hospital's operations and statements of revenue, expenses, and changes in net assets between June 30, 2005 and 2004.

Volume: Inpatient admissions (excluding normal newborns) for fiscal year 2005 were 3,145 compared to 2,998 in fiscal year 2004. Patient days increased by 590 from 13,435 in 2004. Outpatient surgical visits increased during the year. Volumes increased in these outpatient areas: speech therapy, physical therapy, laboratory, emergency room, diagnostic imaging, ultrasound, CT scans, nuclear medicine, PET CT scan, enterostomal therapy, respiratory therapy, and EKGs. Adjusted patient days, which takes into consideration outpatient volume based on a ratio of outpatient revenues to total revenues, increased during fiscal year 2005.

Net Patient Service Revenue - Due to a rate increase of 12% effective July 1, 2004, and changes in patient volumes discussed above, net patient service revenues increased by \$4,650,845 or 12.1% in comparison to fiscal year 2004. During the fiscal year, the Hospital's reimbursement for Medicare inpatients under the prospective payment system saw an increase of 4.9%. For inpatient Medicare services, the Hospital is classified as a rural health care provider for purposes of determining the wage index.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table presents the relative percentages of gross charges billed for patient services by payer for the years ended June 30, 2005, 2004, and 2003.

Table 3

Payor Mix by Percentage

	Year Ended June 30,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Medicare	52.76%	54.70%	53.51%
Wellmark/Blue Cross/Blue Shield	22.42%	20.47%	18.26%
Managed Care/Commercial	13.16%	14.22%	14.08%
Medicaid	8.23%	7.05%	7.50%
All other	<u>3.43%</u>	<u>3.56%</u>	<u>6.65%</u>
TOTAL	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Other Operating Revenue - Other operating revenue decreased in part due to the net income from the Hospital's investment in Abben Cancer Center, LLC. The income from this investment decreased by \$78,521, from \$803,456 in 2004 to \$724,934 in 2005.

Salaries - Salaries increased by \$809,314 from the prior year. For the fiscal year ended June 30, 2005, the Hospital employed a total of 423 full time equivalent employees, compared to 411 for the fiscal year ended June 30, 2004. 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 2005 were approximately \$2 million, compared to \$1.9 million in the prior year. The Hospital had 5 claims that exceeded \$35,000 for a total of \$332,000 and three claims 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 \$405,041 recognized for fiscal year 2005, compared to a gain of \$612,109 recognized in fiscal year 2004. Interest expense is up due to increased debt borrowings and more interest being expensed due to the completion of the surgery center.

Capital Assets

At June 30, 2005, the Hospital had \$73,048,137 invested in capital assets as shown in Table 4. The \$9,394,214 increase in net capital assets is primarily a result of increases in buildings, construction in progress, and equipment. Buildings increased by \$18,952,753 and construction in progress decreased by \$11,855,265 primarily due to the completion of the surgery center during the current year.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table summarizes the Hospital's capital assets as of June 30, 2005, 2004, and 2003.

Table 4

Capital Assets	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Land	\$ 1,544,043	\$ 1,432,384	\$ 1,208,228
Land improvements	859,959	669,025	735,764
Buildings	36,931,746	17,978,993	16,270,651
Fixed equipment	8,501,108	7,585,496	7,515,715
Major movable equipment	24,799,541	21,092,438	20,487,060
Construction in progress	<u>411,740</u>	<u>12,267,005</u>	<u>3,020,863</u>
Subtotal	73,048,137	61,025,341	49,238,281
Less accumulated depreciation	<u>30,255,672</u>	<u>27,627,090</u>	<u>25,359,113</u>
CAPITAL ASSETS - NET	<u>\$42,792,465</u>	<u>\$33,398,251</u>	<u>\$23,879,168</u>

Long-Term Debt and Capital Leases

At June 30, 2005, the Hospital had \$294,588 in long-term debt related to a capital lease obligation for medical equipment and bonds payable in the amount of \$18,999,992. Long-term debt increased from \$11,199,814 at June 30, 2004 due to the borrowing of \$9,000,000 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 (excluding current portion) represents 67.1% and 57.2% of the Hospital's total liabilities as of June 30, 2005 and 2004, respectively.

Performance Compared to Budget:

During the fiscal year ended June 30, 2005, the Hospital experienced increases in patient volumes and thus a subsequent increase in expenses. Accordingly on May 31, 2005, the Board of Trustees approved an amended budget which increased operating revenue by \$3,800,000 and increased expenses by \$1,000,000. Final comparisons of actual revenues and expenses to amended budgeted amounts yielded operating revenue being under budget by \$92,191 and operating expenditures over budget by \$12,533. Nonoperating income was \$330,183 over budget which was primarily due to the unrealized gains on investments.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table compares fiscal year 2005 actual to budget information for the statement of revenues, expenses, and changes in net assets.

Table 5

Budget vs. Actual

	FY 2005 <u>Budget</u>	FY 2005 <u>Actual</u>	Dollar <u>Variance</u>
Gross patient service revenue	\$80,400,000	\$80,492,306	\$ 92,306
Contractual adjustments	<u>(37,100,000)</u>	<u>(37,561,609)</u>	<u>(461,609)</u>
Net patient service revenue	43,300,000	42,930,697	(369,303)
Other operating revenue	<u>2,400,000</u>	<u>2,677,112</u>	<u>277,112</u>
Total operating revenue	45,700,000	45,607,809	(92,191)
Operating expenses	<u>(42,000,000)</u>	<u>(42,012,533)</u>	<u>(12,533)</u>
Operating income	3,700,000	3,595,276	(104,724)
Nonoperating income	<u>315,000</u>	<u>645,183</u>	<u>330,183</u>
 Excess of revenues over expenses before contributions	 <u>\$ 4,015,000</u>	 <u>\$ 4,240,459</u>	 <u>\$ 225,459</u>

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considered many factors when setting the fiscal year 2006 budget. Of primary importance in setting the 2006 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 Spencer Hospital patient services higher than the patients at 90 percent of the other participating hospitals.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

During fiscal year 2005, the Hospital contributed much to the community. Charity care and uncompensated care totaled \$1,401,386 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.

SPENCER MUNICIPAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2005 AND 2004

ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$10,824,785	\$12,291,230
Patient receivables (less allowance for doubtful accounts and contractual adjustments of \$6,290,000 in 2005 and \$4,500,000 in 2004)	6,120,406	5,497,571
Other receivables (Note 9)	749,698	375,728
Investments (Note 2)	8,791,110	3,251,685
Inventory	1,503,950	1,582,394
Prepaid expenses	209,360	192,504
TOTAL CURRENT ASSETS	<u>28,199,309</u>	<u>23,191,112</u>
NONCURRENT CASH AND INVESTMENTS (Note 2):		
Restricted by board for capital improvements	3,262,953	3,084,956
Restricted by bond resolution	-	1,029,051
Restricted by donors for capital improvements	-	957,452
Restricted by donors for operations	174,084	170,087
Principal of permanent endowments	601,864	601,479
TOTAL NONCURRENT CASH AND INVESTMENTS	<u>4,038,901</u>	<u>5,843,025</u>
CAPITAL ASSETS (Notes 4, 7, 10, and 11):		
Land	1,544,043	1,432,384
Construction in progress	411,740	12,267,005
Depreciable property, plant, and equipment	71,092,354	47,325,952
TOTAL CAPITAL ASSETS	<u>73,048,137</u>	<u>61,025,341</u>
Less accumulated depreciation	30,255,672	27,627,090
CAPITAL ASSETS - NET	<u>42,792,465</u>	<u>33,398,251</u>
OTHER ASSETS:		
Investment in Cancer Center (Notes 5, 9, and 10)	930,830	805,896
Deferred finance costs - net of accumulated amortization of \$11,164 and \$3,923, respectively	97,456	104,697
TOTAL OTHER ASSETS	<u>1,028,286</u>	<u>910,593</u>
 TOTAL ASSETS	 <u>\$76,058,961</u>	 <u>\$63,342,981</u>

See Accompanying Notes to Financial Statements

SPENCER MUNICIPAL HOSPITAL
BALANCE SHEETS - Continued
JUNE 30, 2005 AND 2004

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 7)	\$ 1,658,801	\$ 905,234
Accounts payable	2,573,638	2,316,677
Accrued salaries and wages	2,822,607	2,627,655
Payroll taxes payable	177,138	153,878
Estimated third-party payor settlements (Note 3)	845,000	1,200,000
Other current liabilities (Note 8)	<u>565,090</u>	<u>508,868</u>
TOTAL CURRENT LIABILITIES	8,642,274	7,712,312
LONG-TERM DEBT - NET OF CURRENT PORTION (Note 7)	<u>17,635,779</u>	<u>10,294,580</u>
TOTAL LIABILITIES	<u>26,278,053</u>	<u>18,006,892</u>
NET ASSETS:		
Invested in capital assets, net of related debt	23,595,342	23,070,912
Restricted for debt service	-	261,273
Net assets restricted by donor - nonexpendable	601,864	601,479
Net assets restricted by donor - expendable	174,084	1,127,537
Unrestricted net assets	<u>25,409,618</u>	<u>20,274,888</u>
TOTAL NET ASSETS	<u>49,780,908</u>	<u>45,336,089</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$76,058,961</u>	<u>\$63,342,981</u>

See Accompanying Notes to Financial Statements

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUE:		
Net patient service revenue (Note 3)	\$42,930,697	\$38,279,852
Other operating revenue	2,075,247	2,109,155
Clinic revenue	<u>601,865</u>	<u>460,897</u>
TOTAL OPERATING REVENUE	<u>45,607,809</u>	<u>40,849,904</u>
OPERATING EXPENSES:		
Salaries	16,040,473	15,231,159
Employee benefits	5,418,252	5,094,016
Professional services	6,573,519	5,608,758
Supplies and other	9,095,473	7,790,722
Clinic expenses	767,237	714,626
Provision for depreciation	2,874,656	2,725,732
Provision for bad debts	<u>1,242,923</u>	<u>1,444,347</u>
TOTAL OPERATING EXPENSES	<u>42,012,533</u>	<u>38,609,360</u>
OPERATING INCOME	<u>3,595,276</u>	<u>2,240,544</u>
NONOPERATING INCOME AND EXPENSES:		
Interest income	383,553	175,627
Investment income	405,041	612,109
Interest expense	(147,985)	(34,482)
Gain on sale of equipment and real estate	6,874	5,188
Scholarships granted	<u>(2,300)</u>	<u>(1,250)</u>
TOTAL NONOPERATING INCOME AND EXPENSES	<u>645,183</u>	<u>757,192</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE CONTRIBUTIONS	4,240,459	2,997,736
CAPITAL CONTRIBUTIONS RECEIVED FROM DONORS	<u>204,360</u>	<u>32,935</u>
CHANGE IN NET ASSETS	4,444,819	3,030,671
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>45,336,089</u>	<u>42,305,418</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$49,780,908</u>	<u>\$45,336,089</u>

See Accompanying Notes to Financial Statements

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third parties	\$41,311,804	\$36,237,835
Cash payments to suppliers for goods and services	(16,134,798)	(14,006,667)
Cash payments to employees for services	(21,240,513)	(19,698,529)
Other operating revenues	981,228	1,397,150
Other payments	<u>(2,300)</u>	<u>(1,250)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,915,421</u>	<u>3,928,539</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Property, plant, and equipment purchases	(12,229,844)	(11,495,908)
Proceeds from sale of equipment and real estate	16,882	22,950
Proceeds from long-term debt	9,000,000	11,000,000
Payments on long-term debt	(905,234)	(559,721)
Cash payments for deferred finance costs	-	(108,620)
Interest paid on long-term debt	(116,438)	(34,482)
Capital contributions received from donors	<u>204,360</u>	<u>32,935</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(4,030,274)</u>	<u>(1,142,846)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(7,489,346)	(2,042,667)
Proceeds from sale and maturities of investments	2,284,744	1,775,191
Income on investments	448,886	170,579
Distributions from Cancer Center	<u>600,000</u>	<u>600,000</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(4,155,716)</u>	<u>503,103</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,270,569)	3,288,796
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>17,875,485</u>	<u>14,586,689</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$14,604,916</u>	<u>\$17,875,485</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:		
Cash and cash equivalents per balance sheets:		
Current assets	\$10,824,785	\$12,291,230
Noncurrent assets	<u>3,780,131</u>	<u>5,584,255</u>
TOTAL CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS	<u>\$14,604,916</u>	<u>\$17,875,485</u>

See Accompanying Notes to Financial Statements

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS - Continued
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 3,595,276	\$ 2,240,544
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,874,656	2,725,732
Equity in earnings of Cancer Center	(724,934)	(803,456)
Components of non-operating and operating expenses reclassified for purposes of reporting cash flows:		
Scholarships awarded	(2,300)	(1,250)
(Increase) decrease in:		
Net patient receivables	(622,835)	(438,067)
Other receivables	(369,085)	91,451
Inventory	78,444	(197,399)
Prepaid expenses	(16,856)	(85,720)
Increase (decrease) in:		
Accounts payable	213,961	265,011
Accrued salaries and wages	194,952	598,234
Payroll taxes payable	23,260	28,412
Amounts due to contracting agencies	(355,000)	(620,500)
Other current liabilities	<u>25,882</u>	<u>125,547</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,915,421</u>	<u>\$ 3,928,539</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Property, plant, and equipment purchases	\$12,278,878	\$12,262,577
Change in construction accounts payable	(43,000)	(762,746)
Deferred finance costs amortization capitalized	<u>(6,034)</u>	<u>(3,923)</u>
 Cash paid to purchase property, plant, and equipment	 <u>\$12,229,844</u>	 <u>\$11,495,908</u>
 Total interest expense paid	 \$ 587,368	 \$ 246,917
Less interest expense capitalized	<u>470,930</u>	<u>212,435</u>
 Net interest paid on long-term debt	 <u>\$ 116,438</u>	 <u>\$ 34,482</u>

See Accompanying Notes to Financial Statements

SPENCER MUNICIPAL HOSPITAL
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). 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.

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.

SPENCER MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - Continued

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 and consists primarily of patient supplies, including pharmaceuticals and operating supplies.

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.

SPENCER MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - Continued

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 2005 and 2004, were \$158,463 and \$65,001, 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.

SPENCER MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - Continued

2. CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2005 and 2004 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 cash and investments at June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$14,604,916	\$17,875,485
Certificates of deposit	5,000,000	200,000
Common stocks	3,791,110	3,051,685
Real estate	<u>258,770</u>	<u>258,770</u>
TOTAL CASH AND INVESTMENTS	<u>\$23,654,796</u>	<u>\$21,385,940</u>

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

	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents	\$10,824,785	\$12,291,230
Investments	<u>8,791,110</u>	<u>3,251,685</u>
Subtotal	<u>19,615,895</u>	<u>15,542,915</u>
Noncurrent cash and investments:		
Cash and cash equivalents	3,780,131	5,584,255
Investments	<u>258,770</u>	<u>258,770</u>
Subtotal	<u>4,038,901</u>	<u>5,843,025</u>
TOTAL CASH AND INVESTMENTS	<u>\$23,654,796</u>	<u>\$21,385,940</u>

The common stock investments are carried at quoted market prices. The net unrealized gain on the common stock investments at June 30, 2005 and 2004 was \$582,622 and \$399,921, respectively.

SPENCER MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - Continued

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, 2005 and 2004 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:

	<u>2005</u>	<u>2004</u>
Gross patient service revenue - at established rates	\$80,492,306	\$67,234,792
Deductions:		
Medicare program	(26,726,340)	(21,574,215)
Medicaid program	(3,859,681)	(2,668,544)
Blue Cross	(5,655,594)	(3,938,137)
Other payors	(1,161,531)	(709,043)
Charity care	<u>(158,463)</u>	<u>(65,001)</u>
Net Patient Service Revenue	<u>\$42,930,697</u>	<u>\$38,279,852</u>

SPENCER MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - Continued

4. CAPITAL ASSETS

A summary of changes in capital assets for 2005 and 2004 is as follows:

	Year Ended June 30, 2005			Ending Balance
	Beginning Balance	Additions	Disposals and Transfers	
Capital assets not being depreciated:				
Land	\$ 1,432,384	\$ 112,935	\$ (1,276)	\$ 1,544,043
Construction in progress	<u>12,267,005</u>	<u>10,753,011</u>	<u>(22,608,276)</u>	<u>411,740</u>
Total capital assets not being depreciated	<u>13,699,389</u>	<u>10,865,946</u>	<u>(22,609,552)</u>	<u>1,955,783</u>
Other capital assets:				
Land improvements	669,025	2,646	188,288	859,959
Buildings	17,978,993	124,626	18,828,127	36,931,746
Fixed equipment	7,585,496	-	915,612	8,501,108
Major moveable equipment ..	<u>21,092,438</u>	<u>1,285,660</u>	<u>2,421,443</u>	<u>24,799,541</u>
Total other capital assets	<u>47,325,952</u>	<u>1,412,932</u>	<u>22,353,470</u>	<u>71,092,354</u>
Total capital assets	<u>61,025,341</u>	<u>12,278,878</u>	<u>(256,082)</u>	<u>73,048,137</u>
Less accumulated depreciation for:				
Land improvements	386,202	43,175	-	429,377
Buildings	6,807,429	728,235	(2,367)	7,533,297
Fixed equipment	4,992,883	278,615	-	5,271,498
Major moveable equipment ..	<u>15,440,576</u>	<u>1,824,631</u>	<u>(243,707)</u>	<u>17,021,500</u>
Total accumulated depreciation	<u>27,627,090</u>	<u>2,874,656</u>	<u>(246,074)</u>	<u>30,255,672</u>
CAPITAL ASSETS - NET	<u>\$33,398,251</u>	<u>\$ 9,404,222</u>	<u>\$ (10,008)</u>	<u>\$42,792,465</u>

SPENCER MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - Continued

4. CAPITAL ASSETS - Continued

	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	<u>3,020,863</u>	<u>11,522,671</u>	<u>(2,276,529)</u>	<u>12,267,005</u>
Total capital assets not being depreciated	<u>4,229,091</u>	<u>11,575,157</u>	<u>(2,104,859)</u>	<u>13,699,389</u>
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 ..	<u>20,487,060</u>	<u>651,617</u>	<u>(46,239)</u>	<u>21,092,438</u>
Total other capital assets	<u>45,009,190</u>	<u>687,420</u>	<u>1,629,342</u>	<u>47,325,952</u>
Total capital assets	<u>49,238,281</u>	<u>12,262,577</u>	<u>(475,517)</u>	<u>61,025,341</u>
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 ..	<u>14,061,009</u>	<u>1,795,464</u>	<u>(415,897)</u>	<u>15,440,576</u>
Total accumulated depreciation	<u>25,359,113</u>	<u>2,725,732</u>	<u>(457,755)</u>	<u>27,627,090</u>
CAPITAL ASSETS - NET	<u>\$23,879,168</u>	<u>\$ 9,536,845</u>	<u>\$ (17,762)</u>	<u>\$33,398,251</u>

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 and the related accumulated depreciation was \$900,833 and \$670,833 at June 30, 2005 and 2004, respectively.

SPENCER MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - Continued

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:

	<u>2005</u>	<u>2004</u>
Current and total assets	\$ <u>884,254</u>	\$ <u>750,322</u>
Current and total liabilities	\$ 209,890	\$ 200,892
Member's equity	<u>674,364</u>	<u>549,430</u>
Total liabilities and member's equity	<u>\$ 884,254</u>	<u>\$ 750,322</u>
Net patient service revenue	\$ 2,536,756	\$ 2,736,722
Nonoperating income	6,660	3,035
Total expenses	<u>(1,818,482)</u>	<u>(1,936,301)</u>
Net income	<u>\$ 724,934</u>	<u>\$ 803,456</u>

The investment in the Cancer Center was approximately \$256,000 greater than the underlying member's equity at June 30, 2005 and 2004. 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 2005, 2004, and 2003 were \$959,976, \$880,422, and \$824,292, respectively, equal to the required contributions for each year.

SPENCER MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - Continued

7. LONG-TERM DEBT

The following is a summary of long-term debt and related information as of June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
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%	\$ 294,588	\$ 533,150
Series A revenue bond payable that allowed borrowings up to \$10 million through June 30, 2005. Interest only monthly payments at variable rates set at 77.1% of a LIBOR rate plus 2.25% (4.31% and 2.591% at June 30, 2005 and 2004, respectively) adjustable monthly were due through June 30, 2005 with monthly principal payments of \$61,728 plus interest due thereafter through November 2018.	10,000,000	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%.	<u>8,999,992</u>	<u>9,666,664</u>
TOTAL LONG-TERM DEBT	19,294,580	11,199,814
Less current installments of long-term debt	<u>1,658,801</u>	<u>905,234</u>
 LONG-TERM DEBT EXCLUDING CURRENT INSTALLMENTS	 <u>\$17,635,779</u>	 <u>\$10,294,580</u>

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

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	2.591 - 5.250%	\$ 1,658,801	\$ 756,037	\$ 2,414,838
2007	2.591 - 4.020%	1,450,602	689,602	2,140,204
2008	2.591 - 4.020%	1,407,408	632,074	2,039,482
2009	2.591 - 4.020%	1,407,408	574,830	1,982,238
2010	2.591 - 4.020%	1,407,408	517,584	1,924,992
2011 - 2015	2.591 - 4.020%	7,037,040	1,729,257	8,766,297
2016 - 2020	2.591 - 4.020%	<u>4,925,913</u>	<u>358,904</u>	<u>5,284,817</u>
TOTAL		<u>\$19,294,580</u>	<u>\$5,258,288</u>	<u>\$24,552,868</u>

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.

SPENCER MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - Continued

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 \$2,640,000. 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 \$371,915 and \$349,930 at June 30, 2005 and 2004, 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 \$203,759 and \$27,628 during 2005 and 2004, 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:

	<u>2005</u>	<u>2004</u>
Personnel service fees	\$ 153,987	\$ 126,456
Building and equipment rental income	\$ 320,790	\$ 394,604

SPENCER MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - Continued

9. RELATED PARTY TRANSACTIONS - Continued

At June 30, 2005 and 2004, the receivable from the Cancer Center was \$171,913 and \$99,930, respectively, which is included in other receivables. The balance consists of the above fees and cash advances for direct operating expenses less cash repayments.

Board of Trustees

The Hospital has depository accounts at a local financial institution whose chairman is a Hospital trustee. The Hospital earned interest income of \$91,223 and \$56,325 in 2005 and 2004, respectively, on accounts held at this financial institution.

The Hospital purchased supplies of \$9,262 in 2005 from a company owned in part by a Hospital trustee who began serving on the board in 2005.

10. OPERATING LEASES

The Hospital has entered into noncancelable operating lease agreements involving office equipment and three medical clinics. 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 2005 and 2004, under the agreements was \$427,669 and \$427,589, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 429,779
2007	375,028
2008	<u>237,852</u>
TOTAL	<u>\$1,042,659</u>

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 2005 and 2004 was \$435,621 and \$398,552, respectively, and is included in investment income.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 436,094
2007	436,094
2008	<u>171,425</u>
TOTAL	<u>\$1,043,613</u>

SPENCER MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - Continued

10. OPERATING LEASES - Continued

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

	<u>2005</u>	<u>2004</u>
Medical office building	\$3,300,339	\$3,157,625
Medical clinic equipment	85,425	70,717
Cancer Center building	1,267,994	1,267,994
Cancer Center equipment	2,713,775	2,521,321
Other real estate	<u>538,491</u>	<u>439,775</u>
Total property and equipment	7,906,024	7,457,432
Less accumulated depreciation	<u>3,039,912</u>	<u>2,657,349</u>
 Net property and equipment	 <u>\$4,866,112</u>	 <u>\$4,800,083</u>

11. COMMITMENTS

At June 30, 2005, the Hospital had obligations for the acquisition and construction of capital assets totaling approximately \$6,485,000.

Additionally, the Hospital has entered into other commitments for real estate and equipment purchases and physician recruitment expenses for an aggregate total of approximately \$1,435,000 that are expected to be settled in 2006.

**SPENCER MUNICIPAL HOSPITAL
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005**

SPENCER MUNICIPAL HOSPITAL
 BUDGETARY COMPARISON SCHEDULE AND RELATED NOTES
 FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Net patient service revenue	\$43,300,000	\$42,930,697	\$ (369,303)
Other operating revenue	<u>2,400,000</u>	<u>2,677,112</u>	<u>277,112</u>
Total operating revenue	45,700,000	45,607,809	(92,191)
Operating expenses	(42,000,000)	(42,012,533)	(12,533)
Nonoperating income	<u>315,000</u>	<u>645,183</u>	<u>330,183</u>
 Net - Excess of Revenues over Expenses Before Contributions	 4,015,000	 4,240,459	 225,459
 Capital contributions	 -	 204,360	 204,360
Net assets - beginning of year	<u>43,547,418</u>	<u>45,336,089</u>	<u>1,788,671</u>
 NET ASSETS - END OF YEAR	 <u>\$47,562,418</u>	 <u>\$49,780,908</u>	 <u>\$ 2,218,490</u>

NOTES

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital following required public notice and hearing in accordance with Chapters 24 and 392.6 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate city officials. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

**SPENCER MUNICIPAL HOSPITAL
SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005				2004	
	Inpatient	Outpatient	Skilled Care	Home Health	Total	Total
DAILY PATIENT SERVICE:						
Medical and surgery.....	\$ 4,351,027	\$ -	\$ -	\$ -	\$ 4,351,027	\$ 3,543,467
Mental health.....	2,253,020	-	-	-	2,253,020	1,652,794
Nursery.....	274,588	-	-	-	274,588	221,679
Special care unit.....	1,309,848	-	-	-	1,309,848	1,162,853
Skilled care.....	-	-	636,510	-	636,510	636,941
TOTAL DAILY PATIENT SERVICES	8,188,483	-	636,510	-	8,824,993	7,217,734
OTHER NURSING SERVICES:						
Partial hospitalization.....	-	302,065	-	-	302,065	317,480
Same day surgery.....	-	1,008,189	-	-	1,008,189	865,850
Intravenous therapy.....	685,098	581,687	52,384	-	1,319,169	1,058,868
Delivery and labor rooms.....	416,925	268,634	-	-	685,559	453,055
Operating rooms.....	3,424,293	8,113,760	4,301	-	11,542,354	9,805,758
Recovery rooms.....	502,257	1,054,221	2,998	-	1,559,476	1,346,360
Emergency service.....	1,539,804	4,142,621	3,383	-	5,685,808	3,633,724
Medical supplies.....	7,356,124	4,280,692	49,338	3,376	11,689,530	9,820,989
Oncology.....	303	1,250,318	-	-	1,250,621	909,414
TOTAL OTHER NURSING SERVICES	13,924,804	21,002,187	112,404	3,376	35,042,771	28,211,298
OTHER PROFESSIONAL SERVICES:						
Respiratory therapy.....	514,580	39,152	97,008	-	650,740	1,641,898
Ambulance.....	-	1,041,928	-	-	1,041,928	857,988
Laboratory.....	1,468,945	2,002,844	77,410	-	3,549,199	2,928,779
Blood bank.....	75,902	42,854	4,665	-	123,421	117,709
Electrocardiology.....	486,101	794,722	9,786	-	1,290,609	984,540
Electroencephalography.....	2,934	24,450	-	-	27,384	30,148
Radiology.....	610,420	2,045,062	35,009	-	2,690,491	2,323,038
Ultrasound.....	105,998	1,156,584	-	-	1,262,582	1,016,203
Stereotactic biopsy.....	-	148,250	-	-	148,250	99,560

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE - Continued
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005				2004	
	Inpatient	Outpatient	Skilled Care	Home Health	Total	Total
OTHER PROFESSIONAL SERVICES-						
Continued:						
CT scan.....	\$ 788,739	\$ 3,088,832	\$ -	\$ -	\$ 3,877,571	\$ 3,003,183
MRI.....	151,208	2,339,794	-	-	2,491,002	1,901,797
Nuclear medicine.....	58,034	834,365	-	-	892,399	636,842
Radiation Oncology.....	7,598	-	-	-	7,598	-
Pharmacy.....	2,189,910	8,808,083	208,480	604	11,207,077	9,178,669
Therapy pool.....	-	200,310	-	-	200,310	134,078
Physical therapy.....	294,519	907,755	102,315	22,265	1,326,854	1,187,458
Speech therapy.....	12,645	183,031	12,766	931	209,373	155,525
Occupational therapy.....	122,811	377,803	70,992	-	571,606	569,806
Pulmonary function testing.....	443	33,603	-	-	34,046	39,937
Cardio-pulmonary diagnostics.....	3,990	331,306	-	-	335,296	266,171
Invasive procedures.....	3,460	764	199	-	4,423	5,136
Pulmonary rehab.....	-	11,416	-	-	11,416	9,944
Cardiac rehab.....	-	176,935	-	-	176,935	165,855
Hemodialysis.....	-	1,717,945	-	-	1,717,945	1,620,749
Dialysis-Spirit Lake.....	-	1,052,213	-	-	1,052,213	880,099
Home health:						
Registered nurse care.....	-	-	-	551,624	551,624	572,769
Aides care.....	-	-	-	359,169	359,169	319,950
County assistance.....	-	-	-	90,000	90,000	90,000
Other care.....	-	-	-	723,081	723,081	1,067,829
TOTAL OTHER PROFESSIONAL SERVICES	6,898,237	27,360,001	618,630	1,747,674	36,624,542	31,805,760
TOTAL GROSS PATIENT SERVICE REVENUE	\$ 29,011,524	\$ 48,362,188	\$ 1,367,544	\$ 1,751,050	\$ 80,492,306	\$ 67,234,792

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
NET PATIENT SERVICE REVENUE
AND OTHER OPERATING REVENUE
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
GROSS PATIENT SERVICE REVENUE (Schedule 1).....	\$ 80,492,306	\$ 67,234,792
ADJUSTMENTS TO PATIENT SERVICE REVENUE:		
Medicare program.....	26,726,340	21,574,215
Medicaid program.....	3,859,681	2,668,544
Blue Cross.....	5,655,594	3,938,137
Other payors.....	1,161,531	709,043
Charity Care.....	158,463	65,001
TOTAL ADJUSTMENTS TO PATIENT SERVICE REVENUE	37,561,609	28,954,940
NET PATIENT SERVICE REVENUE	\$ 42,930,697	\$ 38,279,852
OTHER OPERATING REVENUE:		
Cafeteria sales.....	\$ 267,181	\$ 234,998
Photo service.....	1,059	1,140
Medical record transcripts.....	15,267	10,724
Miscellaneous.....	92,756	78,335
Steam sold.....	9,613	10,425
Purchase discounts.....	8,160	7,629
Education programs.....	41,809	34,169
AG Health/Safety Clinic.....	126,491	161,908
Enterostomal therapy.....	53,257	54,103
Speech therapy.....	16,926	17,200
Occupational therapy-Outreach services.....	18,922	-
Occupational health.....	6,847	30,878
Physical therapy.....	42,535	525
Athletic enhancement.....	84,500	74,023
Pharmacy services.....	934	2,446
Lifeline.....	83,939	66,136
Cancer Center Fees:		
Personnel services.....	153,987	126,456
Building and equipment rental.....	320,790	394,604
Equity in earnings of Cancer Center.....	724,934	803,456
Employee Health.....	5,340	-
TOTAL OTHER OPERATING REVENUE	\$ 2,075,247	\$ 2,109,155

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	Salaries		Professional Services		Supplies and Other Expenses	
	2005	2004	2005	2004	2005	2004
Clinical resources.....	\$ 228,673	\$ 213,711	\$ 50	\$ 31	\$ 3,332	\$ 5,689
Medical and surgery.....	1,874,524	1,728,744	23,022	9,083	103,197	91,992
Obstetrics.....	517,048	463,229	2,299	3,258	27,454	33,541
Mental health.....	640,413	588,830	4,042	75	16,894	24,492
Special care.....	518,429	471,145	-	1,516	37,799	56,226
Intravenous therapy.....	-	-	-	-	63,842	65,384
Operating room.....	863,829	798,218	150,000	150,000	436,941	361,245
Recovery room.....	226,185	196,178	-	-	34,338	33,540
Emergency service.....	452,283	406,658	754,586	734,694	80,986	55,945
Central sterilization.....	98,665	93,528	-	-	99,124	97,835
Service aide.....	29,845	31,756	-	-	-	-
Same day surgery.....	685,597	528,499	627	114	32,185	23,700
Home health.....	743,065	768,851	7,379	6,648	46,740	45,906
Hospice.....	142,391	171,027	73,635	108,527	8,472	14,619
Enterostomal service.....	68,397	65,614	1,172	524	10,861	8,714
Hemodialysis.....	374,061	303,240	9,960	8,415	141,001	143,701
Dialysis - Spirit Lake.....	171,225	161,912	43,089	29,136	161,240	176,482
Partial hospitalization.....	54,106	88,724	-	-	4,076	6,611
Oncology.....	185,024	163,050	-	-	21,565	18,750
Childbirth.....	1,853	2,462	-	-	335	451
Respiratory therapy.....	183,486	201,810	138,971	65,042	64,475	86,112
Laboratory.....	463,584	478,752	187,518	121,633	271,231	268,242
Blood bank.....	-	-	109,594	115,188	1,297	2,205
Electrocardiology.....	59,842	77,980	56,937	55,316	2,268	2,764
Electroencephalography.....	-	-	17,342	12,162	-	-

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	Salaries		Professional Services		Supplies and Other Expenses	
	2005	2004	2005	2004	2005	2004
Radiology.....	\$ 303,441	\$ 277,506	\$ 202,280	\$ 355,427	\$ 200,869	\$ 186,599
Ultrasound.....	164,468	149,250	-	80	64,825	53,315
Stereotactic biopsy.....	-	-	58,640	43,514	121	24
MRI.....	52,699	47,849	-	-	150,709	135,518
Occupational health.....	1,195	20,837	-	515	122	3,728
Athletic enhancement.....	108,662	107,504	25	1,900	10,495	10,789
Nuclear medicine.....	61,269	55,278	-	-	135,858	138,953
Pharmacy.....	440,618	488,097	4,033,588	3,209,929	31,714	29,375
Anesthesiology.....	-	-	-	-	74,386	57,956
Physical therapy.....	440,621	370,899	385	56,662	22,244	27,623
Ambulance.....	448,001	430,314	157	140	48,637	40,205
Social services.....	160,757	148,860	-	-	1,843	1,819
Cardiac rehabilitation.....	120,226	130,642	-	-	10,205	12,340
Medical records.....	435,931	410,139	-	-	86,341	80,711
CT scan.....	124,206	85,362	70,016	37,897	235,778	227,440
Occupational therapy.....	177,157	211,843	34,597	-	12,747	14,994
Infection control.....	41,544	37,171	74,910	42,995	1,543	1,909
Speech therapy.....	91,049	96,220	4,827	255	6,331	13,777
AG health and safety clinic.....	88,827	84,656	6,423	34,395	33,724	33,145
AG Health -Grant Expense.....	-	-	-	-	2,775	21,005
Cardio-pulmonary diagnostic.....	42,882	12,417	-	-	4,869	3,117
Library.....	-	-	-	-	7,107	9,291
Sports medicine.....	-	-	114,233	90,492	74,965	74,299
Lifeline.....	24,116	20,856	39,022	32,581	32,685	27,360

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	Salaries		Professional Services		Supplies and Other Expenses	
	2005	2004	2005	2004	2005	2004
Therapy pool.....	\$ -	\$ -	-	-	\$ 1,933	\$ 3,373
Plant.....	479,684	443,463	-	-	257,025	196,048
Utilities.....	-	-	-	-	583,542	474,368
Housekeeping.....	413,334	371,701	2,902	959	73,125	60,822
Laundry.....	131,308	125,803	234	2,710	45,503	41,276
Nutrition services.....	567,071	534,284	3,617	990	349,726	326,500
Valet.....	50,182	49,275	-	-	7,231	8,756
General accounting.....	204,336	198,806	6,047	7,970	23,272	17,086
Human resources.....	110,533	101,708	1,015	390	194,867	147,579
Patient accounts.....	703,782	663,385	38,348	34,858	73,065	67,714
Information systems.....	353,119	271,675	69,973	20,510	180,007	169,383
Credit and collections.....	-	-	-	-	66,420	58,042
Administration.....	507,801	732,787	163,593	151,182	206,198	235,405
Materials management.....	93,752	87,868	2,450	2,242	25,895	25,998
Communications.....	-	-	10,619	26,032	56,529	48,185
Central supply.....	75,194	54,574	-	-	3,679,400	2,761,179
Printing and duplicating.....	22,430	19,519	-	-	114,405	101,789
Insurance.....	-	-	-	-	217,815	200,054
Staff development.....	90,753	88,626	12,099	18,096	3,857	3,493
Medical care evaluation.....	327,000	298,067	13,861	13,783	14,871	14,234
PET/CT Scan.....	-	-	28,750	-	241	-
TOTAL	\$ 16,040,473	\$ 15,231,159	\$ 6,573,519	\$ 5,608,758	\$ 9,095,473	\$ 7,790,722

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
 PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
 FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
 UNAUDITED

PATIENT RECEIVABLES ANALYSIS OF AGING:

	2005		2004	
	<u>Amount</u>	<u>Percent To Total</u>	<u>Amount</u>	<u>Percent To Total</u>
DAYS SINCE DISCHARGE:				
00 - 30.....	\$ 2,851,160	22.97%	\$ 2,061,661	20.62%
31 - 60.....	1,725,812	13.92%	1,230,514	12.32%
61 - 90.....	703,647	5.67%	570,967	5.71%
91 - 120.....	540,423	4.35%	418,220	4.18%
Over 120.....	2,467,598	19.88%	1,757,993	17.58%
Clinic receivables, net.....	113,002	0.91%	219,274	2.19%
TOTAL RECEIVABLES BILLED	8,401,642	67.70%	6,258,629	62.60%
In Hospital.....	4,228,527	34.07%	3,754,232	37.55%
Medicare advances.....	(219,763)	-1.77%	(15,290)	-0.15%
TOTAL PATIENT RECEIVABLES	12,410,406	100.00%	9,997,571	100.00%
Allowance for doubtful accounts.....	(1,960,000)		(1,350,000)	
Allowance for contractual adjustments...	(4,330,000)		(3,150,000)	
PATIENT RECEIVABLES - NET	\$ 6,120,406		\$ 5,497,571	

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	<u>2005</u>	<u>2004</u>
BALANCE - BEGINNING OF YEAR.....	\$ 1,350,000	\$ 1,046,000
Provision.....	1,488,124	1,654,328
Recoveries of accounts previously written off.....	245,201	209,981
TOTAL	3,083,325	2,910,309
Accounts written off.....	(1,123,325)	(1,560,309)
BALANCE - END OF YEAR	\$ 1,960,000	\$ 1,350,000

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVENTORY AND PREPAID EXPENSES
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
INVENTORY:		
Store room.....	\$ 260,901	\$ 195,162
Nutrition services.....	15,025	11,256
Laboratory.....	116,612	72,273
Laundry.....	9,061	6,613
Pharmacy.....	368,736	288,195
Radiology.....	32,841	24,390
Surgery.....	622,777	907,590
Various other inventories.....	<u>77,997</u>	<u>76,915</u>
TOTALS	<u>\$ 1,503,950</u>	<u>\$ 1,582,394</u>
PREPAID EXPENSES:		
Service contracts.....	\$ 162,272	\$ 116,233
Association dues.....	25,495	23,475
Satellite subscription.....	-	30,315
Fees/Licenses.....	-	5,000
Insurance.....	<u>21,593</u>	<u>17,481</u>
TOTALS	<u>\$ 209,360</u>	<u>\$ 192,504</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVESTMENT TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 2005

	Balance Beginning of Year	Additions During Year	Sales During Year	Realized & Unrealized Gains	Balance End of Year
Certificates of deposit...	\$ 200,000	\$ 5,750,000	\$ (950,000)	\$ -	\$ 5,000,000
Common stocks.....	<u>3,051,685</u>	<u>1,739,346</u>	<u>(1,334,744)</u>	<u>334,823</u>	<u>3,791,110</u>
TOTAL	<u>\$ 3,251,685</u>	<u>\$ 7,489,346</u>	<u>\$ (2,284,744)</u>	<u>\$ 334,823</u>	<u>\$ 8,791,110</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
COMPARATIVE STATISTICS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
UNAUDITED

	<u>2005</u>	<u>2004</u>
Admissions:		
Medical/surgery, obstetrics & special care.....	2,403	2,221
Mental health unit.....	440	414
Skilled and comfort care.....	302	363
Newborns.....	<u>261</u>	<u>265</u>
 TOTAL	 <u>3,406</u>	 <u>3,263</u>
Discharges:		
Medical/surgery, obstetrics & special care.....	2,370	2,185
Mental health unit.....	438	413
Skilled and comfort care.....	328	401
Newborns.....	<u>259</u>	<u>266</u>
 TOTAL	 <u>3,395</u>	 <u>3,265</u>
Average Length of Stay (Days):		
Medical/surgery, obstetrics & special care.....	3.31	3.40
Mental health unit.....	7.76	7.31
Skilled and comfort care.....	6.96	6.25
Newborns.....	2.18	2.24
Patient Days:		
Medical/surgery, obstetrics & special care.....	7,943	7,547
Mental health unit.....	3,413	3,026
Skilled and comfort care.....	2,101	2,289
Newborns.....	<u>568</u>	<u>593</u>
 TOTAL	 <u>14,025</u>	 <u>13,435</u>
Average number of patients per day:		
Medical/surgery, obstetrics & special care.....	21.76	20.68
Mental health unit.....	9.35	8.29
Skilled and comfort care.....	5.76	6.22
Newborns.....	1.56	1.62
Outpatient occasions of service.....	33,310	32,099
Licensed beds at end of year:		
Hospital.....	99	99
Skilled and comfort care.....	<u>21</u>	<u>21</u>
 TOTAL	 <u>120</u>	 <u>120</u>

See Independent Auditors' Report.

WINTHER, STAVE & CO., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

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, 2005 and 2004, and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 or other matters 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, 2005 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 an opinion on the internal control over financial reporting.

A material weakness is a reportable 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 caused by error or fraud 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.

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.

Wenthu, Steve C, CPA

August 19, 2005

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

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, 2005.

01-II-B Certified Budget

For the year ended June 30, 2005, the Hospital's revenue and nonoperating income were \$237,992 more than the certified budget and the Hospital's operating expenses were \$12,533 more than certified budget, resulting in a net favorable variance of \$225,459.

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:

<u>Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Neal Conover, Board Member Chairman of Northwest Federal Savings Bank	Interest income from Northwest Federal Savings Bank	\$91,223
Kris VanBerkum, Board member Co-owner Janitor's Closet Ltd	Purchase of cleaning supplies	\$ 9,262

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.

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2005

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.