

**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, 2007 AND 2006**

SPENCER MUNICIPAL HOSPITAL  
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SPENCER MUNICIPAL HOSPITAL  
BOARD OF TRUSTEES AND OFFICIALS  
JUNE 30, 2007

BOARD OF TRUSTEES

John Rahn  
Kris Van Berkum  
Neal Conover  
Gary VanHofwegen, DDS  
John Cotton

TITLE

Chairman  
Vice Chairperson  
Secretary/Treasurer  
Trustee  
Trustee

TERM EXPIRES

December 31, 2007  
December 31, 2007  
December 31, 2009  
December 31, 2009  
December 31, 2007

HOSPITAL OFFICIALS

Doug Doorn  
Lois Morris  
Brenda Tiefenthaler  
Jason Harrington

President & CEO  
Vice-President - Finance & CFO  
Vice-President - Patient Care Services  
Vice-President - Operations

**WINTHER, STAVE & CO., LLP**  
*Certified Public Accountants*

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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, 2007 and 2006, 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 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, 2007 and 2006 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, 2007 and 2006, 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 September 28, 2007 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 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 audits 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.

*Wintner, Staus & Co., LLP*

September 28, 2007

# 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, 2007. 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 2007**

- Total assets increased by \$4,389,240 to \$82,635,714.
- Net capital assets increased by \$3,116,305.
- Total noncurrent cash and investments increased by \$706,735.
- Total liabilities decreased by \$473,780.
- The operating margin for fiscal year 2007 was 6.4%.

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, 2007, 2006, and 2005 are presented in Table 1 below:

Table 1

Condensed Balance Sheets

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current and other assets .....	\$32,972,790	\$31,699,855	\$33,266,496
Capital assets .....	<u>49,662,924</u>	<u>46,546,619</u>	<u>42,792,465</u>
<b>TOTAL ASSETS</b>	<b><u>\$82,635,714</u></b>	<b><u>\$78,246,474</u></b>	<b><u>\$76,058,961</u></b>
Long-term debt outstanding .....	\$14,777,768	\$16,185,176	\$17,635,779
Current liabilities .....	<u>9,000,413</u>	<u>8,066,785</u>	<u>8,642,274</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$23,778,181</u></b>	<b><u>\$24,251,961</u></b>	<b><u>\$26,278,053</u></b>
Invested in capital assets - net of related debt .....	\$33,560,722	\$29,001,056	\$23,595,342
Restricted .....	794,034	780,462	775,948
Unrestricted .....	<u>24,502,777</u>	<u>24,212,995</u>	<u>25,409,618</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$58,857,533</u></b>	<b><u>\$53,994,513</u></b>	<b><u>\$49,780,908</u></b>

Net assets increased by \$4,863,020 to \$58,857,533 in fiscal year 2007, up from \$53,994,513 in fiscal year 2006. Net assets increased by \$4,213,605 to \$53,994,513 in fiscal year 2006 up from \$49,780,908 in fiscal year 2005. The change in net assets results primarily from operating income.

During fiscal year 2006, the Hospital approved the construction of a \$5 million 40-bed inpatient medical surgical unit which is located on the second and third floors above the recently constructed surgery center. During fiscal year 2007, the Hospital completed the 40-bed inpatient medical surgical unit which opened January 2, 2007. 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, 2007, 2006, and 2005.

Table 2

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

	Year Ended June 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues .....	\$55,808,086	\$50,191,453	\$45,607,809
Operating expenses .....	<u>52,258,720</u>	<u>46,505,753</u>	<u>42,012,533</u>
Operating income .....	3,549,366	3,685,700	3,595,276
Nonoperating income .....	<u>867,554</u>	<u>316,765</u>	<u>645,183</u>
Excess of revenues over expenses before contributions .....	4,416,920	4,002,465	4,240,459
Contributions .....	<u>446,100</u>	<u>211,140</u>	<u>204,360</u>
Changes in net assets .....	4,863,020	4,213,605	4,444,819
Total net assets - beginning of year .....	<u>53,994,513</u>	<u>49,780,908</u>	<u>45,336,089</u>
 TOTAL NET ASSETS - END OF YEAR	 <u>\$58,857,533</u>	 <u>\$53,994,513</u>	 <u>\$49,780,908</u>

**Operating and Financial Performance**

The following discusses the Hospital's operations and statements of revenue, expenses, and changes in net assets as of June 30, 2007, 2006, and 2005.

Volume - Inpatient discharges increased to 3,554 in 2007 from 3,408 in 2006 and 3,395 in 2005. Patient days increased to 14,676 in 2007 from 14,162 in 2006 and 14,025 in 2005. Outpatient visits grew during the period, increasing from 33,310 in 2005 to 35,360 in 2006 and 35,874 in 2007.

Net Patient Service Revenue - Our net patient service revenues increased \$5,710,074 in 2007 and increased \$3,410,199 in 2006. These changes are the result of the following changes in gross revenues and contractual adjustments. Contractual adjustments are the amounts the Hospital cannot collect from Medicare, Medicaid, and insurance companies.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total patient service revenues .....	\$101,978,427	\$89,282,333	\$80,492,306
Contractual adjustments .....	(49,927,457)	(42,941,437)	(37,561,609)
Contractual adjustment as percent of revenues ..	<u>49.0%</u>	<u>48.1%</u>	<u>46.7%</u>

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2007, 2006, and 2005.

Table 3

Payor Mix by Percentage

	<u>Year Ended June 30,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Medicare .....	53.48%	53.87%	52.76%
Wellmark/Blue Cross/Blue Shield .....	21.16	21.93%	22.42%
Managed Care/Commercial .....	10.94	12.62%	13.16%
Medicaid .....	7.58	8.38%	8.23%
All other .....	<u>6.84</u>	<u>3.20%</u>	<u>3.43%</u>
<b>TOTAL</b>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Salaries - Salaries increased by \$1,423,153 in 2007 and \$1,970,849 in 2006. For the fiscal year ended June 30, 2007, the Hospital employed a total of 471 full-time equivalent employees, compared to 457 in 2006 and 423 in 2005. The Hospital is in a competitive wage market and annually utilizes numerous surveys to ensure a competitive compensation package is offered to employees.

Employee Benefits - Benefits increased by \$726,797 in 2007 and \$401,215 in 2006. The Hospital offers a comprehensive benefit package to its employees. Benefits include but are not limited to health insurance, short and long-term disability, IPERS, and life insurance.

Cash Flows - The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

**Capital Assets**

At June 30, 2007, the Hospital had \$87,509,878 invested in capital assets as shown in Table 4. The \$7,286,021 increase in capital assets is primarily a result of increases in buildings, construction in progress, and equipment. Construction in progress decreased by \$3,236,826 primarily due to the 2007 capitalization of the construction of the medical/surgical unit and the implementation of a new hospital information system which both started in 2006.

At June 30, 2006, the Hospital had \$80,223,857 invested in capital assets as shown in Table 4. The \$7,175,720 increase in capital assets is primarily a result of increases in buildings, construction in progress, and equipment. Construction in progress increased by \$4,967,884 primarily due to the current construction of the medical/surgical unit and the implementation of a new hospital information system.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table summarizes the Hospital's capital assets as of June 30, 2007, 2006, and 2005.

Table 4

Capital Assets	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Land .....	\$ 2,011,733	\$ 1,558,997	\$ 1,544,043
Land improvements .....	882,786	865,688	859,959
Buildings .....	41,491,452	37,032,945	36,931,746
Fixed equipment .....	8,700,966	8,509,448	8,501,108
Major movable equipment .....	32,280,143	26,877,155	24,799,541
Construction in progress .....	<u>2,142,798</u>	<u>5,379,624</u>	<u>411,740</u>
Subtotal	87,509,878	80,223,857	73,048,137
Less accumulated depreciation .....	<u>37,846,954</u>	<u>33,677,238</u>	<u>30,255,672</u>
<b>CAPITAL ASSETS - NET</b>	<u><b>\$49,662,924</b></u>	<u><b>\$46,546,619</b></u>	<u><b>\$42,792,465</b></u>

**Long-Term Debt and Capital Leases**

At June 30, 2007, the Hospital had \$14,777,768 in long-term debt related to the construction of the surgical center. Long-term debt decreased \$1,407,408 during 2007 due to principal payments made during the fiscal year. More detailed information about the Hospital's outstanding debt is presented in the financial statement notes. Total long-term debt (excluding current portion) represents 62.1% and 66.7% of the Hospital's total liabilities as of June 30, 2007 and 2006, respectively.

**Performance Compared to Budget**

During the fiscal year ended June 30, 2007, the Hospital experienced increases in patient volumes and thus a subsequent increase in expenses. Accordingly, on June 11, 2007, the Board of Trustees approved an amended budget which increased operating revenue by \$3,600,000, increased expenses by \$1,300,000, and increased non-operating revenue by \$1,350,000. Final comparisons of actual revenues and expenses to amended budgeted amounts yielded total operating revenue being over budget by \$1,308,086 and operating expenditures over budget by \$458,720.

During the fiscal year ended June 30, 2006, the Hospital experienced increases in patient volumes and thus a subsequent increase in expenses. Accordingly on May 31, 2006, the Board of Trustees approved an amended budget which increased operating revenue by \$4,610,000 and increased expenses by \$2,360,000. Final comparisons of actual revenues and expenses to amended budgeted amounts yielded total operating revenue being over budget by \$1,491,453 and operating expenditures under budget by \$104,247.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table compares fiscal year 2007 actual to budget information for the statement of revenues, expenses, and changes in net assets.

Table 5

Budget vs. Actual

	FY 2007 <u>Budget</u>	FY 2007 <u>Actual</u>	Dollar Variance <u>Fav (Unfav)</u>
Gross patient service revenue .....	\$101,050,000	\$101,978,427	\$ 928,427
Contractual adjustments .....	<u>50,050,000</u>	<u>49,927,457</u>	<u>122,543</u>
Net patient service revenue	51,000,000	52,050,970	1,050,970
Other operating revenue .....	<u>3,500,000</u>	<u>3,757,116</u>	<u>257,116</u>
Total operating revenue	54,500,000	55,808,086	1,308,086
Operating expenses .....	<u>51,800,000</u>	<u>52,258,720</u>	<u>(458,720)</u>
Operating income	2,700,000	3,549,366	849,366
Nonoperating income and contributions .....	<u>2,050,000</u>	<u>1,313,654</u>	<u>(736,346)</u>
 Excess of revenues over expenses	 <u>\$ 4,750,000</u>	 <u>\$ 4,863,020</u>	 <u>\$ 113,020</u>

**Economic and Other Factors and Next Year's Budget**

The Hospital's Board and management considered many factors when setting the fiscal year 2008 budget. Of primary importance in setting the 2008 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 1,000 hospitals across the country. During two quarters of the fiscal year 2007, the Hospital achieved the 99<sup>th</sup> percentile.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

During fiscal years 2007 and 2006, the Hospital contributed much to the community. Charity care and uncompensated care totaled \$2,020,655 and \$2,086,536, respectively.

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. Services offered for the benefit of these communities include: emergency services coverage at community events, wellness screenings, job shadowing/internships, various health education classes, and providing the use of facilities to community groups.

In addition, many routine services are provided by the Hospital at a loss. These include: Ambulance Services, Cardiac/Pulmonary Rehabilitation, Agrisafe - Certified Farm Safety, Home Health Programs, Best Care for Better Babies, Women's Health, and Lifeline.

**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, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 2) .....	\$ 9,588,649	\$12,211,671
Patient receivables (less allowance for doubtful accounts and contractual adjustments of \$7,641,500 in 2007 and \$7,806,500 in 2006) .....	7,964,150	7,095,448
Other receivables (Note 9) .....	643,749	570,428
Investments (Note 2) .....	6,530,361	4,490,989
Inventory .....	1,867,337	1,620,852
Prepaid expenses .....	<u>390,728</u>	<u>213,617</u>
<b>TOTAL CURRENT ASSETS</b>	<b><u>26,984,974</u></b>	<b><u>26,203,005</u></b>
<b>NONCURRENT CASH AND INVESTMENTS (Note 2):</b>		
Restricted by board for capital improvements .....	4,369,612	3,676,449
Principal of permanent endowments .....	607,845	603,144
Restricted by donors for operations .....	<u>186,189</u>	<u>177,318</u>
<b>TOTAL NONCURRENT CASH AND INVESTMENTS</b>	<b><u>5,163,646</u></b>	<b><u>4,456,911</u></b>
<b>CAPITAL ASSETS (Notes 4, 7, 10, and 11):</b>		
Land .....	2,011,733	1,558,997
Construction in progress .....	2,142,798	5,379,624
Depreciable property, plant, and equipment .....	<u>83,355,347</u>	<u>73,285,236</u>
<b>TOTAL CAPITAL ASSETS</b>	<b><u>87,509,878</u></b>	<b><u>80,223,857</u></b>
Less accumulated depreciation .....	<u>37,846,954</u>	<u>33,677,238</u>
<b>CAPITAL ASSETS - NET</b>	<b><u>49,662,924</u></b>	<b><u>46,546,619</u></b>
<b>OTHER ASSETS:</b>		
Investment in Cancer Center (Notes 5, 9, and 10) .....	741,196	949,724
Deferred finance costs - net of accumulated amortization of \$25,646 and \$18,405, respectively .....	<u>82,974</u>	<u>90,215</u>
<b>TOTAL OTHER ASSETS</b>	<b><u>824,170</u></b>	<b><u>1,039,939</u></b>
 <b>TOTAL ASSETS</b>	 <b><u>\$82,635,714</u></b>	 <b><u>\$78,246,474</u></b>

SPENCER MUNICIPAL HOSPITAL  
BALANCE SHEETS - Continued  
JUNE 30, 2007 AND 2006

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 7) .....	\$ 1,407,408	\$ 1,450,602
Accounts payable .....	3,189,469	2,523,576
Accrued salaries and wages .....	2,586,635	2,193,163
Payroll taxes payable .....	509,213	352,475
Estimated third-party payor settlements (Note 3) .....	550,000	550,000
Other current liabilities (Note 8) .....	<u>757,688</u>	<u>996,969</u>
TOTAL CURRENT LIABILITIES	9,000,413	8,066,785
LONG-TERM DEBT - NET OF CURRENT PORTION (Note 7) .....	<u>14,777,768</u>	<u>16,185,176</u>
TOTAL LIABILITIES	<u>23,778,181</u>	<u>24,251,961</u>
NET ASSETS:		
Invested in capital assets, net of related debt .....	33,560,722	29,001,056
Net assets restricted by donor - nonexpendable .....	607,845	603,144
Net assets restricted by donor - expendable .....	186,189	177,318
Unrestricted net assets .....	<u>24,502,777</u>	<u>24,212,995</u>
TOTAL NET ASSETS	<u>58,857,533</u>	<u>53,994,513</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$82,635,714</u>	<u>\$78,246,474</u>

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUE:		
Net patient service revenue (Note 3) .....	\$52,050,970	\$46,340,896
Other operating revenue .....	3,046,207	3,172,748
Clinic revenue .....	<u>710,909</u>	<u>677,809</u>
TOTAL OPERATING REVENUE	<u>55,808,086</u>	<u>50,191,453</u>
OPERATING EXPENSES:		
Salaries .....	19,434,475	18,011,322
Employee benefits .....	6,546,264	5,819,467
Professional services .....	3,329,988	2,910,272
Prescription drugs .....	3,805,633	3,810,945
Supplies and other .....	12,215,358	9,819,115
Clinic expenses .....	971,718	898,943
Depreciation .....	4,379,725	3,791,291
Bad debts .....	<u>1,575,559</u>	<u>1,444,398</u>
TOTAL OPERATING EXPENSES	<u>52,258,720</u>	<u>46,505,753</u>
OPERATING INCOME	<u>3,549,366</u>	<u>3,685,700</u>
NONOPERATING INCOME (EXPENSES):		
Interest income .....	600,177	732,460
Investment income - net of related expenses .....	1,121,581	399,998
Interest expense .....	(850,585)	(840,814)
Gain (loss) on sale of equipment and real estate .....	(3,019)	28,371
Scholarships granted .....	<u>(600)</u>	<u>(3,250)</u>
NET NONOPERATING INCOME	<u>867,554</u>	<u>316,765</u>
EXCESS OF REVENUES AND INCOME OVER EXPENSES	4,416,920	4,002,465
CAPITAL CONTRIBUTIONS AND GRANTS .....	<u>446,100</u>	<u>211,140</u>
CHANGE IN NET ASSETS	4,863,020	4,213,605
TOTAL NET ASSETS - BEGINNING OF YEAR .....	<u>53,994,513</u>	<u>49,780,908</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$58,857,533</u>	<u>\$53,994,513</u>

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third parties .....	\$50,317,618	\$44,304,265
Cash paid to suppliers for goods and services .....	(20,695,685)	(17,105,492)
Cash paid to employees for services .....	(25,430,529)	(24,284,896)
Other operating revenues .....	1,556,414	1,608,229
Other amounts paid .....	<u>(600)</u>	<u>(3,250)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>5,747,218</b></u>	<u><b>4,518,856</b></u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Property, plant, and equipment purchases .....	(7,144,009)	(7,629,574)
Proceeds from sale of equipment and real estate .....	20,960	37,500
Payments on long-term debt .....	(1,450,602)	(1,658,802)
Interest paid on long-term debt .....	(843,340)	(831,698)
Capital contributions and grants received .....	<u>446,100</u>	<u>211,140</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u><b>(8,970,891)</b></u>	<u><b>(9,871,434)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments .....	(2,435,917)	(2,121,250)
Proceeds from sale and maturities of investments .....	1,442,083	6,854,521
Income on investments .....	676,220	704,203
Distributions from Cancer Center .....	<u>1,625,000</u>	<u>1,720,000</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u><b>1,307,386</b></u>	<u><b>7,157,474</b></u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,916,287)</b>	<b>1,804,896</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....</b>	<u><b>16,409,812</b></u>	<u><b>14,604,916</b></u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><b>\$14,493,525</b></u>	<u><b>\$16,409,812</b></u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:</b>		
Cash and cash equivalents per balance sheets:		
Current assets .....	\$ 9,588,649	\$12,211,671
Noncurrent assets .....	<u>4,904,876</u>	<u>4,198,141</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u><b>\$14,493,525</b></u>	<u><b>\$16,409,812</b></u>

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF CASH FLOWS - Continued  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income .....	\$ 3,549,366	\$ 3,685,700
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation .....	4,379,725	3,791,291
Equity in earnings of Cancer Center .....	(1,416,472)	(1,738,894)
Components of non-operating and operating expenses reclassified for purposes of reporting cash flows:		
Scholarships awarded .....	(600)	(3,250)
(Increase) decrease in:		
Net patient receivables .....	(868,702)	(975,042)
Other receivables .....	(73,321)	174,375
Inventory .....	(246,485)	(116,902)
Prepaid expenses .....	(177,111)	(4,257)
Increase (decrease) in:		
Accounts payable .....	289,893	24,938
Accrued salaries and wages .....	393,472	(629,444)
Payroll taxes payable .....	156,738	175,337
Amounts due to contracting agencies .....	-	(295,000)
Other current liabilities .....	<u>(239,285)</u>	<u>430,004</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 5,747,218</u></b>	<b><u>\$ 4,518,856</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Property, plant, and equipment purchases .....	\$ 7,520,009	\$ 7,554,574
(Increase) decrease in construction accounts payable .....	<u>(376,000)</u>	<u>75,000</u>
<b>Cash paid to purchase property, plant, and equipment</b>	<b><u>\$ 7,144,009</u></b>	<b><u>\$ 7,629,574</u></b>

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 Accounting**

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

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

In reporting the financial activity of its proprietary funds, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

**Cash and Cash Equivalentents**

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 equivalentents.

**Noncurrent Cash and Investments**

Noncurrent cash and investments include 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 of assets capitalized under lease obligations is 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 was 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.

**Net Patient Service Revenue**

Net patient service revenue and clinic revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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 were capitalized as a component of the constructed assets. All of the borrowings from revenue bonds have been used to fund construction projects.

**Net Assets**

Net assets are presented in the following categories:

*Invested in capital assets, net of related debt* consist 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 nonexpendable net assets* consist 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* consist of net assets not meeting the definition of the three preceding categories. Unrestricted net assets often have constraints on resources imposed by management or the board of trustees which can be removed or modified.

**Charity Care and Community Benefits**

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 2007 and 2006, were \$445,096 and \$642,138, respectively. The costs of charity care are estimated to be \$201,000 and \$293,000 for 2007 and 2006, respectively. Costs are estimated by using the most recent cost to charge ratio available at the end of the year.

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. Services offered for the benefit of the communities include: emergency services presence at community events, wellness screenings, job shadowing/internships, various health education classes, and providing the use of facilities to community groups.

In addition, many routine services are provided by the Hospital at a loss. These include Ambulance Services, Cardiac/Pulmonary Rehabilitation, Agrisafe - Certified Farm Safety, Home Health Programs, Best Care for Better Babies, Women's Health, and Lifeline services.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**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, 2007 and 2006 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; 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, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents .....	\$14,493,525	\$16,409,812
Common stocks .....	6,530,361	4,490,989
Real estate .....	<u>258,770</u>	<u>258,770</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$21,282,656</u>	 <u>\$21,159,571</u>

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

	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents .....	\$ 9,588,649	\$12,211,671
Common stocks .....	<u>6,530,361</u>	<u>4,490,989</u>
Subtotal	<u>16,119,010</u>	<u>16,702,660</u>
Noncurrent cash and investments:		
Cash and cash equivalents .....	4,904,876	4,198,141
Real estate .....	<u>258,770</u>	<u>258,770</u>
Subtotal	<u>5,163,646</u>	<u>4,456,911</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$21,282,656</u>	 <u>\$21,159,571</u>

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued

**2. CASH AND INVESTMENTS - Continued**

The common stock investments are carried at quoted market prices. The net unrealized gain on the common stock investments at June 30, 2007 and 2006 was \$1,475,842 and \$658,796, respectively.

In accordance with its investment policy, the Hospital manages its exposure to declines in fair values by owning investments with various maturities. These investments include fixed money market accounts, certificates of deposit, and equity securities. The Hospital's philosophy for investing funds allows for fluctuation in yearly returns without putting the Hospital's ability to meet current expenditures at risk.

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

**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, 2007 and 2006 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>2007</u>	<u>2006</u>
Gross patient service revenue - at established rates .	<u>\$101,978,427</u>	<u>\$ 89,282,333</u>
Adjustments:		
Medicare program .....	34,914,097	29,497,987
Medicaid program .....	4,928,912	4,883,706
Blue Cross/Wellmark .....	7,781,205	6,466,803
Other payors .....	1,858,147	1,450,803
Charity care .....	<u>445,096</u>	<u>642,138</u>
Total Adjustments	<u>49,927,457</u>	<u>42,941,437</u>
Net Patient Service Revenue	<u>\$ 52,050,970</u>	<u>\$ 46,340,896</u>

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued

**4. CAPITAL ASSETS**

A summary of changes in capital assets for 2007 and 2006 is as follows:

	Year Ended June 30, 2007			
	Beginning Balance	Additions	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:				
Land .....	\$ 1,558,997		\$ 452,736	\$ 2,011,733
Construction in progress .....	<u>5,379,624</u>	<u>6,099,368</u>	<u>(9,336,194)</u>	<u>2,142,798</u>
Total capital assets not being depreciated	<u>6,938,621</u>	<u>6,099,368</u>	<u>(8,883,458)</u>	<u>4,154,531</u>
Other capital assets:				
Land improvements .....	865,688	5,535	11,563	882,786
Buildings .....	37,032,945	12,203	4,446,304	41,491,452
Fixed equipment .....	8,509,448		191,518	8,700,966
Major moveable equipment ..	<u>26,877,155</u>	<u>1,402,903</u>	<u>4,000,085</u>	<u>32,280,143</u>
Total other capital assets	<u>73,285,236</u>	<u>1,420,641</u>	<u>8,649,470</u>	<u>83,355,347</u>
Total capital assets	<u>80,223,857</u>	<u>7,520,009</u>	<u>(233,988)</u>	<u>87,509,878</u>
Less accumulated depreciation for:				
Land improvements .....	479,624	49,870		529,494
Buildings .....	8,799,142	1,328,255	(62,521)	10,064,876
Fixed equipment .....	5,600,006	326,391		5,926,397
Major moveable equipment ..	<u>18,798,466</u>	<u>2,675,209</u>	<u>(147,488)</u>	<u>21,326,187</u>
Total accumulated depreciation	<u>33,677,238</u>	<u>4,379,725</u>	<u>(210,009)</u>	<u>37,846,954</u>
<b>CAPITAL ASSETS - NET</b>	<u>\$46,546,619</u>	<u>\$3,140,284</u>	<u>\$ (23,979)</u>	<u>\$49,662,924</u>

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued

4. CAPITAL ASSETS - Continued

	Year Ended June 30, 2006			
	Beginning Balance	Additions	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:				
Land .....	\$ 1,544,043	\$ 14,954	\$ -	\$ 1,558,997
Construction in progress .....	<u>411,740</u>	<u>6,917,298</u>	<u>(1,949,414)</u>	<u>5,379,624</u>
Total capital assets not being depreciated	<u>1,955,783</u>	<u>6,932,252</u>	<u>(1,949,414)</u>	<u>6,938,621</u>
Other capital assets:				
Land improvements .....	859,959	-	5,729	865,688
Buildings .....	36,931,746	81,945	19,254	37,032,945
Fixed equipment .....	8,501,108	-	8,340	8,509,448
Major moveable equipment ..	<u>24,799,541</u>	<u>540,377</u>	<u>1,537,237</u>	<u>26,877,155</u>
Total other capital assets	<u>71,092,354</u>	<u>622,322</u>	<u>1,570,560</u>	<u>73,285,236</u>
Total capital assets	<u>73,048,137</u>	<u>7,554,574</u>	<u>(378,854)</u>	<u>80,223,857</u>
Less accumulated depreciation for:				
Land improvements .....	429,377	50,247	-	479,624
Buildings .....	7,533,297	1,265,845	-	8,799,142
Fixed equipment .....	5,271,498	328,508	-	5,600,006
Major moveable equipment ..	<u>17,021,500</u>	<u>2,146,691</u>	<u>(369,725)</u>	<u>18,798,466</u>
Total accumulated depreciation	<u>30,255,672</u>	<u>3,791,291</u>	<u>(369,725)</u>	<u>33,677,238</u>
<b>CAPITAL ASSETS - NET</b>	<u><b>\$42,792,465</b></u>	<u><b>\$3,763,283</b></u>	<u><b>\$ (9,129)</b></u>	<u><b>\$46,546,619</b></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 \$1,150,000 and \$1,130,833 at June 30, 2007 and 2006, 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. The Hospital owns 100% of the Cancer Center. Condensed financial information of the Cancer Center is as follows:

	<u>2007</u>	<u>2006</u>
Current and total assets .....	\$ <u>690,767</u>	\$ <u>953,120</u>
Current and total liabilities .....	\$ 206,037	\$ 259,862
Member's equity .....	<u>484,730</u>	<u>693,258</u>
Total liabilities and member's equity	<u>\$ 690,767</u>	<u>\$ 953,120</u>
Net patient service revenue .....	\$3,470,793	\$4,003,659
Nonoperating income .....	22,861	22,332
Total expenses .....	<u>(2,077,182)</u>	<u>(2,287,097)</u>
Net income	<u>\$1,416,472</u>	<u>\$1,738,894</u>

The investment in the Cancer Center was approximately \$256,000 greater than the underlying member's equity at June 30, 2007 and 2006. 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 for 2007, 2006, and 2005. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for 2007, 2006, and 2005 were \$1,143,736, \$1,087,287, and \$959,976, respectively, equal to the required contributions for each year.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued

**7. LONG-TERM DEBT**

Long-term debt activity as of and for the years ended June 30, 2007 and 2006 is as follows:

	June 30, <u>2006</u>	<u>Borrowings</u>	<u>Payments</u>	June 30, <u>2007</u>	Due Within <u>One Year</u>
2003 Hospital Revenue Bonds, Series A (A) .....	\$ 9,259,264	\$ -	\$ (740,736)	\$ 8,518,528	\$ 740,736
2003 Hospital Revenue Bonds, Series B (B) .....	8,333,320	-	(666,672)	7,666,648	666,672
Capital lease obligations (C) .....	<u>43,194</u>	<u>-</u>	<u>(43,194)</u>	<u>-</u>	<u>-</u>
	<u>\$17,635,778</u>	<u>\$ -</u>	<u>\$(1,450,602)</u>	<u>\$16,185,176</u>	<u>\$1,407,408</u>

	June 30, <u>2005</u>	<u>Borrowings</u>	<u>Payments</u>	June 30, <u>2006</u>	Due Within <u>One Year</u>
2003 Hospital Revenue Bonds, Series A (A) .....	\$10,000,000	\$ -	\$ (740,736)	\$ 9,259,264	\$ 740,736
2003 Hospital Revenue Bonds, Series B (B) .....	8,999,992	-	(666,672)	8,333,320	666,672
Capital lease obligations (C) .....	<u>294,588</u>	<u>-</u>	<u>(251,394)</u>	<u>43,194</u>	<u>43,194</u>
	<u>\$19,294,580</u>	<u>\$ -</u>	<u>\$(1,658,802)</u>	<u>\$17,635,778</u>	<u>\$1,450,602</u>

- (A) Series A revenue bonds 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% (5.84% and 5.86% at June 30, 2007 and 2006, respectively) adjustable monthly were due through June 30, 2005 with monthly principal payments of \$61,728 plus interest due thereafter through November 2018.
- (B) Series B revenue bonds 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%.
- (C) 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%.

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

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,407,408	\$ 774,937	\$ 2,182,345
2009	1,407,408	704,754	2,112,162
2010	1,407,408	634,571	2,041,979
2011	1,407,408	564,388	1,971,796
2012	1,407,408	494,205	1,901,613
2013 - 2017	7,037,040	1,418,283	8,455,323
2018 - 2019	<u>2,111,096</u>	<u>83,343</u>	<u>2,194,439</u>
TOTAL	<u>\$16,185,176</u>	<u>\$4,674,481</u>	<u>\$20,859,657</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 (\$100,000 on a specific individual) and an aggregate stop loss amount of approximately \$3,112,000. 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 \$530,152 and \$762,978 at June 30, 2007 and 2006, 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 tax-exempt non-profit organization to solicit contributions for qualifying health care facilities within a 20-mile radius of Spencer, Iowa. The Foundation is governed by an independent board but does have a minority number of members from the Hospital board; accordingly, the Hospital and the Foundation are considered related parties. The Foundation made charitable contributions to the Hospital in the amount of \$427,612 and \$43,389 during 2007 and 2006, 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>2007</u>	<u>2006</u>
Personnel service fees .....	\$ <u>166,819</u>	\$ <u>143,010</u>
Building and equipment rental income .....	\$ <u>326,174</u>	\$ <u>306,183</u>

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued

**9. RELATED PARTY TRANSACTIONS - Continued**

At June 30, 2007 and 2006, the receivable from the Cancer Center was \$155,236 and \$175,840, 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 \$191,553 and \$148,290 in 2007 and 2006, respectively, on accounts held at this financial institution.

The Hospital purchased supplies of \$11,239 and \$6,266 from a company owned in part by a Hospital trustee in 2007 and 2006, respectively.

The Hospital incurred farm management fees of \$3,581 and \$2,964 from a company owned in part by a Hospital trustee in 2007 and 2006, respectively.

**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 2010, have optional renewal clauses and are subject to increased rates if the renewal options are exercised. The rental expense for both 2007 and 2006, under the agreements, was \$432,906.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 313,980
2009	76,128
2010	<u>63,440</u>
TOTAL	<u>\$ 453,548</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 2007 and 2006 was \$457,326 and \$446,395, 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>
2008	<u>\$ 181,467</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>2007</u>	<u>2006</u>
Medical office building .....	\$3,306,216	\$3,300,339
Medical clinic equipment .....	97,520	88,055
Cancer Center building .....	1,267,994	1,267,994
Cancer Center equipment .....	2,922,936	2,768,656
Other real estate .....	<u>163,949</u>	<u>718,537</u>
Total property and equipment	7,758,615	8,143,581
Less accumulated depreciation .....	<u>3,737,268</u>	<u>3,397,109</u>
 Net property and equipment	 <u>\$4,021,347</u>	 <u>\$4,746,472</u>

**11. COMMITMENTS**

The Hospital has entered into various agreements that have committed the Hospital to future payments. The commitments include construction agreements, binding equipment purchase orders, supplemental payments to a physicians' group, and physician recruiting agreements. The total amount expected to be paid in 2008 on these commitments is approximately \$4,625,000.

**SPENCER MUNICIPAL HOSPITAL  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2007**

SPENCER MUNICIPAL HOSPITAL  
 BUDGETARY COMPARISON SCHEDULE AND RELATED NOTES  
 FOR THE YEAR ENDED JUNE 30, 2007

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Net patient service revenue .....	\$48,400,000	\$51,000,000	\$52,050,970	\$1,050,970
Other operating revenue .....	<u>2,500,000</u>	<u>3,500,000</u>	<u>3,757,116</u>	<u>257,116</u>
Total operating revenue	50,900,000	54,500,000	55,808,086	1,308,086
Operating expenses .....	(50,500,000)	(51,800,000)	(52,258,720)	(458,720)
Nonoperating income .....	700,000	1,700,000	867,554	(832,446)
Contributions .....	<u>                    </u>	<u>350,000</u>	<u>446,100</u>	<u>96,100</u>
 Changes in Net Assets	 <u>\$ 1,100,000</u>	 <u>\$ 4,750,000</u>	 <u>\$ 4,863,020</u>	 <u>\$ 113,020</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 perspective 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.

For 2007, the Hospital's revenues and expenditures exceeded the amounts budgeted.

**SPENCER MUNICIPAL HOSPITAL  
SUPPLEMENTAL INFORMATION  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

SPENCER MUNICIPAL HOSPITAL  
GROSS PATIENT SERVICE REVENUE  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007				2006
	Inpatient	Outpatient	Skilled Care	Home Health	Total
<b>DAILY PATIENT SERVICE:</b>					
Medical and surgery.....	\$ 5,870,195	-	-	-	\$ 5,870,195
Mental health.....	2,735,245	-	-	-	2,735,245
Nursery.....	353,585	-	-	-	353,585
Intensive care.....	1,349,623	-	-	-	1,349,623
Skilled care.....	-	-	624,454	-	624,454
<b>TOTAL DAILY PATIENT SERVICES</b>	<b>10,308,648</b>	<b>-</b>	<b>624,454</b>	<b>-</b>	<b>10,933,102</b>
<b>OTHER NURSING SERVICES:</b>					
Partial hospitalization.....	-	309,501	-	-	309,501
Same day surgery.....	-	1,223,363	-	-	1,223,363
Intravenous therapy.....	963,791	716,515	82,388	-	1,762,694
Delivery and labor rooms.....	545,865	401,447	-	-	947,312
Operating rooms.....	4,740,477	11,286,207	21,302	-	16,047,986
Post anesthesia care unit.....	712,281	1,921,582	7,032	-	2,640,895
Emergency service.....	1,865,557	4,550,849	1,370	-	6,417,776
Medical supplies.....	10,150,894	6,394,290	73,596	3,957	16,622,737
Medical oncology.....	242	1,049,740	-	-	1,049,982
<b>TOTAL OTHER NURSING SERVICES</b>	<b>18,979,107</b>	<b>27,853,494</b>	<b>185,688</b>	<b>3,957</b>	<b>47,022,246</b>
<b>OTHER PROFESSIONAL SERVICES:</b>					
Respiratory therapy.....	623,406	36,316	61,341	-	721,063
Ambulance.....	-	1,280,731	-	-	1,280,731
Laboratory.....	2,255,885	2,717,569	99,549	-	5,073,003
Blood bank.....	147,801	57,058	3,380	-	208,239
Electrocardiology.....	654,704	828,748	11,016	-	1,494,468
Electroencephalography.....	8,554	19,959	-	-	28,513
Radiology.....	862,354	2,615,804	24,163	-	3,502,321
Ultrasound.....	154,020	1,382,281	-	-	1,536,301
Stereotactic biopsy.....	103	311,922	-	-	312,025

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
GROSS PATIENT SERVICE REVENUE - Continued  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007				2006	
	Inpatient	Outpatient	Skilled Care	Home Health	Total	Total
<b>OTHER PROFESSIONAL SERVICES-</b>						
Continued:						
CT scan.....	\$ 809,710	\$ 4,290,149	-	-	\$ 5,099,859	\$ 4,829,949
MRI.....	162,788	2,302,840	-	-	2,465,628	2,538,383
Nuclear medicine.....	51,663	936,634	-	-	988,297	996,781
Radiation oncology.....	84,164	-	-	-	84,164	101,299
Pharmacy.....	2,935,725	8,738,789	327,199	-	12,001,713	11,242,480
Therapy pool.....	24	182,742	-	-	182,766	161,876
Anesthesiology.....	68,850	110,450	-	-	179,300	-
Physical therapy.....	445,031	1,066,147	109,738	28,744	1,649,660	1,399,283
Speech therapy.....	26,529	256,453	10,654	-	293,636	233,529
Occupational therapy.....	227,365	457,235	52,354	-	736,954	692,873
Pulmonary function testing.....	1,052	80,020	-	-	81,072	66,912
Sleep study.....	-	337,633	-	-	337,633	348,968
Invasive procedures.....	-	-	-	-	0	3,076
Pulmonary rehab.....	-	70,034	-	-	70,034	38,584
Cardiac rehab.....	-	243,354	-	-	243,354	155,002
Dialysis - Spencer.....	-	1,461,190	-	-	1,461,190	1,617,282
Dialysis - Spirit Lake.....	-	1,289,898	-	-	1,289,898	1,080,967
Home health:						
Registered nurse care.....	-	-	-	657,961	657,961	602,816
Aides care.....	-	-	-	437,199	437,199	416,474
County assistance.....	-	-	-	90,000	90,000	90,000
Other care.....	-	-	-	1,516,097	1,516,097	1,145,450
<b>TOTAL OTHER PROFESSIONAL SERVICES</b>	<b>9,519,728</b>	<b>31,073,956</b>	<b>699,394</b>	<b>2,730,001</b>	<b>44,023,079</b>	<b>39,565,981</b>
<b>TOTAL GROSS PATIENT SERVICE REVENUE</b>	<b>\$ 38,807,483</b>	<b>\$ 58,927,450</b>	<b>\$ 1,509,536</b>	<b>\$ 2,733,958</b>	<b>\$ 101,978,427</b>	<b>\$ 89,282,333</b>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
NET PATIENT SERVICE REVENUE  
AND OTHER OPERATING REVENUE  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
GROSS PATIENT SERVICE REVENUE (Schedule 1).....	\$ 101,978,427	\$ 89,282,333
ADJUSTMENTS TO PATIENT SERVICE REVENUE:		
Medicare program.....	34,914,097	29,497,987
Medicaid program.....	4,928,912	4,883,706
Blue Cross / Wellmark.....	7,781,205	6,466,803
Other payors.....	1,858,147	1,450,803
Charity care.....	445,096	642,138
TOTAL ADJUSTMENTS TO PATIENT SERVICE REVENUE	<u>49,927,457</u>	<u>42,941,437</u>
NET PATIENT SERVICE REVENUE	<u>\$ 52,050,970</u>	<u>\$ 46,340,896</u>
OTHER OPERATING REVENUE:		
Cafeteria sales.....	\$ 289,825	\$ 293,275
Photo service.....	1,546	401
Medical record transcripts.....	12,906	16,017
Miscellaneous.....	209,945	153,760
Steam sold.....	3,637	15,450
Purchase discounts.....	9,714	7,518
Education programs.....	57,577	63,625
AG health and safety clinic.....	71,265	74,938
Enterostomal therapy.....	69,957	57,890
Speech therapy.....	27,690	20,600
Occupational therapy-outreach services.....	37,423	27,548
Occupational health.....	-	2,550
Physical therapy.....	124,378	66,882
Athletic enhancement.....	70,148	70,875
Pharmacy services.....	12,156	605
Lifeline.....	133,082	105,611
Cancer Center fees:		
Personnel services.....	166,819	143,010
Building and equipment rental.....	326,174	306,183
Equity in earnings of Cancer Center.....	1,416,472	1,738,894
Employee health.....	5,493	7,116
TOTAL OTHER OPERATING REVENUE	<u>\$ 3,046,207</u>	<u>\$ 3,172,748</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	Salaries		Professional Services		Supplies and Other Expenses	
	2007	2006	2007	2006	2007	2006
Clinical resources.....	\$ 290,183	\$ 257,634	\$ 72,038	\$ 71,518	\$ 30,423	\$ 32,551
Medical and surgery.....	2,130,582	2,004,902	49,796	41,447	143,793	113,943
Obstetrics.....	544,576	541,306	5,859	2,724	41,378	36,629
Mental health.....	786,107	720,559	10,939	9,084	18,505	15,970
Intensive care.....	519,425	521,856	81,703	19,741	28,060	33,404
Intravenous therapy.....	-	-	-	-	44,486	34,267
Operating room.....	1,000,623	959,507	277,395	176,703	1,145,862	554,325
Post anesthesia care unit.....	356,045	333,732	-	-	88,376	42,524
Emergency service.....	707,454	522,288	796,862	773,450	69,774	56,924
Central sterilization.....	148,568	137,958	-	-	152,613	109,306
Service aide.....	36,026	35,426	-	-	-	-
Same day surgery.....	858,254	759,347	1,251	1,655	45,015	32,596
Home health.....	867,989	812,632	12,607	7,569	64,772	55,359
Hospice.....	156,817	131,050	114,433	63,623	14,122	16,842
Enterostomal service.....	86,437	73,257	1,312	1,675	13,812	12,625
Dialysis - Spencer.....	325,228	374,535	31,906	20,249	83,294	100,056
Dialysis - Spirit Lake.....	217,403	169,606	62,391	37,305	142,470	145,924
Partial hospitalization.....	44,468	47,648	358	-	3,242	4,363
Medical oncology.....	200,100	188,622	-	-	16,037	16,250
Childbirth education.....	-	788	-	-	-	423
Respiratory therapy.....	234,398	235,683	25,464	45,962	64,467	62,946
Laboratory.....	554,728	510,033	215,751	205,811	421,006	341,191
Blood bank.....	-	-	-	-	156,042	107,362
Electrocardiology.....	95,344	82,668	65,965	61,783	-	1,880

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	Salaries		Professional Services		Supplies and Other Expenses	
	2007	2006	2007	2006	2007	2006
Electroencephalography.....	\$ -	\$ -	\$ -	\$ 11,040	\$ -	\$ 69
Radiology.....	493,926	417,191	9,250	188,269	133,757	232,079
Ultrasound.....	143,580	164,796	63,385	-	37,947	59,824
Stereotactic biopsy.....	-	-	118,390	74,026	-	384
MRI.....	56,822	54,518	-	-	148,973	163,850
Athletic enhancement.....	71,611	104,487	170	-	7,118	9,151
Nuclear medicine.....	105,712	94,531	-	-	113,246	137,498
Pharmacy.....	775,984	744,350	45,920	88,493	34,102	35,010
Anesthesiology.....	38,077	9,929	-	-	111,524	61,542
Physical therapy.....	531,859	496,097	56,965	1,375	33,173	24,571
Ambulance.....	489,875	469,437	625	323	55,030	73,046
Social services.....	158,694	150,837	-	-	1,480	698
Cardiac rehabilitation.....	131,919	125,242	-	-	10,215	10,712
Medical records.....	510,003	481,184	69,721	68,129	118,892	97,291
CT scan.....	155,015	134,981	62,920	83,297	196,799	204,856
Occupational therapy.....	231,959	233,241	201	3,363	18,143	11,217
Infection control.....	51,157	42,000	-	685	2,217	1,262
Speech therapy.....	115,365	105,044	201	2,712	6,150	5,814
AG health and safety clinic.....	46,584	51,920	1,264	2,051	41,842	38,016
AG health -grant expense.....	-	-	-	-	-	11
Cardio-pulmonary diagnostic.....	31,417	45,443	-	-	8,603	5,063
Library.....	-	-	-	-	-	6,732
Sports medicine.....	14,412	-	262,167	176,004	50,993	40,279
Lifeline.....	27,783	25,348	56,946	47,079	55,667	33,215

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	Salaries		Professional Services		Supplies and Other Expenses	
	2007	2006	2007	2006	2007	2006
Therapy pool.....	\$ -	\$ -	\$ -	\$ -	\$ 3,460	\$ 2,832
Plant.....	506,020	491,533	-	-	399,562	303,462
Utilities.....	-	-	-	-	1,011,646	931,652
Housekeeping.....	477,525	444,952	30,258	8,178	82,755	70,017
Laundry.....	136,810	140,090	8,990	12,819	45,461	45,753
Nutrition services.....	674,584	601,141	20,635	990	434,843	397,241
Valet.....	55,689	53,099	-	-	18,313	12,172
General accounting.....	241,095	230,476	7,464	12,122	19,772	18,514
Human resources.....	151,415	127,373	-	-	163,219	142,640
Patient accounts.....	807,194	797,596	125,037	45,498	81,731	132,120
Information systems.....	404,573	354,417	39,857	17,018	286,153	156,736
Administration.....	745,377	642,805	274,600	388,415	1,184,955	341,404
Materials management.....	130,936	116,142	2,852	4,745	26,839	33,341
Communications.....	-	-	15,243	8,364	104,165	73,914
Central supply.....	67,417	64,568	-	-	3,897,414	3,567,233
Printing and duplicating.....	26,666	25,124	-	-	139,556	123,747
Insurance.....	-	-	-	-	272,235	237,738
Staff development.....	129,441	107,434	12,022	4,723	29,804	20,595
Medical care evaluation.....	413,636	399,962	40,182	33,630	18,254	18,047
PET/CT scan.....	-	-	104,400	86,625	2,037	1,285
Clinical technology.....	40,897	42,997	-	-	5,088	4,056
Women's health.....	32,749	-	-	-	3,834	316
Shape.....	49,942	-	-	-	10,842	-
Penalties.....	-	-	-	-	-	4,450
<b>TOTAL</b>	<b>\$ 19,434,475</b>	<b>\$ 18,011,322</b>	<b>\$ 3,329,988</b>	<b>\$ 2,910,272</b>	<b>\$ 12,215,358</b>	<b>\$ 9,819,115</b>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
 PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
 FOR THE YEARS ENDED JUNE 30, 2007 AND 2006  
 UNAUDITED

## PATIENT RECEIVABLES ANALYSIS OF AGING:

	2007		2006	
	Amount	Percent To Total	Amount	Percent To Total
DAYS SINCE DISCHARGE:				
00 - 30.....	\$ 5,439,939	34.86%	\$ 4,765,736	31.98%
31 - 60.....	1,960,550	12.56%	1,729,056	11.61%
61 - 90.....	722,649	4.63%	767,019	5.15%
91 - 120.....	738,060	4.73%	572,463	3.84%
Over 120.....	2,695,557	17.27%	2,141,072	14.37%
Clinic receivables.....	154,497	0.99%	163,543	1.10%
TOTAL RECEIVABLES BILLED	11,711,252	75.04%	10,138,889	68.04%
In Hospital.....	3,894,398	24.96%	4,763,059	31.96%
TOTAL PATIENT RECEIVABLES	15,605,650	100.00%	14,901,948	100.00%
Allowance for doubtful accounts.....	(2,130,000)		(2,030,000)	
Allowance for contractual adjustments.....	(5,440,000)		(5,700,000)	
Clinic allowance for contractual adjustments....	(71,500)		(76,500)	
TOTAL ADJUSTMENTS	(7,641,500)		(7,806,500)	
PATIENT RECEIVABLES - NET	\$ 7,964,150		\$ 7,095,448	

## ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	2007	2006
BALANCE - BEGINNING OF YEAR.....	\$ 2,030,000	\$ 1,960,000
Provision.....	2,161,941	1,703,381
Recoveries of accounts previously written off.....	586,382	258,983
Accounts written off.....	(2,648,323)	(1,892,364)
BALANCE - END OF YEAR	\$ 2,130,000	\$ 2,030,000

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
INVENTORY AND PREPAID EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
INVENTORY:		
Store room.....	\$ 321,934	\$ 262,582
Nutrition services.....	11,635	24,107
Laboratory.....	74,796	103,324
Laundry.....	7,925	12,205
Pharmacy.....	493,279	346,848
Radiology.....	31,793	31,238
Surgery.....	883,681	756,033
Various other departments.....	<u>42,294</u>	<u>84,515</u>
TOTALS	<u>\$ 1,867,337</u>	<u>\$ 1,620,852</u>
PREPAID EXPENSES:		
Service contracts.....	\$ 346,824	\$ 167,452
Association dues.....	27,690	26,933
Fees/ licenses.....	1,071	1,000
Insurance.....	<u>15,143</u>	<u>18,232</u>
TOTALS	<u>\$ 390,728</u>	<u>\$ 213,617</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
INVESTMENT TRANSACTIONS  
FOR THE YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Additions During the Year	Sales During the Year	Realized & Unrealized Gains	Balance End of Year
Common stocks.....	\$ 4,490,989	\$ 2,435,917	\$ (1,442,083)	\$ 1,045,538	\$ 6,530,361
	<hr/>				
TOTAL	<u>\$ 4,490,989</u>	<u>\$ 2,435,917</u>	<u>\$ (1,442,083)</u>	<u>\$ 1,045,538</u>	<u>\$ 6,530,361</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
COMPARATIVE STATISTICS  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006  
UNAUDITED

	<u>2007</u>	<u>2006</u>
Admissions:		
Medical/surgery, obstetrics & intensive care.....	2,537	2,404
Mental health unit.....	571	522
Swing bed and inn care.....	222	227
Newborns.....	<u>272</u>	<u>259</u>
 TOTAL	 <u>3,602</u>	 <u>3,412</u>
Discharges:		
Medical/surgery, obstetrics & intensive care.....	2,541	2,363
Mental health unit.....	572	516
Swing bed and inn care.....	244	262
Newborns.....	<u>197</u>	<u>267</u>
 TOTAL	 <u>3,554</u>	 <u>3,408</u>
Patient days:		
Medical/surgery, obstetrics & intensive care.....	8,842	8,024
Mental health unit.....	3,548	3,571
Swing bed and inn care.....	1,709	1,989
Newborns.....	<u>577</u>	<u>578</u>
 TOTAL	 <u>14,676</u>	 <u>14,162</u>
Average length of stay (days):		
Medical/surgery, obstetrics & intensive care.....	3.49	3.34
Mental health unit.....	6.21	6.84
Swing bed and inn care.....	7.70	8.76
Newborns.....	2.12	2.23
Average number of patients per day:		
Medical/surgery, obstetrics & intensive care.....	24.22	21.98
Mental health unit.....	9.72	9.78
Swing bed and inn care.....	4.68	5.45
Newborns.....	1.58	1.58
Outpatient occasions of service.....	<u>35,874</u>	<u>35,360</u>
Licensed beds at end of year.....	<u>99</u>	<u>99</u>

See Independent Auditors' Report.

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON 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 accompanying basic financial statements of Spencer Municipal Hospital's primary government as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated September 28, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer Municipal Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the primary government financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies 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 in a separate letter dated September 28, 2007.

### 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Spencer Municipal Hospital's operations for the year ended June 30, 2007 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.

The Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

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.

*Wentzel, Shaw & Co., LLP*

September 28, 2007

SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007

**Part I: Findings Related to the Primary Government Financial Statements**

None

**Part II: Other Findings Related to Required Statutory Reporting**

**07-II-A Certified Budget**

For the year ended June 30, 2007, the Hospital's revenue, nonoperating income, and contributions were \$571,740 more than the certified budget and the Hospital's operating expenses were \$458,720 more than the certified budget, resulting in a net favorable variance of \$113,020.

**07-II-B 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.

**07-II-C Travel Expense**

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

**07-II-D 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	\$191,553
Kris Van Berkum, Board member Co-owner Janitor's Closet Ltd.	Purchase of cleaning supplies	\$ 11,239
John Cotton, Board member Co-owner Cotton Grave Farm Management & Realty	Farm management fees	\$ 3,581

The transactions do not appear to represent a conflict of interest since the transactions were entered into through competitive bidding in accordance with Chapter 362.5(4); additionally with regards to the banking transactions, the bank has been approved by the board of trustees in accordance with Chapter 362.5(2) of the Code of Iowa.

SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2007

**Part II: Other Findings Related to Required Statutory Reporting** - Continued

**07-II-E 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.

**07-II-F 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.

**ABBEN CANCER CENTER, LLC  
(AN IOWA LIMITED LIABILITY COMPANY)  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEARS ENDED  
JUNE 30, 2007 AND 2006**

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT

To the Board of Managers  
Abben Cancer Center, LLC  
Spencer, IA 51301

We have audited the accompanying balance sheets of Abben Cancer Center, LLC (an Iowa limited liability company), a component unit of Spencer Municipal Hospital, as of June 30, 2007 and 2006, and the related statements of income and member's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Abben Cancer Center, LLC as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Wintner, Stave & Co., LLP*

November 6, 2007

ABBEN CANCER CENTER, LLC  
BALANCE SHEETS  
JUNE 30, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS:		
Cash .....	\$ 335,520	\$ 518,847
Patient accounts receivable, net of allowance for doubtful accounts and contractual adjustments of \$711,800 in 2007 and \$792,500 in 2006 .....	307,415	400,104
Nontrade receivable .....	5,220	
Prepaid expenses .....	<u>42,612</u>	<u>34,169</u>
 TOTAL ASSETS	 <u>\$ 690,767</u>	 <u>\$ 953,120</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES:		
Accounts payable .....	\$ 50,801	\$ 84,022
Accounts payable to Spencer Municipal Hospital (Note 2) .....	<u>155,236</u>	<u>175,840</u>
TOTAL CURRENT LIABILITIES	206,037	259,862
 MEMBER'S EQUITY .....	 <u>484,730</u>	 <u>693,258</u>
 TOTAL LIABILITIES AND MEMBER'S EQUITY	 <u>\$ 690,767</u>	 <u>\$ 953,120</u>

ABBEN CANCER CENTER, LLC  
 STATEMENTS OF INCOME AND MEMBER'S EQUITY  
 FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
NET PATIENT SERVICE REVENUE .....	\$3,470,793	\$4,003,659
EXPENSES (Note 2):		
Professional medical services .....	1,318,134	1,383,984
Medical supplies .....	16,998	14,234
Facility expenses .....	593,539	515,424
General and administrative .....	<u>148,511</u>	<u>373,455</u>
TOTAL EXPENSES	<u>2,077,182</u>	<u>2,287,097</u>
OPERATING INCOME .....	<u>1,393,611</u>	<u>1,716,562</u>
NONOPERATING INCOME:		
Interest income .....	17,008	17,858
Contributions and other income .....	<u>5,853</u>	<u>4,474</u>
TOTAL NONOPERATING INCOME	<u>22,861</u>	<u>22,332</u>
NET INCOME	1,416,472	1,738,894
MEMBER'S EQUITY - BEGINNING OF YEAR .....	693,258	674,364
DISTRIBUTIONS .....	<u>(1,625,000)</u>	<u>(1,720,000)</u>
MEMBER'S EQUITY - END OF YEAR	<u>\$ 484,730</u>	<u>\$ 693,258</u>

ABBEN CANCER CENTER, LLC  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income .....	\$1,416,472	\$1,738,894
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in patient accounts receivable .....	92,689	(73,906)
Increase in other current assets .....	(13,663)	(503)
Increase (decrease) in accounts payable .....	(33,221)	46,045
Increase (decrease) in accounts payable to Spencer Municipal Hospital .....	(20,604)	3,927
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,441,673</u>	<u>1,714,457</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions .....	<u>(1,625,000)</u>	<u>(1,720,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(1,625,000)</u>	<u>(1,720,000)</u>
NET DECREASE IN CASH	(183,327)	(5,543)
CASH AT BEGINNING OF YEAR .....	<u>518,847</u>	<u>524,390</u>
CASH AT END OF YEAR	<u>\$ 335,520</u>	<u>\$ 518,847</u>

ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS

**1. BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Business Activities**

Abben Cancer Center, LLC (the Company) is an Iowa limited liability company that operates a cancer treatment center in Spencer, Iowa. The Company is a wholly-owned component unit of Spencer Municipal Hospital (Hospital) as defined by the Governmental Accounting Standards Board. Substantially all of its patients are from Northwest Iowa.

The Company was organized on June 20, 1996 and shall continue in existence until June 20, 2026 unless dissolved sooner in accordance with the terms of the Company's operating agreement.

**Summary of Significant Accounting Policies**

Cash and Concentration of Credit Risk

For purposes of the statement of cash flows, cash on deposit, cash on hand, and cash in savings accounts are considered cash. At June 30, 2007 and 2006, the Company had uninsured bank balances of \$187,554 and \$415,116, respectively.

Patient Accounts Receivable - Patient accounts receivable are reported at the amount expected to be collected after estimating the contractual adjustments and determining the allowance for doubtful accounts based on an aging of all the individual patient balances and an analysis of the delinquent accounts. Management reviews delinquent receivables and contractual adjustments on a monthly basis and writes off accounts when collection procedures have been exhausted.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Income Taxes

The Company is not a taxpaying entity for federal and state income tax purposes, and thus no income tax expenses have been recorded in the statements.

Use of Estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**2. RELATED PARTY TRANSACTIONS**

**Spencer Municipal Hospital**

The Company has entered into various transactions and agreements with the Hospital. The agreements and their related expenses for 2007 and 2006 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Medical and office equipment lease .....	<u>\$243,177</u>	<u>\$226,024</u>
Office space lease agreement .....	<u>\$ 82,997</u>	<u>\$ 80,159</u>
Personnel service agreement:		
Leased employees' salaries .....	\$405,430	\$352,792
Leased employees' benefits .....	142,766	116,558
Personnel administration and other services .....	<u>24,053</u>	<u>26,452</u>
Total Personnel Service Agreement Expense	<u>\$572,249</u>	<u>\$495,802</u>

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.

Additionally, the Hospital paid substantially all of the Company's third-party vendors and billed the Company for the payments. The accounts payable to the Hospital is the result of the above transactions less cash payments.

**Board Member**

The Company has entered into a medical direction and professional services agreement with a company owned and controlled by a board member. The agreement is for a three-year period ending July 1, 2007 and shall be renewed automatically for successive one-year terms unless terminated by either party upon written notice 90 days prior to the anniversary date. Fees under the agreement are calculated based upon a percentage of net patient revenue that is reviewed and agreed to annually. Total fees incurred under the agreement for 2007 and 2006 were \$671,368 and \$812,708, respectively.