

**SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
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, 2009 AND 2008**

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 TABLE OF CONTENTS

	<u>Page</u>	
Board of Trustees and Officials	1	
Independent Auditors' Report	2 - 3	
Management's Discussion and Analysis	4 - 10	
Financial Statements:		
Spencer Municipal Hospital:		
Balance Sheets	11 - 12	
Statements of Revenues, Expenses, and Changes in Net Assets	13	
Statements of Cash Flows	14 - 15	
Abben Cancer Center, LLC:		
Balance Sheets	16	
Statements of Income and Member's Equity	17	
Statements of Cash Flows	18	
Notes to Financial Statements	19 - 31	
Required Supplementary Information:		
Budgetary Comparison Schedule and Related Notes	32	
Supplemental Information:		
	<u>Schedule</u>	
Gross Patient Service Revenue	1	33 - 34
Net Patient Service Revenue and Other Operating Revenue	2	35
Salaries, Professional Services, and Supplies and Other Expenses .	3	36 - 38
Patient Receivables and Allowance for Doubtful Accounts	4	39
Inventory and Prepaid Expenses	5	40
Investment Transactions	6	41
Comparative Statistics	7	42
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		43 - 44
Schedule of Findings		45 - 46

SPENCER MUNICIPAL HOSPITAL
BOARD OF TRUSTEES AND OFFICIALS
JUNE 30, 2009

BOARD OF TRUSTEES

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

TITLE

Chairman
Vice Chairman
Secretary/Treasurer
Trustee
Trustee

TERM EXPIRES

December 31, 2011
December 31, 2011
December 31, 2009
December 31, 2009
December 31, 2011

HOSPITAL OFFICIALS

William Bumgarner
Steven Deutsch
Lois Morris
Brenda Tiefenthaler
Susan Zulk

President and Chief Executive Officer
Interim Vice President of Operations Support
Vice President of Finance and Chief Financial Officer
Vice President of Patient Care Services
Vice President of Marketing and Fund Development

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 and
Board of Managers of
Abben Cancer Center, LLC
Spencer, IA 51301

We have audited the accompanying balance sheets of Spencer Municipal Hospital (Hospital) as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. We have also audited the balance sheets of Abben Cancer Center, LLC, (Abben), a discretely presented component unit, as of June 30, 2009 and 2008, 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 Hospital and Abben'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 U.S. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spencer Municipal Hospital and Abben Cancer Center, LLC, a discretely presented component unit, as of June 30, 2009 and 2008, and the results of their operations and their 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 18, 2009 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 32 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. 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 basic financial statements of Spencer Municipal Hospital and Abben Cancer Center, LLC. The supplemental information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements taken as a whole.

Wintner, Steve & Co., LLP

September 18, 2009

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, 2009 and 2008. 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. In addition, the basic financial statements of Abben Cancer Center, LLC, a component unit, are separately presented.

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 2009

- Total assets increased by \$1,782,611 to \$86,033,389.
- Net assets increased by \$3,257,645.
- Total noncurrent cash and investments increased by \$218,672.
- Total liabilities decreased by \$1,475,034.
- The operating margin for fiscal year 2009 was 8.6%.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Highlights for 2008

- Total assets increased by \$1,058,170 to \$84,250,778.
- Net capital assets increased by \$2,570,322.
- Total noncurrent cash and investments decreased by \$437,292.
- Total liabilities decreased by \$645,977.
- The operating margin for fiscal year 2008 was 4.5%.

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, 2009, 2008, and 2007 are presented in Table 1 below:

Table 1 (in thousands)

Condensed Balance Sheets	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current and other assets	\$34,232	\$32,018	\$33,529
Capital assets	<u>51,801</u>	<u>52,233</u>	<u>49,663</u>
TOTAL ASSETS	<u>\$86,033</u>	<u>\$84,251</u>	<u>\$83,192</u>
Current liabilities	\$ 7,843	\$ 7,877	\$ 9,000
Long-term debt outstanding	<u>13,814</u>	<u>15,255</u>	<u>14,778</u>
TOTAL LIABILITIES	<u>\$21,657</u>	<u>\$23,132</u>	<u>\$23,778</u>
Invested in capital assets - net of related debt	\$36,406	\$35,131	\$33,560
Restricted	1,316	1,418	1,351
Unrestricted	<u>26,654</u>	<u>24,569</u>	<u>24,503</u>
TOTAL NET ASSETS	<u>\$64,376</u>	<u>\$61,118</u>	<u>\$59,414</u>

Net assets increased by \$3,257,645 to \$64,376,219 in fiscal year 2009. Net assets increased by \$1,704,147 to \$61,118,574 in fiscal year 2008. The change in net assets results primarily from operating income.

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, 2009, 2008, and 2007.

Table 2 (in thousands)

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

	Year Ended June 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$62,631	\$58,309	\$55,808
Operating expenses	<u>57,227</u>	<u>55,710</u>	<u>52,259</u>
Operating income	5,404	2,599	3,549
Nonoperating income (loss)	<u>(2,400)</u>	<u>(1,336)</u>	<u>984</u>
Excess of revenues over expenses before contributions	3,004	1,263	4,533
Contributions	<u>254</u>	<u>441</u>	<u>446</u>
Change in net assets	3,258	1,704	4,979
Total net assets - beginning of year	<u>61,118</u>	<u>59,414</u>	<u>54,435</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$64,376</u>	<u>\$61,118</u>	<u>\$59,414</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, 2009, 2008, and 2007.

Volume - Volume statistics are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Inpatient discharges	3,476	3,664	3,554
Inpatient days	14,452	14,361	14,676
Outpatient registrations	39,833	36,763	35,874

Net Patient Service Revenue - Our net patient service revenues increased \$4,203,182 in 2009 and increased \$2,286,341 in 2008. These changes are the result of the following changes in gross revenues and contractual adjustments. Contractual adjustments are the estimated amounts the Hospital will not collect from Medicare, Medicaid, and insurance companies.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total patient service revenues	\$116,234,309	\$107,247,493	\$101,978,427
Contractual adjustments	(57,693,816)	(52,910,182)	(49,927,457)
Contractual adjustment as percent of revenues	<u>49.6%</u>	<u>49.3%</u>	<u>49.0%</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, 2009, 2008, and 2007.

Table 3

Payor Mix by Percentage

	Year Ended June 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Medicare	49.87%	51.32%	53.48%
Wellmark/Blue Cross/Blue Shield	25.16	23.03	21.16
Managed Care/Commercial	10.69	11.34	10.94
Medicaid	7.60	6.89	7.58
All other	<u>6.68</u>	<u>7.42</u>	<u>6.84</u>
TOTAL	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Salaries - Salaries increased by \$124,329 in 2009 and \$352,048 in 2008. For the fiscal year ended June 30, 2009, the Hospital employed a total of 454 full-time equivalent employees, compared to 471 in 2008 and 2007. 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 \$426,773 in 2009 and \$430,591 in 2008. 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, 2009, the Hospital had \$94,067,893 invested in capital assets as shown in Table 4. The \$1,072,678 net decrease in capital assets is primarily the result of the replacement of some cancer equipment and a hospital-wide fixed asset review and the subsequent updating for scrapped or disposed equipment and furnishings. During the year, there were also increases in buildings and equipment due to various capital purchases including the completion of the construction of the new vault for Abben Cancer Center and the installation of a new accelerator within that vault.

At June 30, 2008, the Hospital had \$95,140,571 invested in capital assets as shown in Table 4. The \$7,630,693 increase in capital assets is primarily a result of increases in buildings, construction in progress, and equipment. Construction in progress decreased by \$1,162,537 primarily due to the 2008 capitalization of the Diagnostic Imaging remodel project and the Pharmacy and Rehab relocation project.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table summarizes the Hospital's capital assets as of June 30, 2009, 2008, and 2007.

Table 4

Capital Assets (in thousands)

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Land	\$ 2,011	\$ 2,011	\$ 2,011
Land improvements	1,321	1,271	883
Buildings	45,966	44,817	41,492
Fixed equipment	8,362	8,871	8,701
Major movable equipment	35,937	37,190	32,280
Construction in progress	<u>470</u>	<u>980</u>	<u>2,143</u>
Subtotal	94,067	95,140	87,510
Less accumulated depreciation	<u>42,266</u>	<u>42,907</u>	<u>37,847</u>
 CAPITAL ASSETS - NET	 <u>\$51,801</u>	 <u>\$52,233</u>	 <u>\$49,663</u>

Long-Term Debt and Capital Leases

At June 30, 2009, the Hospital had \$12,452,749 in long-term debt related to the construction of the surgical center. During 2008, a new loan was established for financing cancer treatment equipment in the amount of \$2,652,000; the long-term balance of this loan was \$1,361,419 at June 30, 2009. Total long-term debt was \$13,814,168 as of June 30, 2009. More detailed information about the Hospital's outstanding debt is presented in the financial statement notes. Total long-term debt (excluding current portion) represents 63.8% and 65.9% of the Hospital's total liabilities as of June 30, 2009 and 2008, respectively.

Performance Compared to Budget

The following table compares fiscal year 2009 actual to budget information for the statement of revenues, expenses, and changes in net assets.

Table 5

Budget vs. Actual (in thousands)

	FY 2009 <u>Budget</u>	FY 2009 <u>Actual</u>	Dollar Variance <u>Fav (Unfav)</u>
Net patient service revenue	\$62,378	\$58,540	\$ (3,838)
Other operating revenue	3,055	4,091	1,036
Total operating revenue	65,433	62,631	(2,802)
Operating expenses	<u>63,400</u>	<u>57,227</u>	6,173
Operating income	2,033	5,404	3,371
Nonoperating income and contributions	<u>1,590</u>	<u>(2,146)</u>	<u>(3,736)</u>
 Excess of revenues over expenses	 <u>\$ 3,623</u>	 <u>\$ 3,258</u>	 <u>\$ (365)</u>

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considered many factors when setting the fiscal year 2009 budget. Of primary importance in setting the 2010 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
- Investment market

Patient Satisfaction

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 quarters of the fiscal year 2009, the Hospital achieved the following percentiles:

Quarter ended 10/31/08	96 th Percentile
Quarter ended 01/31/09	98 th Percentile
Quarter ended 04/30/09	98 th Percentile
Quarter ended 07/31/09	96 th Percentile

Community Contribution

During fiscal years 2009 and 2008, the Hospital contributed much to the community. Charity care and uncompensated care totaled \$2,694,985 and \$2,978,640, 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, Lifeline, Rehabilitation Services (Physical, Occupational and Speech Therapy), Family Practice Clinics in Milford and Sioux Rapids, and Diabetic Education.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

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 separate financial statements. 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, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$12,808,691	\$10,177,954
Patient receivables (less allowance for doubtful accounts and contractual adjustments of \$8,541,100 and \$7,396,500, respectively)	6,780,991	5,941,527
Other receivables (Note 8)	455,220	554,322
Investments (Note 2)	5,105,788	6,607,594
Inventory	2,223,296	2,215,270
Prepaid expenses	<u>517,121</u>	<u>464,240</u>
TOTAL CURRENT ASSETS	<u>27,891,107</u>	<u>25,960,907</u>
NONCURRENT CASH AND INVESTMENTS (Note 2):		
Restricted by board for capital improvements	4,185,962	3,864,700
Principal of permanent endowments	1,122,290	1,226,706
Restricted by donors for operations	<u>193,668</u>	<u>191,842</u>
TOTAL NONCURRENT CASH AND INVESTMENTS	<u>5,501,920</u>	<u>5,283,248</u>
CAPITAL ASSETS (Notes 4, 6, 9, and 10):		
Land	2,011,733	2,011,733
Construction in progress	469,827	980,261
Depreciable property, plant, and equipment	<u>91,586,333</u>	<u>92,148,577</u>
TOTAL CAPITAL ASSETS	94,067,893	95,140,571
Less accumulated depreciation	<u>42,266,214</u>	<u>42,907,325</u>
CAPITAL ASSETS - NET	<u>51,801,679</u>	<u>52,233,246</u>
OTHER ASSETS:		
Investment in Abben (Notes 8 and 9)	732,299	689,069
Deferred finance costs - net of accumulated amortization of \$33,840 and \$25,646, respectively	<u>106,384</u>	<u>84,308</u>
TOTAL OTHER ASSETS	<u>838,683</u>	<u>773,377</u>
TOTAL ASSETS	<u>\$86,033,389</u>	<u>\$84,250,778</u>

SPENCER MUNICIPAL HOSPITAL
BALANCE SHEETS - Continued
JUNE 30, 2009 AND 2008

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 6)	\$ 1,687,913	\$ 1,931,029
Accounts payable	1,561,585	1,799,899
Accrued salaries and wages	3,002,394	2,617,692
Payroll taxes payable	60,693	135,363
Estimated third-party payor settlements (Note 3)	758,068	643,461
Other current liabilities (Note 7)	<u>772,349</u>	<u>749,360</u>
TOTAL CURRENT LIABILITIES	7,843,002	7,876,804
 LONG-TERM DEBT - NET OF CURRENT PORTION (Note 6)	 <u>13,814,168</u>	 <u>15,255,400</u>
TOTAL LIABILITIES	 <u>21,657,170</u>	 <u>23,132,204</u>
 NET ASSETS:		
Invested in capital assets, net of related debt	36,405,982	35,131,125
Net assets restricted by donor - nonexpendable	1,122,290	1,226,706
Net assets restricted by donor - expendable	193,668	191,842
Unrestricted net assets	<u>26,654,279</u>	<u>24,568,901</u>
TOTAL NET ASSETS	64,376,219	61,118,574
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$86,033,389</u>	 <u>\$84,250,778</u>

SPENCER MUNICIPAL HOSPITAL
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUE:		
Net patient service revenue (Note 3)	\$58,540,493	\$54,337,311
Abben Cancer Center net earnings	1,243,230	1,447,873
Clinic revenue	775,594	740,383
Other operating revenue	<u>2,071,790</u>	<u>1,783,724</u>
TOTAL OPERATING REVENUE	<u>62,631,107</u>	<u>58,309,291</u>
OPERATING EXPENSES:		
Salaries	19,910,852	19,786,523
Employee benefits	7,403,628	6,976,855
Professional services	4,212,371	4,175,981
Prescription drugs	3,899,150	4,190,018
Supplies and other	12,613,383	12,126,792
Clinic expenses	1,067,939	973,365
Depreciation	5,719,894	5,250,877
Bad debts	<u>2,400,195</u>	<u>2,229,841</u>
TOTAL OPERATING EXPENSES	<u>57,227,412</u>	<u>55,710,252</u>
OPERATING INCOME	<u>5,403,695</u>	<u>2,599,039</u>
NONOPERATING INCOME (EXPENSES):		
Interest income	202,942	411,147
Investment income (loss) - net of related expenses	(1,803,532)	(869,410)
Interest expense	(703,865)	(761,519)
Loss on sale of equipment and real estate	(92,688)	(106,029)
Scholarships granted	<u>(2,600)</u>	<u>(10,150)</u>
NET NONOPERATING EXPENSES	<u>(2,399,743)</u>	<u>(1,335,961)</u>
EXCESS OF REVENUES AND INCOME OVER EXPENSES	3,003,952	1,263,078
CAPITAL GRANTS AND CAPITAL CONTRIBUTIONS	<u>253,693</u>	<u>441,069</u>
CHANGE IN NET ASSETS	3,257,645	1,704,147
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>61,118,574</u>	<u>59,414,427</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$64,376,219</u>	<u>\$61,118,574</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third parties	\$56,191,035	\$54,963,937
Cash paid to suppliers for goods and services	(21,770,975)	(22,022,750)
Cash paid to employees for services	(27,004,448)	(27,106,171)
Other operating revenues	2,170,892	1,873,151
Other amounts paid	<u>(2,600)</u>	<u>(10,150)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>9,583,904</u>	<u>7,698,017</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital asset purchases	(5,685,215)	(9,191,614)
Proceeds from sale of equipment and real estate	1,200	13,386
Principal payments on long-term debt	(1,684,348)	(1,650,747)
Proceeds from long-term debt	-	2,652,000
Interest paid on long-term debt	(688,160)	(765,074)
Payments for deferred finance costs	(32,881)	(9,528)
Capital grants and contributions received	<u>253,693</u>	<u>441,069</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(7,835,711)</u>	<u>(8,510,508)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(4,998,589)	(5,319,721)
Proceeds from sale and maturities of investments	4,818,925	4,203,571
Income on investments	184,880	512,654
Distributions from Abben	<u>1,200,000</u>	<u>1,500,000</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,205,216</u>	<u>896,504</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,953,409	84,013
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>14,575,838</u>	<u>14,491,825</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$17,529,247</u>	<u>\$14,575,838</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:		
Cash and cash equivalents per balance sheets (Note 2):		
Current assets	\$12,808,691	\$10,177,954
Included in noncurrent assets	<u>4,720,556</u>	<u>4,397,884</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$17,529,247</u>	<u>\$14,575,838</u>

SPENCER MUNICIPAL HOSPITAL
 STATEMENTS OF CASH FLOWS - Continued
 FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 5,403,695	\$ 2,599,039
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,719,894	5,250,877
Equity in earnings of Abben	(1,243,230)	(1,447,873)
Components of non-operating and operating expenses reclassified for purposes of reporting cash flows:		
Scholarships awarded	(2,600)	(10,150)
(Increase) decrease in:		
Net patient receivables	(839,464)	2,022,623
Other receivables	99,102	89,427
Inventory	(8,026)	(347,933)
Prepaid expenses	(52,881)	(73,512)
Increase (decrease) in:		
Accounts payable	64,686	(138,570)
Accrued salaries and wages	384,702	31,057
Payroll taxes payable	(74,670)	(373,850)
Amounts due to contracting agencies	114,607	93,461
Other current liabilities	<u>18,089</u>	<u>3,421</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 9,583,904</u>	 <u>\$ 7,698,017</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capital asset purchases	\$ 5,382,215	\$ 8,325,825
Decrease in construction accounts payable	303,000	1,251,000
Less net book value of assets traded in	<u>-</u>	<u>(385,211)</u>
 Cash paid to purchase capital assets	 <u>\$ 5,685,215</u>	 <u>\$ 9,191,614</u>

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 BALANCE SHEETS
 JUNE 30, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS:		
Cash (Note 2)	\$ 340,283	\$ 317,041
Patient accounts receivable, net of allowance for doubtful accounts and contractual adjustments of \$762,500 in 2009 and \$531,300 in 2008	307,257	241,845
Prepaid expenses	<u>8,380</u>	<u>7,004</u>
 TOTAL ASSETS	 <u>\$ 655,920</u>	 <u>\$ 565,890</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 60,008	\$ 38,238
Accounts payable to Spencer Municipal Hospital (Note 8)	<u>120,079</u>	<u>95,049</u>
TOTAL CURRENT LIABILITIES	180,087	133,287
 MEMBER'S EQUITY	 <u>475,833</u>	 <u>432,603</u>
 TOTAL LIABILITIES AND MEMBER'S EQUITY	 <u>\$ 655,920</u>	 <u>\$ 565,890</u>

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 STATEMENTS OF INCOME AND MEMBER'S EQUITY
 FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
NET PATIENT SERVICE REVENUE	\$3,347,943	\$3,355,690
OPERATING EXPENSES:		
Professional medical services	1,336,180	1,213,705
Medical supplies	8,351	12,393
Facility expenses	615,238	541,822
General and administrative	<u>156,742</u>	<u>154,366</u>
TOTAL OPERATING EXPENSES	<u>2,116,511</u>	<u>1,922,286</u>
OPERATING INCOME	<u>1,231,432</u>	<u>1,433,404</u>
NONOPERATING INCOME:		
Interest income	3,960	9,424
Contributions and other income	<u>7,838</u>	<u>5,045</u>
TOTAL NONOPERATING INCOME	<u>11,798</u>	<u>14,469</u>
NET INCOME	1,243,230	1,447,873
MEMBER'S EQUITY - BEGINNING OF YEAR	432,603	484,730
DISTRIBUTIONS	<u>(1,200,000)</u>	<u>(1,500,000)</u>
MEMBER'S EQUITY - END OF YEAR	<u>\$ 475,833</u>	<u>\$ 432,603</u>

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$1,243,230	\$1,447,873
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in patient accounts receivable	(65,413)	65,570
(Increase) decrease in other current assets	(1,375)	40,828
Increase (decrease) in accounts payable	21,770	(12,563)
Increase (decrease) in accounts payable to Spencer Municipal Hospital	<u>25,030</u>	<u>(60,187)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,223,242</u>	<u>1,481,521</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions	<u>(1,200,000)</u>	<u>(1,500,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(1,200,000)</u>	<u>(1,500,000)</u>
 NET INCREASE (DECREASE) IN CASH	23,242	(18,479)
 CASH AT BEGINNING OF YEAR	<u>317,041</u>	<u>335,520</u>
 CASH AT END OF YEAR	<u>\$ 340,283</u>	<u>\$ 317,041</u>

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity and Nature of Business

Spencer Municipal Hospital (the Hospital) is a city public hospital organized under Chapter 392.6 of the Code of Iowa. The Hospital is governed by a five-member board of trustees elected by the residents of Spencer for terms of four years. The Hospital provides primary and secondary health care services through the operation of an acute care hospital in Spencer, Iowa, two medical clinics, and other comprehensive health care programs. The majority of the Hospital's patients are from Spencer and northwest Iowa.

For financial reporting purposes, the Hospital is considered a primary government. 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. Legally separate entities that meet certain requirements are referred to as component units.

Abben Cancer Center, LLC (Abben) is a legally separate wholly-owned limited liability company that is considered a discretely presented component unit of the Hospital. Abben was organized on June 20, 1996 and shall continue in existence until June 20, 2026 unless dissolved sooner in accordance with its operating agreement. Its financial statements are separately presented on pages 16 through 18. Abben is a medical clinic that operates a cancer treatment center on the Hospital's campus.

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. Subsequent events were evaluated by management for disclosure up to the date of the auditors' report, which is the date the financial statements were available to be issued.

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 Equivalents

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

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 and real estate held in the permanently endowed funds are carried at fair value based on quoted market prices or third-party appraisals. Investments in real estate not in the endowed funds are carried at cost. Donated investments are reported at fair value at the date of receipt, which is then treated as cost.

The Hospital's investment in Abben is accounted for by using the equity method, where the Hospital records its share of the earnings or losses. The investment in Abben was approximately \$256,000 greater than the underlying member's equity at June 30, 2009 and 2008. The difference is attributable to goodwill which is tested for impairment on an annual basis.

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.

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Operating Revenues and Expenses

The Hospital and Abben's statements 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. 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.

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 and real estate in the permanently endowed funds.

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 and equipment purchases.

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.

SPENCER MUNICIPAL HOSPITAL AND
ABBen CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 2009 and 2008, were \$294,790 and \$748,799, respectively. The costs of charity care are estimated to be \$131,600 and \$332,000 for 2009 and 2008, 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, Lifeline Services, Rehabilitation Services (Physical, Occupational and Speech Therapy), Family Practice Clinics in Milford and Sioux Rapids, and Diabetic Education.

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. Abben is not a tax paying entity for federal and state income tax purposes; and therefore, no income tax expenses have been recorded in its financial statements.

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.

Reclassification

Certain amounts in the 2008 financial statements have been reclassified to conform to 2009's presentation.

2. CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2009 and 2008 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. At June 30, 2009 and 2008, Abben had uninsured bank balances of \$88,805 and \$211,320, respectively.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

2. CASH AND INVESTMENTS - Continued

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, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$17,529,247	\$14,575,838
Common stocks	5,105,788	6,607,594
Real estate	<u>781,364</u>	<u>885,364</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$23,416,399</u>	 <u>\$22,068,796</u>

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

	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$12,808,691	\$10,177,954
Investments - common stocks	<u>5,105,788</u>	<u>6,607,594</u>
Subtotal	<u>17,914,479</u>	<u>16,785,548</u>
Noncurrent cash and investments:		
Cash and cash equivalents	4,720,556	4,397,884
Real estate	<u>781,364</u>	<u>885,364</u>
Subtotal	<u>5,501,920</u>	<u>5,283,248</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$23,416,399</u>	 <u>\$22,068,796</u>

Common stock investments and real estate held in the permanently endowed fund are carried at fair value. The net unrealized gains (losses) on investments at June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Common stocks	\$ (128,639)	\$ 44,320
Real estate	<u>520,894</u>	<u>624,894</u>
 Net unrealized gain	 <u>\$ 392,255</u>	 <u>\$ 669,214</u>

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.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

2. CASH AND INVESTMENTS - Continued

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 and Abben have 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 the Hospital's gross patient charges determined at established rates for the years ended June 30, 2009 and 2008 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 and Abben in future years.

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

	<u>2009</u>	<u>2008</u>
Gross patient service revenue - at established rates .	\$116,234,309	\$107,247,493
Adjustments:		
Medicare program	37,080,038	34,888,463
Medicaid program	5,717,260	5,065,279
Blue Cross/Wellmark	11,803,278	9,650,051
Other payors	2,798,450	2,557,590
Charity care	294,790	748,799
Total Adjustments	<u>57,693,816</u>	<u>52,910,182</u>
Net Patient Service Revenue	<u>\$ 58,540,493</u>	<u>\$ 54,337,311</u>

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

4. CAPITAL ASSETS

A summary of the Hospital's changes in capital assets for 2009 and 2008 is as follows:

	Year Ended June 30, 2009			
	Beginning Balance	Additions	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,011,733	\$ -	\$ -	\$ 2,011,733
Construction in progress	<u>980,261</u>	<u>4,425,046</u>	<u>(4,935,480)</u>	<u>469,827</u>
Total capital assets not being depreciated	<u>2,991,994</u>	<u>4,425,046</u>	<u>(4,935,480)</u>	<u>2,481,560</u>
Other capital assets:				
Land improvements	1,270,655	-	50,684	1,321,339
Buildings	44,816,977	52,170	1,096,831	45,965,978
Fixed equipment	8,870,802	46,418	(555,518)	8,361,702
Major moveable equipment ..	<u>37,190,143</u>	<u>858,581</u>	<u>(2,111,410)</u>	<u>35,937,314</u>
Total other capital assets	<u>92,148,577</u>	<u>957,169</u>	<u>(1,519,413)</u>	<u>91,586,333</u>
Total capital assets	<u>95,140,571</u>	<u>5,382,215</u>	<u>(6,454,893)</u>	<u>94,067,893</u>
Less accumulated depreciation for:				
Land improvements	608,540	85,479	-	694,019
Buildings	11,504,043	1,646,493	(387,503)	12,763,033
Fixed equipment	6,250,105	298,154	(536,559)	6,011,700
Major moveable equipment ..	<u>24,544,637</u>	<u>3,689,768</u>	<u>(5,436,943)</u>	<u>22,797,462</u>
Total accumulated depreciation	<u>42,907,325</u>	<u>5,719,894</u>	<u>(6,361,005)</u>	<u>42,266,214</u>
CAPITAL ASSETS - NET	<u>\$52,233,246</u>	<u>\$ (337,679)</u>	<u>\$ (93,888)</u>	<u>\$51,801,679</u>

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

4. CAPITAL ASSETS - Continued

	Year Ended June 30, 2008			
	Beginning Balance	Additions	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,011,733	\$ -	\$ -	\$ 2,011,733
Construction in progress	<u>2,142,798</u>	<u>6,328,966</u>	<u>(7,491,503)</u>	<u>980,261</u>
Total capital assets not being depreciated	<u>4,154,531</u>	<u>6,328,966</u>	<u>(7,491,503)</u>	<u>2,991,994</u>
Other capital assets:				
Land improvements	882,786	3,971	383,898	1,270,655
Buildings	41,491,452	248,946	3,076,579	44,816,977
Fixed equipment	8,700,966	169,836	-	8,870,802
Major moveable equipment ..	<u>32,280,143</u>	<u>1,574,106</u>	<u>3,335,894</u>	<u>37,190,143</u>
Total other capital assets	<u>83,355,347</u>	<u>1,996,859</u>	<u>6,796,371</u>	<u>92,148,577</u>
Total capital assets	<u>87,509,878</u>	<u>8,325,825</u>	<u>(695,132)</u>	<u>95,140,571</u>
Less accumulated depreciation for:				
Land improvements	529,494	79,046	-	608,540
Buildings	10,064,876	1,487,128	(47,961)	11,504,043
Fixed equipment	5,926,397	323,708	-	6,250,105
Major moveable equipment ..	<u>21,326,187</u>	<u>3,360,995</u>	<u>(142,545)</u>	<u>24,544,637</u>
Total accumulated depreciation	<u>37,846,954</u>	<u>5,250,877</u>	<u>(190,506)</u>	<u>42,907,325</u>
CAPITAL ASSETS - NET	<u>\$49,662,924</u>	<u>\$3,074,948</u>	<u>\$ (504,626)</u>	<u>\$52,233,246</u>

5. 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 4.10% of their annual covered salary and the Hospital is required to contribute 6.35% of annual covered payroll for 2009. For 2008 and 2007, the member contribution rates were 3.90% and 3.70%, and the Hospital contribution rates were 6.05% and 5.75%, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for 2009, 2008, and 2007 were \$1,277,726, \$1,209,171, and \$1,143,736, respectively, equal to the required contributions for each year.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

6. LONG-TERM DEBT

The Hospital's long-term debt activity as of and for the years ended June 30, 2009 and 2008 is as follows:

	June 30, <u>2008</u>	<u>Borrowings</u>	<u>Payments</u>	June 30, <u>2009</u>	Due Within <u>One Year</u>
Hospital Revenue Bonds, Series A (A)	\$ 7,777,792	\$ -	\$ (221,459)	\$ 7,556,333	\$ 656,876
Hospital Revenue Bonds Series B (B)	6,999,976	-	(939,268)	6,060,708	507,416
2007 Hospital Revenue Bonds (C)	<u>2,408,661</u>	<u>-</u>	<u>(523,621)</u>	<u>1,885,040</u>	<u>523,621</u>
	<u>\$17,186,429</u>	<u>\$ -</u>	<u>\$(1,684,348)</u>	<u>\$15,502,081</u>	<u>\$1,687,913</u>

	June 30, <u>2007</u>	<u>Borrowings</u>	<u>Payments</u>	June 30, <u>2008</u>	Due Within <u>One Year</u>
Hospital Revenue Bonds, Series A (A)	\$ 8,518,528	\$ -	\$ (740,736)	\$ 7,777,792	\$ 740,736
Hospital Revenue Bonds, Series B (B)	7,666,648	-	(666,672)	6,999,976	666,672
2007 Hospital Revenue Bonds (C)	<u>-</u>	<u>2,652,000</u>	<u>(243,339)</u>	<u>2,408,661</u>	<u>523,621</u>
	<u>\$16,185,176</u>	<u>\$2,652,000</u>	<u>\$(1,650,747)</u>	<u>\$17,186,429</u>	<u>\$1,931,029</u>

(A) The 2003 Series A bonds were refinanced with the same lender in December 2008 and were replaced with the Series 2008A bonds which are payable in monthly principal and interest payments of \$81,049 at a fixed interest rate of 4.29% through December 2018.

(B) The 2003 Series B bonds were refinanced with the same lender in December 2008 and were replaced with the Series 2008B bonds which are payable in monthly principal and interest payments of \$67,410 at a fixed interest rate of 5.10% through December 2018.

(C) Revenue bonds with monthly principal and interest payments of \$48,668 through January 2013 at a fixed interest rate of 3.8%.

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>
2010	\$ 1,687,913	\$ 672,030	\$ 2,359,943
2011	1,769,553	595,969	2,365,522
2012	1,849,027	516,496	2,365,523
2013	1,609,619	436,191	2,045,810
2014	1,412,077	369,433	1,781,510
2015 - 2019	<u>7,173,892</u>	<u>784,453</u>	<u>7,958,345</u>
TOTAL	<u>\$15,502,081</u>	<u>\$3,374,572</u>	<u>\$18,876,653</u>

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

6. LONG-TERM DEBT - Continued

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. As allowed for in the 2003 bond resolution, the 2007 and 2008 bonds are payable from the same source as the 2003 bonds. The Hospital has pledged future revenues, net of defined expenses, to repay the bonds. For the current year, principal and interest paid on the revenue bonds and the net pledged revenues (as defined in the bond document) were \$2,372,508 and \$6,614,277, respectively. The bond proceeds have been used to finance building additions, building improvements, and purchase medical equipment.

7. RISK MANAGEMENT

The Hospital and Abben are 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 \$4.5 million. 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 per policy period. 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 \$534,148 and \$537,395 at June 30, 2009 and 2008, 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.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

8. RELATED PARTY TRANSACTIONS

Spencer Regional Healthcare Foundation

The Spencer Regional Healthcare Foundation (Foundation) is 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 it does include 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 \$227,456 and \$166,415 during 2009 and 2008, respectively.

Abben Cancer Center, LLC

The Hospital has entered into various agreements with Abben whereby the Hospital will provide management and operating services and lease a building and related equipment to Abben. 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 Abben:

	<u>2009</u>	<u>2008</u>
Personnel service fees for benefits and expenses	\$ <u>198,064</u>	\$ <u>169,289</u>
Leased employees' salaries	\$ <u>446,218</u>	\$ <u>426,192</u>
Building and equipment rental income	\$ <u>430,123</u>	\$ <u>284,146</u>

At June 30, 2009 and 2008, the Hospital's receivable from Abben was \$120,079 and \$95,049, 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 \$48,546 and \$134,089 in 2009 and 2008, respectively, on accounts held at this financial institution.

The Hospital purchased supplies of \$7,094 and \$8,082 from a company owned in part by a Hospital trustee in 2009 and 2008, respectively.

The Hospital incurred farm management fees of \$4,117 and \$3,640 from a company owned in part by a Hospital trustee in 2009 and 2008, respectively.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

9. OPERATING LEASES

The Hospital has entered into noncancelable operating lease agreements involving three medical clinics. The Hospital has exercised its renewal options which have extended the leases to various dates through 2014. The rental expense for 2009 and 2008 was \$426,647 and \$393,576, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 426,647
2011	412,514
2012	384,247
2013	371,602
2014	<u>59,826</u>
TOTAL	<u>\$1,654,836</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 2009 and 2008 was \$459,606 and \$472,595, 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>
2010	\$ 450,259
2011	450,259
2012	450,259
2013	330,200
2014	<u>167,503</u>
TOTAL	<u>\$1,848,480</u>

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

	<u>2009</u>	<u>2008</u>
Medical office building	\$ 3,313,806	\$3,306,216
Medical clinic equipment	235,771	189,020
Abben building	2,543,163	1,267,994
Abben equipment	<u>4,001,597</u>	<u>2,926,985</u>
Total property and equipment	10,094,337	7,690,215
Less accumulated depreciation	<u>2,664,376</u>	<u>4,007,144</u>
Net property and equipment	<u>\$ 7,429,961</u>	<u>\$3,683,071</u>

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

10. 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, equipment maintenance agreements, and physician recruiting agreements. The total amount expected to be paid on these commitments is approximately \$4,600,000 with the majority to be paid in 2010.

**SPENCER MUNICIPAL HOSPITAL
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2009**

SPENCER MUNICIPAL HOSPITAL
 BUDGETARY COMPARISON SCHEDULE AND RELATED NOTES
 FOR THE YEAR ENDED JUNE 30, 2009

	Original and Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Net patient service revenue	\$62,378,000	\$58,540,493	\$ (3,837,507)
Other operating revenue	<u>3,055,000</u>	<u>4,090,614</u>	<u>1,035,614</u>
Total operating revenue	<u>65,433,000</u>	<u>62,631,107</u>	<u>(2,801,893)</u>
Operating expenses	(63,400,000)	(57,227,412)	6,172,588
Net nonoperating income (expenses)	1,190,000	(2,399,743)	(3,589,743)
Contributions	<u>400,000</u>	<u>253,693</u>	<u>(146,307)</u>
Total expenditures	<u>(61,810,000)</u>	<u>(59,373,462)</u>	<u>2,436,538</u>
Changes in Net Assets	<u>\$ 3,623,000</u>	<u>\$ 3,257,645</u>	<u>\$ (365,355)</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 Hospital 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 2009, the Hospital's expenditures did not exceed the amount budgeted.

**SPENCER MUNICIPAL HOSPITAL
SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE - Continued
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009				2008
	Inpatient	Outpatient	Skilled Care	Home Health	Total
OTHER PROFESSIONAL SERVICES-					
Continued:					
CT scan.....	\$ 964,024	\$ 4,662,055	\$ 6,364	-	\$ 5,632,443
MRI.....	181,483	2,284,012	3,318	-	2,468,813
Nuclear medicine.....	44,600	931,240	6,121	-	981,961
Radiation oncology.....	54,002	-	29,707	-	83,709
Pharmacy.....	3,150,445	8,591,561	326,991	34	12,069,031
Therapy pool.....	-	221,642	-	-	221,642
Anesthesiology.....	565,961	1,131,371	-	-	1,697,332
Physical therapy.....	437,855	918,129	-	26,934	1,481,666
Speech therapy.....	18,540	272,902	4,818	718	296,978
Enterostomal service.....	27,887	153,834	13,353	-	195,074
Occupational therapy.....	216,290	419,522	64,807	3,638	704,257
Pulmonary function testing.....	441	116,539	-	-	116,980
Sleep study.....	-	666,383	-	-	666,383
Pulmonary rehab.....	-	60,074	-	-	60,074
Cardiac rehab.....	-	173,532	-	-	173,532
Dialysis - Spencer.....	8,775	1,403,544	-	-	1,412,319
Dialysis - Spirit Lake.....	1,978	1,900,605	-	-	1,902,583
Home health:					
Registered nurse care.....	-	-	-	726,231	726,231
Aides care.....	-	-	-	508,815	508,815
County assistance.....	-	-	-	100,000	100,000
Other care.....	-	-	-	1,286,367	1,286,367
TOTAL OTHER PROFESSIONAL SERVICES	10,705,579	35,167,870	803,461	2,652,737	49,329,647
TOTAL GROSS PATIENT SERVICE REVENUE	\$ 42,298,805	\$ 69,760,311	\$ 1,520,700	\$ 2,654,493	\$ 116,234,309
					\$ 107,247,493

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
NET PATIENT SERVICE REVENUE
AND OTHER OPERATING REVENUE
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
GROSS PATIENT SERVICE REVENUE (Schedule 1).....	\$ 116,234,309	\$ 107,247,493
ADJUSTMENTS TO PATIENT SERVICE REVENUE:		
Medicare program.....	37,080,038	34,888,463
Medicaid program.....	5,717,260	5,065,279
Blue Cross / Wellmark.....	11,803,278	9,650,051
Other payors.....	2,798,450	2,557,590
Charity care.....	294,790	748,799
TOTAL ADJUSTMENTS TO PATIENT SERVICE REVENUE	<u>57,693,816</u>	<u>52,910,182</u>
NET PATIENT SERVICE REVENUE	<u>\$ 58,540,493</u>	<u>\$ 54,337,311</u>
OTHER OPERATING REVENUE:		
Abben fees:		
Personnel services.....	\$ 198,064	\$ 169,289
Building and equipment rental.....	430,123	284,146
Ag health and safety clinic.....	66,480	76,479
Athletic enhancement.....	87,488	87,106
Auxiliary income.....	28,044	-
Billing fee revenue	25,509	-
Cafeteria sales.....	287,835	287,262
Diagnostic imaging storage.....	1,504	-
Education programs.....	68,069	61,318
Employee health.....	8,775	5,636
Immunizations	61,200	54,615
Laboratory client billing.....	44,307	22,108
Lifeline.....	169,871	153,098
Medical record transcripts.....	20,896	18,850
Miscellaneous.....	68,751	117,439
Outreach services:		
Enterostomal therapy.....	100,372	101,981
Speech therapy.....	25,128	24,605
Occupational therapy.....	55,865	57,990
Physical therapy.....	175,909	176,775
Pharmacy services, net	21,064	(5,613)
Purchase discounts.....	11,867	10,099
Salary reimbursements:		
Sports medicine.....	36,925	-
Other.....	70,079	73,662
Steam sold.....	7,665	6,879
TOTAL OTHER OPERATING REVENUE	<u>\$ 2,071,790</u>	<u>\$ 1,783,724</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	Salaries		Professional Services		Supplies and Other Expenses	
	2009	2008	2009	2008	2009	2008
Clinical resources.....	\$ 307,012	\$ 408,254	\$ 71,340	\$ 68,024	\$ 4,890	\$ 4,295
Medical and surgery.....	2,020,510	2,092,041	34,991	26,219	172,903	157,070
Obstetrics.....	542,840	547,726	403	2,455	48,167	41,913
Mental health.....	788,801	764,280	7,075	2,575	28,621	23,031
Intensive care.....	473,249	496,478	85,318	81,680	33,389	29,917
Intravenous therapy.....	-	-	-	-	42,206	46,252
Operating room.....	1,092,184	1,099,040	493,550	260,400	1,147,228	574,923
Post anesthesia care unit.....	326,806	438,960	-	-	101,670	85,007
Emergency service.....	712,941	737,588	1,215,452	951,110	71,497	67,865
Central sterilization.....	141,895	163,351	-	-	173,828	166,432
Service aide.....	34,183	36,017	-	-	-	-
Same day surgery.....	827,424	737,263	170	9	50,828	49,236
Home health.....	906,447	897,856	7,903	17,084	66,134	61,599
Hospice.....	155,742	156,798	96,466	108,054	14,184	16,713
Enterostomal service.....	99,623	98,367	1,479	334	21,845	16,689
Dialysis - Spencer.....	318,893	311,373	16,112	18,066	105,794	88,825
Dialysis - Spirit Lake.....	258,100	240,497	54,417	44,173	200,862	179,854
Partial hospitalization.....	37,735	41,497	44	-	2,761	2,528
Medical oncology.....	232,316	247,857	51,200	-	17,372	20,704
Respiratory therapy.....	232,500	234,214	174,492	19,354	59,206	63,628
Laboratory.....	639,812	597,520	176,155	223,932	409,122	424,196
Blood bank.....	-	-	-	-	169,287	136,030
Electrocardiology.....	71,146	99,837	66,599	59,713	48	-

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
 SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
 FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	Salaries		Professional Services		Supplies and Other Expenses	
	2009	2008	2009	2008	2009	2008
Electroencephalography.....	\$ -	\$ -	\$ 7,215	\$ 404	\$ -	\$ -
Radiology.....	524,659	452,419	8,684	116,007	340,513	356,406
Ultrasound.....	146,367	142,586	-	73,095	42,706	43,814
Stereotactic biopsy.....	-	-	104,415	139,218	-	-
MRI.....	67,414	98,767	-	-	152,008	11,827
Athletic enhancement.....	73,137	66,034	501	675	8,278	7,606
Nuclear medicine.....	99,795	110,543	555	6,717	154,567	124,090
Pharmacy.....	815,794	554,049	200,693	526,480	44,200	138,456
Anesthesiology.....	55,650	49,868	-	-	135,342	88,451
Physical therapy.....	581,970	580,288	544	17,228	37,317	37,238
Ambulance.....	489,599	473,284	-	335	86,049	74,335
Social services.....	159,224	154,183	-	-	405	815
Cardiac rehabilitation.....	110,492	124,646	-	-	9,785	10,329
Medical records.....	526,308	506,833	101,023	90,517	95,923	99,042
CT scan.....	162,045	161,909	69,435	84,650	203,272	214,992
Occupational therapy.....	265,141	272,500	406	101	14,168	18,418
Infection control.....	54,640	51,860	-	-	1,819	1,381
Speech therapy.....	119,158	103,711	269	101	6,519	7,442
AG health and safety clinic.....	37,783	53,394	79	1,150	41,096	43,272
Sleep studies.....	-	-	119,395	144,368	16,590	15,066
Cardio-pulmonary diagnostic.....	48,615	35,899	-	-	-	-
Sports medicine.....	15,520	14,873	308,500	292,500	70,720	49,333
Lifeline.....	29,747	28,331	75,291	71,178	25,325	43,209

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	Salaries		Professional Services		Supplies and Other Expenses	
	2009	2008	2009	2008	2009	2008
Therapy pool.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,001
Plant.....	493,750	495,066	12,042	25,490	326,834	350,868
Utilities.....	-	-	-	-	902,962	976,941
Housekeeping.....	512,289	545,272	24,314	9,352	73,019	77,475
Laundry.....	117,989	137,906	19,368	3,862	45,181	43,001
Nutrition services.....	627,117	667,001	2,512	11,387	452,868	432,381
Valet.....	42,072	46,341	24,976	10,244	9,990	11,422
General accounting.....	262,228	272,926	5,622	4,506	19,775	20,561
Human resources.....	155,391	165,417	958	-	174,743	249,774
Patient accounts.....	655,031	745,307	203,260	207,753	85,256	78,485
Information systems.....	439,616	481,914	10,670	10,302	411,733	439,565
Administration.....	989,815	756,710	183,496	307,339	683,006	883,799
Materials management.....	132,333	129,611	5,277	3,032	40,456	78,875
Communications.....	-	-	2,606	5,351	120,607	101,959
Central supply.....	62,977	72,104	-	-	4,376,784	4,250,725
Printing and duplicating.....	20,780	25,606	-	-	124,738	132,406
Insurance.....	-	-	-	-	264,841	293,191
Staff development.....	187,323	167,439	11,395	12,886	35,991	25,961
Medical care evaluation.....	429,949	469,582	65,279	33,521	19,426	23,061
PET/CT scan.....	-	-	90,425	83,050	5	878
Clinical technology.....	-	-	-	-	-	373
Women's health.....	37,106	34,633	-	-	4,341	3,769
SHAPE	141,869	90,897	-	-	9,648	7,092
TOTAL	\$ 19,910,852	\$ 19,786,523	\$ 4,212,371	\$ 4,175,981	\$ 12,613,383	\$ 12,126,792

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
 PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
 FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
 UNAUDITED

PATIENT RECEIVABLES ANALYSIS OF AGING:

	2009		2008	
	Amount	Percent To Total	Amount	Percent To Total
DAYS SINCE DISCHARGE:				
00 - 30.....	\$ 5,823,906	38.01%	\$ 5,603,026	42.01%
31 - 60.....	1,490,211	9.74%	1,419,795	10.65%
61 - 90.....	800,332	5.22%	790,027	5.92%
91 - 120.....	578,294	3.77%	470,182	3.53%
Over 120.....	1,555,080	10.15%	1,652,674	12.39%
Clinic receivables.....	210,472	1.37%	162,526	1.22%
TOTAL RECEIVABLES BILLED	10,458,295	68.26%	10,098,230	75.71%
In Hospital.....	4,863,796	31.74%	3,239,797	24.29%
TOTAL PATIENT RECEIVABLES	15,322,091	100.00%	13,338,027	100.00%
Allowance for doubtful accounts.....	(2,044,000)		(1,944,000)	
Allowance for contractual adjustments.....	(6,426,000)		(5,396,000)	
Clinic allowance for contractual adjustments ...	(71,100)		(56,500)	
TOTAL ADJUSTMENTS	(8,541,100)		(7,396,500)	
PATIENT RECEIVABLES - NET	\$ 6,780,991		\$ 5,941,527	

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	2009	2008
BALANCE - BEGINNING OF YEAR	\$ 1,944,000	\$ 2,130,000
Provision charged to expense.....	2,400,195	2,229,841
Accounts written off.....	(3,303,664)	(3,128,850)
Recoveries of accounts previously written off.....	1,003,469	1,098,009
Allowance reclassified to contractual adjustments.....	-	(385,000)
BALANCE - END OF YEAR	\$ 2,044,000	\$ 1,944,000

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVENTORY AND PREPAID EXPENSES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
INVENTORY:		
Store room.....	\$ 482,113	\$ 455,493
Nutrition services.....	16,690	13,935
Laboratory.....	96,589	85,196
Laundry.....	10,377	7,845
Pharmacy.....	530,055	473,855
Radiology.....	19,840	23,211
Surgery.....	1,018,042	1,129,693
Other departments.....	<u>49,590</u>	<u>26,042</u>
 TOTALS	 <u>\$ 2,223,296</u>	 <u>\$ 2,215,270</u>
 PREPAID EXPENSES:		
Service contracts.....	\$ 462,910	\$ 411,594
Association dues.....	36,111	34,104
Fees and licenses.....	1,215	1,145
Insurance.....	<u>16,885</u>	<u>17,397</u>
 TOTALS	 <u>\$ 517,121</u>	 <u>\$ 464,240</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVESTMENT TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 2009

	Balances Beginning <u>of Year</u>	Additions During the <u>Year</u>	Sales During the <u>Year</u>	Realized & Unrealized <u>Gains (Losses)</u>	Balances End <u>of Year</u>
Common stocks.....	\$ 6,607,594	\$ 4,998,589	\$ (4,818,925)	\$ (1,681,470)	\$ 5,105,788
Real estate.....	885,364			(104,000)	781,364
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 7,492,958</u>	<u>\$ 4,998,589</u>	<u>\$ (4,818,925)</u>	<u>\$ (1,785,470)</u>	<u>\$ 5,887,152</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
COMPARATIVE STATISTICS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
UNAUDITED

	<u>2009</u>	<u>2008</u>
Admissions:		
Medical/surgery, obstetrics & intensive care.....	2,180	2,620
Mental health unit.....	479	492
Swing bed and inn care.....	250	274
Newborns.....	<u>300</u>	<u>272</u>
TOTAL	<u>3,209</u>	<u>3,658</u>
Discharges:		
Medical/surgery, obstetrics & intensive care.....	2,447	2,608
Mental health unit.....	482	493
Swing bed and inn care.....	249	289
Newborns.....	<u>298</u>	<u>274</u>
TOTAL	<u>3,476</u>	<u>3,664</u>
Patient days:		
Medical/surgery, obstetrics & intensive care.....	8,568	8,756
Mental health unit.....	3,610	3,206
Swing bed and inn care.....	1,597	1,791
Newborns.....	<u>677</u>	<u>608</u>
TOTAL	<u>14,452</u>	<u>14,361</u>
Average length of stay (days):		
Medical/surgery, obstetrics & intensive care.....	3.93	3.34
Mental health unit.....	7.54	6.52
Swing bed and inn care.....	6.39	6.54
Newborns.....	2.26	2.24
Average number of patients per day:		
Medical/surgery, obstetrics & intensive care.....	23.47	23.99
Mental health unit.....	9.89	8.78
Swing bed and inn care.....	4.38	4.91
Newborns.....	1.85	1.67
Outpatient registrations.....	<u>39,833</u>	<u>36,763</u>
Licensed beds at end of year.....	<u>99</u>	<u>99</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 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, 2009 and 2008, and have issued our report thereon dated September 18, 2009. 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. However, we noted a matter involving the internal control over financial reporting that we have reported to the Board of Trustees in a separate letter dated September 18, 2009.

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.

Compliance and Other Matters

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, 2009 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.

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. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Winstan, Stow & Co., LLP". The signature is written in a cursive, flowing style.

September 18, 2009

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Primary Government Financial Statements

None

Part II: Other Findings Related to Required Statutory Reporting

II-A-09 Certified Budget

For the year ended June 30, 2009, the Hospital's expenditures did not exceed the amount budgeted.

II-B-09 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.

II-C-09 Travel Expense

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

II-D-09 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 Bank	Interest income from Northwest Bank	\$48,546
Kris Van Berkum, Board member Co-owner Janitor's Closet Ltd.	Purchase of cleaning supplies	\$ 7,094
John Cotton, Board member Co-owner Cotton Grave Farm Management & Realty	Farm management fees	\$ 4,117

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, 2009

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

II-E-09 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.

II-F-09 Deposits and Investments

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.

**SPENCER MUNICIPAL HOSPITAL
MANAGEMENT COMMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2009**

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

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

In planning and performing our audit of the basic financial statements of Spencer Municipal Hospital's primary government for the year ended June 30, 2009, we considered the Hospital's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the primary government financial statements and not to provide assurance on internal control. However, during the audit, we did become aware of the following matter that is an opportunity for strengthening internal controls and operating efficiency.

Authorized Signatures on Bank Accounts

During our cash confirmation procedures, we requested a list of authorized signers on the various bank accounts. Several were returned with two former employees' names on the list. Though one employee had just recently left, the other had resigned over six months ago. It was unclear whether this was a bank oversight or the Hospital's, but it does raise the issue of reviewing the procedures in this area. We would recommend that the exit checklist used for departing employees include an item to remove authorized signers from the list. We would also recommend that the Hospital follow up with the banks a few weeks after making the change to verify that the former employees have been removed from the list.

** ** ** ** ** **

We have reported on the Hospital's compliance and on internal control over financial reporting in our report dated September 18, 2009. This letter does not affect the aforementioned report nor does it affect the Independent Auditors' Report dated September 18, 2009 on the financial statements of Spencer Municipal Hospital.

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

Wintner, Stave & Co., LLP

September 18, 2009