

**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, 2010 AND 2009**

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
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SPENCER MUNICIPAL HOSPITAL
BOARD OF TRUSTEES AND OFFICIALS
JUNE 30, 2010

BOARD OF TRUSTEES

TITLE

TERM EXPIRES

John Rahn	Chairman	December 31, 2011
John Cotton	Vice Chairman	December 31, 2011
Neal Conover	Secretary/Treasurer	December 31, 2013
Gary VanHofwegen, DDS	Trustee	December 31, 2013
Kris Van Berkum	Trustee	December 31, 2011

HOSPITAL OFFICIALS

William Bumgarner	President and Chief Executive Officer
Stephen Deutsch	Vice President of Operations
Lois Morris	Vice President of Finance and Chief Financial Officer
Brenda Tiefenthaler	Vice President of Patient Care Services and Informatics
Susan Zulk	Vice President of Marketing and Fund Development

WINTHER, STAVE & Co., LLP
Certified Public Accountants

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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, 2010 and 2009, 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, 2010 and 2009, 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 audits 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, 2010 and 2009, 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 October 11, 2010 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 33 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.

Winter, Stave & Co., LLP

October 11, 2010

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, 2010 and 2009. 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 2010

- Total assets increased by \$5,367,954 to \$91,401,343.
- Net assets increased by \$6,190,724.
- Total noncurrent cash and investments increased by \$257,263.
- Total liabilities decreased by \$822,770.
- The operating margin for fiscal year 2010 was 8.63%.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

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 8.63%.

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, 2010, 2009, and 2008 are presented in Table 1 below:

Table 1 (in thousands)

Condensed Balance Sheets	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Current and other assets	\$40,499	\$34,232	\$32,018
Capital assets	<u>50,902</u>	<u>51,801</u>	<u>52,233</u>
TOTAL ASSETS	<u>\$91,401</u>	<u>\$86,033</u>	<u>\$84,251</u>
Current liabilities	\$ 8,778	\$ 7,843	\$ 7,877
Long-term debt outstanding	<u>12,056</u>	<u>13,814</u>	<u>15,255</u>
TOTAL LIABILITIES	<u>\$20,834</u>	<u>\$21,657</u>	<u>\$23,132</u>
Invested in capital assets - net of related debt	\$37,179	\$36,406	\$35,131
Restricted	1,375	1,316	1,418
Unrestricted	<u>32,013</u>	<u>26,654</u>	<u>24,569</u>
TOTAL NET ASSETS	<u>\$70,567</u>	<u>\$64,376</u>	<u>\$61,118</u>

Net assets increased by \$6,190,724 to \$70,566,943 in fiscal year 2010. Net assets increased by \$3,257,645 to \$64,376,219 in fiscal year 2009. 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, 2010, 2009, and 2008.

Table 2 (in thousands)

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

	Year Ended June 30,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues	\$67,111	\$62,631	\$58,309
Operating expenses	<u>61,322</u>	<u>57,227</u>	<u>55,710</u>
Operating income	5,789	5,404	2,599
Nonoperating income (loss)	<u>(79)</u>	<u>(2,400)</u>	<u>(1,336)</u>
Excess of revenues over expenses before contributions	5,710	3,004	1,263
Contributions	<u>481</u>	<u>254</u>	<u>441</u>
Change in net assets	6,191	3,258	1,704
Total net assets - beginning of year	<u>64,376</u>	<u>61,118</u>	<u>59,414</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$70,567</u>	<u>\$64,376</u>	<u>\$61,118</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, 2010, 2009, and 2008.

Volume - Volume statistics are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Inpatient discharges	3,573	3,476	3,664
Inpatient days	14,595	14,452	14,361
Outpatient registrations	40,071	39,833	36,763

Net Patient Service Revenue - Our net patient service revenues increased \$4,575,609 in 2010 and increased \$4,203,182 in 2009. 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>2010</u>	<u>2009</u>	<u>2008</u>
Total patient service revenues	\$128,053,570	\$116,234,309	\$107,247,493
Contractual adjustments	(64,937,468)	(57,693,816)	(52,910,182)
Contractual adjustment as percent of revenues	<u>50.7%</u>	<u>49.6%</u>	<u>49.3%</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, 2010, 2009, and 2008.

Table 3

Payor Mix by Percentage

	Year Ended June 30,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Medicare	50.00%	49.87%	51.32%
Wellmark/Blue Cross/Blue Shield	25.19	25.16	23.03
Managed Care/Commercial	10.21	10.69	11.34
Medicaid	7.39	7.60	6.89
All other	<u>7.21</u>	<u>6.68</u>	<u>7.42</u>
 TOTAL	 <u>100.00%</u>	 <u>100.00%</u>	 <u>100.00%</u>

Salaries - Salaries increased by \$608,884 in 2010 and \$124,329 in 2009. For the fiscal year ended June 30, 2010, the Hospital employed a total of 458 full-time equivalent employees, compared to 454 in 2009 and 471 in 2008. 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 \$950,937 in 2010 and \$426,773 in 2009. 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, 2010, the Hospital had \$97,429,459 invested in capital assets as shown in Table 4. The \$3,361,566 net increase in capital assets is primarily the result of increases in buildings, construction in process and equipment. Some of the major purchases for the fiscal year include a new CT Scanner, physician order entry software, and a pharmacy software upgrade.

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.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table summarizes the Hospital's capital assets as of June 30, 2010, 2009, and 2008.

Table 4

Capital Assets (in thousands)

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Land	\$ 2,011	\$ 2,011	\$ 2,011
Land improvements	1,533	1,321	1,271
Buildings	46,418	45,966	44,817
Fixed equipment	8,459	8,362	8,871
Major movable equipment	37,635	35,937	37,190
Construction in progress	<u>1,373</u>	<u>470</u>	<u>980</u>
Subtotal	97,429	94,067	95,140
Less accumulated depreciation	<u>46,527</u>	<u>42,266</u>	<u>42,907</u>
 CAPITAL ASSETS - NET	 <u>\$50,902</u>	 <u>\$51,801</u>	 <u>\$52,233</u>

Long-Term Debt and Capital Leases

At June 30, 2010, the Hospital had a balance of \$11,232,443 in long-term debt related to the construction of the surgical center in 2005. 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 \$823,635 at June 30, 2010. Total long-term debt was \$12,056,078 (net of current portion) as of June 30, 2010. More detailed information about the Hospital's outstanding debt is presented in the financial statement notes. Total long-term debt (net of current portion) represents 57.9% and 63.8% of the Hospital's total liabilities as of June 30, 2010 and 2009, respectively.

Performance Compared to Budget

During the fiscal year ended June 30, 2010, the Hospital re-evaluated the budgetary figures for changes in patient volumes, related expenses, and investment income/losses. Accordingly, on June 17, 2010, the Board of Trustees approved an amended budget which increased total operating revenue by \$5,500,000, increased operating expenses by \$2,670,000, and increased non-operating revenue by \$1,670,000. Final comparisons of actual revenues and expenses to amended budgeted amounts yielded total operating revenue being over budget by \$678,391 and operating expenditures over budget by \$340,900.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table compares fiscal year 2010 actual to budget information for the statement of revenues, expenses, and changes in net assets.

Table 5

Budget vs. Actual (in thousands)

	FY 2010 <u>Budget</u>	FY 2010 <u>Actual</u>	Dollar Variance <u>Fav (Unfav)</u>
Operating revenues	\$66,433	\$67,111	\$ 678
Operating expenditures	<u>60,981</u>	<u>61,322</u>	<u>(341)</u>
Operating income	5,452	5,789	337
Other nonoperating changes in net assets	<u>1,296</u>	<u>402</u>	<u>(894)</u>
Excess of revenues over expenses	<u>\$ 6,748</u>	<u>\$ 6,191</u>	<u>\$ (557)</u>

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considered many factors when setting the fiscal year 2010 budget. Of primary importance in setting the 2011 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 and equipment
- Increasing drug costs
- Increasing number of uninsured patients
- Increasing insurance deductibles
- Investment market

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Community Contribution

During fiscal years 2010 and 2009, the Hospital contributed much to the community. Charity care and uncompensated care totaled \$2,631,612 and \$2,694,985, 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 and Public Health Programs, Inpatient Mental Health, 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.

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, is also presented in this report. If you have questions about the 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, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$17,002,584	\$12,808,691
Patient receivables - net of allowance for doubtful accounts and contractual adjustments of \$9,134,200 and \$8,541,100, respectively	7,281,916	6,780,991
Other receivables (Note 9)	1,143,922	455,220
Investments (Note 2)	5,522,597	5,105,788
Inventory	2,238,177	2,223,296
Prepaid expenses	<u>646,435</u>	<u>517,121</u>
TOTAL CURRENT ASSETS	<u>33,835,631</u>	<u>27,891,107</u>
NONCURRENT CASH AND INVESTMENTS (Note 2):		
Restricted by board for capital improvements	4,384,225	4,185,962
Principal of permanent endowments	1,179,802	1,122,290
Restricted by donors for operations	<u>195,156</u>	<u>193,668</u>
TOTAL NONCURRENT CASH AND INVESTMENTS	<u>5,759,183</u>	<u>5,501,920</u>
CAPITAL ASSETS (Notes 4, 5, 10, and 11):		
Land	2,011,733	2,011,733
Construction in progress	1,372,630	469,827
Depreciable property, plant, and equipment	<u>94,045,096</u>	<u>91,586,333</u>
TOTAL CAPITAL ASSETS	97,429,459	94,067,893
Less accumulated depreciation	<u>46,527,162</u>	<u>42,266,214</u>
CAPITAL ASSETS - NET	<u>50,902,297</u>	<u>51,801,679</u>
OTHER ASSETS:		
Investment in Abben (Notes 9 and 10)	728,440	732,299
Investment in HME (Note 1)	81,871	-
Deferred finance costs - net of accumulated amortization of \$57,108 and \$44,645, respectively	<u>93,921</u>	<u>106,384</u>
TOTAL OTHER ASSETS	<u>904,232</u>	<u>838,683</u>
TOTAL ASSETS	<u>\$91,401,343</u>	<u>\$86,033,389</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE:		
Net patient service revenue (Note 3)	\$63,116,102	\$58,540,493
Abben Cancer Center net earnings	1,096,141	1,243,230
Clinic revenue	706,074	775,594
Other operating revenue	<u>2,193,074</u>	<u>2,071,790</u>
TOTAL OPERATING REVENUE	<u>67,111,391</u>	<u>62,631,107</u>
OPERATING EXPENSES:		
Salaries	20,519,736	19,910,852
Employee benefits	8,354,564	7,403,628
Professional services	4,566,560	4,212,371
Prescription drugs	5,314,013	3,899,150
Supplies and other	13,459,407	12,613,383
Clinic expenses	1,265,005	1,067,939
Depreciation	5,641,947	5,719,894
Bad debts	<u>2,200,668</u>	<u>2,400,195</u>
TOTAL OPERATING EXPENSES	<u>61,321,900</u>	<u>57,227,412</u>
OPERATING INCOME	<u>5,789,491</u>	<u>5,403,695</u>
NONOPERATING INCOME (EXPENSES):		
Interest income	168,331	202,942
Investment income (loss) - net of related expenses	661,960	(1,803,532)
Interest expense	(687,045)	(703,865)
Impairment losses	(219,708)	-
Loss on sale of equipment and real estate	(1,262)	(92,688)
Scholarships granted	<u>(1,490)</u>	<u>(2,600)</u>
NET NONOPERATING EXPENSES	<u>(79,214)</u>	<u>(2,399,743)</u>
EXCESS OF REVENUES AND INCOME OVER EXPENSES	5,710,277	3,003,952
CAPITAL GRANTS AND CAPITAL CONTRIBUTIONS	<u>480,447</u>	<u>253,693</u>
CHANGE IN NET ASSETS	6,190,724	3,257,645
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>64,376,219</u>	<u>61,118,574</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$70,566,943</u>	<u>\$64,376,219</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third parties	\$61,167,141	\$56,191,035
Cash paid to suppliers for goods and services	(24,004,310)	(21,770,975)
Cash paid to employees for services	(28,899,777)	(27,004,448)
Other operating revenues	1,528,721	2,170,892
Other amounts paid	<u>(1,490)</u>	<u>(2,600)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>9,790,285</u>	<u>9,583,904</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital asset purchases	(4,969,135)	(5,685,215)
Proceeds from sale of equipment	1,600	1,200
Principal payments on long-term debt	(1,684,788)	(1,684,348)
Interest paid on long-term debt	(680,735)	(688,160)
Payments for deferred finance costs	-	(32,881)
Capital grants and contributions received	<u>480,447</u>	<u>253,693</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,852,611)</u>	<u>(7,835,711)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,613,071)	(4,998,589)
Proceeds from sale and maturities of investments	1,835,431	4,818,925
Income on investments	133,522	184,880
Distributions received from Abben	<u>1,100,000</u>	<u>1,200,000</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,455,882</u>	<u>1,205,216</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,393,556	2,953,409
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>17,529,247</u>	<u>14,575,838</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$21,922,803</u>	<u>\$17,529,247</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:		
Cash and cash equivalents per balance sheets (Note 2):		
Current assets	\$17,002,584	\$12,808,691
Included in noncurrent assets	<u>4,920,219</u>	<u>4,720,556</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$21,922,803</u>	<u>\$17,529,247</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS - Continued
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 5,789,491	\$ 5,403,695
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,641,947	5,719,894
Equity in earnings of Abben	(1,096,141)	(1,243,230)
Equity in losses of HME	24,349	-
Components of non-operating and operating expenses reclassified for purposes of reporting cash flows:		
Scholarships awarded	(1,490)	(2,600)
(Increase) decrease in:		
Patient receivables	(500,925)	(839,464)
Other receivables	(688,702)	99,102
Inventory	(14,881)	(8,026)
Prepaid expenses	(129,314)	(52,881)
Increase (decrease) in:		
Accounts payable	451,200	64,686
Accrued salaries and wages	39,404	384,702
Payroll taxes payable	5,998	(74,670)
Estimated third-party payor settlements	46,558	114,607
Other current liabilities	<u>222,791</u>	<u>18,089</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 9,790,285</u>	 <u>\$ 9,583,904</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capital asset purchases	\$ 4,965,135	\$ 5,382,215
Decrease in construction accounts payable	<u>4,000</u>	<u>303,000</u>
 Cash paid to purchase capital assets	 <u>\$ 4,969,135</u>	 <u>\$ 5,685,215</u>

In 2010, the Hospital accrued in accounts payable \$106,220 for its investment in HME.

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 BALANCE SHEETS
 JUNE 30, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS:		
Cash (Note 2)	\$ 286,356	\$ 340,283
Patient accounts receivable, net of allowance for doubtful accounts and contractual adjustments of \$836,100 and \$762,500, respectively	293,625	307,257
Prepaid expenses	<u>152,816</u>	<u>8,380</u>
 TOTAL ASSETS	 <u>\$ 732,797</u>	 <u>\$ 655,920</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 57,052	\$ 60,008
Accounts payable to Spencer Municipal Hospital (Note 8)	<u>203,771</u>	<u>120,079</u>
TOTAL CURRENT LIABILITIES	260,823	180,087
 MEMBER'S EQUITY	 <u>471,974</u>	 <u>475,833</u>
 TOTAL LIABILITIES AND MEMBER'S EQUITY	 <u>\$ 732,797</u>	 <u>\$ 655,920</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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
NET PATIENT SERVICE REVENUE	\$3,196,496	\$3,347,943
OPERATING EXPENSES:		
Professional medical services	1,274,070	1,336,180
Medical supplies	8,739	8,351
Facility expenses	724,974	615,238
General and administrative	<u>103,651</u>	<u>156,742</u>
TOTAL OPERATING EXPENSES	<u>2,111,434</u>	<u>2,116,511</u>
OPERATING INCOME	<u>1,085,062</u>	<u>1,231,432</u>
NONOPERATING INCOME:		
Interest income	2,337	3,960
Contributions and other income	<u>8,742</u>	<u>7,838</u>
TOTAL NONOPERATING INCOME	<u>11,079</u>	<u>11,798</u>
NET INCOME	1,096,141	1,243,230
MEMBER'S EQUITY - BEGINNING OF YEAR	475,833	432,603
DISTRIBUTIONS	<u>(1,100,000)</u>	<u>(1,200,000)</u>
MEMBER'S EQUITY - END OF YEAR	<u>\$ 471,974</u>	<u>\$ 475,833</u>

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$1,096,141	\$1,243,230
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in patient accounts receivable	13,632	(65,413)
(Increase) decrease in other current assets	(144,436)	(1,375)
Increase (decrease) in accounts payable	(2,956)	21,770
Increase (decrease) in accounts payable to Spencer Municipal Hospital	<u>83,692</u>	<u>25,030</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,046,073</u>	<u>1,223,242</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions paid	<u>(1,100,000)</u>	<u>(1,200,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(1,100,000)</u>	<u>(1,200,000)</u>
 NET INCREASE (DECREASE) IN CASH	(53,927)	23,242
 CASH AT BEGINNING OF YEAR	<u>340,283</u>	<u>317,041</u>
 CASH AT END OF YEAR	<u>\$ 286,356</u>	<u>\$ 340,283</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.

Avera Home Medical Equipment of Spencer Hospital, LLC (HME) is a legally separate limited liability company that the Hospital and Avera Home Medical Equipment, LLC formed in 2010. Each member owns 50% of HME and has an equal number of voting managers on its management committee. Due to the Hospital's lack of control over HME, its investment is accounted for by using the equity method. HME was a development stage company in 2010 and has been established to sell home medical equipment in Spencer.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. An impairment loss of \$219,708 was recognized on potential construction projects that were abandoned in 2010.

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 investments in Abben and HME are 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, 2010 and 2009. The difference is attributable to goodwill which is tested for impairment on an annual basis.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 nonoperating 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 2010 and 2009, were \$430,944 and \$294,790, respectively. The costs of charity care are estimated to be \$183,000 and \$131,600 for 2010 and 2009, 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 all of its net income is attributable to the Hospital and is therefore tax exempt. As a limited liability company, Abben is subject to Financial Accounting Standards Board's, Accounting Standards Codification 740-10 (formerly FIN 48), *Accounting for Uncertainty in Income Taxes*. The standard, which applies to pass-through entities, prescribes a comprehensive model for how a company measures, recognizes, presents, and discloses in its financial statements uncertain tax positions. Based upon management's evaluation of the current facts and circumstances, no income tax liability or expense has 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 2009 financial statements have been reclassified to conform to 2010's presentation.

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

2. CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2010 and 2009 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, 2010 and 2009, Abben had uninsured bank balances of \$34,973 and \$88,805, respectively.

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, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$21,922,803	\$17,529,247
Common stocks	5,522,597	5,105,788
Real estate	<u>838,964</u>	<u>781,364</u>
TOTAL CASH AND INVESTMENTS	<u>\$28,284,364</u>	<u>\$23,416,399</u>

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

	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$17,002,584	\$12,808,691
Investments - common stocks	<u>5,522,597</u>	<u>5,105,788</u>
Subtotal	<u>22,525,181</u>	<u>17,914,479</u>
Noncurrent cash and investments:		
Cash and cash equivalents	4,920,219	4,720,556
Real estate	<u>838,964</u>	<u>781,364</u>
Subtotal	<u>5,759,183</u>	<u>5,501,920</u>
TOTAL CASH AND INVESTMENTS	<u>\$28,284,364</u>	<u>\$23,416,399</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, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Common stocks	\$ 305,719	\$ (128,639)
Real estate	<u>578,494</u>	<u>520,894</u>
Net unrealized gain	<u>\$ 884,213</u>	<u>\$ 392,255</u>

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

2. CASH AND INVESTMENTS - Continued

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 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, 2010 and 2009 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>2010</u>	<u>2009</u>
Gross patient service revenue - at established rates .	\$128,053,570	\$116,234,309
Adjustments:		
Medicare program	41,214,170	36,263,965
Medicaid program	6,137,689	5,719,332
Blue Cross/Wellmark	13,223,925	11,803,278
Other payors	3,930,740	3,612,451
Charity care	430,944	294,790
Total Adjustments	<u>64,937,468</u>	<u>57,693,816</u>
Net Patient Service Revenue	<u>\$ 63,116,102</u>	<u>\$ 58,540,493</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 2010 and 2009 is as follows:

	Year Ended June 30, 2010				
	Beginning Balance	Additions	Impairment Losses	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:					
Land	\$ 2,011,733	\$ -	\$ -	\$ -	\$ 2,011,733
Construction in progress	<u>469,827</u>	<u>4,005,087</u>	<u>(219,708)</u>	<u>(2,882,576)</u>	<u>1,372,630</u>
Total capital assets not being depreciated	<u>2,481,560</u>	<u>4,005,087</u>	<u>(219,708)</u>	<u>(2,882,576)</u>	<u>3,384,363</u>
Other capital assets:					
Land improvements	1,321,339	208,092	-	3,564	1,532,995
Buildings	45,965,978	335,742	-	116,199	46,417,919
Fixed equipment	8,361,702	-	-	97,720	8,459,422
Major moveable equipment	<u>35,937,314</u>	<u>416,214</u>	<u>-</u>	<u>1,281,232</u>	<u>37,634,760</u>
Total other capital assets	<u>91,586,333</u>	<u>960,048</u>	<u>-</u>	<u>1,498,715</u>	<u>94,045,096</u>
Total capital assets	<u>94,067,893</u>	<u>4,965,135</u>	<u>(219,708)</u>	<u>(1,383,861)</u>	<u>97,429,459</u>
Less accumulated depreciation for:					
Land improvements	694,019	89,290	-	-	783,309
Buildings	12,763,033	1,619,814	-	-	14,382,847
Fixed equipment	6,011,700	311,877	-	-	6,323,577
Major moveable equipment	<u>22,797,462</u>	<u>3,620,966</u>	<u>-</u>	<u>(1,380,999)</u>	<u>25,037,429</u>
Total accumulated depreciation	<u>42,266,214</u>	<u>5,641,947</u>	<u>-</u>	<u>(1,380,999)</u>	<u>46,527,162</u>
CAPITAL ASSETS - NET	<u>\$51,801,679</u>	<u>\$ (676,812)</u>	<u>\$(219,708)</u>	<u>\$ (2,862)</u>	<u>\$50,902,297</u>

	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

5. LONG-TERM DEBT

The Hospital's long-term debt activity as of and for the years ended June 30, 2010 and 2009 is as follows:

	June 30, <u>2009</u>	<u>Payments</u>	June 30, <u>2010</u>	Due Within <u>One Year</u>
Hospital Revenue Bonds Series 2008 A (A)	\$ 7,556,333	\$ (656,875)	\$ 6,899,458	\$ 686,023
Hospital Revenue Bonds Series 2008 B (B)	6,060,708	(507,416)	5,553,292	534,284
2007 Hospital Revenue Bonds (C)	<u>1,885,040</u>	<u>(520,497)</u>	<u>1,364,543</u>	<u>540,908</u>
	<u>\$15,502,081</u>	<u>\$(1,684,788)</u>	<u>\$13,817,293</u>	<u>\$1,761,215</u>

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

(A) The Series 2008A bonds are payable in monthly principal and interest payments of \$81,049 at a fixed interest rate of 4.29% through December 2018.

(B) The Series 2008B bonds are payable in monthly principal and interest payments of \$67,410 at a fixed interest rate of 5.10% through December 2018.

(C) The 2007 revenue bonds are payable in 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>
2011	\$ 1,761,215	\$ 602,595	\$ 2,363,810
2012	1,841,543	523,980	2,365,523
2013	1,600,329	442,862	2,043,191
2014	1,405,121	376,389	1,781,510
2015	1,472,821	308,688	1,781,509
2016 - 2019	<u>5,736,264</u>	<u>499,040</u>	<u>6,235,304</u>
TOTAL	<u>\$13,817,293</u>	<u>\$2,753,554</u>	<u>\$16,570,847</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. 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 \$2,365,523 and \$9,519,717, respectively. The bond proceeds have been used to finance building additions, building improvements, and purchase medical equipment.

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

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 4.30% of their annual covered salary and the Hospital is required to contribute 6.65% of annual covered payroll for 2010. For 2009 and 2008, the member contribution rates were 4.10% and 3.90%, and the Hospital contribution rates were 6.35% and 6.05%, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for 2010, 2009, and 2008 were \$1,404,054, \$1,277,726, and \$1,209,171, respectively, equal to the required contributions for each year.

7. OTHER POSTEMPLOYMENT BENEFITS

The Hospital has implemented Governmental Accounting Standards Board, GASB, Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2010. The Hospital operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 462 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefit plans are self-insured and are administered by a third party. Retirees under age 65 pay 100% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit, (OPEB), liability. The contribution requirements of the plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

The Hospital's annual OPEB cost is calculated based on the annual required contribution, (ARC), of the Hospital, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for June 30, 2010, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	\$ 79,783
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>79,783</u>
Contributions made	<u>12,316</u>
Increase in net OPEB obligation	67,467
Net OPEB obligation - beginning of year	<u>-</u>
 Net OPEB obligation - end of year	 <u>\$ 67,467</u>

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

7. OTHER POSTEMPLOYMENT BENEFITS - Continued

For calculation of the net OPEB obligation, the actuary has set the transition date as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the Hospital contributed \$12,316 to the plan. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	<u>\$ 79,783</u>	<u>15%</u>	<u>\$ 67,467</u>

As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$662,439 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, (UAAL), of \$662,439. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$17,710,000, and the ratio of the UAAL to the covered payroll was 3.7%. As of June 30, 2010, there were no trust fund assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Following is a Schedule Funding Progress for the Plan for the initial year of adoption of GASB Statement No. 45:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2009	<u>\$ -</u>	<u>\$662,439</u>	<u>\$662,439</u>	<u>0%</u>	<u>\$17,710,000</u>	<u>3.7%</u>

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

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

7. OTHER POSTEMPLOYMENT BENEFITS - Continued

As of the July 1, 2009 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the Hospital's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The Hospital's trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the Actuary's Pension Handbook.

Projected claim costs of the medical plan are approximately \$1,100 per month for retirees. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

8. 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 \$4.4 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 \$586,764 and \$534,148 at June 30, 2010 and 2009, 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

9. 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 \$341,745 and \$227,456 during 2010 and 2009, 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>2010</u>	<u>2009</u>
Personnel service fees for benefits and expenses	\$ <u>160,488</u>	\$ <u>198,064</u>
Leased employees' salaries	\$ <u>408,303</u>	\$ <u>446,218</u>
Building and equipment rental income	\$ <u>582,476</u>	\$ <u>430,123</u>

At June 30, 2010 and 2009, the Hospital's receivable from Abben was \$203,771 and \$120,079, 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 \$29,798 and \$48,546 in 2010 and 2009, respectively, on accounts held at this financial institution.

The Hospital purchased supplies of \$6,508 and \$7,094 from a company owned in part by a Hospital trustee in 2010 and 2009, respectively.

The Hospital incurred farm management fees of \$5,995 and \$4,117 from a company owned in part by a Hospital trustee in 2010 and 2009, respectively.

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

10. 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 2010 and 2009 was \$427,196 and \$426,647, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 412,514
2012	384,247
2013	371,602
2014	<u>59,826</u>
TOTAL	<u>\$1,228,189</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 expired at various dates through 2008, but they do have optional renewal clauses (which were exercised) and annual rental increase clauses to recover increased expenses. The rental income under the agreements for 2010 and 2009 was \$452,924 and \$459,606, 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>
2011	\$ 464,154
2012	464,154
2013	335,674
2014	<u>171,989</u>
TOTAL	<u>\$1,435,971</u>

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

	<u>2010</u>	<u>2009</u>
Medical office building	\$ 3,342,291	\$ 3,313,806
Medical clinic equipment	243,808	235,771
Abben building	2,543,163	2,543,163
Abben equipment	<u>4,001,597</u>	<u>4,001,597</u>
Total property and equipment	10,130,859	10,094,337
Less accumulated depreciation	<u>2,762,728</u>	<u>2,664,376</u>
Net property and equipment	<u>\$ 7,368,131</u>	<u>\$ 7,429,961</u>

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

11. COMMITMENTS

The Hospital has entered into various agreements that have committed the Hospital to future payments. The commitments include construction agreements and projects, binding purchase orders, supplemental payments to physicians' groups, equipment maintenance agreements, and physician recruiting agreements. As of June 30, 2010, the total amount expected to be paid on these commitments is approximately \$2,900,000 with the majority to be paid in 2011.

**SPENCER MUNICIPAL HOSPITAL
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010**

**SPENCER MUNICIPAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE AND RELATED NOTES
FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts				Actual	Final to Actual Variance
	<u>Original</u>	<u>Amended</u>	<u>GAAP Adjustment</u>	<u>GAAP Budget</u>		
Operating revenues	\$60,933,000	\$66,433,000	\$ -	\$66,433,000	\$67,111,391	\$ 678,391
Operating expenditures ..	<u>59,010,000</u>	<u>61,680,000</u>	<u>(699,000)</u>	<u>60,981,000</u>	<u>61,321,900</u>	<u>(340,900)</u>
Operating income	1,923,000	4,753,000	699,000	5,452,000	5,789,491	337,491
Other nonoperating changes in net assets ..	<u>325,000</u>	<u>1,995,000</u>	<u>(699,000)</u>	<u>1,296,000</u>	<u>401,233</u>	<u>(894,767)</u>
Changes in Net Assets	<u>\$ 2,248,000</u>	<u>\$ 6,748,000</u>	<u>\$ -</u>	<u>\$ 6,748,000</u>	<u>\$ 6,190,724</u>	<u>\$(557,276)</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. The Hospital classifies interest expenses on a budget basis different from generally accepted accounting principles (GAAP). Interest expense is classified as an operating expense for the budget but is classified as a nonoperating expense for GAAP.

For 2010, the Hospital's expenditures did exceed the amount budgeted.

**SPENCER MUNICIPAL HOSPITAL
SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010				2009	
	Inpatient	Outpatient	Skilled Care	Home Health	Total	Total
DAILY PATIENT SERVICE:						
Medical and surgery.....	\$ 6,096,841	\$ 439,549	\$ -	\$ -	\$ 6,536,390	\$ 6,211,285
Mental health.....	3,132,741	-	-	-	3,132,741	3,065,230
Nursery.....	401,100	-	-	-	401,100	432,808
Intensive care.....	1,403,089	-	-	-	1,403,089	1,267,704
Skilled care.....	-	-	694,615	-	694,615	631,182
TOTAL DAILY PATIENT SERVICES	11,033,771	439,549	694,615	-	12,167,935	11,608,209
OTHER NURSING SERVICES:						
Partial hospitalization.....	-	259,877	-	-	259,877	302,901
Same day surgery.....	5,056	1,580,285	-	-	1,585,341	1,437,176
Intravenous therapy.....	926,291	817,045	92,644	-	1,835,980	1,793,708
Delivery and labor rooms.....	865,482	447,222	-	-	1,312,704	1,210,803
Operating rooms.....	6,693,267	19,215,370	6,420	-	25,915,057	21,787,121
Post anesthesia care unit.....	851,179	2,524,828	4,067	-	3,380,074	3,102,814
Emergency service.....	2,008,792	4,875,476	728	-	6,884,996	6,563,391
Medical supplies.....	13,406,778	6,206,254	17,395	1,222	19,631,649	17,678,181
Medical oncology.....	-	1,828,013	-	-	1,828,013	1,420,358
TOTAL OTHER NURSING SERVICES	24,756,845	37,754,370	121,254	1,222	62,633,691	55,296,453
OTHER PROFESSIONAL SERVICES:						
Respiratory therapy.....	688,244	38,508	84,251	-	811,003	805,230
Ambulance.....	-	1,507,359	-	-	1,507,359	1,349,180
Laboratory.....	2,658,176	3,597,094	112,807	-	6,368,077	6,052,335
Blood bank.....	177,954	85,037	4,766	-	267,757	204,961
Electrocardiology.....	520,674	877,165	9,561	-	1,407,400	1,389,957
Electroencephalography.....	3,300	19,143	-	-	22,443	24,519
Radiology.....	1,001,157	3,805,589	33,152	-	4,839,898	4,551,025
Ultrasound.....	196,662	1,697,329	6,738	-	1,900,729	1,809,758
Stereotactic biopsy.....	120	299,797	-	-	299,917	356,492

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE - Continued
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010				2009	
	Inpatient	Outpatient	Skilled Care	Home Health	Total	Total
OTHER PROFESSIONAL SERVICES- Continued:						
CT scan.....	\$ 1,001,671	\$ 4,908,750	\$ 21,542	\$ -	\$ 5,931,963	\$ 5,632,443
MRI.....	234,345	2,384,085	3,484	-	2,621,914	2,468,813
Nuclear medicine.....	41,424	860,145	-	-	901,569	981,961
Radiation oncology.....	28,726	-	18,970	-	47,696	83,709
Pharmacy.....	3,433,017	10,393,535	389,822	13	14,216,387	12,069,031
Therapy pool.....	-	267,292	-	-	267,292	221,642
Anesthesiology.....	654,396	1,144,792	636	-	1,799,824	1,697,332
Physical therapy.....	470,721	1,074,750	128,376	35,339	1,709,186	1,481,666
Speech therapy.....	16,166	224,290	6,962	251	247,669	296,978
Enterostomal service.....	28,540	179,038	11,304	-	218,882	195,074
Occupational therapy.....	275,509	340,666	74,189	4,042	694,406	704,257
Pulmonary function testing.....	3,648	158,083	-	-	161,731	116,980
Sleep study.....	1,796	710,853	-	-	712,649	666,383
Pulmonary rehab.....	-	63,586	-	-	63,586	60,074
Cardiac rehab.....	-	219,466	-	-	219,466	173,532
Dialysis - Spencer.....	6,837	1,352,687	-	-	1,359,524	1,412,319
Dialysis - Spirit Lake.....	-	2,040,593	-	-	2,040,593	1,902,583
Home health:						
Registered nurse care.....	-	-	-	709,716	709,716	726,231
Aides care.....	-	-	-	548,280	548,280	508,815
County assistance.....	-	-	-	100,000	100,000	100,000
Other care.....	-	-	-	1,255,028	1,255,028	1,286,367
TOTAL OTHER PROFESSIONAL SERVICES	11,443,083	38,249,632	906,560	2,652,669	53,251,944	49,329,647
TOTAL GROSS PATIENT SERVICE REVENUE	\$ 47,233,699	\$ 76,443,551	\$ 1,722,429	\$ 2,653,891	\$ 128,053,570	\$ 116,234,309

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
NET PATIENT SERVICE REVENUE
AND OTHER OPERATING REVENUE
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
GROSS PATIENT SERVICE REVENUE (Schedule 1).....	\$ 128,053,570	\$ 116,234,309
ADJUSTMENTS TO PATIENT SERVICE REVENUE:		
Medicare program.....	41,214,170	36,263,965
Medicaid program.....	6,137,689	5,719,332
Blue Cross / Wellmark.....	13,223,925	11,803,278
Other payors.....	3,930,740	3,612,451
Charity care.....	430,944	294,790
TOTAL ADJUSTMENTS TO PATIENT SERVICE REVENUE	<u>64,937,468</u>	<u>57,693,816</u>
NET PATIENT SERVICE REVENUE	<u>\$ 63,116,102</u>	<u>\$ 58,540,493</u>
OTHER OPERATING REVENUE:		
Abben fees:		
Personnel services.....	\$ 160,488	\$ 198,064
Building and equipment rental.....	582,476	430,123
Ag health and safety clinic.....	47,589	66,480
Athletic enhancement.....	85,814	87,488
Auxiliary income.....	23,638	28,044
Billing fee revenue	32,140	25,509
Cafeteria sales.....	310,019	287,835
Diagnostic imaging storage.....	18,295	1,504
Earnings (loss) of home medical equipment company	(24,349)	-
Education programs.....	90,073	68,069
Employee health.....	5,756	8,775
Immunizations	60,168	61,200
Laboratory client billing.....	48,001	44,307
Lifeline.....	173,388	169,871
Medical record transcripts.....	23,724	20,896
Miscellaneous.....	67,860	68,751
Outreach services:		
Enterostomal therapy.....	96,756	100,372
Speech therapy.....	34,729	25,128
Occupational therapy.....	73,818	55,865
Physical therapy.....	153,455	175,909
Pharmacy services, net	(262)	21,064
Purchase discounts.....	9,079	11,867
Salary reimbursements:		
Sports medicine.....	47,732	36,925
Other.....	66,670	70,079
Steam sold.....	6,017	7,665
TOTAL OTHER OPERATING REVENUE	<u>\$ 2,193,074</u>	<u>\$ 2,071,790</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	Salaries		Professional Services		Supplies and Other Expenses	
	2010	2009	2010	2009	2010	2009
Clinical resources.....	\$ 333,618	\$ 307,012	\$ 726	\$ 71,340	\$ 2,734	\$ 4,890
Medical and surgery.....	2,106,830	2,020,510	50,923	34,991	173,257	172,903
Obstetrics.....	533,956	542,840	342	403	44,996	48,167
Mental health.....	818,248	788,801	10,084	7,075	20,943	28,621
Intensive care.....	499,064	473,249	86,982	85,318	34,374	33,389
Intravenous therapy.....	-	-	-	-	53,949	42,206
Operating room.....	1,107,453	1,092,184	436,748	493,550	945,243	1,147,228
Post anesthesia care unit.....	305,328	326,806	-	-	165,255	101,670
Emergency service.....	772,432	712,941	1,268,504	1,215,452	80,671	71,497
Central sterilization.....	117,010	141,895	-	-	190,791	173,828
Service aide.....	36,455	34,183	788	-	-	-
Same day surgery.....	837,716	827,424	358	170	50,852	50,828
Home health.....	931,113	906,447	6,686	7,903	68,422	66,134
Hospice.....	151,960	155,742	119,049	96,466	13,073	14,184
Enterostomal service.....	103,688	99,623	-	1,479	19,915	21,845
Dialysis - Spencer.....	292,011	318,893	51,599	16,112	105,389	105,794
Dialysis - Spirit Lake.....	268,895	258,100	92,931	54,417	219,799	200,862
Partial hospitalization.....	41,749	37,735	-	44	2,348	2,761
Medical oncology.....	269,875	232,316	207,100	51,200	24,067	17,372
Respiratory therapy.....	277,702	232,500	1,548	174,492	70,253	59,206
Laboratory.....	682,910	639,812	210,105	176,155	416,359	409,122
Blood bank.....	-	-	-	-	219,864	169,287
Electrocardiology.....	77,455	71,146	73,051	66,599	-	48

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	Salaries		Professional Services		Supplies and Other Expenses	
	2010	2009	2010	2009	2010	2009
Electroencephalography.....	\$ -	-	\$ 1,295	7,215	\$ 1	\$ -
Radiology.....	504,278	524,659	2,985	8,684	364,031	340,513
Ultrasound.....	152,375	146,367	-	-	45,758	42,706
Stereotactic biopsy.....	-	-	80,075	104,415	112	-
MRI.....	65,652	67,414	-	-	162,630	152,008
Athletic enhancement.....	74,914	73,137	498	501	7,580	8,278
Nuclear medicine.....	105,023	99,795	-	555	190,712	154,567
Pharmacy.....	943,186	815,794	94,511	200,693	34,898	44,200
Anesthesiology.....	52,189	55,650	-	-	154,421	135,342
Physical therapy.....	604,688	581,970	160	544	29,411	37,317
Ambulance.....	497,445	489,599	1,718	-	81,373	86,049
Social services.....	134,264	159,224	-	-	743	405
Cardiac rehabilitation.....	110,616	110,492	-	-	8,508	9,785
Medical records.....	548,522	526,308	108,467	101,023	100,357	95,923
CT scan.....	164,959	162,045	69,310	69,435	135,977	203,272
Occupational therapy.....	260,155	265,141	1,275	406	15,400	14,168
Infection control.....	63,115	54,640	-	-	1,372	1,819
Speech therapy.....	101,351	119,158	-	269	7,106	6,519
AG health and safety clinic.....	37,750	37,783	-	79	29,774	41,096
Sleep studies.....	80,499	48,615	6,570	119,395	15,657	16,590
Sports medicine.....	16,019	15,520	324,500	308,500	69,756	70,720
Lifeline.....	36,863	29,747	77,839	75,291	1,571	25,325

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	Salaries		Professional Services		Supplies and Other Expenses	
	2010	2009	2010	2009	2010	2009
Therapy pool.....	\$ -	\$ -	\$ 140	\$ -	\$ 4,323	\$ 2,735
Plant.....	499,311	493,750	5,330	12,042	415,403	326,834
Utilities.....	-	-	-	-	831,273	902,962
Housekeeping.....	522,184	512,289	47,193	24,314	77,676	73,019
Laundry.....	113,861	117,989	11,554	19,368	49,420	45,181
Nutrition services.....	661,624	627,117	108,558	2,512	511,114	452,868
Valet.....	48,696	42,072	19,164	24,976	2,794	9,990
General accounting.....	280,021	262,228	7,143	5,622	22,131	19,775
Human resources.....	230,792	155,391	1,069	958	92,809	174,743
Patient accounts.....	681,538	655,031	209,720	203,260	79,955	85,256
Information systems.....	496,564	439,616	12,663	10,670	504,592	411,733
Administration.....	905,469	989,815	461,174	183,496	599,209	683,006
Materials management.....	137,513	132,333	4,050	5,277	43,945	40,456
Communications.....	-	-	3,169	2,606	106,543	120,607
Central supply.....	71,529	62,977	-	-	5,281,608	4,376,784
Printing and duplicating.....	15,209	20,780	-	-	136,182	124,738
Insurance.....	-	-	-	-	265,734	264,841
Staff development.....	194,184	187,323	15,988	11,395	32,293	35,991
Medical care evaluation.....	373,414	429,949	149,168	65,279	17,812	19,426
PET/CT scan.....	-	-	123,750	90,425	-	5
Women's health.....	39,150	37,106	-	-	2,919	4,341
SHAPE	129,346	141,869	-	-	1,970	9,648
TOTAL	\$ 20,519,736	\$ 19,910,852	\$ 4,566,560	\$ 4,212,371	\$ 13,459,407	\$ 12,613,383

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
 PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
 FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
 UNAUDITED

PATIENT RECEIVABLES ANALYSIS OF AGING:

	2010		2009	
	Amount	Percent To Total	Amount	Percent To Total
DAYS SINCE DISCHARGE:				
00 - 30.....	\$ 6,948,112	42.32%	\$ 5,823,906	38.01%
31 - 60.....	2,010,569	12.25%	1,490,211	9.74%
61 - 90.....	828,064	5.04%	800,332	5.22%
91 - 120.....	565,821	3.45%	578,294	3.77%
Over 120.....	1,490,380	9.08%	1,555,080	10.15%
Clinic receivables.....	142,489	0.87%	210,472	1.37%
TOTAL RECEIVABLES BILLED	11,985,435	73.01%	10,458,295	68.26%
In Hospital.....	4,430,681	26.99%	4,863,796	31.74%
TOTAL PATIENT RECEIVABLES	16,416,116	100.00%	15,322,091	100.00%
Allowance for doubtful accounts.....	(2,055,000)		(2,044,000)	
Allowance for contractual adjustments.....	(7,025,000)		(6,426,000)	
Clinic allowance for contractual adjustments ...	(54,200)		(71,100)	
TOTAL ADJUSTMENTS	(9,134,200)		(8,541,100)	
PATIENT RECEIVABLES - NET	\$ 7,281,916		\$ 6,780,991	

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	2010	2009
BALANCE - BEGINNING OF YEAR	\$ 2,044,000	\$ 1,944,000
Provision charged to expense.....	2,200,668	2,400,195
Accounts written off.....	(2,918,257)	(2,956,225)
Recoveries of accounts previously written off.....	728,589	656,030
BALANCE - END OF YEAR	\$ 2,055,000	\$ 2,044,000

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVENTORY AND PREPAID EXPENSES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
INVENTORY:		
Store room.....	\$ 498,738	\$ 482,113
Nutrition services.....	20,597	16,690
Laboratory.....	94,003	96,589
Laundry.....	6,646	10,377
Pharmacy.....	508,593	530,055
Radiology.....	17,109	19,840
Surgery.....	1,046,473	1,018,042
Other departments.....	<u>46,018</u>	<u>49,590</u>
 TOTALS	 <u>\$ 2,238,177</u>	 <u>\$ 2,223,296</u>
 PREPAID EXPENSES:		
Service contracts.....	\$ 590,617	\$ 462,910
Association dues.....	36,597	36,111
Fees and licenses.....	1,305	1,215
Insurance.....	<u>17,916</u>	<u>16,885</u>
 TOTALS	 <u>\$ 646,435</u>	 <u>\$ 517,121</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVESTMENT TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 2010

	Balances Beginning of Year	Additions During the Year	Sales During the Year	Realized & Unrealized Gains (Losses)	Balances End of Year
Common stocks.....	\$ 5,105,788	\$ 1,613,071	\$ (1,835,431)	\$ 639,169	\$ 5,522,597
Real estate.....	781,364	-	-	57,600	838,964
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 5,887,152</u>	<u>\$ 1,613,071</u>	<u>\$ (1,835,431)</u>	<u>\$ 696,769</u>	<u>\$ 6,361,561</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
COMPARATIVE STATISTICS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
UNAUDITED

	<u>2010</u>	<u>2009</u>
Admissions:		
Medical/surgery, obstetrics & intensive care.....	2,605	2,180
Mental health unit.....	481	479
Swing bed and inn care.....	246	250
Newborns.....	<u>276</u>	<u>300</u>
TOTAL	<u>3,608</u>	<u>3,209</u>
Discharges:		
Medical/surgery, obstetrics & intensive care.....	2,553	2,447
Mental health unit.....	480	482
Swing bed and inn care.....	261	249
Newborns.....	<u>279</u>	<u>298</u>
TOTAL	<u>3,573</u>	<u>3,476</u>
Patient days:		
Medical/surgery, obstetrics & intensive care.....	8,690	8,568
Mental health unit.....	3,489	3,610
Swing bed and inn care.....	1,817	1,597
Newborns.....	<u>599</u>	<u>677</u>
TOTAL	<u>14,595</u>	<u>14,452</u>
Average length of stay (days):		
Medical/surgery, obstetrics & intensive care.....	3.34	3.93
Mental health unit.....	7.25	7.54
Swing bed and inn care.....	7.39	6.39
Newborns.....	2.17	2.26
Average number of patients per day:		
Medical/surgery, obstetrics & intensive care.....	23.81	23.47
Mental health unit.....	9.56	9.89
Swing bed and inn care.....	4.98	4.38
Newborns.....	1.64	1.85
Outpatient registrations.....	<u>40,071</u>	<u>39,833</u>
Licensed beds at end of year.....	<u>99</u>	<u>99</u>

See Independent Auditors' Report.

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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, 2010 and 2009, and have issued our report thereon dated October 11, 2010. 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, 2010 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.

Wintell, Stans & Co., LLP

October 11, 2010

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Part I: Findings Related to the Primary Government Financial Statements

None

Part II: Other Findings Related to Required Statutory Reporting

II-A-10 Certified Budget

For the year ended June 30, 2010, the Hospital's expenditures did exceed the amount budgeted.

II-B-10 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-10 Travel Expense

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

II-D-10 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	\$29,798
Kris Van Berkum, Board member Co-owner JCL Solutions	Purchase of cleaning supplies	\$ 6,508
John Cotton, Board member Co-owner Cotton Grave Farm Management & Realty	Farm management fees	\$ 5,995

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, 2010

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

II-E-10 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-10 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.