

**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, 2011 AND 2010**

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
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SPENCER MUNICIPAL HOSPITAL
BOARD OF TRUSTEES AND OFFICIALS
JUNE 30, 2011

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), an enterprise fund of the City of Spencer, Iowa, as of June 30, 2011 and 2010, 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, 2011 and 2010, 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 United States of America 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, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2011 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 9 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 Hospital's basic financial statements. The supplemental information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the 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, Stave & Co., LLP

September 22, 2011

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, 2011 and 2010. 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 or property tax revenues 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 2011

- Total assets increased by \$3,707,880 to \$95,109,223.
- Net assets increased by \$6,285,582.
- Total noncurrent cash and investments increased by \$451,041.
- Total liabilities decreased by \$2,577,702.
- The operating margin for fiscal year 2011 was 7.08%.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

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%.

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.

Assets, Liabilities, and Net Assets

A summary of the Hospital's balance sheets at June 30, 2011, 2010, and 2009 are presented in Table 1 below:

Table 1 (in thousands)

Condensed Balance Sheets	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$47,117	\$40,499	\$34,232
Capital assets	<u>47,992</u>	<u>50,902</u>	<u>51,801</u>
TOTAL ASSETS	<u>\$95,109</u>	<u>\$91,401</u>	<u>\$86,033</u>
Current liabilities	\$ 8,040	\$ 8,778	\$ 7,843
Long-term debt outstanding	<u>10,216</u>	<u>12,056</u>	<u>13,814</u>
TOTAL LIABILITIES	<u>\$18,256</u>	<u>\$20,834</u>	<u>\$21,657</u>
Invested in capital assets - net of related debt	\$36,017	\$37,179	\$36,406
Restricted	1,624	1,375	1,316
Unrestricted	<u>39,212</u>	<u>32,013</u>	<u>26,654</u>
TOTAL NET ASSETS	<u>\$76,853</u>	<u>\$70,567</u>	<u>\$64,376</u>

Net assets increased by \$6,285,582 to \$76,852,525 in fiscal year 2011. Net assets increased by \$6,190,724 to \$70,566,943 in fiscal year 2010. 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, 2011, 2010, and 2009.

Table 2 (in thousands)

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

	Year Ended June 30,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$67,676	\$67,111	\$62,631
Operating expenses	<u>62,881</u>	<u>61,322</u>	<u>57,227</u>
Operating income	4,795	5,789	5,404
Nonoperating income (loss)	<u>1,453</u>	<u>(79)</u>	<u>(2,400)</u>
Excess of revenues over expenses before contributions	6,248	5,710	3,004
Contributions	<u>38</u>	<u>481</u>	<u>254</u>
Change in net assets	6,286	6,191	3,258
Total net assets - beginning of year	<u>70,567</u>	<u>64,376</u>	<u>61,118</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$76,853</u>	<u>\$70,567</u>	<u>\$64,376</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, 2011, 2010, and 2009.

Volume - Volume statistics are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Inpatient discharges	3,366	3,573	3,476
Inpatient days	13,385	14,595	14,452
Outpatient registrations	41,122	40,071	39,833

Net Patient Service Revenue - Our net patient service revenues increased \$906,688 in 2011 and increased \$4,575,609 in 2010. 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>2011</u>	<u>2010</u>	<u>2009</u>
Total patient service revenues	\$133,293,147	\$128,053,570	\$116,234,309
Contractual adjustments	(69,270,357)	(64,937,468)	(57,693,816)
Contractual adjustment as percent of revenues	<u>52.0%</u>	<u>50.7%</u>	<u>49.6%</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, 2011, 2010, and 2009.

Table 3

Payor Mix by Percentage

	Year Ended June 30,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Medicare	49.14%	50.00%	49.87%
Wellmark/Blue Cross/Blue Shield	25.94	25.19	25.16
Managed Care/Commercial	9.87	10.21	10.69
Medicaid	8.07	7.39	7.60
All other	<u>6.98</u>	<u>7.21</u>	<u>6.68</u>
TOTAL	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Salaries - Salaries increased by \$481,389 in 2011 and \$608,884 in 2010. For the fiscal year ended June 30, 2011, the Hospital employed a total of 457 full-time equivalent employees, compared to 458 in 2010 and 454 in 2009. 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 decreased by \$165,868 in 2011 and increased by \$950,937 in 2010. 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, 2011, the Hospital had \$100,239,120 invested in capital assets as shown in Table 4. The \$2,809,661 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 the remodel of the medical oncology department, software for mandated electronic health records, and remodeling of the medical office building.

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.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table summarizes the Hospital's capital assets as of June 30, 2011, 2010, and 2009.

Table 4

Capital Assets (in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 2,011	\$ 2,011	\$ 2,011
Land improvements	1,537	1,533	1,321
Buildings	47,523	46,418	45,966
Fixed equipment	8,552	8,459	8,362
Major movable equipment	40,462	37,635	35,937
Construction in progress	<u>154</u>	<u>1,373</u>	<u>470</u>
Subtotal	100,239	97,429	94,067
Less accumulated depreciation	<u>52,247</u>	<u>46,527</u>	<u>42,266</u>
 CAPITAL ASSETS - NET	 <u>\$ 47,992</u>	 <u>\$ 50,902</u>	 <u>\$ 51,801</u>

Long-Term Debt and Capital Leases

At June 30, 2011, the Hospital had a balance of \$9,954,761 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 \$261,554 at June 30, 2011. Total long-term debt (net of current portion) was \$10,216,315 as of June 30, 2011. 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 56.0% and 57.9% of the Hospital's total liabilities as of June 30, 2011 and 2010, respectively.

Performance Compared to Budget

The following table compares fiscal year 2011 actual to budget information for the statement of revenues, expenses, and changes in net assets.

Table 5

Budget vs. Actual (in thousands)

	FY 2011	FY 2011	Dollar
	<u>Budget</u>	<u>Actual</u>	Variance
			Favorable
			(Unfavorable)
Operating revenues	\$71,787	\$67,676	\$ (4,111)
Operating expenditures	<u>66,796</u>	<u>62,881</u>	<u>3,915</u>
Operating income	4,991	4,795	(196)
Other nonoperating changes in net assets	<u>839</u>	<u>1,491</u>	<u>652</u>
 Excess of revenues over expenses	 <u>\$ 5,830</u>	 <u>\$ 6,286</u>	 <u>\$ 456</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 2011 budget. Of primary importance in setting the 2012 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

Community Contribution

During fiscal years 2011 and 2010, the Hospital contributed much to the community. Charity care and uncompensated care totaled \$3,120,434 and \$2,631,612, 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, support groups, 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, 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, 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, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 21,328,567	\$ 17,002,584
Patient receivables - net of allowance for doubtful accounts and contractual adjustments of \$9,726,700 and \$9,134,200, respectively (Note 4)	7,258,053	7,281,916
Other receivables (Note 10)	1,194,951	1,143,922
Investments (Note 2)	6,958,453	5,522,597
Inventories	2,554,632	2,238,177
Prepaid expenses	<u>718,366</u>	<u>646,435</u>
TOTAL CURRENT ASSETS	<u>40,013,022</u>	<u>33,835,631</u>
NONCURRENT CASH AND INVESTMENTS (Note 2):		
Internally designated for capital improvements	4,586,749	4,384,225
Principal of permanent endowments	1,426,179	1,179,802
Restricted by donors for operations	<u>197,296</u>	<u>195,156</u>
TOTAL NONCURRENT CASH AND INVESTMENTS	<u>6,210,224</u>	<u>5,759,183</u>
CAPITAL ASSETS (Notes 5, 11, and 12):		
Land	2,011,733	2,011,733
Construction in progress	153,843	1,372,630
Depreciable property, plant, and equipment	<u>98,073,544</u>	<u>94,045,096</u>
TOTAL CAPITAL ASSETS	100,239,120	97,429,459
Less accumulated depreciation	<u>52,247,136</u>	<u>46,527,162</u>
CAPITAL ASSETS - NET	<u>47,991,984</u>	<u>50,902,297</u>
OTHER ASSETS:		
Investment in Abben (Notes 10 and 11)	795,840	728,440
Investment in home medical equipment co. (Note 1)	16,694	81,871
Deferred finance costs - net of accumulated amortization of \$69,570 and \$57,108, respectively	<u>81,459</u>	<u>93,921</u>
TOTAL OTHER ASSETS	<u>893,993</u>	<u>904,232</u>
TOTAL ASSETS	<u>\$ 95,109,223</u>	<u>\$ 91,401,343</u>

SPENCER MUNICIPAL HOSPITAL
BALANCE SHEETS - Continued
JUNE 30, 2011 AND 2010

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 6)	\$ 1,839,763	\$ 1,761,215
Accounts payable	1,492,753	2,115,005
Accrued salaries and wages	3,013,224	3,041,798
Payroll taxes payable	215,002	66,691
Estimated third-party payor settlements (Note 3)	592,680	804,626
Other current liabilities (Note 9)	<u>886,961</u>	<u>988,987</u>
TOTAL CURRENT LIABILITIES	8,040,383	8,778,322
 LONG-TERM DEBT - NET OF CURRENT PORTION (Note 6)	 <u>10,216,315</u>	 <u>12,056,078</u>
TOTAL LIABILITIES	 <u>18,256,698</u>	 <u>20,834,400</u>
 NET ASSETS:		
Invested in capital assets, net of related debt	36,017,365	37,178,925
Restricted by donor - nonexpendable	1,426,179	1,179,802
Restricted by donor - expendable	197,296	195,156
Unrestricted	<u>39,211,685</u>	<u>32,013,060</u>
TOTAL NET ASSETS	<u>76,852,525</u>	<u>70,566,943</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 95,109,223</u>	 <u>\$ 91,401,343</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:		
Net patient service revenue (Note 3)	\$ 64,022,790	\$ 63,116,102
Abben Cancer Center net earnings	917,400	1,096,141
Clinic revenue	544,050	706,074
Other operating revenues	<u>2,191,991</u>	<u>2,193,074</u>
TOTAL OPERATING REVENUES	<u>67,676,231</u>	<u>67,111,391</u>
OPERATING EXPENSES:		
Salaries	21,001,125	20,519,736
Employee benefits	8,188,696	8,354,564
Professional services	5,429,837	4,566,560
Prescription drugs	5,050,961	5,314,013
Supplies and other	13,921,633	13,459,407
Clinic expenses	922,290	1,265,005
Depreciation	5,779,721	5,641,947
Bad debts	<u>2,587,455</u>	<u>2,200,668</u>
TOTAL OPERATING EXPENSES	<u>62,881,718</u>	<u>61,321,900</u>
OPERATING INCOME	<u>4,794,513</u>	<u>5,789,491</u>
NONOPERATING INCOME (EXPENSES):		
Interest income	187,080	168,331
Investment income - net of related expenses	1,903,363	661,960
Interest expense	(610,334)	(687,045)
Impairment losses	(4,456)	(219,708)
Loss on sale of capital assets	(21,974)	(1,262)
Scholarships granted	<u>(650)</u>	<u>(1,490)</u>
NET NONOPERATING INCOME (EXPENSES)	<u>1,453,029</u>	<u>(79,214)</u>
EXCESS OF REVENUES AND INCOME OVER EXPENSES	6,247,542	5,710,277
CAPITAL CONTRIBUTIONS	<u>38,040</u>	<u>480,447</u>
CHANGE IN NET ASSETS	6,285,582	6,190,724
NET ASSETS - BEGINNING OF YEAR	<u>70,566,943</u>	<u>64,376,219</u>
NET ASSETS - END OF YEAR	<u>\$ 76,852,525</u>	<u>\$ 70,566,943</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 61,791,302	\$ 61,167,141
Cash paid to suppliers for goods and services	(26,309,729)	(24,004,310)
Cash paid to employees for services	(29,070,084)	(28,899,777)
Other operating revenues	2,206,139	1,528,721
Other amounts paid	<u>(650)</u>	<u>(1,490)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>8,616,978</u>	<u>9,790,285</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	(2,915,838)	(4,969,135)
Proceeds from sale of capital assets	5,000	1,600
Principal payments on long-term debt	(1,761,215)	(1,684,788)
Interest paid on long-term debt	(604,308)	(680,735)
Capital grants and contributions received	<u>38,040</u>	<u>480,447</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(5,238,321)</u>	<u>(6,852,611)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(3,324,156)	(1,613,071)
Proceeds from sale and maturities of investments	3,466,707	1,835,431
Income on investments	265,636	133,522
Distributions received from Abben	850,000	1,100,000
Investment in home medical equipment co.	<u>(106,220)</u>	<u> </u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,151,967</u>	<u>1,455,882</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,530,624	4,393,556
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>21,922,803</u>	<u>17,529,247</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 26,453,427</u>	<u>\$ 21,922,803</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:		
Cash and cash equivalents per balance sheets (Note 2):		
Current assets	\$ 21,328,567	\$17,002,584
Included in noncurrent cash and investments	<u>5,124,860</u>	<u>4,920,219</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 26,453,427</u>	<u>\$21,922,803</u>

SPENCER MUNICIPAL HOSPITAL
 STATEMENTS OF CASH FLOWS - Continued
 FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 4,794,513	\$ 5,789,491
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,779,721	5,641,947
Equity in earnings of Abben	(917,400)	(1,096,141)
Equity in losses of home medical equipment co.	65,177	24,349
Components of non-operating and operating expenses reclassified for purposes of reporting cash flows:		
Scholarships awarded	(650)	(1,490)
(Increase) decrease in:		
Patient receivables	23,863	(500,925)
Other receivables	(51,029)	(688,702)
Inventories	(316,455)	(14,881)
Prepaid expenses	(71,931)	(129,314)
Increase (decrease) in:		
Accounts payable	(501,032)	451,200
Accrued salaries and wages	(28,574)	39,404
Payroll taxes payable	148,311	5,998
Estimated third-party payor settlements	(211,946)	46,558
Other current liabilities	<u>(95,590)</u>	<u>222,791</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 8,616,978</u>	 <u>\$ 9,790,285</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL, RELATED FINANCING AND INVESTING ACTIVITIES:

Capital asset purchases	\$ 2,900,838	\$ 4,965,135
Decrease in construction accounts payable	<u>15,000</u>	<u>4,000</u>
 Cash paid to purchase capital assets	 <u>\$ 2,915,838</u>	 <u>\$ 4,969,135</u>

In 2010, the Hospital accrued in accounts payable \$106,220 for its investment in home medical equipment company, which was paid in 2011.

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 BALANCE SHEETS
 JUNE 30, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash (Note 2)	\$ 329,372	\$ 286,356
Patient receivables - net of allowance for doubtful accounts and contractual adjustments of \$571,400 and \$836,100, respectively	232,096	293,625
Prepaid expenses	<u>153,166</u>	<u>152,816</u>
 TOTAL ASSETS	 <u>\$ 714,634</u>	 <u>\$ 732,797</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 39,642	\$ 57,052
Accounts payable to Spencer Municipal Hospital (Note 10)	<u>135,618</u>	<u>203,771</u>
TOTAL CURRENT LIABILITIES	175,260	260,823
 MEMBER'S EQUITY	 <u>539,374</u>	 <u>471,974</u>
 TOTAL LIABILITIES AND MEMBER'S EQUITY	 <u>\$ 714,634</u>	 <u>\$ 732,797</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
NET PATIENT SERVICE REVENUE	<u>\$3,085,099</u>	<u>\$3,196,496</u>
OPERATING EXPENSES:		
Professional medical services	1,220,356	1,274,070
Medical supplies	7,822	8,739
Facility expenses	846,906	724,974
General and administrative	<u>101,782</u>	<u>103,651</u>
TOTAL OPERATING EXPENSES	<u>2,176,866</u>	<u>2,111,434</u>
OPERATING INCOME	<u>908,233</u>	<u>1,085,062</u>
NONOPERATING INCOME:		
Interest income	1,536	2,337
Contributions and other income	<u>7,631</u>	<u>8,742</u>
TOTAL NONOPERATING INCOME	<u>9,167</u>	<u>11,079</u>
NET INCOME	917,400	1,096,141
MEMBER'S EQUITY - BEGINNING OF YEAR	471,974	475,833
DISTRIBUTIONS	<u>(850,000)</u>	<u>(1,100,000)</u>
MEMBER'S EQUITY - END OF YEAR	<u>\$ 539,374</u>	<u>\$ 471,974</u>

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 917,400	\$1,096,141
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in:		
Patient receivables	61,529	13,632
Other current assets	(350)	(144,436)
Increase (decrease):		
Accounts payable	(17,410)	(2,956)
Accounts payable to Spencer Municipal Hospital	(68,153)	83,692
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>893,016</u>	<u>1,046,073</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions paid	<u>(850,000)</u>	<u>(1,100,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(850,000)</u>	<u>(1,100,000)</u>
NET INCREASE (DECREASE) IN CASH	43,016	(53,927)
CASH AT BEGINNING OF YEAR	<u>286,356</u>	<u>340,283</u>
CASH AT END OF YEAR	<u>\$ 329,372</u>	<u>\$ 286,356</u>

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Spencer Municipal Hospital (the Hospital) is a city public hospital organized under Chapter 392.6 of the Code of Iowa and is an enterprise fund of the City of Spencer, 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.

Reporting Entity

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 15 through 17. 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, began operations in 2011, 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.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements as well as the relevant pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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. Patient receivables where a third-party payor is responsible for paying the amount are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient receivables due from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts and the contractual adjustment by applying historical write off and contractual adjustment percentages to the outstanding balances as segregated by major third-party payor classifications.

Inventory

Inventory is valued at the lower of average 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 average 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets - Continued

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. Impairment losses of \$4,456 and \$219,708 were recognized on potential construction projects that were abandoned in 2011 and 2010, respectively.

Investments

Investments in common stocks, mutual funds, 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, 2011 and 2010. 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.

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 by donor - nonexpendable net assets consist of the principal portion of permanent endowments.

Restricted by donor - 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.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 2011 and 2010, were \$532,979 and \$430,944, respectively. The costs of charity care are estimated to be \$216,000 and \$183,000 for 2011 and 2010, 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 these communities include: emergency services coverage at community events, wellness screenings, job shadowing/internships, various health education classes, support groups, 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, Rehabilitation Services (Physical, Occupational and Speech Therapy), Family Practice Clinics in Milford and Sioux Rapids, and Diabetic Education.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

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

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.

Management's Review

In preparation of the financial statements, management has evaluated subsequent events through September 22, 2011, which is the date the financial statements were available to be issued.

2. CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2011 and 2010 were entirely covered by FDIC or SIPC insurance or by 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, 2011 and 2010, Abben had uninsured bank balances of \$79,372 and \$34,973, 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 (mutual funds); 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, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$26,453,427	\$21,922,803
Common stocks and mutual funds	6,958,453	5,522,597
Real estate	<u>1,085,364</u>	<u>838,964</u>
TOTAL CASH AND INVESTMENTS	<u>\$34,497,244</u>	<u>\$28,284,364</u>

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

2. CASH AND INVESTMENTS - Continued

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

	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$21,328,567	\$17,002,584
Investments - common stocks and mutual funds	<u>6,958,453</u>	<u>5,522,597</u>
Subtotal	<u>28,287,020</u>	<u>22,525,181</u>
Noncurrent cash and investments:		
Cash and cash equivalents	5,124,860	4,920,219
Real estate	<u>1,085,364</u>	<u>838,964</u>
Subtotal	<u>6,210,224</u>	<u>5,759,183</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$34,497,244</u>	 <u>\$28,284,364</u>

Common stock and mutual fund investments and real estate held in the permanently endowed fund are carried at fair value. The net unrealized gains on investments at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Common stocks	\$ 1,595,413	\$ 305,719
Real estate	<u>824,894</u>	<u>578,494</u>
 Net unrealized gain	 <u>\$ 2,420,307</u>	 <u>\$ 884,213</u>

Investment income consisted of the following:

	<u>2011</u>	<u>2010</u>
Unrealized gains on common stocks and mutual funds	\$ 1,289,694	\$ 434,358
Unrealized gains on real estate	246,400	57,600
Realized gains on common stocks and mutual funds	288,713	204,811
Dividend income	41,105	27,323
Rental income (loss) - net	<u>37,451</u>	<u>(62,132)</u>
 TOTAL INVESTMENT INCOME - NET	 <u>\$ 1,903,363</u>	 <u>\$ 661,960</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.

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.

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

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, 2011 and 2010 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>2011</u>	<u>2010</u>
Gross patient service revenue - at established rates .	\$133,293,147	\$128,053,570
Adjustments:		
Medicare program	41,659,130	41,214,170
Medicaid program	7,656,806	6,137,689
Blue Cross/Wellmark	15,440,836	13,223,925
Other payors	3,980,606	3,930,740
Charity care	<u>532,979</u>	<u>430,944</u>
Total Adjustments	<u>69,270,357</u>	<u>64,937,468</u>
Net Patient Service Revenue	<u>\$ 64,022,790</u>	<u>\$ 63,116,102</u>

4. PATIENT RECEIVABLES

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2011 and 2010 was:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 6,192,380	\$ 5,828,648
Medicaid	1,086,204	1,222,596
Blue Cross/Wellmark	4,033,136	3,960,945
Other payors	5,527,053	5,261,438
Clinics	<u>145,980</u>	<u>142,489</u>
Total patient receivables	<u>16,984,753</u>	<u>16,416,116</u>
Less allowance for doubtful accounts	2,143,000	2,055,000
Less allowance for contractual adjustments	<u>7,583,700</u>	<u>7,079,200</u>
Total allowances	<u>9,726,700</u>	<u>9,134,200</u>
Patient Receivables	<u>\$ 7,258,053</u>	<u>\$ 7,281,916</u>

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

5. CAPITAL ASSETS

A summary of the Hospital's changes in capital assets for 2011 and 2010 is as follows:

	Year Ended June 30, 2011				
	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>1,372,630</u>	<u>1,337,248</u>	<u>-</u>	<u>(2,556,035)</u>	<u>153,843</u>
Total capital assets not being depreciated	<u>3,384,363</u>	<u>1,337,248</u>	<u>-</u>	<u>(2,556,035)</u>	<u>2,165,576</u>
Other capital assets:					
Land improvements	1,532,995	-	-	4,027	1,537,022
Buildings	46,417,919	76,813	-	1,027,841	47,522,573
Fixed equipment	8,459,422	9,584	(4,456)	86,967	8,551,517
Major moveable equipment	<u>37,634,760</u>	<u>1,477,193</u>	<u>-</u>	<u>1,350,479</u>	<u>40,462,432</u>
Total other capital assets	<u>94,045,096</u>	<u>1,563,590</u>	<u>(4,456)</u>	<u>2,469,314</u>	<u>98,073,544</u>
Total capital assets	<u>97,429,459</u>	<u>2,900,838</u>	<u>(4,456)</u>	<u>(86,721)</u>	<u>100,239,120</u>
Less accumulated depreciation for:					
Land improvements	783,309	91,816	-	-	875,125
Buildings	14,382,847	1,640,777	-	-	16,023,624
Fixed equipment	6,323,577	313,541	-	-	6,637,118
Major moveable equipment	<u>25,037,429</u>	<u>3,733,587</u>	<u>-</u>	<u>(59,747)</u>	<u>28,711,269</u>
Total accumulated depreciation	<u>46,527,162</u>	<u>5,779,721</u>	<u>-</u>	<u>(59,747)</u>	<u>52,247,136</u>
CAPITAL ASSETS - NET	<u>\$50,902,297</u>	<u>\$(2,878,883)</u>	<u>\$(4,456)</u>	<u>\$(26,974)</u>	<u>\$ 47,991,984</u>

	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>

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, 2011 and 2010 is as follows:

	June 30, <u>2010</u>	<u>Payments</u>	June 30, <u>2011</u>	Due Within <u>One Year</u>
Hospital Revenue Bonds Series 2008 A (A)	\$ 6,899,458	\$ (686,024)	\$ 6,213,434	\$ 715,773
Hospital Revenue Bonds Series 2008 B (B)	5,553,292	(534,284)	5,019,008	561,908
2007 Hospital Revenue Bonds (C)	<u>1,364,543</u>	<u>(540,907)</u>	<u>823,636</u>	<u>562,082</u>
	<u>\$13,817,293</u>	<u>\$(1,761,215)</u>	<u>\$12,056,078</u>	<u>\$1,839,763</u>

	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>

(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>
2012	\$ 1,839,763	\$ 525,715	\$ 2,365,478
2013	1,602,200	443,644	2,045,844
2014	1,405,170	376,340	1,781,510
2015	1,472,872	308,638	1,781,510
2016	1,543,245	238,265	1,781,510
2017 - 2019	<u>4,192,828</u>	<u>260,580</u>	<u>4,453,408</u>
TOTAL	<u>\$12,056,078</u>	<u>\$2,153,182</u>	<u>\$14,209,260</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 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. LONG-TERM DEBT - Continued

The Hospital has pledged future revenues, net of defined expenses, to repay the bonds. The net pledged revenues, as defined in the bond document, and the principal and interest requirements for the Hospital's long-term debt are as follows:

	<u>2011</u>	<u>2010</u>
Net pledged revenues	<u>\$ 9,675,638</u>	<u>\$ 9,519,717</u>
Principal and interest requirements	<u>\$ 2,365,523</u>	<u>\$ 2,365,523</u>

7. 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 4.50% of their annual covered salary and the Hospital is required to contribute 6.95% of annual covered payroll for 2011. For 2010 and 2009, the member contribution rates were 4.30% and 4.10%, and the Hospital contribution rates were 6.65% and 6.35%, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for 2011, 2010, and 2009 were \$1,489,503, \$1,404,054, and \$1,277,726, respectively, equal to the required contributions for each year.

8. OTHER POST EMPLOYMENT BENEFITS

The Hospital implemented Governmental Accounting Standards Board, GASB, Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment 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.

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

8. OTHER POST EMPLOYMENT BENEFITS - Continued

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, 2011, 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	3,036
Adjustment to annual required contribution	<u>(4,142)</u>
Annual OPEB cost	78,677
(Contributions made) claims paid	<u>11,097</u>
Increase in net OPEB obligation	89,774
Net OPEB obligation - beginning of year	<u>67,467</u>
 Net OPEB obligation - end of year	 <u>\$157,241</u>

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, 2011.

For the year ended June 30, 2011, the Hospital had actual claims in excess of contributions of \$11,097. 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, 2011 are summarized as follows:

Fiscal Year Ended <u>June 30,</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2010	\$ 79,783	15%	\$ 67,467
2011	\$ 78,677	(14)%	\$157,241

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, 2011 and 2010, there were no trust fund assets.

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

8. OTHER POSTEMPLOYMENT BENEFITS - Continued

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:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2009	\$ -	\$662,439	\$662,439	0%	\$17,710,000	3.7%
July 1, 2010	\$ -	\$662,439	\$662,439	0%	\$17,710,000	3.7%

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.

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.

9. 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.

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

9. RISK MANAGEMENT - Continued

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 \$4.2 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 \$523,615 and \$586,764 at June 30, 2011 and 2010, 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.

10. 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 \$36,740 and \$341,745 during 2011 and 2010, 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>2011</u>	<u>2010</u>
Personnel service fees for benefits and expenses	\$ <u>174,725</u>	\$ <u>160,488</u>
Leased employees' salaries	\$ <u>376,888</u>	\$ <u>408,303</u>
Building and equipment rental income	\$ <u>561,378</u>	\$ <u>582,476</u>

At June 30, 2011 and 2010, the Hospital's receivable from Abben was \$135,618 and \$203,771, respectively, which is included in other receivables. The balance consists of the above fees and cash advances for direct operating expenses less cash repayments.

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

10. RELATED PARTY TRANSACTIONS - Continued

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 \$24,833 and \$29,798 in 2011 and 2010, respectively, on accounts held at this financial institution.

The Hospital purchased supplies of \$1,485 and \$6,508 from a company owned in part by a Hospital trustee in 2011 and 2010, respectively.

The Hospital incurred farm management fees of \$6,004 and \$5,995 from a company owned in part by a Hospital trustee in 2011 and 2010, respectively.

11. 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 2018. The rental expense for 2011 and 2010 was \$426,647 and \$427,196, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 436,247
2013	423,602
2014	410,956
2015	111,826
2016	52,000
2017 - 2018	<u>104,000</u>
TOTAL	<u>\$1,538,631</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 2016, but they do have optional renewal clauses (which have been exercised) and annual rental increase clauses to recover increased expenses. The rental income under the agreements for 2011 and 2010 was \$484,623 and \$482,924, respectively, and is included in investment income.

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

11. OPERATING LEASES - Continued

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>
2012	\$ 544,207
2013	367,956
2014	224,556
2015	37,563
2016	<u>28,172</u>
TOTAL	<u>\$1,202,454</u>

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

	<u>2011</u>	<u>2010</u>
Medical office building	\$ 3,508,486	\$ 3,342,291
Medical clinic equipment	252,290	243,808
Abben building	2,543,163	2,543,163
Abben equipment	<u>4,001,597</u>	<u>4,001,597</u>
Total property and equipment	10,305,536	10,130,859
Less accumulated depreciation	<u>3,826,580</u>	<u>2,762,728</u>
 Net property and equipment	 <u>\$ 6,478,956</u>	 <u>\$ 7,368,131</u>

12. 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, 2011, the total amount expected to be paid on these commitments is approximately \$3,000,000 with the majority to be paid in 2012.

**SPENCER MUNICIPAL HOSPITAL
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011**

SPENCER MUNICIPAL HOSPITAL
 BUDGETARY COMPARISON SCHEDULE AND RELATED NOTES
 FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			Actual	Final to Actual Variance
	Original	GAAP Adjustment	GAAP Budget		
Operating revenues	\$71,787,000	\$ -	\$71,787,000	\$67,676,231	\$(4,110,769)
Operating expenditures	<u>67,334,000</u>	<u>(538,200)</u>	<u>66,795,800</u>	<u>62,881,718</u>	<u>3,914,082</u>
Operating income	4,453,000	538,200	4,991,200	4,794,513	(196,687)
Other nonoperating changes in net assets	<u>1,377,000</u>	<u>(538,200)</u>	<u>838,800</u>	<u>1,491,069</u>	<u>652,269</u>
Changes in Net Assets	<u>\$5,830,000</u>	<u>\$ -</u>	<u>\$ 5,830,000</u>	<u>\$ 6,285,582</u>	<u>\$ 455,582</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 expense 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 2011, the Hospital's expenditures did not exceed the amount budgeted.

**SPENCER MUNICIPAL HOSPITAL
SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011				2010
	Inpatient	Outpatient	Skilled Care	Home Health	Total
DAILY PATIENT SERVICE:					
Medical and surgery.....	\$ 6,028,168	\$ 511,921	\$ -	\$ -	\$ 6,540,089
Mental health.....	3,243,116	-	-	-	3,243,116
Nursery.....	427,606	-	-	-	427,606
Intensive care.....	1,244,204	803	-	-	1,245,007
Skilled care.....	-	-	578,100	-	578,100
TOTAL DAILY PATIENT SERVICES	10,943,094	512,724	578,100	-	12,033,918
OTHER NURSING SERVICES:					
Partial hospitalization.....	-	187,370	-	-	187,370
Same day surgery.....	4,420	1,574,732	-	-	1,579,152
Intravenous therapy.....	855,296	825,946	34,615	-	1,715,857
Delivery and labor rooms.....	914,167	416,691	-	-	1,330,858
Operating rooms.....	7,767,378	21,384,554	3,853	-	29,155,785
Post anesthesia care unit.....	792,633	2,651,228	407	-	3,444,268
Emergency service.....	1,856,310	5,562,749	714	-	7,419,773
Medical supplies.....	13,142,670	4,698,163	11,565	1,369	17,853,767
Medical oncology.....	155	2,019,955	557	-	2,020,667
TOTAL OTHER NURSING SERVICES	25,333,029	39,321,388	51,711	1,369	64,707,497
OTHER PROFESSIONAL SERVICES:					
Respiratory therapy.....	565,868	41,175	44,372	-	651,415
Ambulance.....	-	1,527,336	-	-	1,527,336
Laboratory.....	2,690,934	3,753,000	87,732	-	6,531,666
Blood bank.....	221,820	210,607	4,262	-	436,689
Electrocardiology.....	445,563	1,015,254	9,082	-	1,469,899
Electroencephalography.....	3,466	20,100	-	-	23,566
Radiology.....	1,019,191	4,424,588	15,830	-	5,459,609
Ultrasound.....	201,325	1,940,692	6,768	-	2,148,785
Stereotactic biopsy.....	-	382,166	-	-	382,166
TOTAL OTHER PROFESSIONAL SERVICES	6,947,167	11,977,702	150,004	-	19,074,873
TOTAL GROSS PATIENT SERVICE REVENUE	17,886,123	79,543,170	728,814	1,369	98,159,476

See Independent Auditors' Report.

Schedule 1 - Cont.

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE - Continued
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011				2010
	Inpatient	Outpatient	Skilled Care	Home Health	Total
OTHER PROFESSIONAL SERVICES-					
Continued:					
CT scan.....	\$ 985,650	\$ 5,821,728	\$ 3,401	\$ -	\$ 6,810,779
MRI.....	237,467	2,675,757	-	-	2,913,224
Nuclear medicine.....	57,708	1,015,715	1,017	-	1,074,440
Radiation oncology.....	61,304	-	62,412	-	123,716
Pharmacy.....	3,162,257	10,658,945	261,861	-	14,083,063
Therapy pool.....	-	199,597	-	-	199,597
Anesthesiology.....	669,102	1,184,531	-	-	1,853,633
Physical therapy.....	448,509	1,185,221	82,749	30,613	1,747,092
Speech therapy.....	19,297	327,753	12,736	2,640	362,426
Enterostomal service.....	31,465	265,326	19,034	-	315,825
Occupational therapy.....	260,232	377,780	59,727	6,556	704,295
Pulmonary function testing.....	3,405	145,452	-	-	148,857
Sleep study.....	-	662,503	-	-	662,503
Pulmonary rehab.....	-	31,229	-	-	31,229
Cardiac rehab.....	-	266,631	-	-	266,631
Dialysis - Spencer.....	3,958	1,684,141	-	-	1,688,099
Dialysis - Spirit Lake.....	-	2,184,399	-	-	2,184,399
Home health:					
Registered nurse care.....	-	-	-	685,976	685,976
Aides care.....	-	-	-	570,550	570,550
County assistance.....	-	-	-	100,000	100,000
Other care.....	-	-	-	1,394,267	1,394,267
TOTAL OTHER PROFESSIONAL SERVICES	11,088,521	42,001,626	670,983	2,790,602	56,551,732
TOTAL GROSS PATIENT SERVICE REVENUE	\$ 47,364,644	\$ 81,835,738	\$ 1,300,794	\$ 2,791,971	\$ 133,293,147
					\$ 128,053,570

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
NET PATIENT SERVICE REVENUE
AND OTHER OPERATING REVENUES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
GROSS PATIENT SERVICE REVENUE (Schedule 1).....	\$ 133,293,147	\$ 128,053,570
ADJUSTMENTS TO PATIENT SERVICE REVENUE:		
Medicare program.....	41,659,130	41,214,170
Medicaid program.....	7,656,806	6,137,689
Blue Cross / Wellmark.....	15,440,836	13,223,925
Other payors.....	3,980,606	3,930,740
Charity care.....	532,979	430,944
TOTAL ADJUSTMENTS TO PATIENT SERVICE REVENUE	<u>69,270,357</u>	<u>64,937,468</u>
NET PATIENT SERVICE REVENUE	<u>\$ 64,022,790</u>	<u>\$ 63,116,102</u>
OTHER OPERATING REVENUES:		
Abben fees:		
Personnel services.....	\$ 174,725	\$ 160,488
Building and equipment rental.....	561,378	582,476
Ag health and safety clinic.....	44,881	47,589
Athletic enhancement.....	87,814	85,814
Auxiliary income.....	21,529	23,638
Billing fee revenue	16,582	32,140
Cafeteria sales.....	322,312	310,019
Diagnostic imaging storage.....	19,458	18,295
Earnings (loss) of home medical equipment company.....	(65,177)	(24,349)
Education programs.....	93,844	90,073
Employee health.....	5,828	5,756
Immunizations	57,613	60,168
Laboratory client billing.....	15,901	48,001
Lifeline.....	86,093	173,388
Medical record transcripts.....	24,828	23,724
Miscellaneous.....	164,193	56,458
Outreach services:		
Enterostomal therapy.....	104,530	96,756
Speech therapy.....	47,392	34,729
Occupational therapy.....	53,613	73,818
Physical therapy.....	157,054	153,455
Planet heart and stroke screening.....	47,450	1,640
Purchase discounts.....	9,563	9,079
Salary reimbursements:		
Sports medicine.....	5,618	47,732
Other.....	95,897	66,670
Steam sold.....	3,072	6,017
Technology consulting.....	36,000	9,500
TOTAL OTHER OPERATING REVENUES	<u>\$ 2,191,991</u>	<u>\$ 2,193,074</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	Salaries		Professional Services		Supplies and Other Expenses	
	2011	2010	2011	2010	2011	2010
Clinical resources.....	\$ 331,862	\$ 333,618	\$ -	\$ 726	\$ 527	\$ 2,734
Medical and surgery.....	1,983,165	2,106,830	67,688	50,923	173,965	173,257
Obstetrics.....	559,127	533,956	770	342	48,266	44,996
Mental health.....	880,905	818,248	12,204	10,084	23,179	20,943
Intensive care.....	488,507	499,064	85,318	86,982	29,024	34,374
Intravenous therapy.....	-	-	-	-	50,884	53,949
Operating room.....	1,047,073	1,107,453	517,678	436,748	832,795	945,243
Post anesthesia care unit.....	323,970	305,328	82,587	-	131,000	165,255
Emergency service.....	763,263	772,432	1,372,544	1,268,504	69,117	80,671
Central sterilization.....	119,235	117,010	121,467	-	184,138	190,791
Service aide.....	36,258	36,455	-	788	-	-
Same day surgery.....	891,613	837,716	105,555	358	56,840	50,852
Home health.....	938,942	931,113	6,494	6,686	65,362	68,422
Hospice.....	156,259	151,960	109,052	119,049	18,137	13,073
Enterostomal service.....	121,330	103,688	-	-	22,399	19,915
Dialysis - Spencer.....	321,658	292,011	52,148	51,599	114,508	105,389
Dialysis - Spirit Lake.....	346,220	268,895	94,976	92,931	213,054	219,799
Partial hospitalization.....	33,390	41,749	80	-	2,359	2,348
Medical oncology.....	309,324	269,875	204,600	207,100	22,947	24,067
Respiratory therapy.....	251,154	277,702	19,500	1,548	30,690	70,253
Laboratory.....	702,365	682,910	216,093	210,105	431,020	416,359
Blood bank.....	-	-	-	-	293,968	219,864
Electrocardiology.....	75,440	77,455	73,101	73,051	200	-

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	Salaries		Professional Services		Supplies and Other Expenses	
	2011	2010	2011	2010	2011	2010
Electroencephalography.....	\$ -	\$ -	\$ -	\$ 1,295	\$ -	\$ 1
Radiology.....	512,832	504,278	160	2,985	362,395	364,031
Ultrasound.....	153,166	152,375	1,123	-	23,389	45,758
Stereotactic biopsy.....	-	-	95,555	80,075	152	112
MRI.....	69,063	65,652	-	-	174,086	162,630
Athletic enhancement.....	73,437	74,914	1,125	498	3,803	7,580
Nuclear medicine.....	96,651	105,023	-	-	218,130	190,712
Pharmacy.....	976,807	943,186	100,210	94,511	65,749	34,898
Anesthesiology.....	60,865	52,189	20,010	-	205,256	154,421
Physical therapy.....	649,026	604,688	176	160	41,616	29,411
Ambulance.....	507,412	497,445	161	1,718	68,845	81,373
Social services.....	80,982	134,264	-	-	332	743
Cardiac rehabilitation.....	117,297	110,616	-	-	6,994	8,508
Medical records.....	566,179	548,522	100,073	108,467	42,109	100,357
CT scan.....	191,152	164,959	74,315	69,310	101,145	135,977
Occupational therapy.....	261,756	260,155	19	-	17,412	15,400
Infection control.....	64,077	63,115	-	1,275	991	1,372
Speech therapy.....	122,345	101,351	-	-	6,508	7,106
AG health and safety clinic.....	32,091	37,750	75	-	33,071	29,774
Sleep studies.....	79,366	80,499	36,315	6,570	15,908	15,657
Sports medicine.....	16,603	16,019	360,021	324,500	65,497	69,756
Lifeline.....	7,005	36,863	37,464	77,839	2,724	1,571

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	Salaries		Professional Services		Supplies and Other Expenses	
	2011	2010	2011	2010	2011	2010
Therapy pool.....	\$ -	\$ -	\$ -	\$ 140	\$ 3,084	\$ 4,323
Plant.....	511,174	499,311	3,258	5,330	314,586	415,403
Utilities.....	-	-	-	-	785,202	831,273
Housekeeping.....	541,854	522,184	159,653	47,193	97,365	77,676
Laundry.....	79,393	113,861	53,902	11,554	68,955	49,420
Nutrition services.....	672,365	661,624	250,998	108,558	528,264	511,114
Valet.....	65,957	48,696	-	19,164	4,227	2,794
General accounting.....	297,424	280,021	7,430	7,143	15,501	22,131
Human resources.....	236,719	230,792	1,475	1,069	69,315	92,809
Patient accounts.....	704,427	681,538	225,149	209,720	72,401	79,955
Information systems.....	498,787	496,564	31,389	12,663	724,186	504,592
Administration.....	1,109,642	905,469	339,876	461,174	917,261	599,209
Materials management.....	141,184	137,513	2,000	4,050	42,057	43,945
Communications.....	-	-	1,484	3,169	96,142	106,543
Central supply.....	74,605	71,529	-	-	5,480,400	5,281,608
Printing and duplicating.....	15,189	15,209	-	-	146,390	136,182
Insurance.....	-	-	-	-	231,776	265,734
Staff development.....	198,965	194,184	53,225	15,988	29,713	32,293
Medical care evaluation.....	380,920	373,414	179,466	149,168	18,272	17,812
PET/CT scan.....	-	-	151,875	123,750	2,111	-
Women's health.....	29,210	39,150	-	-	3,569	2,919
SHAPE	124,138	129,346	-	-	365	1,970
TOTAL	\$ 21,001,125	\$ 20,519,736	\$ 5,429,837	\$ 4,566,560	\$ 13,921,633	\$ 13,459,407

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
 PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
 FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
 UNAUDITED

PATIENT RECEIVABLES ANALYSIS OF AGING:

	2011		2010	
	Amount	Percent To Total	Amount	Percent To Total
DAYS SINCE DISCHARGE:				
00 - 30.....	\$ 7,289,475	42.92%	\$ 6,948,112	42.32%
31 - 60.....	1,796,277	10.58%	2,010,569	12.26%
61 - 90.....	1,065,705	6.27%	828,064	5.04%
91 - 120.....	784,157	4.62%	565,821	3.45%
Over 120.....	1,841,684	10.84%	1,490,380	9.08%
Clinic receivables.....	145,980	0.86%	142,489	0.87%
TOTAL RECEIVABLES BILLED	12,923,278	76.09%	11,985,435	73.01%
In Hospital.....	4,061,475	23.91%	4,430,681	26.99%
TOTAL PATIENT RECEIVABLES	16,984,753	100.00%	16,416,116	100.00%
Allowance for doubtful accounts.....	(2,143,000)		(2,055,000)	
Allowance for contractual adjustments.....	(7,527,000)		(7,025,000)	
Clinic allowance for contractual adjustments ...	(56,700)		(54,200)	
TOTAL ADJUSTMENTS	(9,726,700)		(9,134,200)	
PATIENT RECEIVABLES - NET	\$ 7,258,053		\$ 7,281,916	

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	2011	2010
BALANCE - BEGINNING OF YEAR	\$ 2,055,000	\$ 2,044,000
Provision charged to expense.....	2,587,455	2,200,668
Accounts written off.....	(3,240,456)	(2,918,257)
Recoveries of accounts previously written off.....	741,001	728,589
BALANCE - END OF YEAR	\$ 2,143,000	\$ 2,055,000

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVENTORIES AND PREPAID EXPENSES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
INVENTORIES:		
Store room.....	\$ 522,777	\$ 498,738
Nutrition services.....	22,943	20,597
Laboratory.....	75,329	94,003
Laundry.....	4,694	6,646
Pharmacy.....	642,532	508,593
Radiology.....	14,071	17,109
Surgery.....	1,224,383	1,046,473
Other departments.....	<u>47,903</u>	<u>46,018</u>
 TOTALS	 <u>\$ 2,554,632</u>	 <u>\$ 2,238,177</u>
 PREPAID EXPENSES:		
Service contracts and other.....	\$ 648,293	\$ 591,922
Association dues.....	37,728	36,597
Insurance.....	<u>32,345</u>	<u>17,916</u>
 TOTALS	 <u>\$ 718,366</u>	 <u>\$ 646,435</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVESTMENT TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Balances Beginning of Year</u>	<u>Additions During the Year</u>	<u>Sales During the Year</u>	<u>Realized & Unrealized Gains (Losses)</u>	<u>Balances End of Year</u>
Common stocks.....	\$ 5,522,597	\$ 3,324,156	\$ (3,466,707)	\$ 1,578,407	\$ 6,958,453
Real estate.....	838,964	-	-	246,400	1,085,364
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 6,361,561</u>	<u>\$ 3,324,156</u>	<u>\$ (3,466,707)</u>	<u>\$ 1,824,807</u>	<u>\$ 8,043,817</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
COMPARATIVE STATISTICS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
UNAUDITED

	<u>2011</u>	<u>2010</u>
Admissions:		
Medical/surgery, obstetrics & intensive care.....	2,378	2,605
Mental health unit.....	560	481
Swing bed and inn care.....	173	246
Newborns.....	<u>274</u>	<u>276</u>
 TOTAL	 <u>3,385</u>	 <u>3,608</u>
Discharges:		
Medical/surgery, obstetrics & intensive care.....	2,340	2,553
Mental health unit.....	565	480
Swing bed and inn care.....	185	261
Newborns.....	<u>276</u>	<u>279</u>
 TOTAL	 <u>3,366</u>	 <u>3,573</u>
Patient days:		
Medical/surgery, obstetrics & intensive care.....	8,052	8,690
Mental health unit.....	3,471	3,489
Swing bed and inn care.....	1,251	1,817
Newborns.....	<u>611</u>	<u>599</u>
 TOTAL	 <u>13,385</u>	 <u>14,595</u>
Average length of stay (days):		
Medical/surgery, obstetrics & intensive care.....	3.39	3.34
Mental health unit.....	6.20	7.25
Swing bed and inn care.....	7.23	7.39
Newborns.....	2.23	2.17
Average number of patients per day:		
Medical/surgery, obstetrics & intensive care.....	22.06	23.81
Mental health unit.....	9.51	9.56
Swing bed and inn care.....	3.43	4.98
Newborns.....	1.67	1.64
 Outpatient registrations.....	 <u>41,122</u>	 <u>40,071</u>
 Licensed beds at end of year.....	 <u>99</u>	 <u>99</u>

See Independent Auditors' Report.

WINTHER, STAVE & Co., LLP
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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 (Hospital) as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated September 22, 2011. 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 the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the 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 the Hospital's 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*.

We noted a matter that we reported to management of the Hospital in a separate letter dated September 22, 2011.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of the 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 and 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.

Wintker, Stow & Co., LLP

September 22, 2011

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Primary Government Financial Statements

None

Part II: Other Findings Related to Required Statutory Reporting

II-A-11 Certified Budget

For the year ended June 30, 2011, the Hospital's expenditures did not exceed the amount budgeted.

II-B-11 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-11 Travel Expense

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

II-D-11 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	<u>\$ 24,833</u>
Kris Van Berkum, Board member Co-owner JCL Solutions	Purchase of cleaning supplies	<u>\$ 1,485</u>
John Cotton, Board member Co-owner Cotton Grave Farm Management & Realty	Farm management fees	<u>\$ 6,004</u>

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, 2011

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

II-E-11 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-11 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, 2011**

WINTHER, STAVE & Co., LLP
Certified Public Accountants

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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 as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's 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.

Patient Revenue Cut Off

During our review of patient accounts, we noted certain patient charges that had a date-of-service prior to year end were being posted to a patient's account after year end. We understand that this can occur for various reasons such as regulations requiring medical staff approvals before charges can be posted. For financial statement reporting purposes, these charges have occurred and should be recorded in the period the services were performed. We understand it may be difficult to obtain an exact amount of unposted charges in a timely manner for your monthly financial statements. Accordingly, we would recommend a reasonable accounting estimate of these charges be developed by utilizing available information in the Hospital's patient account system.

** ** ** ** **

We have reported on the Hospital's compliance and on internal control over financial reporting in our report dated September 22, 2011. This letter does not affect the aforementioned report nor does it affect the Independent Auditors' Report dated September 22, 2011 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 22, 2011