

**SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION, AND
INDEPENDENT AUDITORS' REPORTS
FOR THE YEARS ENDED
JUNE 30, 2013 AND 2012**

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

	<u>Page</u>	
Board of Trustees and Officials	1	
Independent Auditors' Report	2 - 4	
Management's Discussion and Analysis	5 - 10	
Financial Statements:		
Spencer Municipal Hospital:		
Balance Sheets	11 - 12	
Statements of Revenues, Expenses, and Changes in Net Position	13	
Statements of Cash Flows	14 - 15	
Abben Cancer Center, LLC:		
Balance Sheets	16	
Statements of Income and Member's Equity	17	
Statements of Cash Flows	18	
Notes to Financial Statements	19 - 34	
Required Supplementary Information:		
Budgetary Comparison Schedule and Related Notes	35	
Schedule of Funding Progress for the Retiree Health Plan	36	
Supplemental Information:		
	<u>Schedule</u>	
Gross Patient Service Revenue	1	37 - 38
Net Patient Service Revenue and Other Operating Revenues	2	39
Salaries, Professional Services, and Supplies and Other Expenses..	3	40 - 42
Patient Receivables and Allowance for Doubtful Accounts	4	43
Inventories and Prepaid Expenses	5	44
Investment Transactions	6	45
Other Information:		
Comparative Statistics	7	46
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		47 - 48
Schedule of Findings		49 - 50

SPENCER MUNICIPAL HOSPITAL
BOARD OF TRUSTEES AND OFFICIALS
JUNE 30, 2013

BOARD OF TRUSTEES

TITLE

TERM EXPIRES

John Rahn	Chairman	December 31, 2015
John Cotton	Vice Chairman	December 31, 2015
Neal Conover	Secretary/Treasurer	December 31, 2013
Gary VanHofwegen, DDS	Trustee	December 31, 2013
Kris Van Berkum	Trustee	December 31, 2015

HOSPITAL OFFICIALS

William Bumgarner	President and Chief Executive Officer
Stephen Deutsch	Vice President of Operations
Mark Gaworski	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

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

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351-0187
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Spencer Municipal Hospital and
Board of Managers of
Abben Cancer Center, LLC
Spencer, IA 51301

Report on Financial Statements

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, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have also audited the balance sheets of Abben Cancer Center, LLC, (Abben), a discretely presented component unit, as of June 30, 2013 and 2012, and the related statements of income and member's equity and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 we also audited the Hospital in accordance with 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, 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.

Other Matters

Required Supplementary Information - Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 10 and Budgetary Comparison Schedule and the Schedule of Funding Progress for the Retiree Health Plan on pages 35 and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information - Our audits were performed for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The supplemental information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information - The other information included in Schedule 7, which is marked "unaudited", has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2013 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* in considering the Hospital's internal control over financial reporting and compliance.

Wintler, Steve & Co., LLP

October 2, 2013

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, 2013 and 2012. 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 position, 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.

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 position. 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 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 2013

- Total assets increased by \$4,322,369 to \$104,381,638.
- Net position increased by \$5,591,427.
- Total noncurrent cash and investments increased by \$472,858.
- Total liabilities decreased by \$1,269,058.
- The operating margin for fiscal year 2013 was 5.24%.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Highlights for 2012

- Total assets increased by \$4,950,046 to \$100,059,269.
- Net position increased by \$6,612,131.
- Total noncurrent cash and investments increased by \$518,440.
- Total liabilities decreased by \$1,662,085.
- The operating margin for fiscal year 2012 was 10.08%.

Financial Analysis of the Hospital

The balance sheet and the statement of revenues, expenses, and changes in net position report the net position of the Hospital and the changes in them. The Hospital's net position - 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 position 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 Position

A summary of the Hospital's balance sheets at June 30, 2013, 2012, and 2011 are presented in Table 1 below:

Table 1 (in thousands)

Condensed Balance Sheets	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 55,835	\$ 53,910	\$ 47,117
Capital assets	<u>48,547</u>	<u>46,149</u>	<u>47,992</u>
TOTAL ASSETS	<u>\$104,382</u>	<u>\$100,059</u>	<u>\$ 95,109</u>
Current liabilities	\$ 8,117	\$ 7,980	\$ 8,040
Long-term debt outstanding	<u>7,209</u>	<u>8,614</u>	<u>10,216</u>
TOTAL LIABILITIES	<u>\$ 15,326</u>	<u>\$ 16,594</u>	<u>\$ 18,256</u>
Invested in capital assets - net of related debt	\$ 39,990	\$ 36,002	\$ 36,017
Restricted	2,150	1,938	1,624
Unrestricted	<u>46,916</u>	<u>45,525</u>	<u>39,212</u>
TOTAL NET POSITION	<u>\$ 89,056</u>	<u>\$ 83,465</u>	<u>\$ 76,853</u>

Net position increased by \$5,591,427 to \$89,056,083 in fiscal year 2013. Net position increased by \$6,612,131 to \$83,464,656 in fiscal year 2012. The change in net position results primarily from operating income.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Revenues, Expenses, and Changes in Net Position

The following table presents a summary of the Hospital's historical revenues, expenses, and changes in net position for each of the fiscal years ended June 30, 2013, 2012, and 2011.

Table 2 (in thousands)

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

	Year Ended June 30,		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 65,541	\$ 67,720	\$ 65,089
Operating expenses	<u>62,109</u>	<u>60,891</u>	<u>60,294</u>
Operating income	3,432	6,829	4,795
Nonoperating income (expense)	<u>1,482</u>	<u>(265)</u>	<u>1,453</u>
Excess of revenues over expenses before contributions	4,914	6,564	6,248
Contributions	<u>677</u>	<u>48</u>	<u>38</u>
Change in net position	5,591	6,612	6,286
Total net position - beginning of year	<u>83,465</u>	<u>76,853</u>	<u>70,567</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 89,056</u>	<u>\$ 83,465</u>	<u>\$ 76,853</u>

Operating and Financial Performance

The following discusses the Hospital's operations and statements of revenue, expenses, and changes in net position as of June 30, 2013, 2012, and 2011.

Volume - Volume statistics are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Inpatient discharges	2,863	3,159	3,376
Inpatient days	10,879	12,729	13,385
Outpatient visits	114,657	119,443	120,904

Net Patient Service Revenue - Our net patient service revenues decreased \$1,635,042 in 2013 and increased \$2,267,199 in 2012. These changes are the result of the following changes in gross revenues and contractual and bad debt adjustments. Contractual adjustments are the estimated amounts the Hospital will not collect from Medicare, Medicaid, and insurance companies.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total patient service revenues	\$143,668,788	\$139,388,404	\$133,293,147
Contractual and bad debt adjustments	(81,601,296)	(75,685,870)	(71,857,812)
Adjustments as percent of revenues	<u>56.8%</u>	<u>54.3%</u>	<u>53.9%</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, 2013, 2012, and 2011.

Table 3

Payor Mix by Percentage

	Year Ended June 30,		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Medicare	47.77%	48.58%	49.14%
Wellmark/Blue Cross/Blue Shield	27.80	25.96	25.94
Managed Care/Commercial	9.68	9.86	9.87
Medicaid	7.81	8.11	8.07
All other	<u>6.94</u>	<u>7.49</u>	<u>6.98</u>
 TOTAL	 <u>100.00%</u>	 <u>100.00%</u>	 <u>100.00%</u>

Salaries - Salaries increased by \$366,357 in 2013 and \$611,895 in 2012. For the fiscal year ended June 30, 2013, the Hospital employed a total of 454 full-time equivalent employees, compared to 457 in 2012 and 457 in 2011. The Hospital is in a competitive wage market and annually utilizes numerous surveys to ensure a competitive compensation package is offered to employees.

Employee Benefits - Benefits increased by \$41,791 in 2013 and decreased by \$433,760 in 2012. 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, 2013, the Hospital had \$111,396,937 invested in capital assets as shown in Table 4. During the year the Hospital had approximately \$7,800,000 in capital expenditures. Some of the major purchases for the fiscal year include the purchase of a CT simulator for radiation oncology and related remodeling, infrastructure chiller improvements, intensive care unit remodeling (still in process as of June 30), C-Arm for diagnostic imaging, new ambulance, operating room instrumentation and tables, fetal surveillance documentation software for obstetrics, and two parking lot paving projects.

At June 30, 2012, the Hospital had \$103,996,042 invested in capital assets as shown in Table 4. During the year the Hospital had approximately \$4,000,000 in capital expenditures. Some of the major purchases for the fiscal year include the purchase of a medical office building, purchase of property to be used for a future parking lot, remodel of the diagnostic imaging department waiting area, hospital wide replacement of IV pumps with smart pump technology, various operating room instrumentation, portable x-ray equipment and software for mandated electronic health records.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table summarizes the Hospital's capital assets as of June 30, 2013, 2012, and 2011.

Table 4

Capital Assets (in thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 2,430	\$ 2,430	\$ 2,011
Land improvements	1,846	1,541	1,537
Buildings	48,434	48,050	47,523
Fixed equipment	10,152	8,611	8,552
Major movable equipment	45,276	42,904	40,462
Construction in progress	<u>3,259</u>	<u>460</u>	<u>154</u>
Subtotal	111,397	103,996	100,239
Less accumulated depreciation	<u>62,850</u>	<u>57,847</u>	<u>52,247</u>
 CAPITAL ASSETS - NET	 <u>\$ 48,547</u>	 <u>\$ 46,149</u>	 <u>\$ 47,992</u>

Long-Term Debt

The Hospital had long term-debt balances of \$8,614,206 and \$10,216,325 as of June 30, 2013 and 2012, respectively. Further details are provided in the financial statement notes.

Performance Compared to Budget

The following table compares fiscal year 2013 actual to budget information for the statement of revenues, expenses, and changes in net position.

Table 5

Budget vs. Actual (in thousands)

	FY 2013	FY 2013	Dollar
	<u>Budget</u>	<u>Actual</u>	Variance
			Favorable
			<u>(Unfavorable)</u>
Operating revenues	\$ 66,781	\$ 65,541	\$ (1,240)
Operating expenditures	<u>63,030</u>	<u>62,109</u>	<u>921</u>
Operating income	3,751	3,432	(319)
Other nonoperating changes in net position	<u>(63)</u>	<u>2,159</u>	<u>2,222</u>
 Excess of revenues over expenses	 <u>\$ 3,688</u>	 <u>\$ 5,591</u>	 <u>\$ 1,903</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 budgets. Of primary importance in setting the 2014 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare, Medicaid and Wellmark/Blue Cross Blue Shield reimbursement rates
- Privacy legislation (HIPAA)
- Healthcare reform legislation
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies and equipment
- Cost of construction projects
- Increasing drug costs
- Drug shortages
- Increasing number of uninsured patients
- Increasing insurance deductibles
- Investment market

Community Contributions

During fiscal years 2013 and 2012, the Hospital contributed much to the communities it serves. Charity care and uncompensated care totaled \$3,356,344 and \$3,248,280, 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, public safety awareness programs, 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), 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 Hospital's report, Abben'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, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 26,812,593	\$ 26,784,059
Patient receivables - net of allowances for doubtful accounts and contractual adjustments of \$10,883,100 and \$11,329,200, respectively (Note 4)	7,169,586	7,412,690
Other receivables (Note 10)	1,550,090	1,561,933
Investments (Note 2)	8,700,158	6,888,058
Inventories	2,778,009	2,852,509
Prepaid expenses	<u>936,024</u>	<u>795,126</u>
TOTAL CURRENT ASSETS	<u>47,946,460</u>	<u>46,294,375</u>
NONCURRENT CASH AND INVESTMENTS (Note 2):		
Internally designated for capital improvements	5,051,519	4,790,820
Principal of permanent endowments	1,950,477	1,738,309
Restricted by donors for operations	<u>199,526</u>	<u>199,535</u>
TOTAL NONCURRENT CASH AND INVESTMENTS	<u>7,201,522</u>	<u>6,728,664</u>
CAPITAL ASSETS (Notes 5, 11, and 12):		
Land	2,430,601	2,430,601
Construction in progress	3,258,989	459,756
Depreciable property, plant, and equipment	<u>105,707,347</u>	<u>101,105,685</u>
TOTAL CAPITAL ASSETS	111,396,937	103,996,042
Less accumulated depreciation	<u>62,849,887</u>	<u>57,847,225</u>
CAPITAL ASSETS - NET	<u>48,547,050</u>	<u>46,148,817</u>
OTHER ASSETS:		
Investment in Abben (Notes 10 and 11)	640,337	797,237
Investment (share of deficiency) in home medical equipment co. (Note 1)	(11,217)	21,180
Deferred finance costs - net of accumulated amortization of \$84,015 and \$82,033, respectively	<u>57,486</u>	<u>68,996</u>
TOTAL OTHER ASSETS	<u>686,606</u>	<u>887,413</u>
 TOTAL ASSETS	 <u>\$104,381,638</u>	 <u>\$100,059,269</u>

SPENCER MUNICIPAL HOSPITAL
BALANCE SHEETS - Continued
JUNE 30, 2013 AND 2012

LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 6)	\$ 1,405,121	\$ 1,602,119
Accounts payable:		
Trade	1,826,107	1,505,273
Construction and equipment	330,000	138,000
Accrued salaries and wages	2,728,678	2,881,673
Payroll taxes payable	181,380	169,942
Estimated third-party payor settlements (Note 3)	690,405	811,496
Other current liabilities (Notes 8 and 9)	<u>954,779</u>	<u>871,904</u>
TOTAL CURRENT LIABILITIES	8,116,470	7,980,407
 LONG-TERM DEBT - NET OF CURRENT PORTION (Note 6)	 <u>7,209,085</u>	 <u>8,614,206</u>
 TOTAL LIABILITIES	 <u>15,325,555</u>	 <u>16,594,613</u>
 NET POSITION:		
Net investment in capital assets	39,990,330	36,001,488
Restricted by donor - nonexpendable	1,950,477	1,738,309
Restricted by donor - expendable	199,526	199,535
Unrestricted	<u>46,915,750</u>	<u>45,525,324</u>
TOTAL NET POSITION	<u>89,056,083</u>	<u>83,464,656</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$104,381,638</u>	 <u>\$100,059,269</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES:		
Net patient service revenue (Note 3)	\$ 62,067,492	\$ 63,702,534
Abben Cancer Center net earnings	693,100	1,351,397
Clinic revenue	618,541	530,378
Other operating revenues	<u>2,161,333</u>	<u>2,135,814</u>
TOTAL OPERATING REVENUES	<u>65,540,466</u>	<u>67,720,123</u>
OPERATING EXPENSES:		
Salaries	21,979,377	21,613,020
Employee benefits	7,796,727	7,754,936
Professional services	6,286,600	5,374,896
Prescription drugs	4,711,584	4,859,122
Supplies and other	15,142,302	14,613,217
Clinic expenses	923,633	848,309
Depreciation	<u>5,268,349</u>	<u>5,827,343</u>
TOTAL OPERATING EXPENSES	<u>62,108,572</u>	<u>60,890,843</u>
OPERATING INCOME	<u>3,431,894</u>	<u>6,829,280</u>
NONOPERATING INCOME (EXPENSES):		
Interest income	248,366	206,463
Investment income - net of related expenses	1,744,811	84,277
Interest expense	(449,179)	(531,506)
Impairment losses		(16,000)
Loss on sale of capital assets	(51,065)	(6,924)
Scholarships granted	<u>(11,000)</u>	<u>(1,000)</u>
NET NONOPERATING INCOME (EXPENSES)	<u>1,481,933</u>	<u>(264,690)</u>
INCOME BEFORE CONTRIBUTIONS	4,913,827	6,564,590
CAPITAL CONTRIBUTIONS	<u>677,600</u>	<u>47,541</u>
CHANGE IN NET POSITION	5,591,427	6,612,131
NET POSITION - BEGINNING OF YEAR	<u>83,464,656</u>	<u>76,852,525</u>
NET POSITION - END OF YEAR	<u>\$ 89,056,083</u>	<u>\$ 83,464,656</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 62,808,046	\$ 64,297,091
Cash paid to suppliers for goods and services	(26,720,787)	(25,970,991)
Cash paid to employees for services	(29,917,661)	(29,544,567)
Other operating revenues	2,205,573	1,764,346
Other amounts paid	<u>(11,000)</u>	<u>(1,000)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>8,364,171</u>	<u>10,544,879</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	(7,621,995)	(3,969,305)
Proceeds from sale of capital assets	96,348	5,205
Principal payments on long-term debt	(1,602,119)	(1,839,753)
Interest paid on long-term debt	(443,690)	(525,770)
Capital grants and contributions received	<u>677,600</u>	<u>47,541</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(8,893,856)</u>	<u>(6,282,082)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(7,954,228)	(3,614,218)
Proceeds from sale and maturities of investments	7,326,311	3,219,494
Income on investments	596,625	346,859
Distributions received from Abben	850,000	1,350,000
Increase in other assets	<u>(4,389)</u>	<u>(15,191)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>814,319</u>	<u>1,286,944</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	284,634	5,549,741
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>32,003,168</u>	<u>26,453,427</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 32,287,802</u>	<u>\$ 32,003,168</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:		
Cash and cash equivalents per balance sheets (Note 2):		
Current assets	\$ 26,812,593	\$ 26,784,059
Included in noncurrent cash and investments	<u>5,475,209</u>	<u>5,219,109</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 32,287,802</u>	<u>\$ 32,003,168</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS - Continued
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 3,431,894	\$ 6,829,280
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,268,349	5,827,343
Equity in earnings of Abben	(693,100)	(1,351,397)
Equity in earnings (losses) of home medical equipment co.	32,397	(4,486)
Components of non-operating and operating expenses reclassified for purposes of reporting cash flows:		
Scholarships awarded	(11,000)	(1,000)
(Increase) decrease in:		
Patient receivables	243,104	(154,637)
Other receivables	11,843	(366,982)
Inventories	74,500	(297,877)
Prepaid expenses	(140,898)	(76,760)
Increase (decrease) in:		
Accounts payable	320,834	107,520
Accrued salaries and wages	(152,995)	(131,551)
Payroll taxes payable	11,438	(45,060)
Estimated third-party payor settlements	(121,091)	218,816
Other current liabilities	<u>88,896</u>	<u>(8,330)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 8,364,171</u>	<u>\$ 10,544,879</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL, FINANCING, AND INVESTING ACTIVITIES:		
Capital asset purchases	\$ 7,813,995	\$ 4,012,305
Decrease (increase) in construction accounts payable	<u>(192,000)</u>	<u>(43,000)</u>
 Cash paid to purchase capital assets	<u>\$ 7,621,995</u>	<u>\$ 3,969,305</u>

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 BALANCE SHEETS
 JUNE 30, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
Cash (Note 2)	\$ 192,400	\$ 363,290
Patient receivables - net of allowance for doubtful accounts and contractual adjustments of \$563,500 and \$416,300, respectively	214,881	198,233
Prepaid expenses	<u>152,682</u>	<u>152,836</u>
 TOTAL ASSETS	 <u>\$ 559,963</u>	 <u>\$ 714,359</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 44,480	\$ 39,791
Accounts payable to Spencer Municipal Hospital (Note 10)	<u>131,612</u>	<u>133,797</u>
TOTAL CURRENT LIABILITIES	176,092	173,588
 MEMBER'S EQUITY	 <u>383,871</u>	 <u>540,771</u>
 TOTAL LIABILITIES AND MEMBER'S EQUITY	 <u>\$ 559,963</u>	 <u>\$ 714,359</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
NET PATIENT SERVICE REVENUE	<u>\$2,958,951</u>	<u>\$3,644,374</u>
OPERATING EXPENSES:		
Professional medical services	1,283,934	1,317,081
Medical supplies	10,589	9,330
Facility expenses	871,653	857,089
General and administrative	<u>111,264</u>	<u>123,019</u>
TOTAL OPERATING EXPENSES	<u>2,277,440</u>	<u>2,306,519</u>
OPERATING INCOME	<u>681,511</u>	<u>1,337,855</u>
NONOPERATING INCOME:		
Interest income	526	966
Contributions and other income	<u>11,063</u>	<u>12,576</u>
TOTAL NONOPERATING INCOME	<u>11,589</u>	<u>13,542</u>
NET INCOME	693,100	1,351,397
MEMBER'S EQUITY - BEGINNING OF YEAR	540,771	539,374
DISTRIBUTIONS	<u>(850,000)</u>	<u>(1,350,000)</u>
MEMBER'S EQUITY - END OF YEAR	<u>\$ 383,871</u>	<u>\$ 540,771</u>

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 693,100	\$1,351,397
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in:		
Patient receivables	(16,648)	33,863
Other current assets	154	330
Increase (decrease):		
Accounts payable	4,689	149
Accounts payable to Spencer Municipal Hospital	<u>(2,185)</u>	<u>(1,821)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>679,110</u>	<u>1,383,918</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions paid	<u>(850,000)</u>	<u>(1,350,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(850,000)</u>	<u>(1,350,000)</u>
 NET INCREASE (DECREASE) IN CASH	(170,890)	33,918
 CASH AT BEGINNING OF YEAR	<u>363,290</u>	<u>329,372</u>
 CASH AT END OF YEAR	<u>\$ 192,400</u>	<u>\$ 363,290</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 has included all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. In accordance with Government Accounting Standards Board (GASB), the Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital.

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

Avera Home Medical Equipment of Spencer Hospital, LLC (HME) is a legally separate limited liability company that the Hospital and Avera Home Medical Equipment, LLC formed in 2010. Each member owns 50% of HME and has an equal number of voting managers on its management committee. Due to the Hospital's lack of control over HME, it is not considered a component unit of the Hospital. HME was a development stage company in 2010, began operations in 2011, and has been established to sell home medical equipment from a retail location in Spencer.

Measurement Focus and Basis of Accounting and Presentation

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 accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus and Basis of Accounting - Continued

Abben's financial statements and related disclosures are presented in accordance with the Financial Accounting Standards Board accounting standards.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets in accordance with the guidelines set forth by the American Hospital Association. Lives for the buildings and land improvements are five to fifty years while the equipment lives range from three to twenty years.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. Impairment losses of \$16,000 were recognized on potential construction projects that were abandoned in 2012.

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, 2013 and 2012. 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 Position

Net position (previously referred to as net assets) displays the Hospital's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction, or improvement of those assets.

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

Restricted by donor - expendable net position consist of noncapital net position that must be used for a particular purpose as specified by the donors.

Unrestricted net position consists of net position not meeting the definition of the three preceding categories. Unrestricted net position often has constraints on resources imposed by management or the board of trustees which can be removed or modified.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position - Continued

When both restricted and unrestricted net position are available for use, generally it is the Hospital's policy to use restricted net position first.

Operating Revenues and Expenses

The Hospital and Abben's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

Net Patient Service Revenue

Net patient service revenue and clinic revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Interest and Investment Income

Interest and investment income are recorded as nonoperating revenue. Investment income includes dividends, net rental income, and gains and losses, both realized and unrealized, on equity securities and real estate in the permanently endowed funds.

Interest Expense

Interest costs incurred on borrowed funds during the construction period of capital assets were capitalized as a component of the constructed assets. All of the borrowings from revenue bonds have been used to fund construction projects and equipment purchases.

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 2013 and 2012, were \$471,124 and \$644,528, respectively. The costs of charity care are estimated to be \$183,000 and \$252,000 for 2013 and 2012, 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, public safety awareness programs, support groups, and providing the use of facilities to community groups.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Charity Care and Community Benefits - Continued

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), Family Practice Clinics in Milford and Sioux Rapids, and Diabetic Education.

Income Taxes

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

Abben is not a tax paying entity for federal and state income tax purposes and all of its net income is attributable to the Hospital and is therefore tax exempt. As a limited liability company, Abben is subject to accounting standards that apply to pass-through entities, which prescribe 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 October 2, 2013, which is the date the financial statements were available to be issued.

2. CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2013 and 2012 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, 2013 and 2012, Abben had uninsured bank balances of \$-0- and \$113,241, 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.

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

2. CASH AND INVESTMENTS - Continued

The Hospital's cash and investments at June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$32,287,802	\$32,003,168
Certificate of deposit	-	125,000
Common stocks and mutual funds	8,825,527	6,888,058
Real estate and other	<u>1,600,944</u>	<u>1,384,555</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$42,714,273</u>	 <u>\$40,400,781</u>

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

	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$26,812,593	\$26,784,059
Investments - common stocks and mutual funds	<u>8,700,158</u>	<u>6,888,058</u>
Subtotal	<u>35,512,751</u>	<u>33,672,117</u>
Noncurrent cash and investments:		
Cash and cash equivalents	5,475,209	5,219,109
Certificate of deposit	-	125,000
Investments - mutual fund	125,369	-
Real estate and other	<u>1,600,944</u>	<u>1,384,555</u>
Subtotal	<u>7,201,522</u>	<u>6,728,664</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$42,714,273</u>	 <u>\$40,400,781</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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Common stocks	\$ 1,270,463	\$ 1,136,613
Real estate	<u>1,320,894</u>	<u>1,108,894</u>
 Net unrealized gain	 <u>\$ 2,591,357</u>	 <u>\$ 2,245,507</u>

Investment income consisted of the following:

	<u>2013</u>	<u>2012</u>
Unrealized gains (losses) on common stocks and mutual funds	\$ 133,850	\$ (458,800)
Unrealized gains on real estate	212,000	284,000
Realized gains on common stocks and mutual funds	1,050,702	118,681
Dividend income	131,161	62,931
Rental income - net of expenses	<u>217,098</u>	<u>77,465</u>
 TOTAL INVESTMENT INCOME - NET	 <u>\$ 1,744,811</u>	 <u>\$ 84,277</u>

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

2. CASH AND INVESTMENTS - Continued

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

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

3. NET PATIENT SERVICE REVENUE

As a provider of health care services, the Hospital and Abben have agreements with third-party payors that provide for payment of services at amounts different from established rates. The basis for payment varies by payor and includes prospectively determined rates per discharge, discounts from established charges, and retroactively determined cost-based rates. Approximately 92 percent of the Hospital's gross patient charges determined at established rates for the years ended June 30, 2013 and 2012 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>2013</u>	<u>2012</u>
Gross patient service revenue - at established rates .	\$143,668,788	\$139,388,404
Adjustments:		
Medicare program	48,279,427	42,761,871
Medicaid program	8,273,470	8,124,723
Blue Cross/Wellmark	16,991,510	16,990,825
Other payors	4,700,545	4,560,171
Charity care	471,124	644,528
Bad debts	<u>2,885,220</u>	<u>2,603,752</u>
Total Adjustments	<u>81,601,296</u>	<u>75,685,870</u>
Net Patient Service Revenue	<u>\$ 62,067,492</u>	<u>\$ 63,702,534</u>

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

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, 2013 and 2012 was:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 6,630,528	\$ 7,068,407
Medicaid	992,366	1,744,866
Blue Cross/Wellmark	4,496,778	3,900,333
Other payors	5,712,723	5,909,123
Clinics	<u>220,291</u>	<u>119,161</u>
Total patient receivables	<u>18,052,686</u>	<u>18,741,890</u>
Less allowance for doubtful accounts	2,346,000	2,346,000
Less allowance for contractual adjustments	<u>8,537,100</u>	<u>8,983,200</u>
Total allowances	<u>10,883,100</u>	<u>11,329,200</u>
 Patient Receivables	 <u>\$ 7,169,586</u>	 <u>\$ 7,412,690</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 2013 and 2012 is as follows:

	Year Ended June 30, 2013				
	Beginning Balance	Additions	Impairment Losses	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:					
Land	\$ 2,430,601	\$ -	\$ -	\$ -	\$ 2,430,601
Construction in progress	<u>459,756</u>	<u>6,988,977</u>	<u>-</u>	<u>(4,189,744)</u>	<u>3,258,989</u>
Total capital assets not being depreciated	<u>2,890,357</u>	<u>6,988,977</u>	<u>-</u>	<u>(4,189,744)</u>	<u>5,689,590</u>
Other capital assets:					
Land improvements	1,540,522	-	-	304,907	1,845,429
Buildings	48,050,118	44,237	-	339,595	48,433,950
Fixed equipment	8,611,331	20,354	-	1,520,425	10,152,110
Major moveable equipment	<u>42,903,714</u>	<u>760,427</u>	<u>-</u>	<u>1,611,717</u>	<u>45,275,858</u>
Total other capital assets	<u>101,105,685</u>	<u>825,018</u>	<u>-</u>	<u>3,776,644</u>	<u>105,707,347</u>
Total capital assets	<u>103,996,042</u>	<u>7,813,995</u>	<u>-</u>	<u>(413,100)</u>	<u>111,396,937</u>
Less accumulated depreciation for:					
Land improvements	964,519	89,012	-	-	1,053,531
Buildings	17,644,364	1,605,796	-	-	19,250,160
Fixed equipment	6,944,969	298,725	-	(1,875)	7,241,819
Major moveable equipment	<u>32,293,373</u>	<u>3,274,816</u>	<u>-</u>	<u>(263,812)</u>	<u>35,304,377</u>
Total accumulated depreciation	<u>57,847,225</u>	<u>5,268,349</u>	<u>-</u>	<u>(265,687)</u>	<u>62,849,887</u>
CAPITAL ASSETS - NET	<u>\$ 46,148,817</u>	<u>\$ 2,545,646</u>	<u>-</u>	<u>\$ (147,413)</u>	<u>\$ 48,547,050</u>

	Year Ended June 30, 2012				
	Beginning Balance	Additions	Impairment Losses	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:					
Land	\$ 2,011,733	\$ 86,219	\$ -	\$ 332,649	\$ 2,430,601
Construction in progress	<u>153,843</u>	<u>2,227,460</u>	<u>(16,000)</u>	<u>(1,905,547)</u>	<u>459,756</u>
Total capital assets not being depreciated	<u>2,165,576</u>	<u>2,313,679</u>	<u>(16,000)</u>	<u>(1,572,898)</u>	<u>2,890,357</u>
Other capital assets:					
Land improvements	1,537,022	-	-	3,500	1,540,522
Buildings	47,522,573	220,433	-	307,112	48,050,118
Fixed equipment	8,551,517	25,030	-	34,784	8,611,331
Major moveable equipment	<u>40,462,432</u>	<u>1,453,163</u>	<u>-</u>	<u>988,119</u>	<u>42,903,714</u>
Total other capital assets	<u>98,073,544</u>	<u>1,698,626</u>	<u>-</u>	<u>1,333,515</u>	<u>101,105,685</u>
Total capital assets	<u>100,239,120</u>	<u>4,012,305</u>	<u>(16,000)</u>	<u>(239,383)</u>	<u>103,996,042</u>
Less accumulated depreciation for:					
Land improvements	875,125	89,394	-	-	964,519
Buildings	16,023,624	1,620,740	-	-	17,644,364
Fixed equipment	6,637,118	307,851	-	-	6,944,969
Major moveable equipment	<u>28,711,269</u>	<u>3,809,358</u>	<u>-</u>	<u>(227,254)</u>	<u>32,293,373</u>
Total accumulated depreciation	<u>52,247,136</u>	<u>5,827,343</u>	<u>-</u>	<u>(227,254)</u>	<u>57,847,225</u>
CAPITAL ASSETS - NET	<u>\$ 47,991,984</u>	<u>\$(1,815,038)</u>	<u>\$(16,000)</u>	<u>\$(12,129)</u>	<u>\$ 46,148,817</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, 2013 and 2012 is as follows:

	<u>June 30,</u> <u>2012</u>	<u>Payments</u>	<u>June 30,</u> <u>2013</u>	<u>Due Within</u> <u>One Year</u>
Hospital Revenue Bonds Series 2008 A (A)	\$ 5,497,661	\$ (748,226)	\$ 4,749,435	\$ 781,427
Hospital Revenue Bonds Series 2008 B (B)	4,457,100	(592,329)	3,864,771	623,694
2007 Hospital Revenue Bonds (C)	<u>261,564</u>	<u>(261,564)</u>	<u>-</u>	<u>-</u>
	<u>\$10,216,325</u>	<u>\$(1,602,119)</u>	<u>\$ 8,614,206</u>	<u>\$1,405,121</u>

	<u>June 30,</u> <u>2011</u>	<u>Payments</u>	<u>June 30,</u> <u>2012</u>	<u>Due Within</u> <u>One Year</u>
Hospital Revenue Bonds Series 2008 A (A)	\$ 6,213,434	\$ (715,773)	\$ 5,497,661	\$ 748,226
Hospital Revenue Bonds Series 2008 B (B)	5,019,008	(561,908)	4,457,100	592,329
2007 Hospital Revenue Bonds (C)	<u>823,636</u>	<u>(562,072)</u>	<u>261,564</u>	<u>261,564</u>
	<u>\$12,056,078</u>	<u>\$(1,839,753)</u>	<u>\$10,216,325</u>	<u>\$1,602,119</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 were payable in monthly principal and interest payments of \$48,668 at a fixed interest rate of 3.8% and matured in January 2013.

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

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$1,405,121	\$ 376,389	\$1,781,510
2015	1,472,821	308,689	1,781,510
2016	1,543,192	238,318	1,781,510
2017	1,618,215	163,295	1,781,510
2018	1,696,266	85,244	1,781,510
2019	<u>878,591</u>	<u>12,182</u>	<u>890,773</u>
TOTAL	<u>\$8,614,206</u>	<u>\$1,184,117</u>	<u>\$9,798,323</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>2013</u>	<u>2012</u>
Net pledged revenues	<u>\$ 8,308,955</u>	<u>\$ 9,970,980</u>
Principal and interest requirements	<u>\$ 1,781,510</u>	<u>\$ 2,073,516</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 5.78% of their annual covered salary and the Hospital is required to contribute 8.67% of annual covered payroll for 2013. For 2012 and 2011, the member contribution rates were 5.38% and 4.50%, and the Hospital contribution rates were 8.07% and 6.95%, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for 2013, 2012, and 2011 were \$1,958,985, \$1,759,365, and \$1,489,503, respectively, equal to the required contributions for each year.

8. OTHER POST EMPLOYMENT BENEFITS

Plan Description - In accordance with state law, the Hospital operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 461 active and 9 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.

Funding Policy - 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

Annual OPEB Cost and Net OPEB Obligation - 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, 2013, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	\$ 86,397
Interest on net OPEB obligation	8,570
Adjustment to annual required contribution	<u>(11,691)</u>
Annual OPEB cost	83,276
(Contributions made) claims paid	<u>16,068</u>
Increase in net OPEB obligation	99,344
Net OPEB obligation - beginning of year	<u>190,438</u>
 Net OPEB obligation - end of year	 <u>\$289,782</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, 2013.

For the year ended June 30, 2013, the Hospital had actual claims in excess of contributions of \$16,068. 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, 2013 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
2012	83,820	60%	190,438
2013	83,276	(19)%	289,782

Funding Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$764,554 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, (UAAL), of \$764,554. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$19,159,000, and the ratio of the UAAL to the covered payroll was 4.0%. As of June 30, 2013 and 2012, there were no trust fund assets.

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

8. OTHER POSTEMPLOYMENT BENEFITS - Continued

Actuarial Methods and Assumptions - 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. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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, 2011 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 8%. 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 \$1,238 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 \$5.2 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 \$479,183 and \$416,029 at June 30, 2013 and 2012, 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 established 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 \$516,095 and \$17,786 during 2013 and 2012, 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>2013</u>	<u>2012</u>
Personnel service fees for benefits and expenses	\$ <u>186,874</u>	\$ <u>180,483</u>
Leased employees' salaries	\$ <u>416,311</u>	\$ <u>387,842</u>
Building and equipment rental income	\$ <u>607,602</u>	\$ <u>564,981</u>

At June 30, 2013 and 2012, the Hospital's receivable from Abben was \$131,612 and \$133,797, 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 local financial institutions who are affiliated with two Hospital trustees. The Hospital earned interest income of \$9,668 and \$16,005 in 2013 and 2012, respectively, on accounts held at these financial institutions.

The Hospital purchased supplies of \$1,838 and \$723 from a company owned in part by a Hospital trustee in 2013 and 2012, respectively.

The Hospital incurred farm management fees of \$6,473 and \$6,048 from a company owned in part by a Hospital trustee in 2013 and 2012, 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 fiscal year 2019. The rental expense for 2013 and 2012 was \$436,152 and \$436,244, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 581,528
2015	161,172
2016	77,101
2017	77,101
2018	64,550
2019	<u>4,333</u>
TOTAL	<u>\$ 965,785</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 terms of the leases expire at various dates through 2019 and have optional renewal clauses with annual rental increase provisions to recover increased expenses. The rental income under the agreements for 2013 and 2012 was \$630,383 and \$547,828, respectively, and is included in investment income.

SPENCER MUNICIPAL HOSPITAL AND
 ABSEN 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>
2014	\$ 645,908
2015	166,057
2016	93,444
2017	<u>50,745</u>
TOTAL	<u>\$ 956,154</u>

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

	<u>2013</u>	<u>2012</u>
Medical office buildings	\$ 3,738,507	\$ 3,735,921
Medical clinic equipment	253,537	253,537
Abben building	2,735,973	2,543,163
Abben equipment	<u>4,703,855</u>	<u>4,001,597</u>
Total property and equipment	11,431,872	10,534,218
Less accumulated depreciation	<u>5,159,716</u>	<u>4,518,765</u>
 Net property and equipment	 <u>\$ 6,272,156</u>	 <u>\$ 6,015,453</u>

12. COMMITMENTS

The Hospital has committed to construct or purchase various capital improvement projects totaling approximately \$4,000,000, which are expected to be funded using current cash reserves.

The Hospital has also entered into other various agreements that have committed it to future payments. The commitments include binding purchase orders, supplemental payments to physicians' groups, equipment maintenance agreements, service agreements, and physician recruiting agreements. As of June 30, 2013, the total amount expected to be paid on these commitments is approximately \$3,600,000 with the majority to be paid in 2014.

**SPENCER MUNICIPAL HOSPITAL
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

SPENCER MUNICIPAL HOSPITAL
 BUDGETARY COMPARISON SCHEDULE AND RELATED NOTES
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amount</u>	<u>Actual</u>	<u>Budget to Actual Variance</u>
Operating revenues	\$66,780,800	\$65,540,466	\$ (1,240,334)
Operating expenditures	<u>63,029,700</u>	<u>62,108,572</u>	<u>921,128</u>
Operating income	3,751,100	3,431,894	(319,206)
Other nonoperating changes in net position	<u>(63,200)</u>	<u>2,159,533</u>	<u>2,222,733</u>
Changes in Net Position	<u>\$ 3,687,900</u>	<u>\$ 5,591,427</u>	<u>\$ 1,903,527</u>

NOTES

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

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

For 2013, the Hospital's expenditures did not exceed the amount budgeted.

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2010	July 1, 2009	-	\$662,439	\$662,439	0%	\$17,710,000	3.7%
2011	July 1, 2009	-	\$662,439	\$662,439	0%	\$17,710,000	3.7%
2012	July 1, 2011	-	\$764,554	\$764,554	0%	\$18,840,000	4.1%
2013	July 1, 2011	-	\$764,554	\$764,554	0%	\$19,159,000	4.0%

See Note 8 in the accompanying Notes to Financial Statements for plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.

**SPENCER MUNICIPAL HOSPITAL
SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013				2012	
	Inpatient	Outpatient	Skilled Care	Home Health	Total	Total
DAILY PATIENT SERVICE:						
Medical and surgery.....	\$ 6,392,653	\$ 760,902	\$ 2,413	\$ -	\$ 7,155,968	\$ 6,701,833
Mental health.....	2,111,038	6,213	-	-	2,117,251	3,561,276
Nursery.....	506,167	-	-	-	506,167	420,275
Intensive care.....	1,095,954	26,589	-	-	1,122,543	1,235,918
Skilled care.....	-	-	409,060	-	409,060	416,745
TOTAL DAILY PATIENT SERVICES	10,105,812	793,704	411,473	-	11,310,989	12,336,047
OTHER NURSING SERVICES:						
Partial hospitalization.....	-	-	-	-	-	105,513
Same day surgery.....	7,969	2,273,869	-	-	2,281,838	1,773,490
Intravenous therapy.....	635,812	1,004,740	19,285	-	1,659,837	1,390,969
Delivery and labor rooms.....	880,301	553,283	-	-	1,433,584	1,488,160
Operating rooms.....	7,133,378	24,174,771	-	-	31,308,149	31,310,177
Post anesthesia care unit.....	764,662	2,234,743	5,468	-	3,004,873	3,172,548
Emergency service.....	1,486,742	6,815,134	85	-	8,301,961	7,783,832
Medical supplies.....	14,330,912	4,802,999	10,583	1,340	19,145,834	19,175,721
Medical oncology.....	6,026	2,063,449	-	-	2,069,475	2,121,461
TOTAL OTHER NURSING SERVICES	25,245,802	43,922,988	35,421	1,340	69,205,551	68,321,871
OTHER PROFESSIONAL SERVICES:						
Respiratory therapy.....	797,156	109,836	32,311	-	939,303	653,513
Ambulance.....	-	1,764,811	-	-	1,764,811	1,493,177
Laboratory.....	2,618,039	4,497,490	61,296	-	7,176,825	6,867,839
Blood bank.....	199,966	132,646	2,588	-	335,200	354,908
Electrocardiology.....	434,089	889,358	4,206	-	1,327,653	1,430,818
Electroencephalography.....	750	8,995	-	-	9,745	10,917
Radiology.....	921,169	4,532,085	22,765	-	5,476,019	5,807,475
Ultrasound.....	160,250	2,010,402	1,833	-	2,172,485	2,214,339
Stereotactic biopsy.....	-	347,889	-	-	347,889	281,110

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE - Continued
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013				2012	
	Inpatient	Outpatient	Skilled Care	Home Health	Total	Total
OTHER PROFESSIONAL SERVICES- Continued:						
CT scan.....	\$ 921,343	\$ 7,081,146	\$ 16,767	\$ -	\$ 8,019,256	\$ 7,284,613
MRI.....	148,275	2,202,261	3,682	-	2,354,218	2,543,787
Nuclear medicine.....	53,953	1,010,701	1,746	-	1,066,400	1,096,369
Radiation oncology.....	26,689	-	22,382	-	49,071	35,895
Pharmacy.....	2,724,353	9,353,854	278,432	-	12,356,639	14,378,963
Therapy pool.....	-	146,400	-	-	146,400	213,610
Anesthesiology.....	659,004	1,517,708	-	-	2,176,712	1,976,708
Physical therapy.....	497,237	1,430,732	43,637	34,638	2,006,244	1,988,626
Speech therapy.....	14,892	334,026	5,083	1,425	355,426	321,045
Enterostomal service.....	47,345	307,590	24,203	-	379,138	300,697
Occupational therapy.....	339,195	478,628	26,721	12,518	857,062	782,412
Pulmonary function testing.....	2,232	168,513	-	-	170,745	159,604
Sleep study.....	9,802	601,123	103	-	611,028	629,767
Pulmonary rehab.....	-	66,004	-	-	66,004	26,859
Cardiac rehab.....	-	216,922	-	-	216,922	290,178
Dialysis - Spencer.....	-	3,782,011	-	-	3,782,011	1,892,185
Dialysis - Spirit Lake.....	-	5,762,377	-	-	5,762,377	2,616,244
Home health:						
Registered nurse care.....	-	-	-	574,734	574,734	611,170
Aides care.....	-	-	-	503,543	503,543	543,208
County assistance.....	-	-	-	100,000	100,000	100,000
Other care.....	-	-	-	2,048,388	2,048,388	1,824,450
TOTAL OTHER PROFESSIONAL SERVICES	10,575,739	48,753,508	547,755	3,275,246	63,152,248	58,730,486
TOTAL GROSS PATIENT SERVICE REVENUE	\$ 45,927,353	\$ 93,470,200	\$ 994,649	\$ 3,276,586	\$ 143,668,788	\$ 139,388,404

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
NET PATIENT SERVICE REVENUE
AND OTHER OPERATING REVENUES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
GROSS PATIENT SERVICE REVENUE (Schedule 1).....	\$ 143,668,788	\$ 139,388,404
ADJUSTMENTS TO PATIENT SERVICE REVENUE:		
Medicare program.....	48,279,427	42,761,871
Medicaid program.....	8,273,470	8,124,723
Blue Cross / Wellmark.....	16,991,510	16,990,825
Other payors.....	4,700,545	4,560,171
Charity care.....	471,124	644,528
Bad debts.....	2,885,220	2,603,752
	<u>81,601,296</u>	<u>75,685,870</u>
TOTAL ADJUSTMENTS TO PATIENT SERVICE REVENUE		
	<u>\$ 62,067,492</u>	<u>\$ 63,702,534</u>
NET PATIENT SERVICE REVENUE		
OTHER OPERATING REVENUES:		
Abben fees:		
Personnel services.....	\$ 186,874	\$ 180,483
Building and equipment rental.....	607,602	564,981
Ag health and safety clinic.....	77,910	74,776
Athletic enhancement.....	97,359	89,998
Auxiliary income.....	13,507	20,288
Cafeteria sales.....	337,169	338,912
Diagnostic imaging storage.....	36,247	25,204
Education programs.....	126,182	115,919
Employee health.....	6,067	5,626
Home medical equipment co. earnings (losses).....	(32,397)	4,486
Housekeeping Revenue.....	28,353	28,219
Immunizations	57,318	53,117
Laboratory client billing.....	28,978	46,715
Medical record transcripts.....	26,618	20,926
Miscellaneous.....	42,692	31,897
Outreach services:		
Enterostomal therapy.....	89,027	81,304
Speech therapy.....	29,576	37,159
Occupational therapy.....	40,053	41,107
Physical therapy.....	142,522	132,740
Planet heart and stroke screening.....	44,122	66,795
Purchase discounts.....	6,379	15,902
Salary reimbursements:		
Sports medicine.....	39,361	38,215
Other.....	102,238	104,360
Steam sold.....	3,749	3,335
Technology consulting.....	-	13,350
Wellness Screenings.....	23,827	-
	<u>\$ 2,161,333</u>	<u>\$ 2,135,814</u>
TOTAL OTHER OPERATING REVENUES		

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	Salaries		Professional Services		Supplies and Other Expenses	
	2013	2012	2013	2012	2013	2012
Clinical resources.....	\$ 354,380	\$ 361,555	\$ -	\$ -	\$ 856	\$ 674
Medical and surgery.....	2,011,030	1,991,703	12,800	18,287	212,317	170,579
Obstetrics.....	629,243	586,976	2,739	-	68,076	45,474
Mental health.....	820,957	954,068	3,372	34,945	25,278	24,491
Intensive care.....	459,231	488,461	84,329	85,825	27,540	26,751
Intravenous therapy.....	-	-	-	-	31,409	37,367
Operating room.....	1,111,224	1,120,100	548,035	567,825	1,249,979	1,110,761
Post anesthesia care unit.....	308,463	299,312	-	2	98,485	98,614
Emergency service.....	862,100	838,171	1,508,703	1,435,647	95,029	71,784
Central sterilization.....	119,301	108,806	7,164	1,956	190,864	197,286
Service aide.....	21,086	35,725	-	-	-	-
Same day surgery.....	992,728	965,707	575	652	75,061	78,736
Home health.....	812,812	863,928	11,489	28,322	51,497	58,376
Hospice.....	183,688	184,172	172,902	124,235	21,022	19,676
Enterostomal service.....	123,989	111,238	-	-	24,595	21,046
Dialysis - Spencer.....	429,691	381,331	97,132	54,895	110,122	111,724
Dialysis - Spirit Lake.....	417,500	382,400	182,513	105,309	276,220	225,032
Partial hospitalization.....	-	32,129	-	280	28	908
Medical oncology.....	359,169	338,700	367,528	172,484	29,218	29,560
Respiratory therapy.....	262,452	272,978	1,349	4,033	26,954	22,196
Laboratory.....	677,596	681,112	401,743	204,484	425,559	380,397
Blood bank.....	-	-	-	-	221,737	259,618
Electrocardiology.....	68,415	41,284	76,861	74,732	-	265

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	Salaries		Professional Services		Supplies and Other Expenses	
	2013	2012	2013	2012	2013	2012
Radiology.....	\$ 574,406	\$ 563,781	\$ 75,347	\$ 62,529	\$ 407,158	\$ 392,107
Ultrasound.....	177,921	157,372	4,269	5,079	32,552	25,889
MRI.....	65,246	63,080	-	-	172,586	166,988
Athletic enhancement.....	82,696	61,340	380	180	3,218	8,656
Nuclear medicine.....	92,098	96,639	-	-	212,611	206,393
Pharmacy.....	951,023	993,680	125,584	119,334	80,937	70,367
Anesthesiology.....	56,679	54,116	1,001	100	217,759	211,257
Physical therapy.....	643,391	647,555	880	360	36,565	37,093
Ambulance.....	603,548	536,919	-	8	96,480	84,928
Social services.....	90,147	86,467	-	-	198	52
Cardiac rehabilitation.....	127,039	122,148	-	-	5,943	9,292
Medical records.....	609,032	572,732	75,754	96,506	42,976	37,699
CT scan.....	184,324	193,133	104,177	97,354	264,031	268,902
Occupational therapy.....	302,598	263,984	-	33,402	16,471	18,519
Infection control.....	63,317	65,268	-	-	715	1,269
Speech therapy.....	124,029	121,749	-	47	10,117	7,052
AG health and safety clinic.....	36,225	33,734	740	95	65,012	33,887
Sleep studies.....	-	37,696	150,450	104,541	3,337	7,001
Sports medicine.....	17,815	17,558	387,600	382,800	83,640	81,758

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	Salaries		Professional Services		Supplies and Other Expenses	
	2013	2012	2013	2012	2013	2012
Therapy pool.....	\$ -	\$ -	\$ -	\$ -	\$ 3,114	\$ 5,051
Plant.....	554,290	506,655	-	-	348,412	283,152
Utilities.....	-	-	-	-	772,464	774,478
Housekeeping.....	590,697	584,872	117,042	159,588	123,021	102,666
Laundry.....	20,059	22,080	179,222	188,598	57,596	64,290
Nutrition services.....	710,561	730,296	305,704	234,805	570,725	603,581
Valet.....	66,543	65,679	2,403	-	2,735	4,793
General accounting.....	319,435	319,078	8,035	7,744	19,880	17,737
Human resources.....	272,738	244,936	33,649	1,319	55,892	152,290
Patient accounts.....	767,777	724,766	223,284	269,695	77,221	80,846
Information systems.....	560,109	528,806	94,350	110,153	730,261	698,536
Administration.....	1,245,604	1,147,835	454,223	204,896	910,579	919,551
Safety.....	71,006	38,326	-	-	1,577	176
Materials management.....	160,091	158,824	23,850	2,000	45,992	55,360
Communications.....	-	-	4,490	7,927	79,065	88,566
Central supply.....	83,173	76,836	-	-	5,859,163	5,672,216
Printing and duplicating.....	14,405	14,209	-	-	158,432	139,494
Insurance.....	-	-	-	-	244,721	237,863
Staff development.....	214,367	210,836	57,974	54,389	39,371	27,875
Medical care evaluation.....	398,209	396,006	207,493	175,559	19,945	17,438
PET/CT scan.....	-	-	169,465	141,975	1,399	1,935
Women's health.....	35,682	33,406	-	-	2,450	4,205
SHAPE	68,042	80,767	-	-	4,135	694
TOTAL	\$ 21,979,377	\$ 21,613,020	\$ 6,286,600	\$ 5,374,896	\$ 15,142,302	\$ 14,613,217

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
 PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

PATIENT RECEIVABLES ANALYSIS OF AGING:

	2013		2012	
	Amount	Percent To Total	Amount	Percent To Total
DAYS SINCE DISCHARGE:				
00 - 30.....	\$ 7,470,137	41.38%	\$ 8,096,676	43.20%
31 - 60.....	1,925,173	10.66%	2,088,959	11.16%
61 - 90.....	1,282,737	7.11%	1,090,284	5.82%
91 - 120.....	1,033,792	5.73%	861,238	4.60%
Over 120.....	2,349,801	13.02%	2,326,396	12.41%
Clinic receivables.....	220,291	1.22%	119,161	0.64%
TOTAL RECEIVABLES BILLED	<u>14,281,931</u>	<u>79.11%</u>	<u>14,582,714</u>	<u>77.81%</u>
In Hospital.....	<u>3,770,755</u>	<u>20.89%</u>	<u>4,159,176</u>	<u>22.19%</u>
TOTAL PATIENT RECEIVABLES	<u>18,052,686</u>	<u>100.00%</u>	<u>18,741,890</u>	<u>100.00%</u>
Allowance for doubtful accounts.....	(2,346,000)		(2,346,000)	
Allowance for contractual adjustments.....	(8,461,000)		(8,934,000)	
Clinic allowance for contractual adjustments ...	<u>(76,100)</u>		<u>(49,200)</u>	
TOTAL ALLOWANCES	<u>(10,883,100)</u>		<u>(11,329,200)</u>	
PATIENT RECEIVABLES - NET	<u>\$ 7,169,586</u>		<u>\$ 7,412,690</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	2013	2012
BALANCE - BEGINNING OF YEAR	\$ 2,346,000	\$ 2,143,000
Provision charged to expense.....	2,885,220	2,603,752
Accounts written off.....	(3,793,419)	(3,179,580)
Recoveries of accounts previously written off.....	908,199	778,828
BALANCE - END OF YEAR	<u>\$ 2,346,000</u>	<u>\$ 2,346,000</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVENTORIES AND PREPAID EXPENSES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
INVENTORIES:		
Store room.....	\$ 381,821	\$ 377,661
Nutrition services.....	23,286	22,548
Laboratory.....	85,773	87,845
Pharmacy.....	696,077	727,571
Radiology.....	15,856	11,995
Surgery.....	1,514,932	1,575,723
Other departments.....	<u>60,264</u>	<u>49,166</u>
 TOTALS	 <u>\$ 2,778,009</u>	 <u>\$ 2,852,509</u>
 PREPAID EXPENSES:		
Service contracts and other.....	\$ 861,027	\$ 719,407
Association dues.....	38,852	38,361
Insurance.....	<u>36,145</u>	<u>37,358</u>
 TOTALS	 <u>\$ 936,024</u>	 <u>\$ 795,126</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVESTMENT TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 2013

	Balances Beginning of Year	Additions During the Year	Sales During the Year	Realized & Unrealized Gains (Losses)	Balances End of Year
Certificate of deposit.....	\$ 125,000	\$ -	\$ (125,000)	\$ -	\$ -
Common stocks and mutual funds.....	6,888,058	7,954,228	(7,201,311)	1,184,552	8,825,527
Real estate and other....	1,384,555	4,389	-	212,000	1,600,944
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 8,397,613</u>	<u>\$ 7,958,617</u>	<u>\$ (7,326,311)</u>	<u>\$ 1,396,552</u>	<u>\$ 10,426,471</u>

See Independent Auditors' Report.

**SPENCER MUNICIPAL HOSPITAL
OTHER INFORMATION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

SPENCER MUNICIPAL HOSPITAL
COMPARATIVE STATISTICS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
UNAUDITED

	<u>2013</u>	<u>2012</u>
Admissions (1):		
Medical/surgery, obstetrics & intensive care.....	2,134	2,184
Mental health unit.....	347	602
Swing bed and inn care.....	90	115
Newborns.....	<u>312</u>	<u>265</u>
TOTAL	<u><u>2,883</u></u>	<u><u>3,166</u></u>
Discharges:		
Medical/surgery, obstetrics & intensive care.....	2,102	2,169
Mental health unit.....	351	605
Swing bed and inn care.....	96	117
Newborns.....	<u>314</u>	<u>268</u>
TOTAL	<u><u>2,863</u></u>	<u><u>3,159</u></u>
Patient days:		
Medical/surgery, obstetrics & intensive care.....	7,365	7,623
Mental health unit.....	2,019	3,634
Swing bed and inn care.....	804	884
Newborns.....	<u>691</u>	<u>588</u>
TOTAL	<u><u>10,879</u></u>	<u><u>12,729</u></u>
Average length of stay (days) (1):		
Medical/surgery, obstetrics & intensive care.....	3.45	3.49
Mental health unit.....	5.82	6.04
Swing bed and inn care.....	8.93	7.69
Newborns.....	2.21	2.22
Average number of patients per day:		
Medical/surgery, obstetrics & intensive care.....	20.18	20.88
Mental health unit.....	5.53	9.96
Swing bed and inn care.....	2.20	2.42
Newborns.....	1.89	1.61
Outpatient visits (1).....	<u><u>114,657</u></u>	<u><u>119,443</u></u>
Licensed beds at end of year.....	<u><u>99</u></u>	<u><u>99</u></u>

(1) - Amounts for 2012 were revised to conform to 2013's calculation methodology.

See Independent Auditors' Report.

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, in accordance with the 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, the accompanying basic financial statements of Spencer Municipal Hospital (Hospital) as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated October 2, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

Winkler, Stave & Co., LLP

October 2, 2013

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements

None

Part II: Other Findings Related to Required Statutory Reporting

II-A-13 Certified Budget

For the year ended June 30, 2013, the Hospital's expenditures did not exceed the amount budgeted.

II-B-13 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-13 Travel Expense

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

II-D-13 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	\$ 5,449
Kris Van Berkum, Board member Co-owner JCL Solutions	Purchase of cleaning supplies	1,838
John Cotton, Board member Co-owner Cotton Grave Farm Management & Realty	Farm management fees	6,473
Co-owner Community State Bank	Interest income from Community State Bank	4,219

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, 2013

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

II-E-13 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-13 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.