

**Winneshiek Medical Center
Decorah, Iowa**

FINANCIAL REPORT

June 30, 2005

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**Winneshiek Medical Center
OFFICIALS
June 30, 2005**

Before January 2005

BOARD OF TRUSTEES

Ben Wyatt, President
David Kratz, Vice President
Don Nelson, Secretary-Treasurer
Arlene Houlihan
Karl Schroeder

Expiration of term

December 31, 2008
December 31, 2004
December 31, 2006
December 31, 2006
December 31, 2008

CHIEF EXECUTIVE OFFICER

Allan Atkinson

CHIEF FINANCIAL OFFICER

Timothy Wren

DIRECTOR OF NURSING

Sheryl Juve

After January 2005

BOARD OF TRUSTEES

Ben Wyatt, President
Arlene Houlihan, Vice President
Don Nelson, Secretary-Treasurer
Karl Schroeder
Roger Huinker

Expiration of term

December 31, 2008
December 31, 2006
December 31, 2006
December 31, 2008
December 31, 2011

CHIEF ADMINISTRATIVE OFFICER

Allan Atkinson

CHIEF OPERATING OFFICER

Mark Henke

CHIEF MEDICAL OFFICER

David Heine

CHIEF FINANCIAL OFFICER

Timothy Wren

DIRECTOR OF NURSING

Sheryl Juve

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the accompanying balance sheets of Winneshiek Medical Center as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Winneshiek Medical Center as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2005 on our consideration of Winneshiek Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 5-11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on management's discussion and analysis.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 26, 2005

**Winneshiek Medical Center
(WMC)
Management's Discussion and Analysis**

As management of Winneshiek Medical Center, we offer this narrative overview and analysis of the WMC's financial performance during the fiscal years ended June 30, 2005, 2004 and 2003. Please read it in conjunction with WMC's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes management's discussion and analysis report, the independent auditor's report and basic financial statements of the Medical Center. The financial statements also include notes that explain in more detail some of the information contained therein.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Medical Center use accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheet includes all the Medical Center's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Medical Center creditors (liabilities). It provides the basis for evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the Medical Center's operations over the past year and can be used to determine whether the Medical Center has successfully recovered all of its costs through its patient service revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities and provides answers to such questions as where the cash came from, what the cash was used for, and what the change in cash balance was during the reporting period.

FINANCIAL HIGHLIGHTS

- Total assets increased by \$4,766,075.
- Total assets whose use is limited decreased by \$1,617,758.
- Total property and equipment increased by \$5,039,752.
- Fund equity increased by \$2,672,698.
- Net patient service revenue increased by \$3,175,552, primarily due to addition of a Clinic and conversion to Medicare Critical Access Hospital designation.
- Expenses increased by \$3,539,570, primarily due to associated Clinic expenses and competitive increases in wages for essential personnel.
- Total margin for FY 2005 was 5.76%, compared to 7.70% for FY 2004.

FINANCIAL ANALYSIS OF WCMH

The balance sheet and the statement of revenues, expenses, and changes in fund equity report the net assets of the Medical Center and the changes in them. The Medical Center's net assets – the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation should also be considered.

Net Assets

A summary of the Medical Center's balance sheets at June 30, 2005, 2004 and 2003, are presented in Table 1 below.

Table 1
Condensed Balance Sheets

	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>	<u>Dollar</u> <u>Change</u>	<u>Total %</u> <u>Change</u>	<u>June 30,</u> <u>2003</u>
Current and other assets	\$12,579,438	\$12,853,115	\$ (273,677)	(2)%	\$11,292,421
Property and equipment (net)	13,027,955	7,988,203	5,039,752	63%	7,293,231
Total assets	<u>\$25,607,393</u>	<u>\$20,841,318</u>	<u>\$4,766,075</u>	<u>22%</u>	<u>\$18,585,652</u>
Long-term debt outstanding	\$ 902,119	\$ 1,176,217	\$ (274,098)	(23)%	\$ 1,548,192
Other liabilities	4,875,677	2,508,202	2,367,475	94%	2,338,674
Total liabilities	<u>\$ 5,777,796</u>	<u>\$ 3,684,419</u>	<u>\$2,093,377</u>	<u>57%</u>	<u>\$ 3,886,866</u>
Invested in capital assets (net)	\$10,848,580	\$ 6,438,143	\$4,410,437	69%	\$ 5,388,129
Restricted expansion fund	817,044	804,805	12,239	2%	786,661
Foundation fund	711,032	418,213	292,819	70%	36,848
Unrestricted	7,452,941	9,495,738	(2,042,797)	(21)%	8,487,148
Total net assets	<u>\$19,829,597</u>	<u>\$17,156,899</u>	<u>\$2,672,698</u>	<u>16%</u>	<u>\$14,698,786</u>

As can be seen by Table 1, net assets increased by \$2,673 million to \$19.8 million in fiscal year 2005, up from \$17.1 million in fiscal year 2004. The change in net assets results primarily from acquisition of the Decorah Clinic assets.

During fiscal year 2005 the Medical Center acquired the Decorah Clinic assets for \$3,400,000. The expenditures during the fiscal year 2005 for the Meditech/LSS projects were \$247,789. A November 2006 completion date is anticipated. In addition, other capital items were purchased for the Medical Center (See Capital Asset section). These capital items were funded by internal general funds. Architects were paid \$889,750 for a major construction project which will be in excess of \$13.2 million. This project is funded by a Capital Campaign Fund, borrowing from local county banks and from internal general funds.

REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

The following table presents a summary of the Medical Center's revenues and expenses for each of the fiscal years ended June 30, 2005, 2004 and 2003.

Table 2
Condensed Statements of Revenue, Expenses, and Changes in Fund Equity
(In Thousands)

	<u>Year ended June 30,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total revenue	\$22,943	\$19,692	\$17,780
Expenses	<u>22,218</u>	<u>18,678</u>	<u>16,231</u>
Operating income	725	1,014	1,549
Non-operating gains	<u>632</u>	<u>545</u>	<u>553</u>
Excess of revenues over expenses before contributions	1,357	1,559	2,102
Contributions	<u>1,316</u>	<u>899</u>	<u>114</u>
Changes in fund equity	2,673	2,458	2,216
Total fund equity, beginning	<u>17,156</u>	<u>14,698</u>	<u>12,482</u>
Total fund equity, ending	<u>\$19,829</u>	<u>\$17,156</u>	<u>\$14,698</u>

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the Medical Center's statement of revenues, expenses, and changes in fund equity between June 30, 2005 and 2004.

Volume: Inpatient admissions (excluding normal newborns) for fiscal year 2005 were 1,674 compared to 1,402 in fiscal year 2004. Because the average length of stay declined slightly, patient days declined by 324 from 4745 in 2004. Departments with substantial volume increases occurred in: Radiology, CT Scan, Occupational Therapy, and Home Health. Also note that volumes were positively impacted by the addition of the clinic to Medical Center operations.

Net Patient Service Revenue: Due to a rate increase of 0% to 7% effective July 1, 2004, and the increase in patient volumes discussed above, net patient service revenues climbed by \$3,175,552, or 15.8% in comparison to fiscal year 2004. The Medical Center was able to obtain Medicare designation of Critical Access Hospital (CAH) status during the fiscal year 2005. The contractual adjustments for the Medical Center remained basically unchanged at 32% of Gross Patient Service Revenue. There was an increase in Prospective Pricing System (PPS) discounts during fiscal year 2005; however, these PPS discounts were slightly offset by the decrease in contractals associated with CAH status. In the future, with appropriate volumes, savings will be realized from the reduction in CAH contractals compared to PPS contractals.

The following table presents the relative percentages of gross charges billed for patient services by payer for the years ended June 30, 2005, 2004 and 2003.

Table 3
Payor Mix by Percentage

	Year Ended June 30		
	2005	2004	2003
Medicare	50.33%	52.75%	51.45%
Medicaid	5.01%	4.50%	4.56%
Self Pay	3.54%	3.30%	3.53%
Wellmark	17.71%	14.63%	14.44%
Commercial	21.46%	21.62%	23.69%
Others	1.95%	3.20%	2.33%

Other Operating Revenue: increased \$75,475, primarily due to off campus Physical Therapy contracts.

Nursing Service Expenses: increased \$556,320, primarily due to competitive increases for essential personnel.

Other Professional Service Expenses: increased \$1,991,220, primarily due to Clinic expenses and expanding Ambulance services and additional CT scan expenses.

General Service Expenses: increased \$83,907, primarily due to additional expenses in our Plant Operations.

Fiscal and Administrative Expenses: increased \$736,428, primarily due to increased benefit costs including expense for Clinic benefits. In addition there were increased wages and services to support growing patient related services.

Nonoperating Gains: increased \$86,838, primarily due to rental property acquired in the clinic transaction.

CAPITAL ASSETS

At the end of fiscal year 2005, the Medical Center has invested \$13.027 million in capital assets as shown in Table 4. The \$5,039,752 increase in capital assets is primarily a result of increases in buildings, major moveable equipment and construction in progress. Buildings increased by \$4,102,240 due primarily to the purchase of 3 clinic buildings that are now part of the Medical Center. Major moveable equipment increased by \$1,203,139 primarily as a result of the purchase of \$245,000 of clinic equipment associated with the purchase of the buildings and the purchase of a new CT scanner for \$817,500. Construction in progress has increased due mainly to the beginning of work on the \$13.2 million expansion project.

The following table summarizes the Medical Center's capital assets as of June 30, 2005, 2004 and 2003.

Table 4
Capital Assets

	<u>June 30,</u>			<u>June 30,</u>
	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>2003</u>
Land	\$ 551,673	\$ 551,673	\$ -	\$ 669,673
Land improvements	351,767	342,283	9,484	334,971
Buildings and leasehold improvements	12,060,411	7,958,171	4,102,240	7,828,372
Fixed equipment	1,322,321	1,272,973	49,348	1,256,803
Major moveable equipment	8,454,339	7,251,200	1,203,139	5,928,887
Construction in progress	<u>1,472,316</u>	<u>970,357</u>	<u>501,959</u>	<u>523,214</u>
Subtotal	24,212,827	18,346,657	5,866,170	16,541,920
Less accumulated depreciation	<u>(11,184,872)</u>	<u>(10,358,454)</u>	<u>(826,418)</u>	<u>(9,248,689)</u>
Property, plant and equipment, net	<u>\$13,027,955</u>	<u>\$ 7,988,203</u>	<u>\$ 5,039,752</u>	<u>\$ 7,293,231</u>

DEBT ADMINISTRATION

Long Term Debt

At year-end, the Medical Center had \$2,179,375 in short and long – term debt related to a County public hospital revenue note. This has increased by \$629,315 from the previous fiscal year as a result of new long-term debt incurred in the current year. The Medical Center incurred \$1 million in debt related to its upcoming expansion project. According to the terms of the construction note, \$875,095 of the initial \$1 million is listed as a short-term obligation - payable within one year. More detailed information about the Medical Center's outstanding debt is presented in the Notes to the Financial Statements.

CAPITAL LEASES

There were no capital lease obligations for the years ended June 30, 2005, 2004 and 2003.

PERFORMANCE COMPARED TO BUDGET

Net patient revenues were \$990,870 or 2.97% over budget for the fiscal year ended June 30, 2005. This was primarily due to the addition of the clinic to the Medical Center and the hospital obtaining Critical Access Hospital status. As noted in Table 5, contractual adjustments were 14.49% over-budget. This overage was largely associated with the addition of the clinic business.

Other operating revenues were \$104,059 or 13.44% under budget. This was primarily due to a decrease in the sale of pharmaceuticals to non-patients. Note - Budget does not include tax dollars received. Taxes for budgeting purposes are included in non-operating revenue.

Income from investments was \$1,035,522 or 263.49% over budget. This was primarily due to a restricted gift of \$1,000,000 from the Mayo Foundation to the Winneshiek Medical Center Foundation at the time the Medical Center purchased the clinic. The restricted gift was for assistance purchasing the telephone system, the clinic software system (LSS), and central registration. It should be noted for budgeting purposes the foundation investment income is not included.

The following table compares fiscal year 2005 actual to budget information.

**Table 5
Budget vs. Actual**

	FY 2005 Budget	FY 2005 Actual	Dollar Variance	Percent Variance
Gross patient service revenue	\$33,313,114	\$34,303,984	\$ 990,870	2.97%
Contractual adjustments	(10,508,459)	(12,031,112)	(1,522,653)	14.49%
Net patient service revenue	22,804,655	22,272,872	(531,783)	(2.33)%
Other operating revenue, excluding county taxes	774,400	670,341	(104,059)	(13.44)%
Total operating revenue	23,579,055	22,943,213	(635,842)	(2.70)%
Operating expenses	22,029,225	22,217,916	188,691	0.86%
Operating income	\$ 1,549,830	\$ 725,297	\$ (824,533)	(53.20)%
Income from investments (Budget – Foundation)	393,000	1,428,522	1,035,522	263.49%
Other non-operating revenue + (county taxes)	559,654	518,879	(40,775)	(7.29)%
Excess of revenues over expenses	\$2,502,484	\$ 2,672,698	\$170,214	6.80%

ECONOMIC AND OTHER FACTORS AND NEXT YEAR'S BUDGET

The Medical Center's board and management considered many factors when setting the fiscal year 2006 budget. Of primary importance in setting the 2006 budget is the economy, which takes into account market forces and environmental factors such as:

- Medicare and Medicaid reimbursement rates
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies
- Surging drug costs

Other factors consisted of plans to merge with the Decorah Clinic Physicians, obtain adequate funding for our expansion, increased competition and fulfilling the objective of become a CAH and Provider Based Billing for the clinic.

Contacting the Medical Center's Finance Department

The Medical Center's financial statements are designed to present users with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability. If you have questions about the report or need additional financial information, please contact Tim Wren, CFO at 563-382-2911.

**Winneshiek Medical Center
BALANCE SHEETS**

ASSETS	June 30	
	2005	2004
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,730,425	\$ 2,365,395
Patient receivables, less allowances for contractual adjustments and uncollectibles		
2005 \$2,605,222; 2004 \$1,951,050	4,560,747	3,031,901
Estimated third party payor settlements	128,898	669,700
Other receivables	26,461	317
Inventories	592,083	626,558
Prepaid expenses	92,960	89,990
Total current assets	<u>8,131,574</u>	<u>6,783,861</u>
ASSETS WHOSE USE IS LIMITED		
Designated by Board for plant replacement and expansion		
Cash	1,115,063	2,299,515
Certificates of deposit	<u>1,368,723</u>	<u>2,107,087</u>
	<u>2,483,786</u>	<u>4,406,602</u>
Restricted by donors for specific purpose		
Cash and cash equivalents	307,029	297,295
Certificates of deposit	506,508	504,003
Interest receivable	3,507	3,507
	<u>817,044</u>	<u>804,805</u>
Restricted by donors/foundation		
Cash and cash equivalents	286,320	62,234
Certificate of deposit	7,372	8,062
Investments	9,705	40,477
Pledges receivable	<u>407,635</u>	<u>307,440</u>
	<u>711,032</u>	<u>418,213</u>
Total assets whose use is limited	<u>4,011,862</u>	<u>5,629,620</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	24,212,827	18,346,657
Total property and equipment	<u>11,184,872</u>	<u>10,358,454</u>
	<u>13,027,955</u>	<u>7,988,203</u>
OTHER ASSETS		
Succeeding year property tax receivable	427,614	427,053
Unamortized financing costs	8,388	12,581
Total other assets	<u>436,002</u>	<u>439,634</u>
Totals	<u>\$25,607,393</u>	<u>\$20,841,318</u>

See Notes to Financial Statements.

	June 30	
	<u>2005</u>	<u>2004</u>
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,277,256	\$ 373,843
Accounts payable	1,204,992	414,019
Deferred revenue, contribution	250,000	-
Accrued employee compensation	1,550,544	1,200,394
Payroll taxes and amounts withheld from employees	165,271	92,893
	<u>4,448,063</u>	<u>2,081,149</u>
LONG-TERM DEBT		
County public hospital revenue notes	2,179,375	1,550,060
Less current maturities	<u>1,277,256</u>	<u>373,843</u>
Total long-term debt	<u>902,119</u>	<u>1,176,217</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE		
	<u>427,614</u>	<u>427,053</u>
CONTINGENCIES		
FUND EQUITY		
Invested in capital assets, net of related debt	10,848,580	6,438,143
Restricted		
For specific purpose by donors	817,044	804,805
By donors/foundation	711,032	418,213
Unrestricted	<u>7,452,941</u>	<u>9,495,738</u>
Total fund equity	<u>19,829,597</u>	<u>17,156,899</u>
Totals	<u>\$25,607,393</u>	<u>\$20,841,318</u>

Winneshiek Medical Center
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

	Year ended June 30	
	2005	2004
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2005 \$828,775; 2004 \$651,000	\$22,272,872	\$19,097,320
OTHER REVENUE	<u>670,341</u>	<u>594,866</u>
Total revenue	<u>22,943,213</u>	<u>19,692,186</u>
EXPENSES		
Nursing service	6,473,439	5,917,119
Other professional service	7,771,263	5,780,043
General service	1,476,812	1,392,905
Fiscal and administrative service and unassigned expenses	5,214,942	4,478,514
Provision for depreciation and amortization	<u>1,281,460</u>	<u>1,109,765</u>
Total expenses	<u>22,217,916</u>	<u>18,678,346</u>
Operating income	<u>725,297</u>	<u>1,013,840</u>
NONOPERATING GAINS (LOSSES)		
County taxes	436,595	433,127
Interest income	112,720	101,879
Interest expense	(64,781)	(80,424)
Unrestricted contributions	12,240	21,072
Rental property, net	137,398	66,916
Gain (loss) on sale of property and equipment	<u>(2,573)</u>	<u>2,191</u>
Total nonoperating gains (losses)	<u>631,599</u>	<u>544,761</u>
Excess of revenues and gains over expenses before contributions	1,356,896	1,558,601
CONTRIBUTIONS	<u>1,315,802</u>	<u>899,512</u>
Change in fund equity	2,672,698	2,458,113
TOTAL FUND EQUITY		
Beginning	<u>17,156,899</u>	<u>14,698,786</u>
Ending	<u>\$19,829,597</u>	<u>\$17,156,899</u>

See Notes to Financial Statements.

**Winneshiek Medical Center
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$21,284,828	\$18,412,586
Cash paid to suppliers for goods and services	(11,123,264)	(9,110,876)
Cash paid to employees for services	(9,378,186)	(8,265,363)
Other operating revenues received	644,197	632,220
Net cash provided by operating activities	<u>1,427,575</u>	<u>1,668,567</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	436,595	433,127
Unrestricted contributions received	12,240	21,072
Foundation contributions, net of expense	1,465,607	592,072
Net cash provided by noncapital financing activities	<u>1,914,442</u>	<u>1,046,271</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(5,646,643)	(1,841,635)
Proceeds from sale of equipment	132,858	2,191
Principal paid on long-term debt	(370,685)	(355,042)
Proceeds from long-term debt	1,000,000	-
Interest paid on long-term debt	(60,588)	(76,231)
Net cash (used in) capital and related financing activities	<u>(4,945,058)</u>	<u>(2,270,717)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchase) redemptions of certificates of deposit and investments	767,321	(535,032)
Investment income received	112,720	99,833
Net cash received on rental property	137,398	66,916
Net cash provided by (used in) investing activities	<u>1,017,439</u>	<u>(368,283)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(585,602)	75,838
CASH AND CASH EQUIVALENTS		
Beginning	<u>5,024,439</u>	<u>4,948,601</u>
Ending	<u>\$ 4,438,837</u>	<u>\$ 5,024,439</u>

See Notes to Financial Statements.

Winneshiek Medical Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 725,297	\$1,013,840
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation and amortization	1,281,460	1,113,958
Change in assets and liabilities		
(Increase) decrease in patient receivables	(1,528,846)	34,966
(Increase) decrease in other receivables	(26,144)	37,354
Decrease in inventories	34,475	1,801
(Increase) in prepaid expenses	(2,970)	(46,148)
Increase (decrease) in accounts payable, net of amounts for property and equipment	(19,027)	24,486
Increase in accrued employee compensated absences	350,150	151,877
Increase in payroll taxes and amounts withheld from employees	72,378	56,133
(Increase) decrease in net estimated third-party payor settlements	<u>540,802</u>	<u>(719,700)</u>
Net cash provided by operating activities	<u>\$1,427,575</u>	<u>\$1,668,567</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$2,730,425	\$2,365,395
Assets whose use is limited		
Board-designated for plant replacement and expansion	1,115,063	2,299,515
Restricted by donors for specific purpose	307,029	297,295
Restricted by donors/foundation	<u>286,320</u>	<u>62,234</u>
Total per statement of cash flows	<u>\$4,438,837</u>	<u>\$5,024,439</u>

See Notes to Financial Statements.

Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Medical Center is a county public hospital organized under Chapter 347A, Code of Iowa, not subject to taxes on income or property and receives tax support from Winneshiek County, Iowa. The Medical Center is organized exclusively for charitable and educational purposes within the meaning of Chapter 501(c)(3) of the Internal Revenue Code. The Medical Center grants credit to patients, substantially all of whom are county residents and other areas of northeastern Iowa or southeastern Minnesota.

Reporting Entity

For financial reporting purposes, Winneshiek Medical Center (formerly known as Winneshiek County Memorial Hospital) has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Medical Center has also 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 Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board 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 Medical Center 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 Medical Center. These criteria also include organizations that are fiscally dependent on the Medical Center. Based on this criteria the Medical Center has included the Winneshiek County Memorial Hospital Foundation as a blended component unit. The Foundation was formed by the Medical Center to promote fundraising efforts on behalf of the Medical Center. The Foundation is a nonprofit corporation formed pursuant to Chapter 504A of the Code of Iowa and is a tax-exempt corporation pursuant to Section 501(c)(3) of the Internal Revenue Code. The Medical Center is the sole voting member of the corporation. The financial data of the Foundation is reported as restricted fund equity in the Medical Center's financial statements.

Measurement Focus and Basis of Accounting

The Medical Center is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Medical Center is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Medical Center uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Medical Center has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989.

Cash and Cash Equivalents

For the purposes of reporting the statement of cash flows the Medical Center considers all cash, savings, and money market accounts to be cash equivalents.

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Investment Income

The Medical Center's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Equity securities Mutual funds	Fair value based on quoted market prices

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

Investment income from investments is reported as nonoperating gains. Investment income includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments.

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Property and equipment donated for Medical Center operations is recorded at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method.

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Patient Service Revenue

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

Statements of Revenues, Expenses, and Changes in Fund Equity

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses.

Costs of Borrowing

Unamortized financing costs are being amortized over the period the obligation is outstanding using the straight-line method.

Fund Equity

Fund equity is presented in the following components:

Invested in capital assets, net of related debt

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

Restricted fund equity

Restricted fund equity consists of funds on which constraints have been externally imposed by grantors or contributors (including the Foundation).

Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

Accounting Estimates and Assumptions

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Pledges Receivable

Unconditional pledge receivable are recorded as receivables and contributions in the year received.

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS

The Medical Center's deposits in banks at June 30, 2005 were covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Medical Center 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; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The Medical Center also maintains mutual fund investments which were received by donation.

The Medical Center's investments, except the marketable equity securities, are insured or registered or for which the securities are held by the Medical Center or its agent in the Medical Center's name. The mutual funds are uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the Medical Center's name. All investments listed below are subject to custodial credit risk. The Medical Center does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates (interest rate risk).

The Medical Center's investments at June 30, 2005 are reported at fair value as follows:

	<u>Fair value</u>
Mutual funds (mature daily)	\$ <u>9,705</u>

The primary objectives of the Medical Center's investment policy include the safety and preservation of principal in the overall investment portfolio, the maintenance of necessary liquidity to match expected liabilities, and obtaining a reasonable return. Funds not identified as operating funds may be invested in investments with maturities longer than three hundred ninety-seven days, provided that the maturities shall be consistent with the needs and use of the Medical Center.

NOTE 3 NET PATIENT SERVICE REVENUE

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare

The Medical Center is designated a Critical Access Hospital effective May 1, 2005. As a Critical Access Hospital services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the fiscal intermediary. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2003.

Other

The Medical Center has also entered into payment agreements with Blue Cross, other commercial insurance carriers and health maintenance organizations. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 4 PROPERTY AND EQUIPMENT

A summary of changes in property and equipment for the year ended June 30, 2005 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 551,673	\$ —	\$ —	\$ —	\$ 551,673
Land improvements	342,283	9,684	(200)	—	351,767
Buildings and leasehold improvements	7,958,171	3,465,582	(52,894)	689,552	12,060,411
Fixed equipment	1,272,973	44,921	(350)	4,777	1,322,321
Major movable equipment	7,251,200	1,516,554	(523,298)	209,883	8,454,339
Construction and equipment installations in progress	<u>970,357</u>	<u>1,419,902</u>	<u>(13,731)</u>	<u>(904,212)</u>	<u>1,472,316</u>
Totals	18,346,657	6,456,643	(590,473)	—	24,212,827
Less accumulated depreciation and amortization	<u>(10,358,454)</u>	<u>(1,281,460)</u>	<u>455,042</u>	—	<u>(11,184,872)</u>
Net property and equipment	<u>\$ 7,988,203</u>	<u>\$ 5,175,183</u>	<u>\$ (135,431)</u>	<u>\$ —</u>	<u>\$ 13,027,955</u>

Included in equipment installations in progress are costs related to \$400,000 in clinic computer system installations and \$100,000 for a telephone system upgrade for fiscal year 2006. As of June 30, 2005, the Medical Center has entered into signed commitments of approximately \$11,765,000 for a Medical Center expansion project. The total cost of the expansion project is estimated to be approximately \$13.2 million with a completion date in fiscal year 2007.

A summary of changes in property and equipment for the year ended June 30, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 669,673	\$ —	\$ (118,000)	\$ —	\$ 551,673
Land improvements	334,971	7,312	—	—	342,283
Buildings and leasehold improvements	7,828,372	59,404	—	70,395	7,958,171
Fixed equipment	1,256,803	16,170	—	—	1,272,973
Major movable equipment	5,928,887	340,934	(8,238)	989,707	7,251,200
Construction in progress	<u>523,214</u>	<u>1,507,245</u>	<u>—</u>	<u>(1,060,102)</u>	<u>970,357</u>
Totals	16,541,920	1,931,065	(126,328)	—	18,346,657
Less accumulated depreciation and amortization	<u>(9,248,689)</u>	<u>(1,109,765)</u>	—	—	<u>(10,358,454)</u>
Net property and equipment	<u>\$ 7,293,231</u>	<u>\$ 821,300</u>	<u>\$ (126,328)</u>	<u>\$ —</u>	<u>\$ 7,988,203</u>

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 LONG-TERM DEBT

In December, 2001, the Board of Trustees of Winneshiek Medical Center authorized the issuance of a \$3,500,000 Hospital Revenue Note, Series 2001 to be funded by the Community First National Bank of Decorah, Iowa (the lender). The purpose of the note is to finance the cost of improvements to the Medical Center including the acquisition of real estate, the renovation and furnishing of the special care unit and the acquisition and construction of improvements and equipment included in the Medical Center's capital budget for the fiscal years ending June 30, 2003 and June 30, 2004 and to refund a 1996 Hospital Revenue Note.

Advances of principal under the note in an amount not to exceed \$3,500,000 were made by the lender from time to time at the request of the Medical Center during the period beginning on the date of issuance of the note to and including May 31, 2003. Advances totaled \$2,245,912.

Beginning on February 1, 2003, the Medical Center began paying monthly installments of principal and interest totaling \$35,939, including interest at 4.30%.

The Board of Trustees of Winneshiek Medical Center also authorized the issuance of a \$10,000,000 Hospital Revenue Note, Series 2005 to be funded by Decorah Bank & Trust of Decorah, Iowa (the lender). The purpose of the note is to finance the renovation, equipping and furnishing of existing facilities, the construction of a one-story addition, and the acquisition and construction of improvements and equipment included in the Hospital's capital budget for the fiscal years ending June 30, 2005 and June 30, 2006.

Advances of principal under the note in an amount not to exceed \$10,000,000 will be made from time to time at the request of the Medical Center during the period beginning on the date of issuance of the note to and including August 31, 2006. Advances through June 30, 2005 totaled \$1,000,000.

Beginning on April 1, 2005, the Medical Center began paying interest only payments. Beginning on July 1, 2005, the Medical Center will begin paying monthly installments of principal and interest totaling \$76,295, including interest at 4.46%.

The annual estimated requirements relating to the revenue note agreements are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$1,277,256	\$ 69,558	\$1,346,814
2007	516,351	25,955	542,306
2008	385,768	8,195	393,963
Total	2,179,375	103,708	2,283,083
Less current maturities	1,277,256	69,558	1,346,814
Total long-term portion	\$ <u>902,119</u>	\$ <u>34,150</u>	\$ <u>936,269</u>

Long-term debt activity for the years ended June 30, 2005 and 2004 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Revenue notes					
2005	\$1,550,060	\$1,000,000	\$ (370,685)	\$2,179,375	\$1,277,256
2004	\$1,905,102	\$ —	\$ (355,042)	\$1,550,060	\$ 373,843

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 MEDICAL OFFICE SPACE LEASE

The Medical Center, as lessor, leases a building to be used as a medical office under an operating lease agreement that expires December 1, 2011. Lease payments are to be received in monthly installments of \$6,656.

Information with respect to the estimated minimum rents to be received under the lease is as follows:

Year ending June 30

2006	\$ 79,872
2007	79,872
2008	79,872
2009	79,872
2010	79,872
Thereafter	<u>119,808</u>
Total	<u>\$ 519,168</u>

NOTE 7 DEFINED BENEFIT PENSION PLAN

The Medical Center 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, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Medical Center is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$534,388, \$469,957 and \$415,507, respectively, equal to the required contributions for each year.

NOTE 8 CHARITY CARE

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Charges foregone, based on established rates	\$ <u>207,402</u>	\$ <u>142,107</u>
Equivalent percentage of charity care patients to all patients served	<u>.6%</u>	<u>.5%</u>

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 MALPRACTICE CLAIMS

The Medical Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate. In addition the Medical Center has excess liability coverage of \$5,000,000 in the aggregate.

Incidents occurring through June 30, 2005 may result in the assertion of additional claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 10 PATIENT RECEIVABLES

	June 30	
	2005	2004
Receivable from patients	\$ 929,144	\$ 517,767
Receivable from insurance carriers	3,380,693	2,532,121
Receivable from Medicare	2,450,470	1,696,198
Receivable from Medicaid	<u>405,662</u>	<u>236,865</u>
Total patient receivables	7,165,969	4,982,951
Less allowance for contractual adjustments and uncollectibles	<u>2,605,222</u>	<u>1,951,050</u>
 Net patient receivables	 <u>\$4,560,747</u>	 <u>\$3,031,901</u>

NOTE 11 MEDICAL CENTER RISK MANAGEMENT

The Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Medical Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for any of the past three fiscal years.

NOTE 12 EMPLOYEE BENEFITS

The Medical Center has developed a self-insured health insurance program for all employees. Claims for health care services for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$30,000 per person, with an aggregate stop-loss provision for the plan as a whole of \$1,000,000. Total expense, which includes claims, administration fees, and stop-loss insurance, under this self-insurance program for the years ended June 30, 2005 and 2004 was \$1,070,954 and \$707,649, respectively.

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 PLEDGES RECEIVABLE

At June 30, 2005 and 2004, the Foundation's pledges receivable consisted of pledges to be used for the Medical Center's proposed expansion project.

A summary of the activity in pledges receivable for the year ended June 30, 2005 and 2004 is as follows:

	June 30	
	2005	2004
Beginning balance	\$ 307,440	\$ —
Pledges made during the year	1,328,700	899,512
Pledge payments received	(1,228,505)	(592,072)
Ending balance	<u>\$ 407,635</u>	<u>\$ 307,440</u>

Pledges receivable at June 30, 2005 are expected to be received as follows:

Year ending June 30

2006	\$ 225,435
2007	90,100
2008	55,300
2009	22,600
2010	7,200
Thereafter	<u>7,000</u>
Total	<u>\$ 407,635</u>

**INDEPENDENT AUDITOR'S REPORT ON THE REQUIRED
AND OTHER SUPPLEMENTARY INFORMATION**

Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

Our report on our audits of the basic financial statements of Winneshiek Medical Center as of and for the years ended June 30, 2005 and 2004 appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required and other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We also audited the supplementary information for the years ended June 30, 2003 and 2002, and expressed an unqualified opinion on such information in relation to the basic financial statements taken as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 26, 2005

REQUIRED SUPPLEMENTARY INFORMATION

Winneshiek Medical Center
BUDGET COMPARISON SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS, BUDGET AND ACTUAL
Year ended June 30, 2005

The following is a comparison of reported amounts to the budget:

	<u>Reported amounts (GAAP basis)</u>			<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>Amended Budget</u>
	<u>*General funds</u>	<u>Restricted funds</u>	<u>Total (memorandum only)</u>			
Amount to be raised by taxation	\$ 436,595	\$ -	\$ 436,595	\$ -	\$ 436,595	\$ 427,053
Other revenues/receipts	<u>24,148,961</u>	<u>1,315,802</u>	<u>25,464,763</u>	<u>-</u>	<u>25,464,763</u>	<u>20,724,411</u>
	<u>24,585,556</u>	<u>1,315,802</u>	<u>25,901,358</u>	<u>-</u>	<u>25,901,358</u>	<u>21,151,464</u>
Expenses/expenditures	<u>22,217,916</u>	<u>1,010,744</u>	<u>23,228,660</u>	<u>2,321,623</u>	<u>25,550,283</u>	<u>25,928,584</u>
Net	<u>2,367,640</u>	<u>305,058</u>	<u>2,672,698</u>	<u>(2,321,623)</u>	<u>351,075</u>	<u>(4,777,120)</u>
Balance, beginning	<u>15,933,881</u>	<u>1,223,018</u>	<u>17,156,899</u>	<u>(5,900,423)</u>	<u>11,256,476</u>	<u>9,794,820</u>
Balance, ending	<u>\$18,301,521</u>	<u>\$1,528,076</u>	<u>\$19,829,597</u>	<u>\$(8,222,046)</u>	<u>\$11,607,551</u>	<u>\$ 5,017,700</u>

*Includes unrestricted fund equity and fund equity invested in capital assets, net of related debt.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget for all funds following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The Medical Center prepares its annual budget on a budget basis (budget basis) which differs from generally accepted accounting principles (GAAP basis). The major differences between budget and GAAP bases are that depreciation is not recorded as an expenditure on the budget basis and capital expenditures net of borrowings and long-term debt requirements are recorded on the budget basis.

OTHER SUPPLEMENTARY INFORMATION

**Winneshiek Medical Center
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
0 - 30 days (includes patients in Medical Center at end of year)	\$2,025,682	\$2,026,304	28.26%	38.00%
31 - 60 days	1,043,800	792,095	14.57	14.85
61 - 90 days	630,397	377,951	8.80	7.09
91 - 180 days	958,630	826,730	13.38	15.50
6 - 12 months	817,018	904,607	11.40	16.96
Over 1 year	<u>1,690,442</u>	<u>405,264</u>	<u>23.59</u>	<u>7.60</u>
	7,165,969	5,332,951	<u>100.00%</u>	<u>100.00%</u>
Unapplied Medicare periodic interim payments	—	(350,000)		
Totals	<u>7,165,969</u>	<u>4,982,951</u>		
Allowances				
Contractual				
Medicare	1,313,732	1,091,867		
Medicaid	33,298	45,416		
Other	40,304	—		
Uncollectibles	<u>1,217,888</u>	<u>813,767</u>		
Total allowances	<u>2,605,222</u>	<u>1,951,050</u>		
Totals	<u>\$4,560,747</u>	<u>\$3,031,901</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 61,022</u>	<u>\$ 52,178</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>75</u>	<u>58</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
BALANCE , beginning	\$ 813,767	\$ 846,691		
ADD				
Provision for bad debts	828,775	651,000	3.72%	3.41%
Recoveries of accounts previously written off	369,137	207,806	1.66	1.09
Allowance related to purchase of clinic accounts receivable	342,668	—		
DEDUCT				
Accounts written off	(1,136,459)	(891,730)	5.10	4.67
BALANCE , ending	<u>\$1,217,888</u>	<u>\$ 813,767</u>		

**Winneshiek Medical Center
COMPARATIVE INVENTORIES**

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Surgery/central supply	\$ 421,320	\$ 452,217
Pharmacy	165,164	167,921
Dietary	<u>5,599</u>	<u>6,420</u>
Totals	<u>\$ 592,083</u>	<u>\$ 626,558</u>

**Winneshiek Medical Center
INSURANCE COVERAGE
June 30, 2005**

<u>Insurer</u>	<u>Coverage Type</u>	<u>Effective Dates</u>	<u>Coverage Amount</u>
Farm Bureau	Worker's Compensation	April 2005 to April 2006	\$500,000/500,000/500,000
Pic of Wisconsin	Commercial General Liability	April 2005 to April 2006	\$1,000,000
	Umbrella Excess Liability		5,000,000
	Medical Professional Liability - Each Person		1,000,000
	Medical Professional Liability - Total Facility		3,000,000
Chubb	Blanket limit of insurance	April 2005 to April 2006	\$27,515,600
	Blanket Earnings and Expense Coverage		2,502,000
	Builders risk coverage		13,800,000
	Accounts Receivable Coverage		2,575,000
	Personal Property – All other locations		80,000
	Personal Property – In transit		80,000
	Auto Liability		\$1,000,000
Fireman's Fund	Directors and Officers Liability	November 2004 to November 2005	\$3,000,000
Cincinnati Insurance Company	Blanket Employee Dishonesty	September 2004 to September 2005	\$100,000

The summary of insurance coverage is presented on the basis of information obtained from policies on file at the Medical Center.

**Winneshiek Medical Center
PATIENT SERVICE REVENUE**

	Totals	
	Year ended June 30	
	2005	2004
DAILY PATIENT SERVICES		
Routine care	\$ 1,609,977	\$ 1,594,470
Coronary care	307,775	341,127
Obstetrics	382,910	379,050
Nursery	275,760	267,120
Swing bed	270,230	327,900
Transitional care	2,565	8,215
	<u>2,849,217</u>	<u>2,917,882</u>
OTHER NURSING SERVICES		
Operating and recovery rooms	3,879,732	3,623,656
Delivery and labor rooms	379,037	366,777
Central supply	3,503,075	3,412,912
Intravenous therapy	403,741	398,561
Emergency room	1,644,818	1,493,042
Emergency room physician fees	972,624	914,650
Same day services	717,699	740,198
Home health agency	273,911	216,604
Hospice	192,639	278,828
Observation room	189,977	179,174
	<u>12,157,253</u>	<u>11,624,402</u>
OTHER PROFESSIONAL SERVICES		
Clinic	3,088,964	-
Laboratory	3,812,283	3,367,357
Pharmacy	3,522,837	3,540,486
Radiology	1,656,120	1,568,565
Physical therapy	1,146,080	1,217,451
Occupational therapy	293,017	269,584
Anesthesiology	92,811	87,760
Respiratory therapy	545,669	515,061
Electrocardiology and echocardiology	353,885	313,669
CT scans	1,901,632	1,534,565
Magnetic resonance imaging	817,776	856,340
Ultrasound	588,283	613,451
Blood administration	248,349	215,867
Nuclear medicine	246,045	206,928
Speech therapy	32,766	45,956
Ambulance service	924,347	802,112
Dietary consulting	4,965	8,995
Diabetes education	16,586	-
Durable medical equipment	5,099	-
	<u>19,297,514</u>	<u>15,164,147</u>
Totals	34,303,984	29,706,431
Charity care charges foregone, based on established rates	<u>(207,402)</u>	<u>(142,107)</u>
Total gross patient service revenue	34,096,582	29,564,324
Provisions for contractual and other adjustments	(11,823,710)	(10,467,004)
Total net patient service revenue	<u>\$22,272,872</u>	<u>\$19,097,320</u>

<u>Inpatient</u>		<u>Outpatient</u>	
<u>Year ended June 30</u>		<u>Year ended June 30</u>	
<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
\$ 1,609,977	\$ 1,594,470		
307,775	341,127		
382,910	379,050		
275,760	267,120		
270,230	327,900		
2,565	8,215		
<u>2,849,217</u>	<u>2,917,882</u>		
963,035	887,890	\$ 2,916,697	\$ 2,735,766
326,983	302,103	52,054	64,674
1,835,889	1,881,067	1,667,186	1,531,845
211,487	212,625	192,254	185,936
290,517	316,595	1,354,301	1,176,447
97,914	99,079	874,710	815,571
8,852	9,457	708,848	730,741
-	-	273,911	216,604
160,239	272,344	32,400	6,484
35,872	39,324	154,104	139,850
<u>3,930,788</u>	<u>4,020,484</u>	<u>8,226,465</u>	<u>7,603,918</u>
-	-	3,088,964	-
991,778	1,000,680	2,820,505	2,366,677
1,168,025	993,426	2,354,812	2,547,060
141,043	146,803	1,515,077	1,421,762
275,811	288,334	870,269	929,117
102,200	126,460	190,817	143,124
23,108	23,480	69,703	64,280
313,229	261,729	232,440	253,332
110,161	129,182	243,724	184,487
305,057	255,308	1,596,575	1,279,257
8,741	24,906	809,035	831,434
49,189	49,611	539,094	563,840
146,147	109,890	102,202	105,977
9,815	16,088	236,230	190,840
10,340	14,204	22,426	31,752
21,503	20,719	902,844	781,393
-	-	4,965	8,995
-	-	16,586	-
-	-	5,099	-
<u>3,676,147</u>	<u>3,460,820</u>	<u>15,621,367</u>	<u>11,703,327</u>
<u>\$10,456,152</u>	<u>\$10,399,186</u>	<u>\$23,847,832</u>	<u>\$19,307,245</u>

Winneshiek Medical Center
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	Year ended June 30	
	2005	2004
Contractual adjustments		
Medicare	\$ 8,438,675	\$ 8,258,022
Medicaid	790,607	577,343
Other adjustments	1,765,653	980,639
Provision for bad debts	828,775	651,000
Totals	\$11,823,710	\$10,467,004

OTHER REVENUE

	Year ended June 30	
	2005	2004
Contract fees and services		
Pharmacy	\$ 168,977	\$ 208,837
Physical therapy, occupational therapy and speech therapy	203,041	173,729
Dietary	23,788	21,146
Laundry and housekeeping	8,344	9,081
Employee meals	70,505	67,752
Meals on Wheels and guest meals	26,954	29,590
Vending machines	4,764	3,690
Medical records transcripts	4,925	2,520
Miscellaneous	159,043	78,521
Totals	\$ 670,341	\$ 594,866

**Winneshiek Medical Center
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
NURSING ADMINISTRATION		
Salaries	\$ 191,234	\$ 137,561
Supplies and expense	<u>8,501</u>	<u>6,683</u>
	<u>199,735</u>	<u>144,244</u>
MEDICAL AND SURGICAL		
Salaries	934,333	800,941
Supplies and expense	<u>84,287</u>	<u>78,757</u>
	<u>1,018,620</u>	<u>879,698</u>
CORONARY CARE		
Salaries	158,145	187,743
Supplies and expense	<u>31,231</u>	<u>33,500</u>
	<u>189,376</u>	<u>221,243</u>
OBSTETRIC		
Salaries	375,092	316,055
Supplies and expense	<u>52,511</u>	<u>36,375</u>
	<u>427,603</u>	<u>352,430</u>
NURSERY		
Salaries	122,456	121,384
Supplies and expense	<u>16,447</u>	<u>13,229</u>
	<u>138,903</u>	<u>134,613</u>
OPERATING AND RECOVERY ROOMS		
Salaries	659,275	571,230
Supplies and expense	<u>568,059</u>	<u>412,476</u>
	<u>1,227,334</u>	<u>983,706</u>
DELIVERY AND LABOR ROOMS		
Salaries	67,037	63,519
Supplies and expense	<u>6,767</u>	<u>5,552</u>
	<u>73,804</u>	<u>69,071</u>
CENTRAL SUPPLY		
Salaries	44,025	31,420
Billable supplies	942,601	972,342
Supplies and expense	<u>45,069</u>	<u>58,046</u>
	<u>1,031,695</u>	<u>1,061,808</u>
INTRAVENOUS THERAPY		
Supplies and expense	<u>6,843</u>	<u>2,034</u>
EMERGENCY ROOM		
Salaries	734,429	655,703
Professional fees	779,470	760,738
Supplies and expense	<u>56,021</u>	<u>59,150</u>
	<u>1,569,920</u>	<u>1,475,591</u>
SAME DAY SERVICES		
Salaries	176,576	173,225
Supplies and expense	<u>13,778</u>	<u>19,507</u>
	<u>190,354</u>	<u>192,732</u>
HOME HEALTH AGENCY		
Salaries	198,814	168,918
Supplies and expense	<u>15,656</u>	<u>13,156</u>
	<u>214,470</u>	<u>182,074</u>

**Winneshiek Medical Center
NURSING SERVICE EXPENSES (continued)**

	Year ended June 30	
	2005	2004
HOSPICE		
Salaries	\$ 61,781	\$ 75,002
Supplies and expense	<u>16,930</u>	<u>44,091</u>
	<u>78,711</u>	<u>119,093</u>
 EDUCATION AND OUTREACH PROGRAMS		
Salaries	91,798	80,382
Supplies and expense	<u>7,919</u>	<u>8,799</u>
	<u>99,717</u>	<u>89,181</u>
 SPECIAL SERVICES		
Salaries	<u>4,074</u>	<u>3,652</u>
 RECREATIONAL THERAPY		
Salaries	1,958	4,583
Supplies and expense	<u>322</u>	<u>1,366</u>
	<u>2,280</u>	<u>5,949</u>
 Totals	 <u>\$6,473,439</u>	 <u>\$5,917,119</u>

**Winneshiek Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
CLINIC		
Salaries	\$ 453,991	\$ -
Supplies and expense	<u>1,348,111</u>	<u>-</u>
	<u>1,802,102</u>	<u>-</u>
LABORATORY		
Salaries	593,582	533,595
Professional fees	126,000	126,000
Purchased services	59,019	48,984
Supplies and expense	<u>409,203</u>	<u>444,197</u>
	<u>1,187,804</u>	<u>1,152,776</u>
PHARMACY		
Salaries	206,281	190,609
Drugs	1,097,286	1,111,349
Supplies and expense	<u>31,315</u>	<u>22,661</u>
	<u>1,334,882</u>	<u>1,324,619</u>
RADIOLOGY		
Salaries	417,207	363,140
Professional fees	106,755	81,775
Supplies and expense	<u>124,019</u>	<u>144,729</u>
	<u>647,981</u>	<u>589,644</u>
PHYSICAL THERAPY		
Salaries	760,517	680,589
Supplies and expense	<u>109,261</u>	<u>160,632</u>
	<u>869,778</u>	<u>841,221</u>
OCCUPATIONAL THERAPY		
Salaries	130,840	134,562
Supplies and expense	<u>14,229</u>	<u>9,462</u>
	<u>145,069</u>	<u>144,024</u>
ANESTHESIOLOGY		
Professional fees	9,996	9,996
Supplies and expense	<u>14,111</u>	<u>10,989</u>
	<u>24,107</u>	<u>20,985</u>
RESPIRATORY THERAPY		
Salaries	111,277	132,274
Purchased services	15,357	42,533
Supplies and expense	<u>36,729</u>	<u>33,695</u>
	<u>163,363</u>	<u>208,502</u>
ELECTROCARDIOLOGY		
Salaries	29,144	26,954
Supplies and expense	<u>3,788</u>	<u>4,398</u>
	<u>32,932</u>	<u>31,352</u>
ECHOCARDIOLOGY		
Purchased services	<u>16,075</u>	<u>10,727</u>
CT SCANS		
Salaries	68,221	19,189
Supplies and expense	<u>72,128</u>	<u>60,351</u>
	<u>140,349</u>	<u>79,540</u>

Winneshiek Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
MAGNETIC RESONANCE IMAGING		
Purchased services	\$ 232,832	\$ 226,744
Supplies and expense	<u>5,078</u>	<u>3,290</u>
	<u>237,910</u>	<u>230,034</u>
ULTRASOUND		
Salaries	90,504	81,171
Purchased services	3,458	2,247
Supplies and expense	<u>38,179</u>	<u>37,089</u>
	<u>132,141</u>	<u>120,507</u>
BLOOD ADMINISTRATION		
Supplies and expense	<u>136,118</u>	<u>124,188</u>
NUCLEAR MEDICINE		
Purchased services	<u>77,770</u>	<u>63,397</u>
SPEECH THERAPY		
Salaries	45,564	51,650
Purchased services	1,781	2,057
Supplies and expense	<u>1,414</u>	<u>5,202</u>
	<u>48,759</u>	<u>58,909</u>
AMBULANCE		
Salaries	356,445	327,082
Supplies and expense	<u>53,306</u>	<u>51,279</u>
	<u>409,751</u>	<u>378,361</u>
SOCIAL SERVICES/UTILIZATION REVIEW		
Salaries	-	66,742
Supplies and expense	<u>76</u>	<u>2,155</u>
	<u>76</u>	<u>68,897</u>
MEDICAL RECORDS		
Salaries	295,362	299,411
Supplies and expense	<u>46,074</u>	<u>32,949</u>
	<u>341,436</u>	<u>332,360</u>
DIABETES EDUCATION		
Supplies and expense	<u>1,308</u>	<u>-</u>
DURABLE MEDICAL EQUIPMENT		
Salaries	10,848	-
Supplies and expense	<u>10,704</u>	<u>-</u>
	<u>21,552</u>	<u>-</u>
Totals	<u>\$7,771,263</u>	<u>\$5,780,043</u>

**Winneshiek Medical Center
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
DIETARY		
Salaries	\$ 343,032	\$ 338,509
Supplies and expense	<u>194,357</u>	<u>219,795</u>
	<u>537,389</u>	<u>558,304</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	211,102	128,003
Utilities	174,012	149,857
Fuel	135,005	114,977
Supplies and expense	<u>118,913</u>	<u>107,170</u>
	<u>639,032</u>	<u>500,007</u>
HOUSEKEEPING		
Salaries	156,229	190,608
Supplies and expense	<u>23,755</u>	<u>24,679</u>
	<u>179,984</u>	<u>215,287</u>
LAUNDRY AND LINEN		
Salaries	94,332	91,725
Supplies and expense	<u>26,075</u>	<u>27,582</u>
	<u>120,407</u>	<u>119,307</u>
 Totals	 <u>\$1,476,812</u>	 <u>\$1,392,905</u>

**Winneshiek Medical Center
FISCAL AND ADMINISTRATIVE SERVICE
AND UNASSIGNED EXPENSES**

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Administration		
Salaries	\$ 367,480	\$ 308,150
Dues, subscriptions and travel expense	32,114	36,348
Recruitment	8,000	8,792
Supplies and expense	327,002	345,024
Business office		
Salaries	339,948	352,499
Professional services	70,564	47,004
Collection expense	61,033	52,914
Telephone	38,066	33,022
Supplies and expense	98,814	164,241
Accounting services		
Salaries	156,574	165,106
Supplies and expense	8,679	7,555
Information technology		
Salaries	106,955	110,112
Supplies and expense	173,933	84,647
Development department		
Salaries	157,044	135,236
Supplies and expense	101,802	134,805
Human resources		
Salaries	135,774	110,745
Supplies and expense	14,965	18,369
Quality assurance		
Salaries	164,278	119,033
Supplies and expense	15,913	15,112
Medical staff		
Supplies and expense	2,876	7,860
Materials management		
Salaries	104,778	97,094
Supplies and expense	24,541	18,119
Total fiscal and administrative service expenses	<u>2,511,133</u>	<u>2,371,787</u>
UNASSIGNED EXPENSES		
Insurance	267,270	201,900
Employee benefits		
FICA	692,785	609,228
IPERS	534,388	469,957
Group health insurance	1,070,954	707,649
Other	138,412	117,993
Total unassigned expenses	<u>2,703,809</u>	<u>2,106,727</u>
Totals	<u>\$5,214,942</u>	<u>\$4,478,514</u>

**Winneshiek Medical Center
COMPARATIVE REVENUE AND EXPENSES**

	Year ended June 30			
	2005	2004	2003	2002
NET PATIENT SERVICE REVENUE	\$22,272,872	\$19,097,320	\$17,153,567	\$15,513,730
OTHER REVENUE	<u>670,341</u>	<u>594,866</u>	<u>626,969</u>	<u>568,824</u>
Total revenue	<u>22,943,213</u>	<u>19,692,186</u>	<u>17,780,536</u>	<u>16,082,554</u>
EXPENSES				
Salaries	9,728,336	8,417,240	7,489,485	6,733,490
Supplies, professional fees and other expenses	11,208,120	9,151,341	7,924,549	7,691,988
Provision for depreciation and amortization	<u>1,281,460</u>	<u>1,109,765</u>	<u>817,414</u>	<u>743,279</u>
Total expenses	<u>22,217,916</u>	<u>18,678,346</u>	<u>16,231,448</u>	<u>15,168,757</u>
Operating income	<u>725,297</u>	<u>1,013,840</u>	<u>1,549,088</u>	<u>913,797</u>
NONOPERATING GAINS				
County taxes	436,595	433,127	432,809	428,821
Interest expense	(64,781)	(80,424)	(94,654)	(74,675)
Contribution expense	-	-	(22,572)	(24,140)
Interest income	112,720	101,879	146,051	156,011
Unrestricted contributions	12,240	21,072	25,905	11,976
Rental property, net	137,398	66,916	84,681	103,667
Gain (loss) on sale of property and equipment	<u>(2,573)</u>	<u>2,191</u>	<u>(18,604)</u>	<u>4,387</u>
Total nonoperating gains	<u>631,599</u>	<u>544,761</u>	<u>553,616</u>	<u>606,047</u>
Excess of revenues and gains over expenses before contributions	1,356,896	1,558,601	2,102,704	1,519,844
CONTRIBUTIONS	<u>1,315,802</u>	<u>899,512</u>	<u>114,165</u>	<u>151,905</u>
Change in fund equity	<u>\$ 2,672,698</u>	<u>\$ 2,458,113</u>	<u>\$ 2,216,869</u>	<u>\$ 1,671,749</u>

**Winneshiek Medical Center
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2005</u>	<u>2004</u>
PATIENT DAYS		
Adult and pediatric	3,526	3,652
Swing bed	886	1,093
Newborn	<u>632</u>	<u>634</u>
Totals	<u>5,044</u>	<u>5,379</u>
ADMISSIONS		
Adult and pediatric	1,220	1,221
Swing bed	<u>162</u>	<u>181</u>
Totals	<u>1,382</u>	<u>1,402</u>
DISCHARGES		
Adult and pediatric	1,213	1,224
Swing bed	<u>164</u>	<u>179</u>
Totals	<u>1,377</u>	<u>1,403</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	2.9	2.9
Swing bed	5.4	6.1
BEDS		
Acute (changed to 25 beds effective May 1, 2005)	25	57
OCCUPANCY PERCENT		
Adult and pediatric	18.70%	17.51%
Swing bed	<u>4.70</u>	<u>5.24</u>
Combined	<u>23.40%</u>	<u>22.75%</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the financial statements of Winneshiek Medical Center as of and for the year ended June 30, 2005, and have issued our report thereon dated August 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Winneshiek Medical Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Winneshiek Medical Center'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 that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center. 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. Those comments are presented in Part II of the accompanying schedule of findings.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of the County of Winneshiek and other parties to whom the Medical Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 26, 2005

**Winneshiek Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2005**

Part I—Findings Related to the Financial Statements

No matters regarding reportable conditions, material weaknesses or instances of noncompliance related to the financial statements were reported.

**Winneshiek Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2005**

Part II—Findings Related to Required Statutory Reporting

05-II-A OFFICIAL DEPOSITORIES

A resolution naming all official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

05-II-B CERTIFIED BUDGET

The Medical Center did not exceed its amended budget for the year ended June 30, 2005.

05-II-C QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

05-II-D TRAVEL EXPENSES

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

05-II-E BUSINESS TRANSACTIONS

No business transactions were found between the Medical Center and Medical Center officials and/or employees.

05-II-F BOARD MINUTES

No transactions were found that we believe should have been approved in the Board minutes but were not.

05-II-G DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Medical Center's investment policy.

**INDEPENDENT AUDITOR'S REPORT ON
DEBT AGREEMENT COVENANTS**

Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Winneshiek Medical Center as of June 30, 2005, and have issued our report thereon dated August 26, 2005.

In connection with our audit, nothing came to our attention that caused us to believe that the Medical Center was not in compliance with any of the terms, covenants, provisions, or conditions of Section Seventeen "Covenants Regarding the Operation of the Hospital", and Section Fifteen "Patient Rates and Charges" of the loan agreements dated December 1, 2001 relating to the issue of \$3,500,000 Hospital Revenue Note, Series 2001, and the issue of advances relating to the issue of \$10,000,000 Hospital Revenue Note, Series 2005, with the County of Winneshiek, Iowa, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

We have tested the Medical Center's compliance with Section Fifteen "Patient Rates and Charges" for the year ended June 30, 2005 and found the Medical Center to be in compliance.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of the County of Winneshiek and other parties to whom the Medical Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 26, 2005