

**Winneshiek Medical Center
Decorah, Iowa**

FINANCIAL REPORT

June 30, 2006

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**Winneshiek Medical Center
OFFICIALS
June 30, 2006**

Before January 2006

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

After January 2006

BOARD OF TRUSTEES

Ben Wyatt, President
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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 (through May 2006)
David Jordahl (Effective August 2006)

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, 2006 and 2005, 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, 2006 and 2005, 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 24, 2006 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 and Budgetary Comparison Information on pages 5-11 and page 27 are not required parts 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 24, 2006

**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, 2006, 2005 and 2004. 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 \$8,876,612.
- Total assets whose use is limited decreased by \$ 387,473.
- Total property and equipment increased by \$7,471,425.
- Fund equity increased by \$2,818,330.
- Net patient service revenue increased by \$8,763,295, primarily due to the addition of a Clinic and associated ancillary revenue and new services provided.
- Expenses increased by \$7,774,673, primarily due to associated Clinic expenses, competitive increases in wages for essential personnel and expenses of new services.
- Total margin for FY 2006 was 7.78%, compared to 5.76 % for FY 2005.

FINANCIAL ANALYSIS OF WMC

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, 2006, 2005 and 2004, are presented in Table 1 below.

Table 1
Condensed Balance Sheets

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>	<u>Dollar</u> <u>Change</u>	<u>Total %</u> <u>Change</u>	<u>June 30,</u> <u>2004</u>
Current and other assets	\$13,984,625	\$12,579,438	\$1,405,187	11%	\$12,853,115
Property and equipment (net)	<u>20,499,380</u>	<u>13,027,955</u>	<u>7,471,425</u>	<u>57%</u>	<u>7,988,203</u>
Total assets	<u>\$34,484,005</u>	<u>\$25,607,393</u>	<u>\$8,876,612</u>	<u>35%</u>	<u>\$20,841,318</u>
Long-term debt outstanding	\$ 5,908,174	\$ 902,119	\$5,006,055	555%	\$ 1,176,217
Other liabilities	<u>5,927,904</u>	<u>4,875,677</u>	<u>1,052,227</u>	<u>22%</u>	<u>2,508,202</u>
Total liabilities	<u>\$11,836,078</u>	<u>\$ 5,777,796</u>	<u>\$6,058,282</u>	<u>105%</u>	<u>\$ 3,684,419</u>
Invested in capital assets (net)	\$13,125,874	\$10,848,580	\$2,277,294	21%	\$ 6,438,143
Restricted expansion fund	829,032	817,044	11,988	1%	804,805
Foundation fund	606,818	711,032	(104,214)	-15%	418,213
Unrestricted	<u>8,086,203</u>	<u>7,452,941</u>	<u>633,262</u>	<u>8%</u>	<u>9,495,738</u>
Total net assets	<u>\$22,647,927</u>	<u>\$19,829,597</u>	<u>\$2,818,330</u>	<u>14%</u>	<u>\$17,156,899</u>

As can be seen by Table 1, net assets increased by \$2.8 million to \$22.6 million in fiscal year 2006, up from \$19.8 million in fiscal year 2005. The change in net assets results primarily from the beginning of the major construction project which will be in excess of \$13.2 million.

Increases in property and equipment of \$7,471,425 were incurred in fiscal year 2006. These increases were primarily related to the beginning of the major construction project mentioned in the above paragraph. As of June 30, 2006, \$6,581,300 has been expended related to the construction project. Likewise, long-term debt has also increased for the fiscal year. This increase is also related to the construction project. As of June 30, 2006, \$7,000,000 has been borrowed against the total of \$10,000,000 approved by the Board of Trustees.

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, 2006, 2005 and 2004.

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

	Year ended June 30		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total revenue	\$31,821	\$22,943	\$19,692
Expenses	<u>29,993</u>	<u>22,218</u>	<u>18,678</u>
Operating income	1,828	725	1,014
Nonoperating gains	<u>701</u>	<u>632</u>	<u>545</u>
Excess of revenues over expenses before contributions	2,529	1,357	1,559
Contributions	<u>289</u>	<u>1,316</u>	<u>899</u>
Changes in fund equity	2,818	2,673	2,458
Total fund equity, beginning	<u>19,829</u>	<u>17,156</u>	<u>14,698</u>
Total fund equity, ending	<u>\$22,647</u>	<u>\$19,829</u>	<u>\$17,156</u>

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the Medical Center's statement of revenues, expenses, and changes in fund equity between June 30, 2006 and 2005.

Volume: Inpatient admissions (excluding normal newborns) for fiscal year 2006 were 1,445 compared to 1,382 in fiscal year 2005. Because the average length of stay declined slightly, patient days declined by 35 from 4,412 in 2005. Departments with substantial volume increases occurred in: Lab, Radiology, CT Scan, Physical Therapy, and Hospice.

Net Patient Service Revenue: Due to a rate increase of 0 % to 7 % effective July 1, 2005 the increase in patient volumes discussed above, and the addition of the clinic, net patient service revenue climbed by \$5,159,460 or 255.3 % in comparison to three months of ownership during fiscal year 2005. The Medical Center has completed one year as a Critical Access Hospital (CAH) which has meant additional reimbursement from Medicare related accounts.

The following table presents the relative percentages of gross charges billed for patient services by payer for the years ended June 30, 2006, 2005 and 2004.

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	50.17%	50.33%	52.75%
Medicaid	5.04%	5.01%	4.50%
Self Pay	3.50%	3.54%	3.30%
Wellmark	18.81%	17.71%	14.63%
Commercial	18.85%	21.46%	21.62%
Others	3.63%	1.95%	3.20%

Other Revenue: increased \$114,124 primarily due to the accounting of the clinic Bad Debt recoveries.

Nursing Service Expenses: increased \$255,955 primarily due to competitive increases for essential personnel.

Other Professional Service Expenses: increased \$5,492,387, primarily due to Clinic expenses and expanding Lab services and expenses associated with start up service lines.

General Service Expenses: increased \$44,185 primarily due to additional expenses in our Plant Operations.

Fiscal and Administrative Expenses: increased \$1,696,164 primarily due to increased benefit costs including expense for Clinic benefits. In addition there were additional essential staff added and increased wages and services to support growing patient related services.

Nonoperating Gains: increased \$69,641 primarily due to rental property acquired in the clinic transaction.

CAPITAL ASSETS

At the end of fiscal year 2006, the Medical Center has invested \$20.499 million in capital assets as shown in Table 4. The \$7,471 million increase in capital assets is primarily a result of increases in construction in progress. Construction in progress has increased by \$6.581 million 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, 2006, 2005 and 2004.

Table 4
Capital Assets

	June 30		Change	June 30
	2006	2005		2004
Land	\$ 551,673	\$ 551,673	\$ -	\$ 551,673
Land improvements	351,767	351,767	-	342,283
Buildings and leasehold improvements	12,184,491	12,060,411	124,080	7,958,171
Fixed equipment	1,446,554	1,322,321	124,233	1,272,973
Major moveable equipment	8,934,080	8,454,339	479,741	7,251,200
Construction in progress	<u>9,638,677</u>	<u>1,472,316</u>	<u>8,166,361</u>	<u>970,357</u>
Subtotal	33,107,242	24,212,827	8,894,415	18,346,657
Less accumulated depreciation	<u>(12,607,862)</u>	<u>(11,184,872)</u>	<u>(1,422,990)</u>	<u>(10,358,454)</u>
Property, plant and equipment (net)	<u>\$20,499,380</u>	<u>\$13,027,955</u>	<u>\$ 7,471,425</u>	<u>\$ 7,988,203</u>

DEBT ADMINISTRATION

Long Term Debt

At year-end, the Medical Center had \$ 6,966,874 in short and long – term debt related to County public hospital revenue notes. This has increased by \$ 4,787,499 from the previous fiscal year as a result of new long-term debt incurred in the current year. The Medical Center incurred \$6,175,037 million in debt related to its upcoming expansion project. The Board of Trustees has authorized up to \$ 10,000,000 to be borrowed on the expansion project. 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, 2006, 2005 and 2004.

PERFORMANCE COMPARED TO BUDGET

Net patient revenues were \$1,294,417 or 4.35 % over budget for the fiscal year ended June 30, 2006. This was primarily due to the addition of services not budgeted and increased volume in key revenue centers. As noted in Table 5, contractual adjustments were 8.04 % over budget. This overage was largely associated with higher contractual adjustments in the Clinic than what was budgeted.

Other revenues were \$36,335 or 4.43 % under budget. This was primarily due to a decrease in the sale of pharmaceuticals to non-patients.

Operating expenses were \$831,635 or 2.85% over budget. This was primarily due to an increase in associated expenses related to volume increases in key revenue producing departments.

Income from investments were \$25,323 or 29.45 % over budget. This was primarily due to investment funds committed for the construction projects were disbursed later in the year than budget projections.

The following table compares fiscal year 2006 actual to budget information.

**Table 5
Budget vs. Actual**

	<u>FY 2006 Budget</u>	<u>FY 2006 Actual</u>	<u>Dollar Variance</u>	<u>Percent Variance</u>
Gross patient service revenue	\$45,713,550	\$48,291,774	\$2,578,224	5.63%
Contractual adjustments	<u>(15,971,800)</u>	<u>(17,255,607)</u>	<u>1,283,807</u>	<u>8.04%</u>
Net patient service revenue	29,741,750	31,036,167	1,294,417	4.35%
Other revenue, excluding county taxes	<u>820,800</u>	<u>784,465</u>	<u>(36,335)</u>	<u>(4.43)%</u>
Total operating revenue	30,562,550	31,820,632	1,258,082	4.12%
Operating expenses	<u>29,160,954</u>	<u>29,992,589</u>	<u>831,635</u>	<u>2.85%</u>
Operating income	<u>\$ 1,401,596</u>	<u>\$ 1,828,043</u>	<u>\$ 426,447</u>	<u>3.04%</u>
Income from investments	\$ 86,000	\$ 111,323	\$ 25,323	29.45%
Other non-operating revenue + (county taxes) budget included Capital Campaign funds from the Foundation	<u>1,060,600</u>	<u>589,917</u>	<u>(470,683)</u>	<u>(44.37)%</u>
Excess of revenues over expenses	<u>\$ 2,548,196</u>	<u>\$ 2,529,283</u>	<u>\$ (18,913)</u>	<u>(.70)%</u>

ECONOMIC AND OTHER FACTORS AND NEXT YEAR'S BUDGET

The Medical Center's board and management considered many factors when setting the fiscal year 2007 budget. Of primary importance in setting the 2007 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 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	
	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,010,749	\$ 2,730,425
Patient receivables, less allowances for contractual adjustments and uncollectibles		
2006 \$2,594,291; 2005 \$2,605,222	5,105,452	4,560,747
Estimated third party payor settlements	-	128,898
Other receivables	87,062	26,461
Inventories	601,834	592,083
Prepaid expenses	124,301	92,960
Succeeding year property tax receivable	426,643	427,614
Total current assets	<u>10,356,041</u>	<u>8,559,188</u>
ASSETS WHOSE USE IS LIMITED		
Designated by Board for plant replacement and expansion		
Cash	1,467,722	1,115,063
Certificates of deposit	720,817	1,368,723
	<u>2,188,539</u>	<u>2,483,786</u>
Restricted by donors for specific purpose		
Cash and cash equivalents	316,821	307,029
Certificates of deposit	508,704	506,508
Interest receivable	3,507	3,507
	<u>829,032</u>	<u>817,044</u>
Restricted by donors/foundation		
Cash and cash equivalents	358,267	286,320
Certificate of deposit	7,563	7,372
Investments	10,227	9,705
Contributions receivable	230,761	407,635
	<u>606,818</u>	<u>711,032</u>
Total assets whose use is limited	<u>3,624,389</u>	<u>4,011,862</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	33,107,242	24,212,827
Total property and equipment	<u>12,607,862</u>	<u>11,184,872</u>
	<u>20,499,380</u>	<u>13,027,955</u>
OTHER ASSET		
Unamortized financing costs	4,195	8,388
Totals	<u>\$34,484,005</u>	<u>\$25,607,393</u>

LIABILITIES AND FUND EQUITY	June 30	
	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,058,700	\$ 1,277,256
Accounts payable		
Trade	1,451,923	1,204,992
Construction	1,189,980	-
Estimated third-party payor settlements	130,575	-
Deferred revenue, contribution	250,000	250,000
Accrued employee compensation	1,255,427	1,550,544
Payroll taxes and amounts withheld from employees	164,656	165,271
Deferred revenue for succeeding year property tax receivable	<u>426,643</u>	<u>427,614</u>
Total current liabilities	<u>5,927,904</u>	<u>4,875,677</u>
LONG-TERM DEBT		
County public hospital revenue notes	6,966,874	2,179,375
Less current maturities	<u>1,058,700</u>	<u>1,277,256</u>
Total long-term debt	<u>5,908,174</u>	<u>902,119</u>
CONTINGENCIES		
FUND EQUITY		
Invested in capital assets, net of related debt	13,532,506	10,848,580
Restricted		
For specific purpose by donors	829,032	817,044
By donors/foundation	606,818	711,032
Unrestricted	<u>7,679,571</u>	<u>7,452,941</u>
Total fund equity	<u>22,647,927</u>	<u>19,829,597</u>
Totals	<u>\$34,484,005</u>	<u>\$25,607,393</u>

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

	Year ended June 30	
	2006	2005
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2006 \$1,010,000; 2005 \$828,775	\$31,036,167	\$22,272,872
OTHER REVENUE	<u>784,465</u>	<u>670,341</u>
Total revenue	<u>31,820,632</u>	<u>22,943,213</u>
EXPENSES		
Nursing service	6,729,394	6,473,439
Other professional service	13,263,650	7,771,263
General service	1,520,997	1,476,812
Fiscal and administrative service and unassigned expenses	6,911,106	5,214,942
Provision for depreciation and amortization	<u>1,567,442</u>	<u>1,281,460</u>
Total expenses	<u>29,992,589</u>	<u>22,217,916</u>
Operating income	<u>1,828,043</u>	<u>725,297</u>
NONOPERATING GAINS (LOSSES)		
County taxes	437,531	436,595
Interest income	111,323	124,960
Interest expense	(54,618)	(64,781)
Rental property, net	194,785	137,398
Gain (loss) on sale of property and equipment	<u>12,219</u>	<u>(2,573)</u>
Total nonoperating gains (losses)	<u>701,240</u>	<u>631,599</u>
Excess of revenues and gains over expenses before contributions	2,529,283	1,356,896
CONTRIBUTIONS	<u>289,047</u>	<u>1,315,802</u>
Change in fund equity	2,818,330	2,672,698
TOTAL FUND EQUITY		
Beginning	<u>19,829,597</u>	<u>17,156,899</u>
Ending	<u>\$22,647,927</u>	<u>\$19,829,597</u>

See Notes to Financial Statements.

**Winneshiek Medical Center
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$30,750,935	\$21,284,828
Cash paid to suppliers for goods and services	(16,453,682)	(11,123,264)
Cash paid to employees for services	(12,061,358)	(9,378,186)
Other operating revenues received	<u>723,864</u>	<u>644,197</u>
Net cash provided by operating activities	<u>2,959,759</u>	<u>1,427,575</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	437,531	436,595
Unrestricted contributions received	-	12,240
Foundation contributions, net of expense	<u>465,921</u>	<u>1,465,607</u>
Net cash provided by noncapital financing activities	<u>903,452</u>	<u>1,914,442</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(7,857,065)	(5,646,643)
Proceeds from sale of equipment	20,397	132,858
Principal paid on long-term debt	(1,212,501)	(370,685)
Proceeds from long-term debt	6,000,000	1,000,000
Interest paid on long-term debt	<u>(50,425)</u>	<u>(60,588)</u>
Net cash (used in) capital and related financing activities	<u>(3,099,594)</u>	<u>(4,945,058)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchase) redemptions of certificates of deposit and investments	644,997	767,321
Investment income received	111,323	112,720
Net cash received on rental property	<u>194,785</u>	<u>137,398</u>
Net cash provided by investing activities	<u>951,105</u>	<u>1,017,439</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,714,722	(585,602)
CASH AND CASH EQUIVALENTS		
Beginning	<u>4,438,837</u>	<u>5,024,439</u>
Ending	<u>\$ 6,153,559</u>	<u>\$ 4,438,837</u>

See Notes to Financial Statements.

Winneshiek Medical Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2006	2005
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$1,828,043	\$ 725,297
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation and amortization	1,567,442	1,281,460
Change in assets and liabilities		
(Increase) in patient receivables	(544,705)	(1,528,846)
(Increase) in other receivables	(60,601)	(26,144)
(Increase) decrease in inventories	(9,751)	34,475
(Increase) in prepaid expenses	(31,341)	(2,970)
Increase (decrease) in accounts payable, net of amounts for property and equipment	246,931	(19,027)
Increase (decrease) in accrued employee compensated absences	(295,117)	350,150
Increase (decrease) in payroll taxes and amounts withheld from employees	(615)	72,378
Decrease in net estimated third-party payor settlements	<u>259,473</u>	<u>540,802</u>
Net cash provided by operating activities	<u>\$2,959,759</u>	<u>\$1,427,575</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$4,010,749	\$2,730,425
Assets whose use is limited		
Board-designated for plant replacement and expansion	1,467,722	1,115,063
Restricted by donors for specific purpose	316,821	307,029
Restricted by donors/foundation	<u>358,267</u>	<u>286,320</u>
Total per statement of cash flows	<u>\$6,153,559</u>	<u>\$4,438,837</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.

Contributions Receivable and Deferred Contribution Revenue

Unconditional contributions receivable are recorded as receivables and contributions in the year received. Deferred contribution revenue consists of contributions received but the terms of the agreement have not yet been met.

Interest

Interest costs incurred during the period of construction are capitalized and included with the cost of the project.

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS

The Medical Center's deposits in banks at June 30, 2006 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 at June 30, 2006 are reported at fair value as follows:

	<u>Fair value</u>
Mutual funds (mature daily)	\$ <u>10,227</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 and Medicaid

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 April 30, 2005.

Other

The Medical Center has also entered into payment agreements with Wellmark, 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, 2006 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	351,767	-	-	-	351,767
Buildings and leasehold improvements	12,060,411	-	-	124,080	12,184,491
Fixed equipment	1,322,321	278,191	-	(153,958)	1,446,554
Major movable equipment	8,454,339	569,315	(152,630)	63,056	8,934,080
Construction and equipment installations in progress	<u>1,472,316</u>	<u>8,199,539</u>	<u>-</u>	<u>(33,178)</u>	<u>9,638,677</u>
Totals	24,212,827	9,047,045	(152,630)	-	33,107,242
Less accumulated depreciation and amortization	<u>(11,184,872)</u>	<u>(1,567,442)</u>	<u>144,452</u>	<u>-</u>	<u>(12,607,862)</u>
Net property and equipment	<u>\$13,027,955</u>	<u>\$7,479,603</u>	<u>\$ (8,178)</u>	<u>\$ -</u>	<u>\$20,499,380</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, 2006, 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. The remaining commitments on the project is approximately \$6.6 million at June 30, 2006.

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>-</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>

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.

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 LONG-TERM DEBT (continued)

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 balance of the note at June 30, 2006 is \$791,837.

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, 2006 totaled \$7,000,000. The balance of the note at June 30, 2006 is \$6,175,037.

Beginning on April 1, 2005, the Medical Center began paying interest only payments. Beginning on July 1, 2005, the Medical Center began 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>
2007	\$1,058,700	\$ 288,113	\$1,346,813
2008	1,069,645	240,609	1,310,254
2009	714,224	201,316	915,540
2010	746,738	168,802	915,540
2011	780,732	134,808	915,540
2012-2014	<u>2,596,835</u>	<u>184,632</u>	<u>2,781,467</u>
Totals	<u>\$6,966,874</u>	<u>\$1,218,280</u>	<u>\$8,185,154</u>

Long-term debt activity for the years ended June 30, 2006 and 2005 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					
2006	<u>\$2,179,375</u>	<u>\$6,000,000</u>	<u>\$(1,212,501)</u>	<u>\$6,966,874</u>	<u>\$1,058,700</u>
2005	<u>\$1,550,060</u>	<u>\$1,000,000</u>	<u>\$(370,685)</u>	<u>\$2,179,375</u>	<u>\$1,277,256</u>

The Medical Center capitalized interest cost on the construction project related debt. For the year ended June 30, 2006, the Medical Center capitalized \$90,578 of interest cost. Total interest cost was \$145,196 for 2006 and \$64,781 for 2005.

**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

2007	\$ 79,872
2008	79,872
2009	79,872
2010	79,872
2011	79,872
Thereafter	<u>39,936</u>
Total	<u>\$ 439,296</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, 2006, 2005 and 2004 were \$652,806, \$534,388 and \$469,957, 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, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Charges foregone, based on established rates	\$ <u>265,165</u>	\$ <u>207,402</u>
Equivalent percentage of charity care patients to all patients served	<u>.6%</u>	<u>.6%</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, 2006 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	
	2006	2005
Receivable from patients	\$2,247,173	\$ 929,144
Receivable from insurance carriers	2,380,993	3,380,693
Receivable from Medicare	2,673,762	2,450,470
Receivable from Medicaid	<u>397,815</u>	<u>405,662</u>
Total patient receivables	7,699,743	7,165,969
Less allowance for contractual adjustments and uncollectibles	<u>2,594,291</u>	<u>2,605,222</u>
 Net patient receivables	 <u>\$5,105,452</u>	 <u>\$4,560,747</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 \$40,000 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, 2006 and 2005 was \$1,283,191 and \$1,070,954, respectively.

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 CONTRIBUTIONS RECEIVABLE

At June 30, 2006 and 2005, the Foundation's contributions receivable consisted of contributions to be used for the Medical Center's proposed expansion project.

A summary of the activity in contributions receivable for the year ended June 30, 2006 and 2005 is as follows:

	June 30	
	2006	2005
Beginning balance	\$ 407,635	\$ 307,440
Contributions made during the year	-	1,328,700
Contributions payments received	<u>(176,874)</u>	<u>(1,228,505)</u>
Ending balance	<u>\$ 230,761</u>	<u>\$ 407,635</u>

Contributions receivable at June 30, 2006 are expected to be received as follows:

Year ending June 30

2007	\$ 143,161
2008	52,300
2009	23,100
2010	7,700
2011	2,500
Thereafter	<u>2,000</u>
Total	<u>\$ 230,761</u>

REQUIRED SUPPLEMENTARY INFORMATION

Winneshiek Medical Center
BUDGET COMPARISON SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS, BUDGET AND ACTUAL
Year ended June 30, 2006

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>Budget</u>
	<u>*General funds</u>	<u>Restricted funds</u>	<u>Total (memorandum only)</u>			
Amount to be raised by taxation	\$ 437,531	\$ -	\$ 437,531	\$ -	\$ 437,531	\$ 427,614
Other revenues/receipts	<u>32,465,614</u>	<u>252,039</u>	<u>32,717,653</u>	<u>-</u>	<u>32,717,653</u>	<u>31,912,922</u>
	<u>32,903,145</u>	<u>252,039</u>	<u>33,155,184</u>	<u>-</u>	<u>33,155,184</u>	<u>32,340,536</u>
Expenses/expenditures	<u>29,992,589</u>	<u>344,265</u>	<u>30,336,854</u>	<u>7,157,859</u>	<u>37,494,713</u>	<u>38,273,533</u>
Net	<u>2,910,556</u>	<u>(92,226)</u>	<u>2,818,330</u>	<u>7,157,859</u>	<u>(4,339,529)</u>	<u>(5,932,997)</u>
Balance, beginning	<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>8,857,464</u>
Balance, ending	<u>\$21,212,077</u>	<u>\$1,435,850</u>	<u>\$22,647,927</u>	<u>\$(15,379,905)</u>	<u>\$ 7,268,022</u>	<u>\$ 2,924,467</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 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.

**INDEPENDENT AUDITOR'S REPORT ON THE
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, 2006 and 2005 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 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, 2004 and 2003, 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 24, 2006

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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
0 - 30 days (includes patients in Medical Center at end of year)	\$3,083,953	\$2,025,682	40.05%	28.26%
31 - 60 days	1,376,521	1,043,800	17.88	14.57
61 - 90 days	691,936	630,397	8.99	8.80
91 - 180 days	1,304,677	958,630	16.94	13.38
6 - 12 months	860,045	817,018	11.17	11.40
Over 1 year	<u>382,611</u>	<u>1,690,442</u>	<u>4.97</u>	<u>23.59</u>
Totals	<u>7,699,743</u>	<u>7,165,969</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	1,187,035	1,313,732		
Medicaid	23,036	33,298		
Other	33,441	40,304		
Uncollectibles	<u>1,350,779</u>	<u>1,217,888</u>		
Total allowances	<u>2,594,291</u>	<u>2,605,222</u>		
Totals	<u>\$5,105,452</u>	<u>\$4,560,747</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 85,031</u>	<u>\$ 61,022</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>60</u>	<u>75</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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
BALANCE , beginning	\$1,217,888	\$ 813,767		
ADD				
Provision for bad debts	1,010,000	828,775	3.25%	3.72%
Recoveries of accounts previously written off	728,102	369,137	2.35	1.66
Allowance related to purchase of clinic accounts receivable	-	342,668		
DEDUCT				
Accounts written off	(1,605,211)	(1,136,459)	5.17	5.10
BALANCE , ending	<u>\$1,350,779</u>	<u>\$1,217,888</u>		

**Winneshiek Medical Center
COMPARATIVE INVENTORIES**

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Surgery/central supply	\$ 411,076	\$ 421,320
Pharmacy	185,762	165,164
Dietary	<u>4,996</u>	<u>5,599</u>
Totals	<u>\$ 601,834</u>	<u>\$ 592,083</u>

**Winneshiek Medical Center
INSURANCE COVERAGE
June 30, 2006**

<u>Insurer</u>	<u>Coverage Type</u>	<u>Effective Dates</u>	<u>Coverage Amount</u>
Farm Bureau	Worker's Compensation	April 2006 to April 2007	\$500,000/500,000/500,000
PIC of Wisconsin	Commercial General Liability	April 2006 to April 2007	\$1,000,000
	Umbrella Excess Liability		5,000,000
	Medical Professional Liability		
	- Each healthcare incident		1,000,000
	Medical Professional Liability		
	- Total Facility annual aggregate		3,000,000
Chubb	Blanket limit of insurance	April 2006 to April 2007	\$40,615,600
	Business Income and		
	Expense Coverage		8,331,700
	Accounts Receivable		
	Coverage		2,500,000
	Auto Liability		\$1,000,000
The Hartford	Accidental Death and		
	Dismemberment	March 2005 to March 2007	\$50,000
Cincinnati Insurance	Employee Dishonesty	September 2005 to September 2006	\$100,000
Company	Directors and Officers Liability	November 2005 to November 2006	\$3,000,000

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**

	<u>Totals</u>	
	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
DAILY PATIENT SERVICES		
Routine care	\$ 1,753,180	\$ 1,609,977
Coronary care	283,935	307,775
Obstetrics	369,050	382,910
Nursery	259,200	275,760
Swing bed	261,151	270,230
Transitional care	5,250	2,565
	<u>2,931,766</u>	<u>2,849,217</u>
OTHER NURSING SERVICES		
Operating and recovery rooms	4,098,917	3,879,732
Delivery and labor rooms	377,201	379,037
Central supply	3,624,585	3,503,075
Intravenous therapy	408,936	403,741
Emergency room	1,671,165	1,644,818
Emergency room physician fees	1,161,041	972,624
Same day services	795,590	717,699
Home health agency	268,902	273,911
Hospice	476,118	192,639
Observation room	140,696	189,977
	<u>13,023,151</u>	<u>12,157,253</u>
OTHER PROFESSIONAL SERVICES		
Clinic	13,370,992	3,088,964
Laboratory	5,306,439	3,812,283
Pharmacy	3,616,789	3,522,837
Radiology	1,631,939	1,656,120
Physical therapy	1,261,670	1,146,080
Occupational therapy	286,771	293,017
Anesthesiology	99,393	92,811
Respiratory therapy	748,382	545,669
Electrocardiology and echocardiology	362,841	353,885
CT scans	2,269,804	1,901,632
Magnetic resonance imaging	881,604	817,776
Ultrasound	682,250	581,234
Blood administration	308,805	255,398
Nuclear medicine	229,651	246,045
Speech therapy	44,411	32,766
Ambulance service	995,795	924,347
Occupational health	7,703	-
Dietary consulting	6,215	4,965
Diabetes education	12,147	16,586
Durable medical equipment	213,256	5,099
	<u>32,336,857</u>	<u>19,297,514</u>
Totals	48,291,774	34,303,984
Charity care charges foregone, based on established rates	<u>(265,165)</u>	<u>(207,402)</u>
Total gross patient service revenue	48,026,609	34,096,582
Provisions for contractual and other adjustments	<u>(16,990,442)</u>	<u>(11,823,710)</u>
Total net patient service revenue	<u>\$31,036,167</u>	<u>\$22,272,872</u>

<u>Inpatient</u>		<u>Outpatient</u>	
<u>Year ended June 30</u>		<u>Year ended June 30</u>	
<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
\$ 1,753,180	\$ 1,609,977		
283,935	307,775		
369,050	382,910		
259,200	275,760		
261,151	270,230		
5,250	2,565		
<u>2,931,766</u>	<u>2,849,217</u>		
988,564	963,035	\$ 3,110,353	\$ 2,916,697
323,057	326,983	54,144	52,054
1,860,094	1,835,889	1,764,491	1,667,186
202,028	211,487	206,908	192,254
92,151	290,517	1,579,014	1,354,301
38,493	97,914	1,122,548	874,710
12,278	8,852	783,312	708,848
-	-	268,902	273,911
459,998	160,239	16,120	32,400
13,383	35,872	127,313	154,104
<u>3,990,046</u>	<u>3,930,788</u>	<u>9,033,105</u>	<u>8,226,465</u>
-	-	13,370,992	3,088,964
901,952	991,778	4,404,487	2,820,505
1,239,773	1,168,025	2,377,016	2,354,812
98,554	141,043	1,533,385	1,515,077
262,848	275,811	998,822	870,269
77,272	102,200	209,499	190,817
30,401	23,108	68,992	69,703
268,775	313,229	479,607	232,440
119,125	110,161	243,716	243,724
277,354	305,057	1,992,450	1,596,575
27,273	8,741	854,331	809,035
46,195	49,189	636,055	532,045
124,141	146,147	184,664	109,251
9,123	9,815	220,528	236,230
13,967	10,340	30,444	22,426
28,570	21,503	967,225	902,844
-	-	7,703	-
-	-	6,215	4,965
-	-	12,147	16,586
-	-	213,256	5,099
<u>3,525,323</u>	<u>3,676,147</u>	<u>28,811,534</u>	<u>15,621,367</u>
<u>\$10,447,135</u>	<u>\$10,456,152</u>	<u>\$37,844,639</u>	<u>\$23,847,832</u>

Winneshiek Medical Center
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	Year ended June 30	
	2006	2005
Contractual adjustments		
Medicare	\$10,663,712	\$ 8,438,675
Medicaid	1,304,059	790,607
Other adjustments	4,012,671	1,765,653
Provision for bad debts	1,010,000	828,775
Totals	\$16,990,442	\$11,823,710

OTHER REVENUE

	Year ended June 30	
	2006	2005
Contract fees and services		
Pharmacy	\$ 87,883	\$ 168,977
Physical therapy, occupational therapy and speech therapy	206,405	203,041
Dietary	14,407	23,788
Laundry and housekeeping	6,218	8,344
Employee meals	76,198	70,505
Meals on Wheels and guest meals	18,284	26,954
Vending machines	5,382	4,764
Medical records transcripts	8,849	4,925
Miscellaneous	360,839	159,043
Totals	\$ 784,465	\$ 670,341

**Winneshiek Medical Center
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
NURSING ADMINISTRATION		
Salaries	\$ 213,578	\$ 191,234
Supplies and expense	<u>5,787</u>	<u>8,501</u>
	<u>219,365</u>	<u>199,735</u>
MEDICAL AND SURGICAL		
Salaries	1,100,110	934,333
Supplies and expense	<u>77,426</u>	<u>84,287</u>
	<u>1,177,536</u>	<u>1,018,620</u>
CORONARY CARE		
Salaries	113,379	158,145
Supplies and expense	<u>17,501</u>	<u>31,231</u>
	<u>130,880</u>	<u>189,376</u>
OBSTETRIC		
Salaries	394,145	375,092
Supplies and expense	<u>45,620</u>	<u>52,511</u>
	<u>439,765</u>	<u>427,603</u>
NURSERY		
Salaries	128,778	122,456
Supplies and expense	<u>11,983</u>	<u>16,447</u>
	<u>140,761</u>	<u>138,903</u>
OPERATING AND RECOVERY ROOMS		
Salaries	792,945	659,275
Supplies and expense	<u>386,293</u>	<u>568,059</u>
	<u>1,179,238</u>	<u>1,227,334</u>
DELIVERY AND LABOR ROOMS		
Salaries	62,540	67,037
Supplies and expense	<u>7,783</u>	<u>6,767</u>
	<u>70,323</u>	<u>73,804</u>
CENTRAL SUPPLY		
Salaries	45,980	44,025
Billable supplies	825,170	942,601
Supplies and expense	<u>46,727</u>	<u>45,069</u>
	<u>917,877</u>	<u>1,031,695</u>
INTRAVENOUS THERAPY		
Supplies and expense	<u>11,876</u>	<u>6,843</u>
EMERGENCY ROOM		
Salaries	774,285	734,429
Professional fees	935,388	779,470
Supplies and expense	<u>66,782</u>	<u>56,021</u>
	<u>1,776,455</u>	<u>1,569,920</u>
SAME DAY SERVICES		
Salaries	192,171	176,576
Supplies and expense	<u>17,656</u>	<u>13,778</u>
	<u>209,827</u>	<u>190,354</u>
HOME HEALTH AGENCY		
Salaries	184,484	198,814
Supplies and expense	<u>17,892</u>	<u>15,656</u>
	<u>202,376</u>	<u>214,470</u>

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

	Year ended June 30	
	2006	2005
HOSPICE		
Salaries	\$ 106,909	\$ 61,781
Supplies and expense	<u>39,173</u>	<u>16,930</u>
	<u>146,082</u>	<u>78,711</u>
EDUCATION AND OUTREACH PROGRAMS		
Salaries	94,664	91,798
Supplies and expense	<u>7,424</u>	<u>7,919</u>
	<u>102,088</u>	<u>99,717</u>
SPECIAL SERVICES		
Salaries	<u>4,155</u>	<u>4,074</u>
RECREATIONAL THERAPY		
Salaries	356	1,958
Supplies and expense	<u>434</u>	<u>322</u>
	<u>790</u>	<u>2,280</u>
 Totals	 <u>\$6,729,394</u>	 <u>\$6,473,439</u>

**Winneshiek Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
CLINIC		
Salaries	\$ 813,190	\$ 453,991
Supplies and expense	<u>5,340,994</u>	<u>1,348,111</u>
	<u>6,154,184</u>	<u>1,802,102</u>
LABORATORY		
Salaries	786,386	593,582
Professional fees	126,000	126,000
Purchased services	156,764	59,019
Supplies and expense	<u>517,113</u>	<u>409,203</u>
	<u>1,586,263</u>	<u>1,187,804</u>
PHARMACY		
Salaries	207,693	206,281
Drugs	1,000,604	1,097,286
Supplies and expense	<u>26,510</u>	<u>31,315</u>
	<u>1,234,807</u>	<u>1,334,882</u>
RADIOLOGY		
Salaries	411,001	417,207
Professional fees	85,765	106,755
Supplies and expense	<u>182,943</u>	<u>124,019</u>
	<u>679,709</u>	<u>647,981</u>
PHYSICAL THERAPY		
Salaries	785,094	760,517
Supplies and expense	<u>150,221</u>	<u>109,261</u>
	<u>935,315</u>	<u>869,778</u>
OCCUPATIONAL THERAPY		
Salaries	142,236	130,840
Supplies and expense	<u>21,561</u>	<u>14,229</u>
	<u>163,797</u>	<u>145,069</u>
ANESTHESIOLOGY		
Salaries	991	-
Professional fees	15,000	9,996
Supplies and expense	<u>49,476</u>	<u>14,111</u>
	<u>65,467</u>	<u>24,107</u>
RESPIRATORY THERAPY		
Salaries	111,549	111,277
Purchased services	19,731	15,357
Supplies and expense	<u>131,173</u>	<u>36,729</u>
	<u>262,453</u>	<u>163,363</u>
ELECTROCARDIOLOGY		
Salaries	26,060	29,144
Supplies and expense	<u>4,165</u>	<u>3,788</u>
	<u>30,225</u>	<u>32,932</u>
ECHOCARDIOLOGY		
Purchased services	<u>36,510</u>	<u>16,075</u>
CT SCANS		
Salaries	103,849	68,221
Supplies and expense	<u>101,657</u>	<u>72,128</u>
	<u>205,506</u>	<u>140,349</u>

Winneshiek Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
MAGNETIC RESONANCE IMAGING		
Purchased services	\$ 232,474	\$ 232,832
Supplies and expense	<u>2,341</u>	<u>5,078</u>
	<u>234,815</u>	<u>237,910</u>
ULTRASOUND		
Salaries	101,686	90,504
Purchased services	-	3,458
Supplies and expense	<u>58,376</u>	<u>38,179</u>
	<u>160,062</u>	<u>132,141</u>
BLOOD ADMINISTRATION		
Supplies and expense	<u>161,074</u>	<u>136,118</u>
NUCLEAR MEDICINE		
Purchased services	<u>89,906</u>	<u>77,770</u>
SPEECH THERAPY		
Salaries	55,903	45,564
Purchased services	2,855	1,781
Supplies and expense	<u>2,042</u>	<u>1,414</u>
	<u>60,800</u>	<u>48,759</u>
AMBULANCE		
Salaries	333,778	356,445
Supplies and expense	<u>67,110</u>	<u>53,306</u>
	<u>400,888</u>	<u>409,751</u>
SOCIAL SERVICES/UTILIZATION REVIEW		
Supplies and expense	<u>-</u>	<u>76</u>
OCCUPATIONAL HEALTH		
Salaries	21,343	-
Supplies and expense	<u>6,221</u>	<u>-</u>
	<u>27,564</u>	<u>-</u>
MEDICAL RECORDS		
Salaries	585,285	295,362
Supplies and expense	<u>64,635</u>	<u>46,074</u>
	<u>649,920</u>	<u>341,436</u>
DIABETES EDUCATION		
Supplies and expense	<u>860</u>	<u>1,308</u>
DURABLE MEDICAL EQUIPMENT		
Salaries	43,146	10,848
Supplies and expense	<u>80,379</u>	<u>10,704</u>
	<u>123,525</u>	<u>21,552</u>
Totals	<u>\$13,263,650</u>	<u>\$7,771,263</u>

**Winneshiek Medical Center
GENERAL SERVICE EXPENSES**

	Year ended June 30	
	2006	2005
DIETARY		
Salaries	\$ 348,313	\$ 343,032
Supplies and expense	<u>231,909</u>	<u>194,357</u>
	<u>580,222</u>	<u>537,389</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	187,340	211,102
Utilities	182,614	174,012
Fuel	183,379	135,005
Supplies and expense	<u>134,558</u>	<u>118,913</u>
	<u>687,891</u>	<u>639,032</u>
HOUSEKEEPING		
Salaries	95,658	156,229
Supplies and expense	<u>35,320</u>	<u>23,755</u>
	<u>130,978</u>	<u>179,984</u>
LAUNDRY AND LINEN		
Salaries	97,012	94,332
Supplies and expense	<u>24,894</u>	<u>26,075</u>
	<u>121,906</u>	<u>120,407</u>
 Totals	 <u>\$1,520,997</u>	 <u>\$1,476,812</u>

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

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Administration		
Salaries	\$ 363,822	\$ 367,480
Dues, subscriptions and travel expense	36,145	32,114
Recruitment	3,398	8,000
Supplies and expense	463,999	327,002
Business office		
Salaries	911,804	339,948
Professional services	76,958	70,564
Collection expense	81,975	61,033
Telephone	56,159	38,066
Supplies and expense	247,132	98,814
Accounting services		
Salaries	191,856	156,574
Supplies and expense	10,862	8,679
Information technology		
Salaries	214,517	106,955
Supplies and expense	108,404	173,933
Development department		
Salaries	161,208	157,044
Supplies and expense	107,784	101,802
Human resources		
Salaries	176,667	135,774
Supplies and expense	28,409	14,965
Quality assurance		
Salaries	176,876	164,278
Supplies and expense	27,578	15,913
Medical staff		
Supplies and expense	2,177	2,876
Materials management		
Salaries	103,499	104,778
Supplies and expense	60,386	24,541
Total fiscal and administrative service expenses	<u>3,611,615</u>	<u>2,511,133</u>
UNASSIGNED EXPENSES		
Insurance	304,771	267,270
Employee benefits		
FICA	841,728	692,785
IPERS	652,806	534,388
Group health insurance	1,283,191	1,070,954
Other	216,995	138,412
Total unassigned expenses	<u>3,299,491</u>	<u>2,703,809</u>
Totals	<u>\$6,911,106</u>	<u>\$5,214,942</u>

**Winneshiek Medical Center
COMPARATIVE REVENUE AND EXPENSES**

	Year ended June 30			
	2006	2005	2004	2003
NET PATIENT SERVICE REVENUE	\$31,036,167	\$22,272,872	\$19,097,320	\$17,153,567
OTHER REVENUE	<u>784,465</u>	<u>670,341</u>	<u>594,866</u>	<u>626,969</u>
Total revenue	<u>31,820,632</u>	<u>22,943,213</u>	<u>19,692,186</u>	<u>17,780,536</u>
EXPENSES				
Salaries	11,766,241	9,728,336	8,417,240	7,489,485
Supplies, professional fees and other expenses	16,658,906	11,208,120	9,151,341	7,924,549
Provision for depreciation and amortization	<u>1,567,442</u>	<u>1,281,460</u>	<u>1,109,765</u>	<u>817,414</u>
Total expenses	<u>29,992,589</u>	<u>22,217,916</u>	<u>18,678,346</u>	<u>16,231,448</u>
Operating income	<u>1,828,043</u>	<u>725,297</u>	<u>1,013,840</u>	<u>1,549,088</u>
NONOPERATING GAINS				
County taxes	437,531	436,595	433,127	432,809
Interest expense	(54,618)	(64,781)	(80,424)	(94,654)
Contribution expense	-	-	-	(22,572)
Interest income	111,323	124,960	101,879	146,051
Unrestricted contributions	-	-	21,072	25,905
Rental property, net	194,785	137,398	66,916	84,681
Gain (loss) on sale of property and equipment	<u>12,219</u>	<u>(2,573)</u>	<u>2,191</u>	<u>(18,604)</u>
Total nonoperating gains	<u>701,240</u>	<u>631,599</u>	<u>544,761</u>	<u>553,616</u>
Excess of revenues and gains over expenses before contributions	2,529,283	1,356,896	1,558,601	2,102,704
CONTRIBUTIONS	<u>289,047</u>	<u>1,315,802</u>	<u>899,512</u>	<u>114,165</u>
Change in fund equity	<u>\$ 2,818,330</u>	<u>\$ 2,672,698</u>	<u>\$ 2,458,113</u>	<u>\$ 2,216,869</u>

**Winneshiek Medical Center
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2006</u>	<u>2005</u>
PATIENT DAYS		
Adult and pediatric	3,566	3,526
Swing bed	811	886
Newborn	<u>576</u>	<u>632</u>
Totals	<u>4,953</u>	<u>5,044</u>
ADMISSIONS		
Adult and pediatric	1,277	1,220
Swing bed	<u>168</u>	<u>162</u>
Totals	<u>1,445</u>	<u>1,382</u>
DISCHARGES		
Adult and pediatric	1,281	1,213
Swing bed	<u>166</u>	<u>164</u>
Totals	<u>1,447</u>	<u>1,377</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	2.8	2.9
Swing bed	4.9	5.4
BEDS		
Acute (changed to 25 beds effective May 1, 2005)	25	25
OCCUPANCY PERCENT		
Adult and pediatric	39.08%	18.70%
Swing bed	<u>8.89</u>	<u>4.70</u>
Combined	<u>47.97%</u>	<u>23.40%</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, 2006, and have issued our report thereon dated August 24, 2006. We conducted our audit 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.

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*. However, we noted an immaterial instance of noncompliance that is described in Part II of the accompanying Findings Related to Required Statutory Reporting.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2006 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 24, 2006

**Winneshiek Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2006**

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, 2006**

Part II—Findings Related to Required Statutory Reporting

06-II-A CERTIFIED BUDGET

The Medical Center did not exceed its budget for the year ended June 30, 2006.

06-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

06-II-C TRAVEL EXPENSES

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

06-II-D BUSINESS TRANSACTIONS

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

06-II-E BOARD MINUTES

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

06-II-F DEPOSITS AND INVESTMENTS

We noted instances in which the interest rates on certificates of deposits were less than the statutory rates established by the State of Iowa.

Recommendation

We recommend that when investing in certificates of deposits, the rates be compared to the statutory rates in effect for compliance.

Response

The statutory rates for investments will be reviewed and complied with when investing in certificates of deposit.

Conclusion

Response accepted.

**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, 2006, and have issued our report thereon dated August 24, 2006.

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 2006, 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, 2006 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 24, 2006