

**Winneshiek Medical Center
Decorah, Iowa**

FINANCIAL REPORT

June 30, 2007

CONTENTS

	<u>Page</u>
OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-11
FINANCIAL STATEMENTS	
Balance sheets	12-13
Statements of revenues, expenses, and changes in fund equity	14
Statements of cash flows	15-16
Notes to financial statements	17-25
REQUIRED SUPPLEMENTARY INFORMATION	26
Budgetary comparison schedule of revenues, expenses and changes in net assets, budget and actual	27
INDEPENDENT AUDITOR'S REPORT ON THE OTHER SUPPLEMENTARY INFORMATION	28
OTHER SUPPLEMENTARY INFORMATION	29
Analysis of patient receivables	30
Analysis of allowance for uncollectibles	30
Comparative inventories	31
Insurance coverage	32
Patient service revenue	33-34
Provisions for contractual and other adjustments	35
Other revenue	35
Nursing service expenses	36-37
Other professional service expenses	38-39
General service expenses	40
Fiscal and administrative service and unassigned expenses	41
Comparative revenue and expenses	42
Comparative statistics	43
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	44-45
SCHEDULE OF FINDINGS	46-48
INDEPENDENT AUDITOR'S REPORT ON DEBT AGREEMENT COVENANTS	49

**Winneshiek Medical Center
OFFICIALS
June 30, 2007**

Before January 2007

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

David Jordahl

CHIEF MEDICAL OFFICER

David Heine

CHIEF FINANCIAL OFFICER

Timothy Wren

DIRECTOR OF NURSING

Sheryl Juve

After January 2007

BOARD OF TRUSTEES

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

Expiration of term

December 31, 2008
December 31, 2012
December 31, 2012
December 31, 2008
December 31, 2011
December 31, 2008
December 31, 2010

CHIEF ADMINISTRATIVE OFFICER

Allan Atkinson

CHIEF OPERATING OFFICER

David Jordahl

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, 2007 and 2006, 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, 2007 and 2006, 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 November 14, 2007 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
November 14, 2007

**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, 2007, 2006 and 2005. 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 \$4,914,578.
- Total assets whose use is limited decreased by \$1,436,308.
- Total property and equipment increased by \$6,972,191.
- Fund equity increased by \$1,004,016.
- Net patient service revenue increased by \$3,656,909, primarily due to the ancillary revenue and new services provided.
- Expenses increased by \$4,992,395, primarily due to associated Clinic expenses, competitive increases in wages for essential personnel and expenses of new services.
- Total margin for FY 2007 was 3.3%, compared to 7.8% for FY 2006.

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, 2007, 2006 and 2005, are presented in Table 1 below.

Table 1
Condensed Balance Sheets

	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>	<u>Dollar</u> <u>Change</u>	<u>Total %</u> <u>Change</u>	<u>June 30,</u> <u>2005</u>
Current and other assets	\$11,927,012	\$13,984,625	\$ (2,057,613)	-15%	\$12,579,438
Property and equipment (net)	<u>27,471,571</u>	<u>20,499,380</u>	<u>6,972,191</u>	<u>34%</u>	<u>13,027,955</u>
Total assets	<u>\$39,398,583</u>	<u>\$34,484,005</u>	<u>\$4,914,578</u>	<u>14%</u>	<u>\$25,607,393</u>
Long-term debt outstanding	\$ 9,394,853	\$ 5,908,174	\$3,486,679	59%	\$ 902,119
Other liabilities	<u>6,351,787</u>	<u>5,927,904</u>	<u>423,883</u>	<u>-7%</u>	<u>4,875,677</u>
Total liabilities	<u>\$15,746,640</u>	<u>\$11,836,078</u>	<u>\$3,910,562</u>	<u>33%</u>	<u>\$ 5,777,796</u>
Invested in capital assets (net)	\$17,004,128	\$13,532,506	\$3,471,622	26%	\$10,848,580
Restricted expansion fund	859,750	829,032	30,718	4%	817,044
Foundation fund	314,045	606,818	(292,773)	-48%	711,032
Unrestricted	<u>5,474,020</u>	<u>7,679,571</u>	<u>(2,205,551)</u>	<u>287%</u>	<u>7,452,941</u>
Total net assets	<u>\$23,651,943</u>	<u>\$22,647,927</u>	<u>\$ 1,004,016</u>	<u>4%</u>	<u>\$19,829,597</u>

As can be seen by Table 1, net assets increased by approximately \$1 million to \$23.65 million in fiscal year 2007, up from \$22.65 million in fiscal year 2006. The change in net assets results primarily from the continuation of the major construction project which will be in excess of \$13 million.

Increases in property and equipment of \$6,972,191 were incurred in fiscal year 2007. These increases were primarily related to the continuation of the major construction project mentioned in the above paragraph. During the year ended June 30, 2007, \$6,435,000 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.

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, 2007, 2006 and 2005.

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

	<u>Year ended June 30</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total revenue	\$35,227	\$31,821	\$22,943
Expenses	<u>34,985</u>	<u>29,993</u>	<u>22,218</u>
Operating income	242	1,828	725
Nonoperating gains	<u>572</u>	<u>701</u>	<u>632</u>
Excess of revenues over expenses before contributions	814	2,529	1,357
Contributions	<u>190</u>	<u>289</u>	<u>1,316</u>
Changes in fund equity	1,004	2,818	2,673
Total fund equity, beginning	<u>22,647</u>	<u>19,829</u>	<u>17,156</u>
Total fund equity, ending	<u>\$23,651</u>	<u>\$22,647</u>	<u>\$19,829</u>

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the Medical Center's statement of revenues, expenses, and changes in fund equity between June 30, 2007 and 2006.

Volume: Inpatient admissions (excluding normal newborns) for fiscal year 2007 were 1,295 compared to 1,445 in fiscal year 2006. Because the average length of stay increased, patient days rose to 4,498 from 4,377 in 2006. 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, 2006 and the increase in patient volumes discussed above, net patient service revenue increased by \$3,657,000 or 12%. The Medical Center has completed its second year as a Critical Access Hospital (CAH) which has meant additional reimbursement from Medicare related accounts. It has also received Provider Based Clinic status for its clinic effective October 2006.

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2007, 2006 and 2005.

Table 3
Payor Mix by Percentage

	Year ended June 30		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Medicare	50.24%	50.17%	50.33%
Medicaid	5.42%	5.04%	5.01%
Self Pay	3.55%	3.50%	3.54%
Wellmark	19.43%	18.81%	17.71%
Commercial	18.72%	18.85%	21.46%
Others	2.64%	3.63%	1.95%

Other Revenue: decreased \$250,905 primarily due to a grant received in 2006 that was not duplicated in 2007.

Other Professional Service Expenses: increased \$4,229,269, primarily due to increased professional fees due to production and the addition of in-house CRNA services.

General Service Expenses: increased \$83,826 primarily due to additional expenses in our Plant Operations due to additional space added in 2007.

Fiscal and Administrative Expenses: increased \$529,574 primarily due to increased benefit costs. In addition there were additional essential staff added and increased wages and services to support growing patient related services.

Nonoperating Gains: decreased \$129,116 primarily due to fewer rental property tenants in 2007.

CAPITAL ASSETS

At the end of fiscal year 2007, the Medical Center has invested \$27,472 million in capital assets as shown in Table 4. The \$6,972 million increase in capital assets is primarily a result of increases in construction in progress. Construction in progress has decreased as work continues on the \$13.9 million expansion project.

The following table summarizes the Medical Center's capital assets as of June 30, 2007, 2006 and 2005.

Table 4
Capital Assets

	<u>June 30</u>			<u>June 30</u>
	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>2005</u>
Land	\$ 551,673	\$ 551,673	\$ –	\$ 551,673
Land improvements	351,767	351,767	–	351,767
Buildings and leasehold improvements	26,302,826	12,184,491	14,118,335	12,060,411
Fixed equipment	1,817,693	1,446,554	371,139	1,322,321
Major moveable equipment	9,911,336	8,934,080	977,256	8,454,339
Assets under capital lease	1,150,909	–	1,150,909	–
Construction in progress	<u>1,679,530</u>	<u>9,638,677</u>	<u>(7,959,147)</u>	<u>1,472,316</u>
Subtotal	41,765,734	33,107,242	8,658,492	24,212,827
Less accumulated depreciation	<u>(14,294,163)</u>	<u>(12,607,862)</u>	<u>(1,686,301)</u>	<u>(11,184,872)</u>
Property, plant and equipment (net)	<u>\$27,471,571</u>	<u>\$20,499,380</u>	<u>\$ 6,972,191</u>	<u>\$13,027,955</u>

DEBT ADMINISTRATION

Long Term Debt

At year-end, the Medical Center had \$9,377,669 in short and long – term debt related to County public hospital revenue notes. This has increased by \$2,410,795 from the previous fiscal year as a result of new long-term debt incurred in the current year. The Medical Center incurred an additional \$3,000,000 in debt related to its 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 Lease

The Medical Center has a capital lease obligation of \$1,089,774 at the end of fiscal year 2007. The obligation relates to MRI equipment. There were no capital lease obligations for the years ended June 30, 2006 and 2005.

PERFORMANCE COMPARED TO BUDGET

Net patient revenues were \$34,693,076 or 3.89% under budget for the fiscal year ended June 30, 2007. This was primarily due to heightened expectations for revenue created by the overall growth of the Medical Center. As noted in Table 5, contractual adjustments were 10.45% over budget. This overage was largely associated with higher contractual adjustments in the Clinic than what was budgeted.

Other revenues were \$533,560 or 31.17% under budget. This was primarily due to a decrease in the sale of pharmaceuticals to non-patients.

Operating expenses were \$34,984,984 or 0.54% under budget. This was primarily due to lower expenses associated with key revenue producing departments which were also under budget.

The following table compares fiscal year 2007 actual to budget information.

**Table 5
Budget vs. Actual**

	<u>FY 2007 Budget</u>	<u>FY 2007 Actual</u>	<u>Dollar Variance</u>	<u>Percent Variance</u>
Gross patient service revenue	\$51,110,500	\$51,276,777	\$ 166,277	0.33%
Contractual adjustments	(15,015,000)	(16,583,701)	1,568,701	10.45%
Net patient service revenue	36,095,500	34,693,076	(1,402,424)	(3.89)%
Other revenue, excluding county taxes	<u>775,200</u>	<u>533,560</u>	<u>(241,640)</u>	<u>(31.17)%</u>
Total operating revenue	36,870,700	35,226,636	(1,644,064)	(4.46)%
Operating expenses	<u>35,173,900</u>	<u>34,984,984</u>	<u>(188,916)</u>	<u>(0.54)%</u>
Operating income	\$ <u>1,696,800</u>	\$ <u>241,652</u>	\$(<u>1,455,148</u>)	<u>(85.76)%</u>
Income from investments	\$ 95,000	\$ 98,345	\$ 3,345	3.52%
Other non-operating revenue + (county taxes) budget included Capital Campaign funds from the Foundation	<u>945,600</u>	<u>473,779</u>	<u>(471,821)</u>	<u>(49.90)%</u>
Excess of revenues over expenses	\$ <u>2,737,400</u>	\$ <u>813,776</u>	\$(<u>1,923,624</u>)	<u>(70.27)%</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 2008 budget. Of primary importance in setting the 2008 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
- Physician recruitment

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	
	2007	2006
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,205,705	\$ 4,010,749
Patient receivables, less allowances for contractual adjustments and uncollectibles		
2007 \$2,765,700; 2006 \$2,594,291	7,238,720	5,105,452
Other receivables	31,410	87,062
Inventories	693,290	601,834
Prepaid expenses	142,744	124,301
Succeeding year property tax receivable	427,062	426,643
	<u>9,738,931</u>	<u>10,356,041</u>
ASSETS WHOSE USE IS LIMITED		
Designated by Board for plant replacement and expansion		
Cash	642,180	1,467,722
Certificates of deposit	372,106	720,817
	<u>1,014,286</u>	<u>2,188,539</u>
Restricted by donors for specific purpose		
Cash and cash equivalents	335,842	316,821
Certificates of deposit	520,401	508,704
Interest receivable	3,507	3,507
	<u>859,750</u>	<u>829,032</u>
Restricted by donors/foundation		
Cash and cash equivalents	161,319	358,267
Certificate of deposit	7,879	7,563
Investments	31,358	10,227
Contributions receivable	113,489	230,761
	<u>314,045</u>	<u>606,818</u>
Total assets whose use is limited	<u>2,188,081</u>	<u>3,624,389</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	41,765,734	33,107,242
Total property and equipment	<u>14,294,163</u>	<u>12,607,862</u>
	<u>27,471,571</u>	<u>20,499,380</u>
OTHER ASSET		
Unamortized financing costs	—	4,195
Totals	<u>\$39,398,583</u>	<u>\$34,484,005</u>

	LIABILITIES AND FUND EQUITY	
	June 30	
	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,072,590	\$ 1,058,700
Accounts payable		
Trade	2,003,449	1,451,923
Construction	523,907	1,189,980
Estimated third-party payor settlements	468,699	130,575
Deferred revenue, contribution	250,000	250,000
Accrued employee compensation	1,422,662	1,255,427
Payroll taxes and amounts withheld from employees	183,418	164,656
Deferred revenue for succeeding year property tax receivable	<u>427,062</u>	<u>426,643</u>
Total current liabilities	<u>6,351,787</u>	<u>5,927,904</u>
LONG-TERM DEBT		
County public hospital revenue notes	9,377,669	6,966,874
Obligations under capital leases	<u>1,089,774</u>	<u>—</u>
	10,467,443	6,966,874
Less current maturities	<u>1,072,590</u>	<u>1,058,700</u>
Total long-term debt	<u>9,394,853</u>	<u>5,908,174</u>
CONTINGENCIES		
FUND EQUITY		
Invested in capital assets, net of related debt	17,004,128	13,532,506
Restricted		
For specific purpose by donors	859,750	829,032
By donors/foundation	314,045	606,818
Unrestricted	<u>5,474,020</u>	<u>7,679,571</u>
Total fund equity	<u>23,651,943</u>	<u>22,647,927</u>
Totals	<u>\$39,398,583</u>	<u>\$34,484,005</u>

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

	Year ended June 30	
	2007	2006
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2007 \$806,000; 2006 \$1,010,000	\$34,693,076	\$31,036,167
OTHER REVENUE	<u>533,560</u>	<u>784,465</u>
Total revenue	<u>35,226,636</u>	<u>31,820,632</u>
EXPENSES		
Nursing service	6,724,789	6,729,394
Other professional service	17,492,919	13,263,650
General service	1,604,823	1,520,997
Fiscal and administrative service and unassigned expenses	7,440,680	6,911,106
Provision for depreciation and amortization	<u>1,721,773</u>	<u>1,567,442</u>
Total expenses	<u>34,984,984</u>	<u>29,992,589</u>
Operating income	<u>241,652</u>	<u>1,828,043</u>
NONOPERATING GAINS (LOSSES)		
County taxes	436,256	437,531
Interest income	98,345	111,323
Interest expense	(68,491)	(54,618)
Rental property, net	101,714	194,785
Gain on sale of property and equipment	<u>4,300</u>	<u>12,219</u>
Total nonoperating gains	<u>572,124</u>	<u>701,240</u>
Excess of revenues and gains over expenses before contributions	813,776	2,529,283
CONTRIBUTIONS	<u>190,240</u>	<u>289,047</u>
Change in fund equity	1,004,016	2,818,330
TOTAL FUND EQUITY		
Beginning	<u>22,647,927</u>	<u>19,829,597</u>
Ending	<u>\$23,651,943</u>	<u>\$22,647,927</u>

See Notes to Financial Statements.

**Winneshiek Medical Center
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$32,897,932	\$30,750,935
Cash paid to suppliers for goods and services	(20,173,252)	(16,453,682)
Cash paid to employees for services	(13,128,408)	(12,061,358)
Other operating revenues received	<u>589,212</u>	<u>723,864</u>
Net cash provided by operating activities	<u>185,484</u>	<u>2,959,759</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	436,256	437,531
Foundation contributions, net of expense	<u>307,512</u>	<u>465,921</u>
Net cash provided by noncapital financing activities	<u>743,768</u>	<u>903,452</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(7,538,860)	(7,857,065)
Proceeds from sale of equipment	4,300	20,397
Principal paid on long-term debt	(1,010,340)	(1,212,501)
Proceeds from long-term debt	3,360,000	6,000,000
Interest paid on long-term debt	<u>(68,491)</u>	<u>(50,425)</u>
Net cash (used in) capital and related financing activities	<u>(5,253,391)</u>	<u>(3,099,594)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net redemptions of certificates of deposit and investments	315,567	644,997
Investment income received	98,345	111,323
Net cash received on rental property	<u>101,714</u>	<u>194,785</u>
Net cash provided by investing activities	<u>515,626</u>	<u>951,105</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,808,513)	1,714,722
CASH AND CASH EQUIVALENTS		
Beginning	<u>6,153,559</u>	<u>4,438,837</u>
Ending	<u>\$ 2,345,046</u>	<u>\$ 6,153,559</u>

See Notes to Financial Statements.

Winneshiek Medical Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 241,652	\$1,828,043
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation and amortization	1,721,773	1,567,442
Change in assets and liabilities		
(Increase) in patient receivables	(2,133,268)	(544,705)
(Increase) decrease in other receivables	55,652	(60,601)
(Increase) in inventories	(91,456)	(9,751)
(Increase) in prepaid expenses	(18,443)	(31,341)
Increase (decrease) in accounts payable, net of amounts for property and equipment	(114,547)	246,931
Increase (decrease) in accrued employee compensated absences	167,235	(295,117)
Increase (decrease) in payroll taxes and amounts withheld from employees	18,762	(615)
Decrease in net estimated third-party payor settlements	<u>338,124</u>	<u>259,473</u>
Net cash provided by operating activities	<u>\$ 185,484</u>	<u>\$2,959,759</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$1,205,705	\$4,010,749
Assets whose use is limited		
Board-designated for plant replacement and expansion	642,180	1,467,722
Restricted by donors for specific purpose	335,842	316,821
Restricted by donors/foundation	<u>161,319</u>	<u>358,267</u>
Total per statement of cash flows	<u>\$2,345,046</u>	<u>\$6,153,559</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired by capital lease	<u>\$1,150,909</u>	<u>\$ —</u>

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 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 Medical Center 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. Equipment under capital lease is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

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.

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 2 CASH AND INVESTMENTS

The Medical Center's deposits in banks at June 30, 2007 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, 2007 are reported at fair value as follows:

	<u>Fair value</u>
Mutual funds (mature daily)	\$ <u>31,358</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. 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, 2005.

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 NET PATIENT SERVICE REVENUE (continued)

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.

NOTE 4 PROPERTY AND EQUIPMENT

A summary of changes in property and equipment for the year ended June 30, 2007 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	12,184,491	106,450	-	14,011,885	26,302,826
Fixed equipment	1,446,554	340,296	-	30,843	1,817,693
Major movable equipment	8,934,080	1,814,096	(35,472)	349,541	11,062,245
Construction and equipment installations in progress	<u>9,638,677</u>	<u>6,433,122</u>	<u>-</u>	<u>(14,392,269)</u>	<u>1,679,530</u>
Totals	33,107,242	8,693,964	(35,472)	-	41,765,734
Less accumulated depreciation and amortization	<u>(12,607,862)</u>	<u>(1,721,773)</u>	<u>35,472</u>	<u>-</u>	<u>(14,294,163)</u>
Net property and equipment	<u>\$20,499,380</u>	<u>\$6,972,191</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$27,471,571</u>

As of June 30, 2007, the Medical Center has entered into signed commitments of approximately \$13,900,000 for a Medical Center expansion project, which is also the total estimated cost of the project with an estimated completion date of February 2008. The remaining commitments on the project is approximately \$566,000 at June 30, 2007.

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>

Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT

Hospital Revenue Notes

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 balance of the note at June 30, 2007 is \$387,061.

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, 2006 and June 30, 2007.

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, 2007. Advances through June 30, 2007 totaled \$10,000,000. The balance of the note at June 30, 2007 is \$8,630,607.

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 note matures August 1, 2020.

Rural Economic Development Loan

The Medical Center entered into a loan agreement with Hawkeye Tri-County Electric Cooperative. The proceeds of the loan are to be used for the expansion and refurbishment of the Medical Center's facility. The loan in the original amount of \$360,000 is noninterest bearing and is payable in monthly installments beginning May 2009 of \$3,750 through April 2017. The agreement is secured by the net revenues of the Medical Center.

Obligation Under Capital Lease

The Medical Center leases a magnetic resonance imaging unit under a capital lease agreement. The equipment cost and the related liability under the lease is recorded at the present value of the future minimum payments due under the lease, with a discount rate of 4.5%. The lease requires monthly payments of \$19,660 through March 2012.

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 LONG-TERM DEBT (continued)

Principal and interest maturities of the debt outstanding at June 30, 2007 are summarized as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,072,590	\$ 474,130	\$ 1,546,720
2009	731,224	427,740	1,158,964
2010	809,316	387,148	1,196,464
2011	852,478	343,986	1,196,464
2012	1,114,101	292,185	1,406,286
2013-2017	3,595,296	904,294	4,499,590
2018-2020	<u>2,292,438</u>	<u>151,020</u>	<u>2,443,458</u>
Totals	<u>\$10,467,443</u>	<u>\$2,980,503</u>	<u>\$13,447,946</u>

Long-term debt activity for the years ended June 30, 2007 and 2006 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
2007					
Revenue notes	\$6,966,874	\$3,000,000	\$ (949,206)	\$ 9,017,668	\$ 929,430
Rural economic development loan	-	360,000	-	360,000	-
Obligation under capital lease	-	<u>1,150,909</u>	<u>(61,134)</u>	<u>1,089,775</u>	<u>143,160</u>
Totals	<u>\$6,966,874</u>	<u>\$4,510,909</u>	<u>\$(1,010,340)</u>	<u>\$10,467,443</u>	<u>\$1,072,590</u>
2006—Revenue notes	<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>

The Medical Center capitalized interest cost on the construction project related debt. For the years ended June 30, 2007 and 2006, the Medical Center capitalized \$371,110 and \$90,578 of interest cost, respectively. Total interest cost was \$439,601 for 2007 and \$145,196 for 2006.

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:

<u>Year ending June 30</u>	
2008	\$ 79,872
2009	79,872
2010	79,872
2011	79,872
2012	<u>39,936</u>
Total	<u>\$ 359,424</u>

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

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, 2007, 2006 and 2005 were \$740,609, \$652,806 and \$534,388, 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, 2007 and 2006.

	2007	2006
Charges foregone, based on established rates	\$ <u>345,858</u>	\$ <u>265,165</u>
Equivalent percentage of charity care patients to all patients served	<u>.7%</u>	<u>.6%</u>

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, 2007 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	
	2007	2006
Receivable from patients	\$ 1,580,951	\$2,247,173
Receivable from insurance carriers	4,506,233	2,380,993
Receivable from Medicare	3,450,677	2,673,762
Receivable from Medicaid	<u>466,559</u>	<u>397,815</u>
Total patient receivables	10,004,420	7,699,743
Less allowance for contractual adjustments and uncollectibles	<u>2,765,700</u>	<u>2,594,291</u>
Net patient receivables	<u>\$ 7,238,720</u>	<u>\$5,105,452</u>

**Winneshiek Medical Center
NOTES TO FINANCIAL STATEMENTS**

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, 2007 and 2006 was \$1,272,217 and \$1,283,191, respectively.

NOTE 13 CONTRIBUTIONS RECEIVABLE

At June 30, 2007 and 2006, 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, 2007 and 2006 is as follows:

	June 30	
	2007	2006
Beginning balance	\$ 230,761	\$ 407,635
Contributions payments received and adjustments	<u>(117,272)</u>	<u>(176,874)</u>
Ending balance	<u>\$ 113,489</u>	<u>\$ 230,761</u>

Contributions receivable at June 30, 2007 are expected to be received as follows:

Year ending June 30

2008	\$ 73,689
2009	25,600
2010	7,200
2011	2,000
2012	2,000
Thereafter	<u>3,000</u>
Total	<u>\$ 113,489</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, 2007

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	\$ 436,256	\$ -	\$ 436,256	\$ -	\$ 436,256	\$ 426,643
Other revenues/receipts	<u>35,814,799</u>	<u>141,869</u>	<u>35,956,668</u>	<u>-</u>	<u>35,956,668</u>	<u>30,509,057</u>
	<u>36,251,055</u>	<u>141,869</u>	<u>36,392,924</u>	<u>-</u>	<u>36,392,924</u>	<u>30,935,700</u>
Expenses/expenditures	<u>34,984,984</u>	<u>403,924</u>	<u>35,388,908</u>	<u>6,827,426</u>	<u>42,216,334</u>	<u>37,821,323</u>
Net	<u>1,266,071</u>	<u>(262,055)</u>	<u>1,004,016</u>	<u>(6,827,426)</u>	<u>(5,823,410)</u>	<u>(6,885,623)</u>
Balance, beginning	<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>3,892,490</u>
Balance, ending	<u>\$22,478,148</u>	<u>\$1,173,795</u>	<u>\$23,651,943</u>	<u>\$(22,207,331)</u>	<u>\$ 1,444,612</u>	<u>\$(2,993,133)</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.

See Accompanying Auditor's Report.

**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, 2007 and 2006 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, 2005 and 2004, 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
November 14, 2007

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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
0 - 30 days (includes patients in Medical Center at end of year)	\$ 3,651,430	\$3,083,953	36.50%	40.05%
31 - 60 days	1,717,562	1,376,521	17.17	17.88
61 - 90 days	758,138	691,936	7.58	8.99
91 - 180 days	1,723,264	1,304,677	17.23	16.94
6 - 12 months	1,159,733	860,045	11.59	11.17
Over 1 year	<u>994,293</u>	<u>382,611</u>	<u>9.93</u>	<u>4.97</u>
Totals	<u>10,004,420</u>	<u>7,699,743</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	1,235,967	1,187,035		
Medicaid	23,104	23,036		
Other	151,488	33,441		
Uncollectibles	<u>1,355,141</u>	<u>1,350,779</u>		
Total allowances	<u>2,765,700</u>	<u>2,594,291</u>		
Totals	<u>\$ 7,238,720</u>	<u>\$5,105,452</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 95,337</u>	<u>\$ 85,031</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>76</u>	<u>60</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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
BALANCE , beginning	\$1,350,779	\$1,217,888		
ADD				
Provision for bad debts	806,000	1,010,000	2.32%	3.25%
Recoveries of accounts previously written off	444,768	728,102	1.28	2.35
DEDUCT				
Accounts written off	<u>(1,246,406)</u>	<u>(1,605,211)</u>	3.59	5.17
BALANCE , ending	<u>\$1,355,141</u>	<u>\$1,350,779</u>		

**Winneshiek Medical Center
COMPARATIVE INVENTORIES**

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Surgery/central supply	\$ 454,740	\$ 411,076
Pharmacy	233,766	185,762
Dietary	<u>4,784</u>	<u>4,996</u>
Totals	<u>\$ 693,290</u>	<u>\$ 601,834</u>

**Winneshiek Medical Center
INSURANCE COVERAGE
June 30, 2007**

<u>Insurer</u>	<u>Coverage Type</u>	<u>Effective Dates</u>	<u>Coverage Amount</u>
Farm Bureau	Worker's Compensation	April 2007 to April 2008	\$500,000/500,000/500,000
PIC of Wisconsin	Commercial General Liability	April 2007 to April 2008	\$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 2007 to April 2008	\$54,251,867
	Business Income and		
	Expense Coverage		8,391,700
	Accounts Receivable		
	Coverage		2,500,000
	Auto Liability		\$1,000,000
The Hartford	Accidental Death and		
	Dismemberment	March 2007 to March 2008	\$50,000
Cincinnati Insurance			
Company	Employee Dishonesty	September 2006 to September 2007	\$100,000
	Directors and Officers Liability	November 2006 to November 2007	\$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>2007</u>	<u>2006</u>
DAILY PATIENT SERVICES		
Routine care	\$ 1,742,915	\$ 1,753,180
Coronary care	256,025	283,935
Obstetrics	435,610	369,050
Nursery	308,275	259,200
Swing bed	349,518	261,151
Transitional care	975	5,250
	<u>3,093,318</u>	<u>2,931,766</u>
OTHER NURSING SERVICES		
Operating and recovery rooms	3,425,402	4,098,917
Delivery and labor rooms	404,045	377,201
Central supply	2,195,475	3,624,585
Urgent care	11,940	-
Intravenous therapy	424,458	408,936
Emergency room	1,938,913	1,671,165
Emergency room physician fees	1,399,904	1,161,041
Same day services	832,948	795,590
Home health agency	262,769	268,902
Hospice	791,460	476,118
Observation room	129,639	140,696
	<u>11,816,953</u>	<u>13,023,151</u>
OTHER PROFESSIONAL SERVICES		
Clinic	12,847,100	13,370,992
Laboratory	5,934,804	5,306,439
Pharmacy	4,533,648	3,616,789
Radiology	1,883,640	1,631,939
Physical therapy	1,290,436	1,261,670
Occupational therapy	312,173	286,771
Anesthesiology	1,384,738	99,393
Respiratory therapy	598,362	748,382
Electrocardiology and echocardiology	397,504	362,841
CT scans	3,014,684	2,269,804
Magnetic resonance imaging	1,017,715	881,604
Ultrasound	1,021,379	682,250
Blood administration	283,383	308,805
Nuclear medicine	381,010	229,651
Speech therapy	60,020	44,411
Ambulance service	944,328	995,795
Occupational health	55,782	7,703
Dietary consulting	6,100	6,215
Diabetes education	17,419	12,147
Durable medical equipment	382,281	213,256
	<u>36,366,506</u>	<u>32,336,857</u>
Totals	51,276,777	48,291,774
Charity care charges foregone, based on established rates	<u>(345,858)</u>	<u>(265,165)</u>
Total gross patient service revenue	50,930,919	48,026,609
Provisions for contractual and other adjustments	<u>(16,237,843)</u>	<u>(16,990,442)</u>
Total net patient service revenue	<u>\$34,693,076</u>	<u>\$31,036,167</u>

<u>Inpatient</u>		<u>Outpatient</u>	
<u>Year ended June 30</u>		<u>Year ended June 30</u>	
<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
\$ 1,742,915	\$ 1,753,180		
256,025	283,935		
435,610	369,050		
308,275	259,200		
349,518	261,151		
975	5,250		
<u>3,093,318</u>	<u>2,931,766</u>		
591,554	988,564	\$ 2,833,848	\$ 3,110,353
343,068	323,057	60,977	54,144
527,431	1,860,094	1,668,044	1,764,491
-	-	11,940	-
203,610	202,028	220,848	206,908
113,016	92,151	1,825,897	1,579,014
49,683	38,493	1,350,221	1,122,548
4,151	12,278	828,797	783,312
-	-	262,769	268,902
772,132	459,998	19,328	16,120
<u>10,964</u>	<u>13,383</u>	<u>118,675</u>	<u>127,313</u>
<u>2,615,609</u>	<u>3,990,046</u>	<u>9,201,344</u>	<u>9,033,105</u>
-	-	12,847,100	13,370,992
872,043	901,952	5,062,761	4,404,487
1,731,029	1,239,773	2,802,619	2,377,016
96,857	98,554	1,786,783	1,533,385
238,770	262,848	1,051,666	998,822
82,010	77,272	230,163	209,499
1,303,647	30,401	81,091	68,992
146,504	268,775	451,858	479,607
118,756	119,125	278,748	243,716
327,964	277,354	2,686,720	1,992,450
21,321	27,273	996,394	854,331
58,683	46,195	962,696	636,055
114,428	124,141	168,955	184,664
21,023	9,123	359,987	220,528
18,349	13,967	41,671	30,444
31,183	28,570	913,145	967,225
-	-	55,782	7,703
-	-	6,100	6,215
-	-	17,419	12,147
-	-	382,281	213,256
<u>5,182,567</u>	<u>3,525,323</u>	<u>31,183,939</u>	<u>28,811,534</u>
<u>\$10,891,494</u>	<u>\$10,447,135</u>	<u>\$40,385,283</u>	<u>\$37,844,639</u>

Winneshiek Medical Center
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Contractual adjustments		
Medicare	\$ 9,546,998	\$10,663,712
Medicaid	1,281,553	1,304,059
Other adjustments	4,603,292	4,012,671
Provision for bad debts	<u>806,000</u>	<u>1,010,000</u>
 Totals	 <u>\$16,237,843</u>	 <u>\$16,990,442</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Contract fees and services		
Pharmacy	\$ —	\$ 87,883
Physical therapy, occupational therapy and speech therapy	162,752	206,405
Dietary	9,669	14,407
Laundry and housekeeping	7,009	6,218
Employee meals	86,225	76,198
Meals on Wheels and guest meals	15,869	18,284
Vending machines	5,162	5,382
Medical records transcripts	8,794	8,849
Miscellaneous	<u>238,080</u>	<u>360,839</u>
 Totals	 <u>\$ 533,560</u>	 <u>\$ 784,465</u>

**Winneshiek Medical Center
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
NURSING ADMINISTRATION		
Salaries	\$ 182,275	\$ 213,578
Supplies and expense	<u>8,980</u>	<u>5,787</u>
	<u>191,255</u>	<u>219,365</u>
MEDICAL AND SURGICAL		
Salaries	1,048,949	1,100,110
Supplies and expense	<u>93,824</u>	<u>77,426</u>
	<u>1,142,773</u>	<u>1,177,536</u>
CORONARY CARE		
Salaries	188,834	113,379
Supplies and expense	<u>17,969</u>	<u>17,501</u>
	<u>206,803</u>	<u>130,880</u>
OBSTETRIC		
Salaries	405,250	394,145
Supplies and expense	<u>45,069</u>	<u>45,620</u>
	<u>450,319</u>	<u>439,765</u>
NURSERY		
Salaries	133,144	128,778
Supplies and expense	<u>8,497</u>	<u>11,983</u>
	<u>141,641</u>	<u>140,761</u>
OPERATING AND RECOVERY ROOMS		
Salaries	779,540	792,945
Supplies and expense	<u>405,217</u>	<u>386,293</u>
	<u>1,184,757</u>	<u>1,179,238</u>
DELIVERY AND LABOR ROOMS		
Salaries	64,480	62,540
Supplies and expense	<u>8,615</u>	<u>7,783</u>
	<u>73,095</u>	<u>70,323</u>
CENTRAL SUPPLY		
Salaries	37,479	45,980
Billable supplies	436,347	825,170
Supplies and expense	<u>59,041</u>	<u>46,727</u>
	<u>532,867</u>	<u>917,877</u>
URGENT CARE		
Salaries	17,502	-
Supplies and expense	<u>9,330</u>	<u>-</u>
	<u>26,832</u>	<u>-</u>
INTRAVENOUS THERAPY		
Supplies and expense	<u>11,227</u>	<u>11,876</u>
EMERGENCY ROOM		
Salaries	882,989	774,285
Professional fees	1,012,504	935,388
Supplies and expense	<u>76,525</u>	<u>66,782</u>
	<u>1,972,018</u>	<u>1,776,455</u>

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

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
SAME DAY SERVICES		
Salaries	\$ 198,859	\$ 192,171
Supplies and expense	<u>27,379</u>	<u>17,656</u>
	<u>226,238</u>	<u>209,827</u>
HOME HEALTH AGENCY		
Salaries	194,754	184,484
Supplies and expense	<u>20,151</u>	<u>17,892</u>
	<u>214,905</u>	<u>202,376</u>
HOSPICE		
Salaries	161,691	106,909
Supplies and expense	<u>71,992</u>	<u>39,173</u>
	<u>233,683</u>	<u>146,082</u>
EDUCATION AND OUTREACH PROGRAMS		
Salaries	97,331	94,664
Supplies and expense	<u>14,203</u>	<u>7,424</u>
	<u>111,534</u>	<u>102,088</u>
SPECIAL SERVICES		
Salaries	<u>4,474</u>	<u>4,155</u>
RECREATIONAL THERAPY		
Salaries	44	356
Supplies and expense	<u>324</u>	<u>434</u>
	<u>368</u>	<u>790</u>
Totals	<u>\$6,724,789</u>	<u>\$6,729,394</u>

**Winneshiek Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
CLINIC		
Salaries	\$1,046,628	\$ 813,190
Supplies and expense	<u>7,615,471</u>	<u>5,340,994</u>
	<u>8,662,099</u>	<u>6,154,184</u>
LABORATORY		
Salaries	859,499	786,386
Professional fees	126,000	126,000
Purchased services	140,476	156,764
Supplies and expense	<u>581,843</u>	<u>517,113</u>
	<u>1,707,818</u>	<u>1,586,263</u>
PHARMACY		
Salaries	209,142	207,693
Drugs	1,043,590	1,000,604
Supplies and expense	<u>6,449</u>	<u>26,510</u>
	<u>1,259,181</u>	<u>1,234,807</u>
RADIOLOGY		
Salaries	446,386	411,001
Professional fees	299,519	85,765
Supplies and expense	<u>204,465</u>	<u>182,943</u>
	<u>950,370</u>	<u>679,709</u>
PHYSICAL THERAPY		
Salaries	802,090	785,094
Supplies and expense	<u>123,178</u>	<u>150,221</u>
	<u>925,268</u>	<u>935,315</u>
OCCUPATIONAL THERAPY		
Salaries	148,498	142,236
Supplies and expense	<u>13,368</u>	<u>21,561</u>
	<u>161,866</u>	<u>163,797</u>
ANESTHESIOLOGY		
Salaries	611,415	991
Professional fees	6,400	15,000
Supplies and expense	<u>92,513</u>	<u>49,476</u>
	<u>710,328</u>	<u>65,467</u>
RESPIRATORY THERAPY		
Salaries	152,171	111,549
Purchased services	-	19,731
Supplies and expense	<u>145,600</u>	<u>131,173</u>
	<u>297,771</u>	<u>262,453</u>
ELECTROCARDIOLOGY		
Salaries	31,146	26,060
Supplies and expense	<u>4,042</u>	<u>4,165</u>
	<u>35,188</u>	<u>30,225</u>
ECHOCARDIOLOGY		
Purchased services	<u>28,245</u>	<u>36,510</u>
CT SCANS		
Salaries	113,372	103,849
Supplies and expense	<u>105,886</u>	<u>101,657</u>
	<u>219,258</u>	<u>205,506</u>

Winneshiek Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
MAGNETIC RESONANCE IMAGING		
Purchased services	\$ 199,486	\$ 232,474
Supplies and expense	<u>20,407</u>	<u>2,341</u>
	<u>219,893</u>	<u>234,815</u>
ULTRASOUND		
Salaries	120,262	101,686
Purchased services	2,560	-
Supplies and expense	<u>53,841</u>	<u>58,376</u>
	<u>176,663</u>	<u>160,062</u>
BLOOD ADMINISTRATION		
Supplies and expense	<u>141,670</u>	<u>161,074</u>
NUCLEAR MEDICINE		
Purchased services	<u>171,355</u>	<u>89,906</u>
SPEECH THERAPY		
Salaries	60,102	55,903
Purchased services	1,634	2,855
Supplies and expense	<u>1,514</u>	<u>2,042</u>
	<u>63,250</u>	<u>60,800</u>
AMBULANCE		
Salaries	348,137	333,778
Supplies and expense	<u>75,103</u>	<u>67,110</u>
	<u>423,240</u>	<u>400,888</u>
SOCIAL SERVICES/UTILIZATION REVIEW		
Supplies and expense	<u>-</u>	<u>-</u>
OCCUPATIONAL HEALTH		
Salaries	121,601	21,343
Supplies and expense	<u>58,128</u>	<u>6,221</u>
	<u>179,729</u>	<u>27,564</u>
MEDICAL RECORDS		
Salaries	695,117	585,285
Supplies and expense	<u>339,682</u>	<u>64,635</u>
	<u>1,034,799</u>	<u>649,920</u>
DIABETES EDUCATION		
Supplies and expense	<u>2,045</u>	<u>860</u>
DURABLE MEDICAL EQUIPMENT		
Salaries	46,911	43,146
Supplies and expense	<u>75,972</u>	<u>80,379</u>
	<u>122,883</u>	<u>123,525</u>
Totals	<u>\$17,492,919</u>	<u>\$13,263,650</u>

**Winneshiek Medical Center
GENERAL SERVICE EXPENSES**

	Year ended June 30	
	2007	2006
DIETARY		
Salaries	\$ 365,331	\$ 348,313
Supplies and expense	<u>193,821</u>	<u>231,909</u>
	<u>559,152</u>	<u>580,222</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	170,109	187,340
Utilities	230,465	182,614
Fuel	185,110	183,379
Supplies and expense	<u>160,942</u>	<u>134,558</u>
	<u>746,626</u>	<u>687,891</u>
HOUSEKEEPING		
Salaries	129,055	95,658
Supplies and expense	<u>53,630</u>	<u>35,320</u>
	<u>182,685</u>	<u>130,978</u>
LAUNDRY AND LINEN		
Salaries	96,612	97,012
Supplies and expense	<u>19,748</u>	<u>24,894</u>
	<u>116,360</u>	<u>121,906</u>
 Totals	 <u>\$1,604,823</u>	 <u>\$1,520,997</u>

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

	Year ended June 30	
	2007	2006
FISCAL AND ADMINISTRATIVE SERVICE		
Administration		
Salaries	\$ 276,298	\$ 363,822
Dues, subscriptions and travel expense	39,803	36,145
Recruitment	14,988	3,398
Supplies and expense	548,558	463,999
Business office		
Salaries	1,005,552	911,804
Professional services	93,454	76,958
Collection expense	81,709	81,975
Telephone	55,754	56,159
Supplies and expense	259,549	247,132
Accounting services		
Salaries	199,048	191,856
Supplies and expense	13,095	10,862
Information technology		
Salaries	268,925	214,517
Supplies and expense	236,289	108,404
Development department		
Salaries	109,030	161,208
Supplies and expense	94,304	107,784
Human resources		
Salaries	174,596	176,667
Supplies and expense	23,229	28,409
Quality assurance		
Salaries	208,193	176,876
Supplies and expense	34,435	27,578
Medical staff		
Supplies and expense	8,068	2,177
Materials management		
Salaries	101,584	103,499
Supplies and expense	33,762	60,386
Total fiscal and administrative service expenses	<u>3,880,223</u>	<u>3,611,615</u>
UNASSIGNED EXPENSES		
Insurance	394,746	304,771
Employee benefits		
FICA	952,445	841,728
IPERS	740,609	652,806
Group health insurance	1,272,217	1,283,191
Other	200,440	216,995
Total unassigned expenses	<u>3,560,457</u>	<u>3,299,491</u>
Totals	<u>\$7,440,680</u>	<u>\$6,911,106</u>

**Winneshiek Medical Center
COMPARATIVE REVENUE AND EXPENSES**

	Year ended June 30			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
NET PATIENT SERVICE REVENUE	\$34,693,076	\$31,036,167	\$22,272,872	\$19,097,320
OTHER REVENUE	<u>533,560</u>	<u>784,465</u>	<u>670,341</u>	<u>594,866</u>
Total revenue	<u>35,226,636</u>	<u>31,820,632</u>	<u>22,943,213</u>	<u>19,692,186</u>
EXPENSES				
Salaries	13,314,405	11,766,241	9,728,336	8,417,240
Supplies, professional fees and other expenses	19,948,806	16,658,906	11,208,120	9,151,341
Provision for depreciation and amortization	<u>1,721,773</u>	<u>1,567,442</u>	<u>1,281,460</u>	<u>1,109,765</u>
Total expenses	<u>34,984,984</u>	<u>29,992,589</u>	<u>22,217,916</u>	<u>18,678,346</u>
Operating income	<u>241,652</u>	<u>1,828,043</u>	<u>725,297</u>	<u>1,013,840</u>
NONOPERATING GAINS				
County taxes	436,256	437,531	436,595	433,127
Interest expense	(68,491)	(54,618)	(64,781)	(80,424)
Interest income	98,345	111,323	124,960	101,879
Unrestricted contributions	-	-	-	21,072
Rental property, net	101,714	194,785	137,398	66,916
Gain (loss) on sale of property and equipment	<u>4,300</u>	<u>12,219</u>	<u>(2,573)</u>	<u>2,191</u>
Total nonoperating gains	<u>572,124</u>	<u>701,240</u>	<u>631,599</u>	<u>544,761</u>
Excess of revenues and gains over expenses before contributions	813,776	2,529,283	1,356,896	1,558,601
CONTRIBUTIONS	<u>190,240</u>	<u>289,047</u>	<u>1,315,802</u>	<u>899,512</u>
Change in fund equity	<u>\$ 1,004,016</u>	<u>\$ 2,818,330</u>	<u>\$ 2,672,698</u>	<u>\$ 2,458,113</u>

**Winneshiek Medical Center
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2007</u>	<u>2006</u>
PATIENT DAYS		
Adult and pediatric	3,472	3,566
Swing bed	1,026	811
Newborn	<u>648</u>	<u>576</u>
Totals	<u>5,146</u>	<u>4,953</u>
ADMISSIONS		
Adult and pediatric	1,167	1,277
Swing bed	<u>128</u>	<u>168</u>
Totals	<u>1,295</u>	<u>1,445</u>
DISCHARGES		
Adult and pediatric	1,169	1,281
Swing bed	<u>129</u>	<u>166</u>
Totals	<u>1,298</u>	<u>1,447</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.0	2.8
Swing bed	8.0	4.9
BEDS		
Acute	25	25
OCCUPANCY PERCENT		
Adult and pediatric	38.05%	39.08%
Swing bed	<u>11.24</u>	<u>8.89</u>
Combined	<u>49.29%</u>	<u>47.97%</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, 2007, and have issued our report thereon dated November 14, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above. However, we noted a significant deficiency that is described in Part I in the accompanying schedule of findings.

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 immaterial instances of noncompliance that are 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, 2007 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

West Des Moines, Iowa
November 14, 2007

**Winneshiek Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2007**

Part I—Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES

Financial Reporting

As a result of our review of property and equipment additions, and construction in progress account balances, adjustments were made to properly state the balances in these accounts as of June 30, 2007.

Recommendation

We suggest that procedures be reviewed in order to reconcile account balances to supporting documentation or estimates.

Response

The Medical Center has reviewed the procedures currently in place and has implemented procedures to properly state these balances in the future.

Conclusion

Response accepted.

**Winneshiek Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2007**

Part II—Findings Related to Required Statutory Reporting

07-II-A CERTIFIED BUDGET

Comment

Based on a comparison of actual operating expenses with amended budget basis expenditures, it appears the Medical Center exceeded its amended budget for the year ended June 30, 2007

Recommendation

Should this occur in the future, we recommend the budget be further amended.

Response

In the future, we will amend the budget, as necessary.

Conclusion

Response accepted.

07-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

07-II-C TRAVEL EXPENSES

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

07-II-D BUSINESS TRANSACTIONS

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

07-II-E BOARD MINUTES

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

**Winneshiek Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2007**

07-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, 2007, and have issued our report thereon dated November 14, 2007.

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, 2007 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
November 14, 2007