Winneshiek Medical Center
Decorah, Iowa

FINANCIAL REPORT

June 30, 2008

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Winneshiek Medical Center
OFFICIALS
June 30, 2008

Before January 2008

BOARD OF TRUSTEES	**Expiration of term**
Ben Wyatt, President	December 31, 2008
Arlene Houlihan, Vice President	December 31, 2012
Don Nelson, Secretary-Treasurer	December 31, 2012
Karl Schroeder	December 31, 2008
Roger Huinker	December 31, 2011
Rick Burras	December 31, 2008
Sherry Gribble	December 31, 2010

CHIEF ADMINISTRATIVE OFFICER
Allan Atkinson

CHIEF OPERATING OFFICER
David Jordahl

CHIEF MEDICAL OFFICER
David Heine through November 12, 2007

CHIEF FINANCIAL OFFICER
Timothy Wren

DIRECTOR OF NURSING
Sheryl Juve

After January 2008

BOARD OF TRUSTEES	**Expiration of term**
Ben Wyatt, President	December 31, 2008
Arlene Houlihan, Vice President	December 31, 2012
Don Nelson, Secretary-Treasurer	December 31, 2012
Karl Schroeder	December 31, 2008
Roger Huinker	December 31, 2011
Rick Burras	December 31, 2008
Sherry Gribble	December 31, 2010

CHIEF ADMINISTRATIVE OFFICER
Allan Atkinson through April 4, 2008
Daniel Werner March 24, 2008 to present

CHIEF OPERATING OFFICER
David Jordahl

CHIEF MEDICAL OFFICER
Kurt Carlson, MD February 26, 2008 to present

CHIEF FINANCIAL OFFICER
Timothy Wren through January 25, 2008
Thomas Huber, interim, January 21, 2008 to June 13, 2008
Lynn Luloff June 2, 2008 to present

DIRECTOR OF NURSING
Sheryl Juve

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

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, 2008 and 2007, 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, 2008 and 2007, 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 26, 2008 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 28 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

DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 26, 2008

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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, 2008, 2007 and 2006. 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 $985,937 or 2.5% from June 30, 2007 and by $4,914,578 or 14.25% from June 30, 2006.
- Total assets whose use is limited decreased by $69,970 and $1,436,308 as of June 30, 2008 and 2007, respectively.
- Total property and equipment increased by $34,062 and $6,972,191 as of June 30, 2008 and 2007, respectively.
- Fund equity increased by $588,648 and $1,004,016 at June 30, 2008 and 2007, respectively.
- Net patient service revenue increased by $2,144,083 or 6.18% from June 30, 2007 and by $3,656,909 or 11.78% from June 30, 2006, primarily due to new services provided and increased volumes for outpatient services.
- Expenses increased by $2,526,608 or 7.22% from June 30, 2007 and by $4,992,395 or 16.65% from June 30, 2006, primarily due to expenses of new services, increase in pharmaceutical costs, competitive increases in wages for essential personnel, increase in health insurance expenses, and additional depreciation related to new equipment and the new addition.
- Total margin for FY 2008 was .9%, compared to 2.3% for FY 2007 and 7.8% for FY2006.

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, 2008, 2007 and 2006, are presented in Table 1 below.

Table 1
Condensed Balance Sheets

	June 30, 2008	June 30, 2007	Dollar Change	Total % Change	June 30, 2006
Current and other assets	$12,878,887	$11,927,012	$951,875	8%	$13,984,625
Property and equipment (net)	27,505,633	27,471,571	34,062	-	20,499,380
Total assets	$40,384,520	$39,398,583	$985,937	3%	$34,484,005
Long-term debt outstanding	$9,924,889	$ 9,394,853	$530,036	6%	$ 5,908,174
Other liabilities	6,219,040	6,351,787	(132,747)	-2%	5,927,904
Total liabilities	$16,143,929	$15,746,640	$397,289	3%	$11,836,078
Invested in capital assets (net)	$16,805,166	$17,004,128	$(198,962)	-1%	$13,532,506
Restricted expansion fund	773,546	859,750	(86,204)	-10%	829,032
Foundation fund	414,147	314,045	100,102	32%	606,818
Unrestricted	6,247,732	5,474,020	773,712	14%	7,679,571
Total net assets	$24,240,591	$23,651,943	$588,648	3%	$22,647,927

As can be seen by Table 1, net assets increased by approximately $589,000 to $24.24 million in fiscal year 2008, up from $ 23.65 million in fiscal year 2007. The change in net assets results primarily from an increase in patient receivables and additional financing incurred for construction of a new $1.6 million dollar dialysis building.

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, 2008, 2007 and 2006.

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

	Year ended June 30		
	2008	**2007**	**2006**
Total revenue	$37,375	$35,227	$31,821
Expenses	37,511	34,985	29,993
Operating income	-136	242	1,828
Nonoperating gains	491	572	701
Excess of revenues over expenses before contributions	355	814	2,529
Contributions	234	190	289
Changes in fund equity	589	1,004	2,818
Total fund equity, beginning	23,651	22,647	19,829
Total fund equity, ending	$24,240	$23,651	$22,647

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the Medical Center's statement of revenues, expenses, and changes in fund equity between June 30, 2008 and 2007.

Volume: Inpatient admissions (excluding normal newborns) for fiscal year 2008 were 1,366 compared to 1,295 in fiscal year 2007. Departments with substantial volume increases occurred in: Lab, Radiology, MRI, Surgery, Emergency Room, Occupational Therapy, and Clinic visits.

Net Patient Service Revenue: Due to a rate increase of 4-5% effective July 1, 2007 and the increase in patient volumes discussed above, net patient service revenue increased by $2,144,083 or 6%. The Medical Center has completed its third 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, 2008, 2007 and 2006.

Table 3
Payor Mix by Percentage

	Year ended June 30		
	2008	**2007**	**2006**
Medicare	44.81%	50.24%	50.17%
Medicaid	4.87%	5.42%	5.04%
Self Pay	3.71%	3.55%	3.50%
Wellmark	22.27%	19.43%	18.81%
Commercial	20.92%	18.72%	18.85%
Others	3.42%	2.64%	3.63%

Other Revenue: increased $4,597 primarily due to increased revenue from outreach therapy services.

Other Professional Service Expenses: increased $494,395, primarily due to increased pharmaceutical costs and contracted CRNA services.

General Service Expenses: increased $ 311,407 primarily due to additional expenses in our Plant Operations due to additional space added in 2008.

Fiscal and Administrative Expenses: increased $988,657 primarily due to increased benefit costs and purchased services in Administration and the Business Office.

Nonoperating Gains: decreased $81,135 primarily due to lower interest rates on investments due to the economic times and the ability to capitalize interest expense associated with construction projects.

CAPITAL ASSETS

At the end of fiscal year 2008, the Medical Center has invested $27,506 million in capital assets as shown in Table 4. The $34,062 increase in capital assets is primarily a result of increases in construction in progress, which is primarily the Dialysis Construction Project.

The following table summarizes the Medical Center's capital assets as of June 30, 2008, 2007 and 2006.

Table 4
Capital Assets

	June 30			June 30
	2008	2007	Change	2006
Land	$ 551,673	$ 551,673	$ –	$ 551,673
Land improvements	392,131	351,767	40,364	351,767
Buildings and leasehold improvements	29,295,761	26,302,826	2,992,935	12,184,491
Fixed equipment	1,906,386	1,817,693	88,693	1,446,554
Major moveable equipment	10,273,676	9,911,336	362,340	8,934,080
Assets under capital lease	1,150,909	1,150,909	-	–
Construction in progress	865,224	1,679,530	(814,306)	9,638,677
Subtotal	44,435,760	41,765,734	2,670,026	33,107,242
Less accumulated depreciation	(16,930,127)	(14,294,163)	(2,635,964)	(12,607,862)
Property, plant and equipment (net)	$27,505,633	$27,471,571	$ 34,062	$20,499,380

DEBT ADMINISTRATION

Long Term Debt

At year-end, the Medical Center had $9,939,456 in short and long – term debt related to County public hospital revenue notes. This has increased by $561,787 from the previous fiscal year as a result of new long-term debt incurred in the current year. The Medical Center incurred an additional $1,489,699 in debt related to its expansion project and the new dialysis building. 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 $761,011 at the end of fiscal year 2008. The obligation relates to MRI equipment purchased in the year ended June 30, 2007. There were no capital lease obligations for the year ended June 30, 2006.

PERFORMANCE COMPARED TO BUDGET

Net patient revenues were $36,837,159 or 6.36% under budget for the fiscal year ended June 30, 2008. This was primarily due to higher than expected contractual adjustments. As noted in Table 5, contractual adjustments were 25.36% over budget.

Other revenues were $538,157 or 41.26% under budget. Other revenues for FY2008 were very similar to FY2007. Budget projections for FY2008 were overstated based on actual performance for FY2007.

Operating expenses were $37,511,592 or 4% 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 2008 actual to budget information.

Table 5
Budget vs. Actual

	FY 2008 Budget	FY 2008 Actual	Dollar Variance	Percent Variance
Gross patient service revenue	$56,744,200	$58,653,910	$1,909,710	3.37%
Contractual adjustments	(17,403,300)	(21,816,751)	(4,413,451)	(25.36)%
Net patient service revenue	39,340,900	36,837,159	(2,503,741)	(6.36)%
Other revenue, excluding county taxes	916,100	538,157	(377,943)	(41.26)%
Total operating revenue	40,257,000	37,375,316	(2,881,684)	(7.16)%
Operating expenses	39,075,250	37,511,592	1,563,658	4.00%
Operating income (loss)	$ 1,181,750	$ (136,276)	$(1,318,026)	(111.53)%
Income from investments	$ 65,000	$ 56,001	$ (8,999)	(13.84)%
Other non-operating revenue + (county taxes) budget included Capital Campaign funds from the Foundation	657,600	434,988	(222,612)	(33.85)%
Excess of revenues over expenses	$1,904,350	$ 354,713	$(1,549,637)	(81.37)%

ECONOMIC AND OTHER FACTORS AND NEXT YEAR'S BUDGET

The Medical Center's board and management considered many factors when setting the fiscal year 2009 budget. Of primary importance in setting the 2009 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 Lynn Luloff, CFO at 563-387-3109.

Winneshiek Medical Center
BALANCE SHEETS

ASSETS	June 30 2008	June 30 2007
CURRENT ASSETS		
Cash and cash equivalents	$ 697,457	$ 1,205,705
Patient receivables, less allowances for contractual adjustments and uncollectibles 2008 $3,241,437; 2007 $2,765,700	8,471,099	7,238,720
Other receivables	210,103	31,410
Inventories	826,298	693,290
Prepaid expenses	128,522	142,744
Succeeding year property tax receivable	427,297	427,062
Total current assets	10,760,776	9,738,931
ASSETS WHOSE USE IS LIMITED		
Designated by Board for plant replacement and expansion		
Cash	559,060	642,180
Certificates of deposit	368,966	372,106
Interest receivable	2,392	–
	930,418	1,014,286
Restricted by donors for specific purpose		
Cash and cash equivalents	234,408	335,842
Certificates of deposit	534,724	520,401
Interest receivable	4,414	3,507
	773,546	859,750
Restricted by donors/foundation		
Cash and cash equivalents	304,948	161,319
Certificate of deposit	8,263	7,879
Investments	29,646	31,358
Contributions receivable	71,290	113,489
	414,147	314,045
Total assets whose use is limited	2,118,111	2,188,081
PROPERTY AND EQUIPMENT	44,435,760	41,765,734
Less accumulated depreciation	16,930,127	14,294,163
Total property and equipment	27,505,633	27,471,571
Totals	$40,384,520	$39,398,583

See Notes to Financial Statements.

LIABILITIES AND FUND EQUITY	June 30 2008	June 30 2007
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 775,578	$ 1,072,590
Accounts payable		
Trade	2,150,997	2,003,449
Construction	373,292	523,907
Estimated third-party payor settlements	249,156	468,699
Deferred revenue, contribution	250,000	250,000
Accrued employee compensation	1,516,175	1,422,662
Payroll taxes and amounts withheld from employees	476,545	183,418
Deferred revenue for succeeding year property tax receivable	427,297	427,062
Total current liabilities	6,219,040	6,351,787
LONG-TERM DEBT		
County public hospital revenue notes	9,939,456	9,377,669
Obligations under capital leases	761,011	1,089,774
	10,700,467	10,467,443
Less current maturities	775,578	1,072,590
Total long-term debt	9,924,889	9,394,853
CONTINGENCIES		
FUND EQUITY		
Invested in capital assets, net of related debt	16,805,166	17,004,128
Restricted		
For specific purpose by donors	773,546	859,750
By donors/foundation	414,147	314,045
Unrestricted	6,247,732	5,474,020
Total fund equity	24,240,591	23,651,943
Totals	$40,384,520	$39,398,583

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

	Year ended June 30	
	2008	**2007**
NET PATIENT SERVICE REVENUE, net of provisions for bad debts 2008 $1,536,591; 2007 $806,000	$36,837,159	$34,693,076
OTHER REVENUE	538,157	533,560
Total revenue	37,375,316	35,226,636
EXPENSES		
Nursing service	6,804,896	6,724,789
Other professional service	17,987,314	17,492,919
General service	1,916,230	1,604,823
Fiscal and administrative service and unassigned expenses	8,429,337	7,440,680
Provision for depreciation and amortization	2,373,815	1,721,773
Total expenses	37,511,592	34,984,984
Operating income (loss)	(136,276)	241,652
NONOPERATING GAINS (LOSSES)		
County taxes	436,453	436,256
Interest income	56,001	98,345
Interest expense	(165,971)	(68,491)
Rental property, net	159,743	101,714
Gain on sale of property and equipment	4,763	4,300
Total nonoperating gains (losses)	490,989	572,124
Excess of revenues and gains over expenses before contributions	354,713	813,776
CONTRIBUTIONS	233,935	190,240
Change in fund equity	588,648	1,004,016
TOTAL FUND EQUITY		
Beginning	23,651,943	22,647,927
Ending	$24,240,591	$23,651,943

See Notes to Financial Statements.

Winneshiek Medical Center
STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2008	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	$35,385,237	$32,897,932
Cash paid to suppliers for goods and services	(20,656,115)	(20,173,252)
Cash paid to employees for services	(14,066,260)	(13,128,408)
Other operating revenues received	359,464	589,212
Net cash provided by operating activities	1,022,326	185,484
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	436,453	436,256
Contributions from donors	276,134	307,512
Net cash provided by noncapital financing activities	712,587	743,768
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(2,558,492)	(7,538,860)
Proceeds from sale of equipment	4,763	4,300
Principal paid on long-term debt	(1,256,675)	(1,010,340)
Proceeds from long-term debt	1,489,699	3,360,000
Interest paid on long-term debt	(165,971)	(68,491)
Net cash (used in) capital and related financing activities	(2,486,676)	(5,253,391)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchases) redemptions of certificates of deposit and investments	(9,855)	315,567
Investment income received	52,702	98,345
Net cash received on rental property	159,743	101,714
Net cash provided by investing activities	202,590	515,626
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(549,173)	(3,808,513)
CASH AND CASH EQUIVALENTS		
Beginning	2,345,046	6,153,559
Ending	$ 1,795,873	$ 2,345,046

See Notes to Financial Statements.

Winneshiek Medical Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2008	**2007**
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ (136,276)	$ 241,652
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation and amortization	2,373,815	1,721,773
Change in assets and liabilities		
(Increase) in patient receivables	(1,232,379)	(2,133,268)
(Increase) decrease in other receivables	(178,693)	55,652
(Increase) in inventories	(133,008)	(91,456)
(Increase) decrease in prepaid expenses	14,222	(18,443)
Increase (decrease) in accounts payable, net of amounts for property and equipment	147,548	(114,547)
Increase in accrued employee compensated absences	93,513	167,235
Increase in payroll taxes and amounts withheld from employees	293,127	18,762
Increase (decrease) in net estimated third-party payor settlements	(219,543)	338,124
Net cash provided by operating activities	$1,022,326	$ 185,484
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	$ 697,457	$1,205,705
Assets whose use is limited		
Board-designated for plant replacement and expansion	559,060	642,180
Restricted by donors for specific purpose	234,408	335,842
Restricted by donors/foundation	304,948	161,319
Total per statement of cash flows	$1,795,873	$2,345,046
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired by capital lease	$ –	$1,150,909

See 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.

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:

Type	Method
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.

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.

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.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2008 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, 2008 are reported at fair value as follows:

	Fair value
Mutual funds (mature daily)	$ 29,646

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, 2006.

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, 2008 follows:

	Beginning balance	Additions	Deletions	Transfers	Ending balance
Land	$ 551,673	$ –	$ –	$ –	$ 551,673
Land improvements	351,767	–	–	40,364	392,131
Buildings and leasehold improvements	26,302,826	–	–	2,992,935	29,295,761
Fixed equipment	1,817,693	23,010	(14,540)	80,223	1,906,386
Major movable equipment	11,062,245	287,249	(183,890)	258,981	11,424,585
Construction and equipment installations in progress	1,679,530	2,558,197	–	(3,372,503)	865,224
Totals	41,765,734	2,868,456	(198,430)	–	44,435,760
Less accumulated depreciation and amortization	(14,294,163)	(2,373,815)	(262,149)	–	(16,930,127)
Net property and equipment	$27,471,571	$ 494,641	$ (460,579)	$ –	$27,505,633

Included in construction and equipment installations in progress at June 30, 2008 is approximately $780,000 related to a dialysis center project. The estimated cost of the project, for which the Medical Center has entered into signed agreements, are approximately $1,400,000. The project is to be financed by the Hospital Revenue Note, Series 2008 (See Note 5).

A summary of changes in property and equipment for the year ended June 30, 2007 follows:

	Beginning balance	Additions	Deletions	Transfers	Ending balance
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	9,638,677	6,433,122	–	(14,392,269)	1,679,530
Totals	33,107,242	8,693,964	(35,472)	–	41,765,734
Less accumulated depreciation and amortization	(12,607,862)	(1,721,773)	35,472	–	(14,294,163)
Net property and equipment	$20,499,380	$6,972,191	$ –	$ –	$27,471,571

NOTE 5 LONG-TERM DEBT

Hospital Revenue Note, Series 2001

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 note was payable solely from future revenues of the Medical Center. 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 ended 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 note was paid during the year ended June 30, 2008.

Hospital Revenue Note, Series 2005

The Board of Trustees of Winneshiek Medical Center 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 note is payable solely from future revenues of the Medical Center. 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 Medical Center's capital budget for the fiscal years ended 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, 2008 is $8,089,757.

Beginning on July 1, 2005, the Medical Center began paying monthly installments of principal and interest totaling $76,295. Interest is payable at 4.46% until April 2, 2012 when it will be adjusted to 40 basis points above the annualized income rate on five year United States Treasury Notes. The note matures August 1, 2020.

Hospital Revenue Note, Series 2008

In April, 2008, the Board of Trustees of Winneshiek Medical Center authorized the issuance of a $2,400,000 Hospital Revenue Note, Series 2008 to be funded by Decorah Bank & Trust of Decorah, Iowa (the lender). The note is payable solely from future revenues of the Medical Center. The purpose of the note is to finance the cost of improvements to the Medical Center including the building of a new Dialysis center and additional Clinic space, and the acquisition and construction of improvements and equipment included in the Medical Center's capital budget for the fiscal years ending June 30, 2008 and June 30, 2009.

Advances of principal under the note in an amount not to exceed $2,400,000 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 December 31, 2008. As of June 30, 2008, advances total $1,489,699.

Beginning on May 1, 2008, the Medical Center began paying interest only payments at 4.60%. Beginning on January 1, 2009, the Medical Center will begin paying monthly installments of principal and interest totaling $15,184. Interest will be payable at 4.50% until January 1, 2016, when it will be adjusted to 40 basis points above the annualized interest rate on five year United States Treasury Notes. The note will further be adjusted in 2021 and 2026 in a similar manner. The note matures January 1, 2029.

NOTE 5 LONG-TERM DEBT (continued)

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.

As to the above Hospital Revenue Notes, the Medical Center has pledged all future revenue to pay the principal and interest. The notes were issued to finance capital improvements of the Medical Center. The revenues are pledged through April 2029. The remaining principal and interest on the obligations as of June 30, 2008 is $14,208,605. The following is a comparison of the pledged revenues and the principal and interest requirements of the Notes for the years ended June 30, 2008 and 2007.

	Year ended June 30	
	2008	**2007**
Change in fund equity	$ 588,648	$1,004,016
Provision for depreciation and amortization	2,373,815	1,721,773
Interest expense	165,971	68,491
Pledged revenues	$3,128,434	$2,794,280
Principal and interest requirements	$1,422,646	$1,078,831

Principal and interest maturities of the debt outstanding at June 30, 2008 are summarized as follows:

Year ending June 30	Principal	Interest	Total
2009	$ 775,578	$ 413,753	$ 1,189,331
2010	916,460	462,207	1,378,667
2011	961,577	417,091	1,378,668
2012	919,937	370,236	1,290,173
2013	749,119	334,502	1,083,621
2014-2018	4,204,716	1,160,889	5,365,605
2019-2023	2,173,080	349,460	2,522,540
Totals	$10,700,467	$3,508,138	$14,208,605

NOTE 5 LONG-TERM DEBT (continued)

Long-term debt activity for the years ended June 30, 2008 and 2007 is as follows:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
2008					
Revenue notes	$ 9,017,668	$1,489,699	$ (927,911)	$ 9,579,456	$ 579,450
Rural economic development loan	360,000	–	–	360,000	7,500
Obligation under capital lease	1,089,775	–	(328,764)	761,011	188,628
Totals	$10,467,443	$1,489,699	$(1,256,675)	$10,700,467	$ 775,578
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	–	1,150,909	(61,134)	1,089,775	143,160
Totals	$ 6,966,874	$4,510,909	$(1,010,340)	$10,467,443	$1,072,590

The Medical Center capitalized interest cost on the construction project related debt. For the years ended June 30, 2008 and 2007, the Medical Center capitalized $282,944 and $371,110 of interest cost, respectively. Total interest cost was $448,915 for 2008 and $439,601 for 2007.

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	
2009	$ 79,872
2010	79,872
2011	79,872
2012	39,936
Total	$ 279,552

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 3.90% of their annual salary and the Medical Center is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were $897,787, $740,609 and $652,806, 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, 2008 and 2007.

	2008	2007
Charges foregone, based on established rates	$ 737,049	$ 345,858
Equivalent percentage of charity care patients to all patients served	1.3%	.7%

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, 2008 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	
	2008	2007
Receivable from patients	$ 2,831,531	$ 1,580,951
Receivable from insurance carriers	5,069,331	4,506,233
Receivable from Medicare	3,319,056	3,450,677
Receivable from Medicaid	492,618	466,559
Total patient receivables	11,712,536	10,004,420
Less allowance for contractual adjustments and uncollectibles	3,241,437	2,765,700
Net patient receivables	$ 8,471,099	$ 7,238,720

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, 2008 and 2007 was $1,626,277 and $1,272,217, respectively.

NOTE 13 CONTRIBUTIONS RECEIVABLE

At June 30, 2008 and 2007, 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, 2008 and 2007 is as follows:

	June 30	
	2008	2007
Beginning balance	$ 113,489	$ 230,761
Contributions payments received and adjustments	(42,199)	(117,272)
Ending balance	$ 71,290	$ 113,489

Contributions receivable at June 30, 2008 are expected to be received as follows:

Year ending June 30	
2009	$ 54,090
2010	8,200
2011	2,500
2012	2,500
2013	2,500
Thereafter	1,500
Total	$ 71,290

REQUIRED SUPPLEMENTARY INFORMATION

Winneshiek Medical Center
BUDGET COMPARISON SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS, BUDGET AND ACTUAL
Year ended June 30, 2008

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

	Reported amounts (GAAP basis)					
	*General funds	Restricted funds	Total (memorandum only)	Budget basis adjustments	Budget basis	Amended budget
Amount to be raised by taxation	$ 436,453	$ –	$ 436,453	$ –	$ 436,453	$ 427,082
Other revenues/receipts	37,365,579	217,208	37,582,787	–	37,582,787	38,325,500
	37,802,032	217,208	38,019,240	–	38,019,240	38,752,582
Expenses/expenditures	37,227,282	203,310	37,430,592	1,441,352	38,871,944	39,732,608
Net	574,750	13,898	588,648	(1,441,352)	(852,704)	(980,026)
Balance, beginning	22,478,148	1,173,795	23,651,943	(22,207,331)	1,444,612	5,862,337
Balance, ending	$23,052,898	$1,187,693	$24,240,591	$(23,648,683)	$ 591,908	$ 4,882,311

*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.

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

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, 2008 and 2007 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, 2006 and 2005, 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 26, 2008

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OTHER SUPPLEMENTARY INFORMATION

Winneshiek Medical Center
ANALYSIS OF PATIENT RECEIVABLES

Age of accounts (by date of discharge)	Amounts June 30 2008	Amounts June 30 2007	Percent to total June 30 2008	Percent to total June 30 2007
0 - 30 days (includes patients in Medical Center at end of year)	$ 4,054,616	$ 3,651,430	34.62%	36.50%
31 - 60 days	2,398,240	1,717,562	20.48	17.17
61 - 90 days	921,542	758,138	7.87	7.58
91 - 180 days	1,808,823	1,723,264	15.44	17.23
Over 180 days	2,529,315	2,154,026	21.59	21.52
Totals	11,712,536	10,004,420	100.00%	100.00%
Allowances				
Contractual				
Medicare, Medicaid and all other	1,511,653	1,410,559		
Uncollectibles	1,729,784	1,355,141		
Total allowances	3,241,437	2,765,700		
Totals	$ 8,471,099	$ 7,238,720		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	$ 100,648	$ 95,337		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	84	76		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	Amounts Year ended June 30 2008	Amounts Year ended June 30 2007	Percent of net patient service revenue Year ended June 30 2008	Percent of net patient service revenue Year ended June 30 2007
BALANCE, beginning	$1,355,141	$1,350,779		
ADD				
Provision for bad debts	1,536,591	806,000	4.17%	2.32%
Recoveries of accounts previously written off	738,724	444,768	2.00	1.28
DEDUCT				
Accounts written off	(1,900,672)	(1,246,406)	5.16	3.59
BALANCE, ending	$1,729,784	$1,355,141		

Winneshiek Medical Center
COMPARATIVE INVENTORIES

	June 30	
	2008	**2007**
Surgery/central supply	$ 575,999	$ 454,740
Pharmacy	247,693	233,766
Dietary	2,606	4,784
Totals	$ 826,298	$ 693,290

Winneshiek Medical Center
INSURANCE COVERAGE
June 30, 2008

Insurer	Coverage Type	Effective Dates	Coverage Amount
Farm Bureau	Worker's Compensation	April 2008 to April 2009	$500,000/500,000/500,000
PIC of Wisconsin	Commercial General Liability	April 2008 to April 2009	$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 2008 to April 2009	$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 2008 to March 2011	$50,000
	Dialysis Center	April 2008 to August 2008	$1,600,000
Cincinnati Insurance Company	Employee Dishonesty	September 2007 to September 2008	$100,000
	Directors and Officers Liability	November 2007 to November 2008	$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

	Totals Year ended June 30 2008	2007
DAILY PATIENT SERVICES		
Routine care	$ 1,818,480	$ 1,742,915
Coronary care	209,448	256,025
Obstetrics	377,600	435,610
Nursery	286,025	308,275
Swing bed	342,930	349,518
Transitional care	1,785	975
	3,036,268	3,093,318
OTHER NURSING SERVICES		
Operating and recovery rooms	3,909,251	3,425,402
Delivery and labor rooms	334,662	404,045
Central supply	2,517,746	2,195,475
Urgent care	250,872	11,940
Intravenous therapy	447,339	424,458
Emergency room	1,821,586	1,938,913
Emergency room physician fees	1,479,994	1,399,904
Same day services	942,243	832,948
Home health agency	255,682	262,769
Hospice	727,564	791,460
Observation room	106,464	129,639
	12,793,403	11,816,953
OTHER PROFESSIONAL SERVICES		
Clinic	14,781,435	12,847,100
Laboratory	6,427,385	5,934,804
Pharmacy	5,861,881	4,533,648
Radiology	2,381,207	1,883,640
Physical therapy	1,603,398	1,290,436
Occupational therapy	627,853	312,173
Anesthesiology	1,761,798	1,384,738
Respiratory therapy	654,178	598,362
Electrocardiology and echocardiology	545,919	397,504
CT scans	3,422,030	3,014,684
Magnetic resonance imaging	1,455,406	1,017,715
Ultrasound	1,119,921	1,021,379
Blood administration	172,432	283,383
Nuclear medicine	334,293	381,010
Speech therapy	50,611	60,020
Ambulance service	991,224	944,328
Occupational health	196,228	55,782
Dietary consulting	3,100	6,100
Diabetes education	13,979	17,419
Durable medical equipment	419,961	382,281
	42,824,239	36,366,506
Totals	58,653,910	51,276,777
Charity care charges foregone, based on established rates	(737,049)	(345,858)
Total gross patient service revenue	57,916,861	50,930,919
Provisions for contractual and other adjustments	(21,079,702)	(16,237,843)
Total net patient service revenue	$36,837,159	$34,693,076

Inpatient		Outpatient	
Year ended June 30		Year ended June 30	
2008	2007	2008	2007
$ 1,818,480	$ 1,742,915		
209,448	256,025		
377,600	435,610		
286,025	308,275		
342,930	349,518		
1,785	975		
3,036,268	3,093,318		
662,308	591,554	$ 3,246,943	$ 2,833,848
286,518	343,068	48,144	60,977
672,672	527,431	1,845,074	1,668,044
–	–	250,873	11,940
208,186	203,610	239,153	220,848
148,736	113,016	1,672,850	1,825,897
63,560	49,683	1,416,434	1,350,221
6,983	4,151	935,260	828,797
–	–	255,682	262,769
702,444	772,132	25,120	19,328
7,028	10,964	99,436	118,675
2,758,435	2,615,609	10,034,968	9,201,344
–	–	14,781,435	12,847,100
829,456	872,043	5,597,929	5,062,761
1,933,216	1,731,029	3,928,665	2,802,619
138,174	96,857	2,243,033	1,786,783
237,070	238,770	1,366,328	1,051,666
102,307	82,010	525,546	230,163
1,542,235	1,303,647	219,563	81,091
207,006	146,504	447,172	451,858
126,260	118,756	419,659	278,748
392,405	327,964	3,029,625	2,686,720
49,252	21,321	1,406,154	996,394
65,453	58,683	1,054,468	962,696
91,333	114,428	81,099	168,955
15,149	21,023	319,144	359,987
5,316	18,349	45,295	41,671
23,695	31,183	967,529	913,145
–	–	196,228	55,782
–	–	3,100	6,100
–	–	13,979	17,419
–	–	419,961	382,281
5,758,327	5,182,567	37,065,912	31,183,939
$11,553,030	$10,891,494	$47,100,880	$40,385,283

Winneshiek Medical Center
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	Year ended June 30	
	2008	**2007**
Contractual adjustments		
Medicare	$12,082,802	$ 9,546,998
Medicaid	1,379,904	1,281,553
Other adjustments	6,080,405	4,603,292
Provision for bad debts	1,536,591	806,000
Totals	$21,079,702	$16,237,843

OTHER REVENUE

	Year ended June 30	
	2008	**2007**
Contract fees and services		
Physical therapy, occupational therapy and speech therapy	$ 176,866	$ 162,752
Dietary	10,100	9,669
Laundry and housekeeping	8,300	7,009
Employee meals	85,297	86,225
Meals on Wheels and guest meals	15,398	15,869
Vending machines	2,552	5,162
Medical records transcripts	7,662	8,794
Miscellaneous	231,982	238,080
Totals	$ 538,157	$ 533,560

Winneshiek Medical Center
NURSING SERVICE EXPENSES

	Year ended June 30	
	2008	**2007**
NURSING ADMINISTRATION		
Salaries	$ 158,123	$ 182,275
Supplies and expense	5,251	8,980
	163,374	191,255
MEDICAL AND SURGICAL		
Salaries	1,009,166	1,048,949
Supplies and expense	84,953	93,824
	1,094,119	1,142,773
CORONARY CARE		
Salaries	211,478	188,834
Supplies and expense	14,559	17,969
	226,037	206,803
OBSTETRIC		
Salaries	410,709	405,250
Supplies and expense	37,664	45,069
	448,373	450,319
NURSERY		
Salaries	121,863	133,144
Supplies and expense	7,495	8,497
	129,358	141,641
OPERATING AND RECOVERY ROOMS		
Salaries	755,316	779,540
Supplies and expense	378,422	405,217
	1,133,738	1,184,757
DELIVERY AND LABOR ROOMS		
Salaries	65,395	64,480
Supplies and expense	7,216	8,615
	72,611	73,095
CENTRAL SUPPLY		
Salaries	30,692	37,479
Billable supplies	511,322	436,347
Supplies and expense	66,434	59,041
	608,448	532,867
URGENT CARE		
Salaries	121,221	17,502
Supplies and expense	27	9,330
	121,248	26,832
INTRAVENOUS THERAPY		
Supplies and expense	10,822	11,227
EMERGENCY ROOM		
Salaries	868,684	882,989
Professional fees	1,008,000	1,012,504
Supplies and expense	84,172	76,525
	1,960,856	1,972,018

Winneshiek Medical Center
NURSING SERVICE EXPENSES (continued)

	Year ended June 30	
	2008	**2007**
SAME DAY SERVICES		
Salaries	$ 246,354	$ 198,859
Supplies and expense	35,133	27,379
	281,487	226,238
HOME HEALTH AGENCY		
Salaries	192,210	194,754
Supplies and expense	18,539	20,151
	210,749	214,905
HOSPICE		
Salaries	184,982	161,691
Supplies and expense	63,865	71,992
	248,847	233,683
EDUCATION AND OUTREACH PROGRAMS		
Salaries	85,342	97,331
Supplies and expense	5,284	14,203
	90,626	111,534
SPECIAL SERVICES		
Salaries	4,027	4,474
RECREATIONAL THERAPY		
Salaries	–	44
Supplies and expense	176	324
	176	368
Totals	$6,804,896	$6,724,789

Winneshiek Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES

	Year ended June 30	
	2008	**2007**
CLINIC		
Salaries	$1,360,370	$1,046,628
Supplies and expense	7,185,223	7,615,471
	8,545,593	8,662,099
LABORATORY		
Salaries	874,456	859,499
Professional fees	126,000	126,000
Purchased services	192,276	140,476
Supplies and expense	639,076	581,843
	1,831,808	1,707,818
PHARMACY		
Salaries	227,145	209,142
Drugs	1,381,481	1,043,590
Supplies and expense	27,646	6,449
	1,636,272	1,259,181
RADIOLOGY		
Salaries	476,248	446,386
Professional fees	264,117	299,519
Supplies and expense	259,331	204,465
	999,696	950,370
PHYSICAL THERAPY		
Salaries	884,994	802,090
Supplies and expense	248,725	123,178
	1,133,719	925,268
OCCUPATIONAL THERAPY		
Salaries	224,236	148,498
Supplies and expense	24,397	13,368
	248,633	161,866
ANESTHESIOLOGY		
Salaries	547,416	611,415
Professional fees	4,331	6,400
Supplies and expense	234,637	92,513
	786,384	710,328
RESPIRATORY THERAPY		
Salaries	129,573	152,171
Supplies and expense	135,936	145,600
	265,509	297,771
ELECTROCARDIOLOGY		
Salaries	37,770	31,146
Supplies and expense	12,807	4,042
	50,577	35,188
ECHOCARDIOLOGY		
Purchased services	23,219	28,245
CT SCANS		
Salaries	112,985	113,372
Supplies and expense	119,935	105,886
	232,920	219,258

Winneshiek Medical Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2008	**2007**
MAGNETIC RESONANCE IMAGING		
Salaries	$ 34,340	$ –
Purchased services	3,499	199,486
Supplies and expense	4,127	20,407
	41,966	219,893
ULTRASOUND		
Salaries	137,397	120,262
Purchased services	–	2,560
Supplies and expense	46,130	53,841
	183,527	176,663
BLOOD ADMINISTRATION		
Supplies and expense	77,966	141,670
NUCLEAR MEDICINE		
Purchased services	129,410	171,355
SPEECH THERAPY		
Salaries	49,524	60,102
Purchased services	1,672	1,634
Supplies and expense	6,196	1,514
	57,392	63,250
AMBULANCE		
Salaries	352,565	348,137
Supplies and expense	61,746	75,103
	414,311	423,240
OCCUPATIONAL HEALTH		
Salaries	131,188	121,601
Supplies and expense	27,060	58,128
	158,248	179,729
MEDICAL RECORDS		
Salaries	784,430	695,117
Supplies and expense	267,609	339,682
	1,052,039	1,034,799
DIABETES EDUCATION		
Supplies and expense	395	2,045
DURABLE MEDICAL EQUIPMENT		
Salaries	50,229	46,911
Supplies and expense	67,501	75,972
	117,730	122,883
Totals	$17,987,314	$17,492,919

Winneshiek Medical Center
GENERAL SERVICE EXPENSES

	Year ended June 30	
	2008	**2007**
DIETARY		
Salaries	$ 381,096	$ 365,331
Supplies and expense	204,094	193,821
	585,190	559,152
PLANT OPERATION AND MAINTENANCE		
Salaries	288,306	170,109
Utilities	271,435	230,465
Fuel	215,161	185,110
Supplies and expense	209,165	160,942
	984,067	746,626
HOUSEKEEPING		
Salaries	177,801	129,055
Supplies and expense	47,861	53,630
	225,662	182,685
LAUNDRY AND LINEN		
Salaries	102,901	96,612
Supplies and expense	18,410	19,748
	121,311	116,360
Totals	$1,916,230	$1,604,823

Winneshiek Medical Center
FISCAL AND ADMINISTRATIVE SERVICE
AND UNASSIGNED EXPENSES

	Year ended June 30	
	2008	**2007**
FISCAL AND ADMINISTRATIVE SERVICE		
Administration		
Salaries	$ 256,548	$ 276,298
Dues, subscriptions and travel expense	45,442	39,803
Recruitment	1,122	14,988
Supplies and expense	726,206	548,558
Business office		
Salaries	971,772	1,005,552
Professional services	88,227	93,454
Collection expense	93,691	81,709
Telephone	53,392	55,754
Supplies and expense	399,639	259,549
Accounting services		
Salaries	139,231	199,048
Supplies and expense	15,961	13,095
Information technology		
Salaries	304,352	268,925
Supplies and expense	194,204	236,289
Development department		
Salaries	152,028	109,030
Supplies and expense	97,906	94,304
Human resources		
Salaries	185,027	174,596
Supplies and expense	23,341	23,229
Quality assurance		
Salaries	213,287	208,193
Supplies and expense	74,115	34,435
Medical staff		
Supplies and expense	7,568	8,068
Materials management		
Salaries	106,996	101,584
Supplies and expense	20,959	33,762
Total fiscal and administrative service expenses	4,171,014	3,880,223
UNASSIGNED EXPENSES		
Insurance	442,354	394,746
Employee benefits		
FICA	1,070,084	952,445
IPERS	897,787	740,609
Group health insurance	1,626,277	1,272,217
Other	221,821	200,440
Total unassigned expenses	4,258,323	3,560,457
Totals	$8,429,337	$7,440,680

Winneshiek Medical Center
COMPARATIVE REVENUE AND EXPENSES

	Year ended June 30			
	2008	**2007**	**2006**	**2005**
NET PATIENT SERVICE REVENUE	$36,837,159	$34,693,076	$31,036,167	$22,272,872
OTHER REVENUE	538,157	533,560	784,465	670,341
Total revenue	37,375,316	35,226,636	31,820,632	22,943,213
EXPENSES				
Salaries	14,159,773	13,314,405	11,766,241	9,728,336
Supplies, professional fees and other expenses	20,978,004	19,948,806	16,658,906	11,208,120
Provision for depreciation and amortization	2,373,815	1,721,773	1,567,442	1,281,460
Total expenses	37,511,592	34,984,984	29,992,589	22,217,916
Operating income	(136,276)	241,652	1,828,043	725,297
NONOPERATING GAINS (LOSSES)				
County taxes	436,453	436,256	437,531	436,595
Interest expense	(165,971)	(68,491)	(54,618)	(64,781)
Interest income	56,001	98,345	111,323	124,960
Rental property, net	159,743	101,714	194,785	137,398
Gain (loss) on sale of property and equipment	4,763	4,300	12,219	(2,573)
Total nonoperating gains (losses)	490,989	572,124	701,240	631,599
Excess of revenues and gains over expenses before contributions	354,713	813,776	2,529,283	1,356,896
CONTRIBUTIONS	233,935	190,240	289,047	1,315,802
Change in fund equity	$ 588,648	$ 1,004,016	$ 2,818,330	$ 2,672,698

Winneshiek Medical Center
COMPARATIVE STATISTICS

	Year ended June 30	
	2008	**2007**
PATIENT DAYS		
Adult and pediatric	3,450	3,472
Swing bed	994	1,026
Newborn	573	648
Totals	5,017	5,146
ADMISSIONS		
Adult and pediatric	1,220	1,167
Swing bed	146	128
Totals	1,366	1,295
DISCHARGES		
Adult and pediatric	1,225	1,169
Swing bed	145	129
Totals	1,370	1,298
AVERAGE LENGTH OF STAY		
Adult and pediatric	2.8	3.0
Swing bed	6.9	8.0
BEDS		
Acute	25	25
OCCUPANCY PERCENT		
Adult and pediatric	37.70%	38.05%
Swing bed	10.87	11.24
Combined	48.57%	49.29%

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Certified Public Accountants and Business Consultants

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, 2008, and have issued our report thereon dated November 26, 2008. 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.

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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, 2008 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
November 26, 2008

Winneshiek Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2008

Part I—Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES

Comment

Gross patient receivables as of June 30, 2008 have increased approximately $1,708,000 or 17% over the gross patient receivable balances as of June 30, 2007, with increases also noted in the age of the receivables. In addition, as a result of our review of the procedures in regards to the write-off of patient receivables, a detail listing of the accounts adjusted from the active receivable listing were not always reviewed by supervisory personnel.

Recommendation

Management has implemented procedures to investigate the cause of the increase in patient receivables and has also modified procedures to ensure that all accounts removed from the active receivable listing are reviewed and approved by supervisory personnel. We recommend that management continue its efforts in these areas. Reductions in patient receivable balances through more timely billings and collections will assist in improving the Medical Center's cash flow.

Response

Management will continue to monitor the procedures in the billing, collection and adjustment of patient receivables.

Conclusion

Response accepted.

Winneshiek Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2008

Part II—Findings Related to Required Statutory Reporting

08-II-A CERTIFIED BUDGET

Based on a comparison of actual operating expenses with amended budget basis expenditures, it appears the Medical Center did not exceed its amended budget for the year ended June 30, 2008

08-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

08-II-C TRAVEL EXPENSES

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

08-II-D BUSINESS TRANSACTIONS

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

08-II-E BOARD MINUTES

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

08-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.

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

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, 2008, and have issued our report thereon dated November 26, 2008.

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 relating to the issue of the Hospital Revenue Note, Series 2005, and the issue of advances relating to the issue of the Hospital Revenue Note, Series 2008, 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, 2008 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

DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 26, 2008

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