



Financial Statements
June 30, 2010 and 2009

Winneshiek Medical Center

WINNESHIEK MEDICAL CENTER

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**WINNESHIEK MEDICAL CENTER
BOARD OF TRUSTEES AND MEDICAL CENTER OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Ben Wyatt	President	2014
Arlene Houlihan	Vice-President	2012
Rick Burras	Secretary-Treasurer	2014
Sherry Gribble	Member	2010
Roger Huinker	Member	2010
Don Nelson	Member	2012
Clark Goltz	Member	2014
<u>Medical Center Officials</u>		
Dan Werner	Chief Administrative Officer	
David Jordahl	Chief Operating Officer	
Kurt Carlson	Chief Medical Officer	
Lynn Luloff	Chief Financial Officer	
Linda Klimesh	Chief Nursing Officer	



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the accompanying balance sheets of Winneshiek Medical Center and its component unit, Winneshiek Medical Center Foundation, as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets, 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 and Winneshiek Medical Center's Foundation as of June 30, 2010 and 2009, and the respective changes in its financial position 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 September 28, 2010, on our consideration of the 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 audits.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on pages 26 and 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Eide Sully LLP

Dubuque, Iowa
September 28, 2010

Winneshiek Medical Center

Management's Discussion and Analysis

This section of Winneshiek Medical Center's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2010. We encourage readers to consider this analysis in conjunction with the financial statements in this report.

Financial Highlights

The assets of the Medical Center exceeded its liabilities by \$25,365,054 at June 30, 2010 and \$24,010,476 at June 30, 2009.

The Medical Center's total assets increased by 2.4% from 2009 to \$39,877,167 and decreased by 3.5% from 2008 to \$38,956,982. The increase in 2009 was primarily due to an increase in cash and cash equivalents and net accounts receivable.

The Medical Center's total liabilities decreased by 2.9% from 2009 to \$14,512,113 and decreased by 7.4% from 2008 to \$14,946,506. A significant portion of the decrease from 2009 was in long-term debt.

During the year, the Medical Center's total operating revenues increased 8.0% from 2009 to \$41,002,017 and 1.6% from 2008 to \$37,961,631, while the operating expenses increased 2.7% from 2009 to \$39,952,138 and 3.7% from 2008 to \$38,892,031. The Medical Center had a gain from operations of \$1,049,879 for 2010, which was 2.6% of total operating revenues.

The Medical Center made capital asset investments totaling \$1,007,860 during the fiscal year. The source of funding for these capital additions was derived from operations.

Overview of the Financial Statements

The basic financial statements of the Medical Center report information using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term information about its activities.

The balance sheet provides information about the nature and amounts of the Medical Center's assets and liabilities. The balance sheet at June 30, 2010, reports total assets of \$39,877,167, total liabilities of \$14,512,113 and net assets of \$25,365,054.

The statement of revenues, expenses, and changes in net assets provides information on the Medical Center's revenues and expenses. This statement indicates total operating revenues of \$41,002,017 and total operating expenses of \$39,952,138 during fiscal year 2010. The operating gain was \$1,049,879 in 2010, compared to an operating loss of (\$930,400) in 2009, and an operating loss of (\$136,276) in 2008.

Winneshiek Medical Center

Management's Discussion and Analysis

There are notes to the financial statements included in this annual financial report. All of the notes are consistent with and similar to audit reports from prior years. There are also several supplementary schedules that provide the reader detail about the source of the Medical Center's revenues and expenses. The reader is encouraged to examine these notes and schedules for additional information.

Long-Term Debt

At year-end, Winneshiek Medical Center had \$8,940,057 in long-term debt. The debt was incurred to finance a new addition, the dialysis center and additional Clinic space, the renovation, equipping and furnishing of existing facilities, and the acquisition and construction of capital improvements and equipment.

Factors Bearing on Financial Future

Going forward the Medical Center as part of its Strategic Plan goals will continue expanding services, retaining and recruiting a strong motivated staff, expanding its service area and exploring partnerships; completing their second application for the Malcolm Baldrige Quality Program; completing additional renovations at the facility; and continuing in ongoing process improvement. The Medical Center continues to operate in an industry subject to economic challenges, competitive pressures, and constant change in governmental regulations and reimbursement. Recent healthcare reform along with future legislation being considered by Congress for rural healthcare providers is monitored by the Medical Center.

Requests for Information

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the office of the Chief Financial Officer at the following address:

Winneshiek Medical Center
Attn: Chief Financial Officer
901 Montgomery Street
Decorah, IA 52101

WINNESHIEK MEDICAL CENTER
BALANCE SHEETS
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 4	\$ 1,923,124	\$ 971,885
Receivables		
Patient, net of estimated uncollectibles		
of \$4,949,000 in 2010 and \$4,099,000 in 2009	7,994,289	6,969,483
Succeeding year property tax	435,600	435,600
Other	177,399	267,526
Supplies	821,124	867,015
Prepaid expense	<u>229,562</u>	<u>220,068</u>
Total current assets	<u>11,581,098</u>	<u>9,731,577</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Internally designated for capital improvements	1,063,284	704,880
Restricted for hospice expenditures	170,247	160,088
Restricted by contributors	696,612	684,914
Restricted under bond agreement	<u>92,000</u>	<u>-</u>
Total assets limited as to use or restricted	<u>2,022,143</u>	<u>1,549,882</u>
CAPITAL ASSETS, net - Note 5	<u>25,764,556</u>	<u>27,204,177</u>
OTHER ASSETS		
Assets held by Foundation - Note 4	<u>509,370</u>	<u>471,346</u>
Total assets	<u>\$ 39,877,167</u>	<u>\$ 38,956,982</u>

See notes to financial statements.

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 6	\$ 961,489	\$ 913,131
Accounts payable		
Trade	708,872	293,122
Related parties - Note 11	527,808	870,661
Estimated health and dental claims payable - Note 12	300,000	170,000
Estimated third-party payor settlements	280,000	155,000
Deferred revenue, contribution, net of accumulated amortization - Note 9	237,499	250,000
Accrued expenses		
Salaries and wages	534,337	498,565
Vacation	1,291,921	1,198,502
Payroll taxes and employee benefits	294,530	260,475
Deferred revenue for succeeding year property tax receivable	<u>435,600</u>	<u>435,600</u>
 Total current liabilities	 5,572,056	 5,045,056
 LONG-TERM DEBT, less current maturities - Note 6	 <u>8,940,057</u>	 <u>9,901,450</u>
 Total liabilities	 <u>14,512,113</u>	 <u>14,946,506</u>
NET ASSETS		
Invested in capital assets, net of related debt	15,863,010	16,389,596
Restricted		
Expendable by contributors	866,859	845,002
Expendable under bond agreement	92,000	-
Expendable by Foundation - Note 4	509,370	471,346
Unrestricted	<u>8,033,815</u>	<u>6,304,532</u>
 Total net assets	 <u>25,365,054</u>	 <u>24,010,476</u>
 Total liabilities and net assets	 <u>\$ 39,877,167</u>	 <u>\$ 38,956,982</u>

WINNESHIEK MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$1,696,754 in 2010 and \$1,041,979 in 2009) - Notes 2 and 3	\$ 40,482,849	\$ 37,481,166
Other operating revenues	<u>519,168</u>	<u>480,465</u>
TOTAL OPERATING REVENUES	<u>41,002,017</u>	<u>37,961,631</u>
OPERATING EXPENSES		
Salaries and wages	14,242,584	14,597,476
Employee benefits	4,176,014	3,902,509
Supplies and other expenses	19,086,059	18,065,669
Depreciation	<u>2,447,481</u>	<u>2,326,377</u>
TOTAL OPERATING EXPENSES	<u>39,952,138</u>	<u>38,892,031</u>
OPERATING INCOME (LOSS)	<u>1,049,879</u>	<u>(930,400)</u>
NONOPERATING REVENUES (EXPENSES)		
Tax revenue	437,523	434,285
Interest	(461,880)	(452,895)
Investment income - Note 4	26,763	40,908
Foundation		
Investment income, net - Note 4	12,984	2,552
Contributions, net of fundraising expenses	25,040	84,144
Noncapital grants and contributions	45,454	83,239
Rental property, net	210,513	206,290
Gain on sale of capital assets	<u>20</u>	<u>36,214</u>
NET NONOPERATING REVENUES	<u>296,417</u>	<u>434,737</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	1,346,296	(495,663)
Capital contributions and grants	<u>8,282</u>	<u>265,548</u>
INCREASE (DECREASE) IN NET ASSETS	1,354,578	(230,115)
NET ASSETS BEGINNING OF YEAR	<u>24,010,476</u>	<u>24,240,591</u>
NET ASSETS END OF YEAR	<u>\$ 25,365,054</u>	<u>\$ 24,010,476</u>

See notes to financial statements.

WINNESHIEK MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 39,583,043	\$ 38,813,091
Payments of salaries and wages	(14,113,393)	(14,416,584)
Payments of supplies and other expenses	(22,988,724)	(23,133,725)
Other receipts and payments, net	<u>609,295</u>	<u>498,577</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,090,221</u>	<u>1,761,359</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions received	32,953	83,239
County tax revenue received	<u>437,523</u>	<u>434,285</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>470,476</u>	<u>517,524</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(1,007,860)	(2,035,220)
Proceeds from sale of capital assets	20	46,513
Decrease in construction payable	-	(373,292)
Principal payments on long-term debt	(913,035)	(796,187)
Proceeds from issuance of long-term debt	-	910,301
Interest payments on long-term debt	(461,880)	(452,895)
Capital contributions and grants	<u>33,322</u>	<u>349,692</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,349,433)</u>	<u>(2,351,088)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	39,747	43,460
Net cash received on rental property	210,513	206,290
Increase in assets held by Foundation	(38,024)	(57,199)
(Increase) decrease in assets limited as to use or restricted	<u>(472,261)</u>	<u>314,170</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>(260,025)</u>	<u>506,721</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	951,239	434,516
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>971,885</u>	<u>537,369</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,923,124</u>	<u>\$ 971,885</u>

(continued)

WINNESHIEK MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 1,049,879	\$ (930,400)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	2,447,481	2,326,377
Provision for bad debts	1,696,754	1,041,979
Changes in assets and liabilities		
Patient receivables	(2,721,560)	387,218
Estimated third-party payor settlements	125,000	(97,272)
Other receivables	90,127	18,112
Supplies	45,891	(40,717)
Prepaid expense	(9,494)	(91,546)
Accounts payable - trade and related	72,897	(987,214)
Estimated health claims payable	130,000	(49,971)
Accrued expenses	<u>163,246</u>	<u>184,793</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,090,221</u>	<u>\$ 1,761,359</u>

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Winneshiek Medical Center (Medical Center) is a 25-bed county public hospital located in Decorah, Iowa. The Medical Center is organized under Chapter 347A of the Iowa Code and receives tax support from Winneshiek County, Iowa. The Medical Center is exempt from income taxes as a political subdivision. The Medical Center is also organized exclusively for charitable and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code. The Medical Center grants credit to patients, substantially all of whom are county residents or from other areas of northeastern Iowa and southeastern Minnesota.

The Medical Center's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Winneshiek Medical Center has included all funds, organizations, agencies, boards, commissions, and authorities. 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. Winneshiek Medical Center Foundation meets these criteria and is included in the Medical Center's financial statements under the provisions of GASB Statement No. 14 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 and is a tax-exempt corporation pursuant to Section 501(c)(3) of the Internal Revenue Code. Winneshiek Medical Center has no other component units which meet the Governmental Accounting Standards Board criteria.

Though both the Medical Center and Foundation are recognized as 501(c)(3), both would be subject to federal income tax on any unrelated business taxable income.

Basis of Presentation

The balance sheet displays the Medical Center's assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories/components:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets:*
 - *Nonexpendable* – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Medical Center.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

- *Expendable* – Expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Medical Center reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Medical Center applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding assets limited as to use or restricted.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

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 Trustees 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 Trustees 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.

Supplies

Supplies are valued at cost using the first-in, first-out method.

Assets Limited as to Use or Restricted

Assets limited as to use include assets which have been internally designated by the Medical Center's Board of Trustees and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Medical Center for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in nonoperating revenues to the extent expended within the period.

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets donated for the Medical Center's operations are recorded as additions to net assets 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 using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the financial statements. The estimated useful lives of capital assets are as follows:

Land improvements	10-20 years
Buildings and improvements	5-40 years
Equipment	3-15 years

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
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Compensated Absences

The Medical Center's employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation payments is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010 and 2009.

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.

Operating Revenues and Expenses

The Medical Center's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange and non-exchange transactions associated with providing health care services – the Medical Center's principal activity. Non-exchange revenues, including interest income, taxes, grants and unrestricted contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

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. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. 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 and a provision for uncollectible accounts. 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.

Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Medical Center incurred \$67,227 and \$58,719 for advertising costs for the years ended June 30, 2010 and 2009, respectively.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Charity Care

To fulfill its mission of community service, 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. Revenue from services to these patients is recorded in the accounting system at the established rates, but the Medical Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

Investment Income

Interest on cash and deposits is included in nonoperating revenues and expenses.

County Tax Revenue

Taxes are included in nonoperating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

Accounting for Uncertainty in Taxes

The Medical Center has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), on July 1, 2009. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of June 30, 2010, the unrecognized tax benefit accrual was zero.

The Medical Center will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Subsequent Events

The Medical Center has evaluated subsequent events through September 28, 2010, the date which the financial statements were available to be issued.

Reclassifications

Certain items from the 2009 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase (decrease) in net assets.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

NOTE 2 – CHARITY CARE AND COMMUNITY BENEFITS

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 under its charity care policy. The amounts of charges foregone were \$772,544 and \$657,263 for the years ended June 30, 2010 and 2009, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2010 and 2009, were \$469,000 and \$415,000, respectively.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

In addition, the Medical Center provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and for some services the payments are less than the cost of rendering the services provided.

The Medical Center also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

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:

Winneshiek Medical Center is licensed as a Critical Access Hospital (CAH). The Medical Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Medical Center and are subject to audits thereof by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2007.

Medicaid:

Inpatient and outpatient services rendered to Medicaid program 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 Medicaid fiscal intermediary. The Medical Center's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2006.

Other Payors:

The Medical Center has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Medical Center under these agreements may include prospectively determined rates and discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 45% and 2%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2010, and 43% and 4%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2009. The 2010 net patient service revenue increased approximately \$1,050,000 due to prior-year retroactive adjustments in excess of amounts previously estimated.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007 are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Medical Center may incur a liability for a claims overpayment at a future date. The Medical Center is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews are unknown and cannot be reasonably estimated, it is the Medical Center's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Medical Center and CMS.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Total patient service revenue	<u>\$ 64,124,496</u>	<u>\$ 60,160,815</u>
Contractual adjustments		
Medicare	(11,008,489)	(10,178,675)
Medicaid	(1,923,631)	(1,769,535)
Blue Cross	(5,464,070)	(6,123,182)
Other	<u>(3,548,703)</u>	<u>(3,566,278)</u>
Total contractual adjustments	<u>(21,944,893)</u>	<u>(21,637,670)</u>
Net patient service revenue	42,179,603	38,523,145
Provision for bad debts	<u>(1,696,754)</u>	<u>(1,041,979)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 40,482,849</u>	<u>\$ 37,481,166</u>

NOTE 4 – DEPOSITS AND INVESTMENTS

The Medical Center's deposits in banks at June 30, 2010 and 2009, were entirely 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.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Investments reported are not subject to risk categorization.

At June 30, 2010 and 2009, the Medical Center's carrying amounts of cash and deposits are as follows:

	<u>2010</u>	<u>2009</u>
Checking and savings accounts	\$ 2,185,371	\$ 1,131,973
Checking and savings accounts - Foundation	188,383	160,719
Money market accounts	1,260,549	895,884
Certificates of deposit	498,124	487,445
Certificates of deposit - Foundation	274,870	272,014
Mutual funds - Foundation	46,117	38,613
Interest receivable	<u>1,223</u>	<u>6,465</u>
Total deposits and investments	<u>\$ 4,454,637</u>	<u>\$ 2,993,113</u>

Cash and deposits are included in the following balance sheet captions:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 1,923,124	\$ 971,885
Assets limited as to use or restricted	2,022,143	1,549,882
Assets held by Foundation	<u>509,370</u>	<u>471,346</u>
	<u>\$ 4,454,637</u>	<u>\$ 2,993,113</u>

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objective is to maximize investment income yet maintain liquidity to meet current cash demands within guidelines. Furthermore, it is the policy of the Medical Center to invest idle funds in certificates of deposit, saving accounts, obligations of the United States government, its agencies and instrumentalities, or money market accounts.

The Medical Center attempts to limit its interest rate risk while investing within guidelines of its investment policy and section 12B.10 subsection 5 of the Code of Iowa.

Investment Income

Investment income, including return on assets held by Foundation, for the years ended June 30, 2010 and 2009, is summarized as follows:

	<u>2010</u>	<u>2009</u>
Investment income	<u>\$ 26,763</u>	<u>\$ 40,908</u>
Foundation		
Interest and dividends	10,983	2,811
Realized gains and losses, net	-	(241)
Change in unrealized gains and losses, net of investment expense	<u>2,001</u>	<u>(18)</u>
Foundation investment income	<u>12,984</u>	<u>2,552</u>
	<u>\$ 39,747</u>	<u>\$ 43,460</u>

(continued on next page)

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 5 – CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2010 and 2009, are as follows:

	June 30, 2009				June 30, 2010
	Balance	Additions	Deductions	Transfers	Balance
Capital assets					
Land	\$ 915,673	\$ -	\$ -	\$ -	\$ 915,673
Land improvements	428,156	-	-	5,200	433,356
Buildings and leasehold improvements	30,813,015	-	-	113,445	30,926,460
Fixed equipment	1,954,715	-	-	-	1,954,715
Major movable equipment	11,706,433	5,777	(114,580)	261,021	11,858,651
Construction and equipment installations in progress	198,782	1,002,083	-	(379,666)	821,199
Total	46,016,774	\$ 1,007,860	\$ (114,580)	\$ -	46,910,054
Accumulated depreciation					
Land improvements	324,235	\$ 16,772	\$ -	\$ -	341,007
Buildings and leasehold improvements	8,512,179	1,400,872	-	-	9,913,051
Fixed equipment	1,297,698	141,825	-	-	1,439,523
Major movable equipment	8,678,485	888,012	(114,580)	-	9,451,917
Total	18,812,597	\$ 2,447,481	\$ (114,580)	\$ -	21,145,498
Capital assets, net	\$ 27,204,177				\$ 25,764,556

	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Capital assets					
Land	\$ 551,673	\$ -	\$ -	\$ 364,000	\$ 915,673
Land improvements	392,132	-	-	36,024	428,156
Buildings and leasehold improvements	29,295,760	-	-	1,517,255	30,813,015
Fixed equipment	1,906,385	-	-	48,330	1,954,715
Major movable equipment	11,424,585	29,497	(454,205)	706,556	11,706,433
Construction and equipment installations in progress	865,224	2,005,723	-	(2,672,165)	198,782
Total	44,435,759	\$ 2,035,220	\$ (454,205)	\$ -	46,016,774

(continued on next page)

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

	June 30, 2008				June 30, 2009	
	Balance	Additions	Deductions	Transfers	Balance	
Accumulated depreciation						
Land improvements	\$ 307,542	\$ 16,693	\$ -	\$ -	\$ 324,235	
Buildings and leasehold improvements	7,244,548	1,267,631	-	-	8,512,179	
Fixed equipment	1,155,427	142,271	-	-	1,297,698	
Major movable equipment	<u>8,222,609</u>	<u>899,782</u>	<u>(443,906)</u>	<u>-</u>	<u>8,678,485</u>	
Total	<u>16,930,126</u>	<u>\$ 2,326,377</u>	<u>\$ (443,906)</u>	<u>\$ -</u>	<u>18,812,597</u>	
Capital assets, net	<u>\$ 27,505,633</u>				<u>\$ 27,204,177</u>	

Construction in progress at June 30, 2010 represents investments in deploying an electronic medical record in the clinic, which will not be functional until fiscal year 2011, to be financed with Medical Center operations.

NOTE 6 – LONG-TERM DEBT

A schedule of changes in long-term debt for 2010 and 2009 is as follows:

	June 30, 2009			June 30, 2010		Amounts Due Within One Year
	Balance	Additions	Deductions	Balance		
Revenue Note, Series 2005	\$ 7,521,161	\$ -	\$ (588,585)	\$ 6,932,576	\$ 618,865	
Revenue Note, Series 2008	2,368,538	-	(77,185)	2,291,353	80,738	
Rural economic development loan	352,500	-	(45,000)	307,500	45,000	
Capitalized lease obligation - Note 7	<u>572,382</u>	<u>-</u>	<u>(202,265)</u>	<u>370,117</u>	<u>216,886</u>	
Total long-term debt	<u>\$ 10,814,581</u>	<u>\$ -</u>	<u>\$ (913,035)</u>	<u>9,901,546</u>	<u>\$ 961,489</u>	
Less current maturities				<u>(961,489)</u>		
Long-term debt, less current maturities				<u>\$ 8,940,057</u>		

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

	June 30, 2008			June 30, 2009		Amounts Due Within One Year
	Balance	Additions	Deductions	Balance		
Revenue Note, Series 2005	8,089,758	-	(568,597)	7,521,161		588,669
Revenue Note, Series 2008	1,489,699	910,301	(31,462)	2,368,538		77,198
Rural economic development loan	360,000	-	(7,500)	352,500		45,000
Capitalized lease obligation	<u>761,010</u>	<u>-</u>	<u>(188,628)</u>	<u>572,382</u>		<u>202,264</u>
Total long-term debt	<u>\$ 10,700,467</u>	<u>\$ 910,301</u>	<u>\$ (796,187)</u>	10,814,581		<u>\$ 913,131</u>
Less current maturities				<u>(913,131)</u>		
Long-term debt, less current maturities				<u>\$ 9,901,450</u>		

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2011	\$ 961,489	\$ 417,135	\$ 1,378,624
2012	929,764	370,264	1,300,028
2013	809,866	332,878	1,142,744
2014	844,722	298,022	1,142,744
2015	881,166	261,578	1,142,744
2016-2020	4,179,746	710,499	4,890,245
2021-2025	693,489	217,566	911,055
2026-2030	<u>601,304</u>	<u>50,848</u>	<u>652,152</u>
	<u>\$ 9,901,546</u>	<u>\$ 2,658,790</u>	<u>\$ 12,560,336</u>

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. 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 2007.

Advances of principal under the note in an amount not to exceed \$10,000,000 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 August 31, 2007. Advances through June 30, 2007, totaled \$10,000,000. The balance of the note at June 30, 2010, is \$6,932,575.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 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. 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 ended June 30, 2009 and 2010.

Advances of principal under the note in an amount not to exceed \$2,400,000 were 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. Advances through June 30, 2010, totaled \$2,400,000. The balance of the note at June 30, 2010, is \$2,291,353.

Beginning on January 1, 2009, the Medical Center began paying monthly installments of principal and interest totaling \$15,184. Interest is payable at 4.50% until January 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 2029.

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. The balance of the loan at June 30, 2010, is \$307,500.

Obligations Under Capital Leases:

The capital lease requires monthly payments of principal and interest with interest at the rate of 7.0%. Principal and interest payments of \$19,660 are due through March 2012.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 7 – LEASES

The Medical Center leases certain equipment and building space under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2010 and 2009, for all operating leases was \$140,614 and \$98,773, respectively. The capitalized leased assets consist of:

	<u>2010</u>	<u>2009</u>
Major movable equipment	\$ 992,119	\$ 992,119
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(644,878)</u>	<u>(446,454)</u>
	<u>\$ 347,241</u>	<u>\$ 545,665</u>

Minimum future lease payments for the capital and operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2011	\$ 235,920	\$ 81,965
2012	157,280	70,881
2013	<u>-</u>	<u>31,353</u>
Total minimum lease payments	393,200	<u>\$ 184,199</u>
Less interest	<u>(23,082)</u>	
Present value of minimum lease payments - Note 6	<u>\$ 370,118</u>	

NOTE 8 – 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.

Minimum lease payments to be received under the lease are as follows:

<u>Year Ending June 30,</u>	
2011	\$ 79,872
2012	<u>39,936</u>
	<u>\$ 119,808</u>

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 9 – DEFERRED REVENUE, CONTRIBUTION

In April 2005, the Medical Center purchased the clinic building from Decorah Clinic Physicians – Mayo Health System (Clinic). Deferred revenue, contribution represents an “option credit” that was recorded as part of the purchase agreement. This “option credit” may be used by the Clinic in the event that the professional services agreement between the two entities is terminated. If the Clinic would decide to either lease the building or purchase the related fixed assets, any remaining unrecognized balance of the “option credit” could be applied either towards the lease payments or the purchase price. The “option credit” of \$250,000 is to be amortized as contribution revenue beginning in April 2010 through March 2016.

NOTE 10 – PENSION AND RETIREMENT BENEFITS

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 4.30% of their annual covered salary, and the Medical Center is required to contribute 6.65% of annual covered payroll for the year ended June 30, 2010. Plan members were required to contribute 4.10% and 3.90% of their annual covered salary, and the Medical Center was required to contribute 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2009 and 2008, respectively. Contribution requirements are established by state statute. The Medical Center’s contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$947,772, \$920,446, and \$897,787, respectively, equal to the required contributions for each year.

NOTE 11 – RELATED PARTY TRANSACTIONS

Management Service Agreement

Winneshiek Medical Center has a contractual arrangement with Mayo Foundation for Medical Education and Research (MFMER) under which MFMER provides administrative staff, management consultation, and other services to the Medical Center. The arrangement does not alter the authority or responsibility of the Board of Trustees of Winneshiek Medical Center. Expenses for the administrative and management services received for the years ended June 30, 2010 and 2009, were approximately \$748,639 and \$646,518, respectively.

As of June 30, 2010 and 2009, Winneshiek Medical Center’s records reflect an amount due to MFMER of \$73,240 and \$45,651, respectively, for the various services related to these agreements.

Professional Services Agreement

Winneshiek Medical Center has a contractual agreement with Decorah Clinic - Mayo Health System (Clinic) under which the Clinic provides professional medical services to patients of the Medical Center. Amounts paid to the Clinic for the provision of these services amounted to \$8,313,452 and \$8,325,370 for the years ended June 30, 2010 and 2009, respectively.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

As of June 30, 2010 and 2009, Winneshiek Medical Center's records reflect an amount due to the Clinic of \$454,568 and \$825,010, respectively, for the various services related to this agreement.

NOTE 12 – CONTINGENCIES

Malpractice Insurance

The Medical Center has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Litigations, Claims, and Other Disputes

The Medical Center is subject to the usual contingencies in the normal course of operations and relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will be resolved without material adverse effects to the Medical Center's financial position or results of operations.

Self-Funded Employee Health and Dental Insurance Plan

The Medical Center's employees participate in a self-funded health and dental plan (Plan). The Medical Center's amount payable from the Plan at June 30, 2010 and 2009 totals \$300,000 and \$170,000, respectively, which is for incurred but not reported (IBNR) and reported but not paid claims. This amount is based on estimates of the amount necessary to pay current year claims. The Plan has purchased stop-loss coverage of \$50,000 per participant and \$1,000,000 aggregate for 2010.

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that Winneshiek Medical Center is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

(continued on next page)

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 13 – 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 the past three years.

NOTE 14 – CONCENTRATION OF CREDIT RISK

The Medical Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	34%	27%
Medicaid	6	7
Commercial insurance	36	43
Other third-party payors and patients	<u>24</u>	<u>23</u>
	<u>100%</u>	<u>100%</u>



Required Supplementary Information
June 30, 2010 and 2009

Winneshiek Medical Center

WINNESHIEK MEDICAL CENTER
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2010

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 437,523	\$ -	\$ 437,523	\$ 435,600	\$ 1,923
Estimated other revenues/receipts	<u>41,331,073</u>	<u>(860,204)</u>	<u>40,470,869</u>	<u>42,311,959</u>	<u>(1,841,090)</u>
	41,768,596	(860,204)	40,908,392	42,747,559	(1,839,167)
Expenses/disbursements	<u>40,414,018</u>	<u>(929,126)</u>	<u>39,484,892</u>	<u>41,191,067</u>	<u>1,706,175</u>
Net	1,354,578	68,922	1,423,500	1,556,492	<u>\$ (132,992)</u>
Balance beginning of year	<u>24,010,476</u>	<u>(21,488,709)</u>	<u>2,521,767</u>	<u>1,081,321</u>	
Balance end of year	<u>\$ 25,365,054</u>	<u>\$(21,419,787)</u>	<u>\$ 3,945,267</u>	<u>\$ 2,637,813</u>	

WINNESHIEK MEDICAL CENTER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
JUNE 30, 2010

NOTE 1 – BUDGETARY COMPARISON

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from the Medical Center preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Medical Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The Medical Center did not amend its original budget during the year ended June 30, 2010.

For the year ended June 30, 2010, the Medical Center's expenditures did not exceed the amount budgeted.



Other Supplementary Information
June 30, 2010 and 2009

Winneshiek Medical Center



**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the Schedules of Statistical Information on page 38 marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Dubuque, Iowa
September 28, 2010

WINNESHIEK MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2010 AND 2009

	TOTAL	
	2010	2009
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 2,747,140	\$ 2,886,314
Nursery	281,645	281,190
Subtotal	<u>3,028,785</u>	<u>3,167,504</u>
OTHER PROFESSIONAL SERVICES		
Operating room	5,901,315	5,081,783
Labor and delivery room	444,724	393,793
Anesthesiology	2,006,208	1,716,209
Radiology	10,176,372	9,423,104
Laboratory	7,793,723	7,303,505
Respiratory therapy	607,588	602,002
Physical therapy	1,875,163	1,675,443
Occupational therapy	840,741	690,220
Occupational health	444,696	223,021
Speech therapy	60,846	85,314
Electrocardiology	705,507	640,516
Central supply	3,324,023	2,996,813
Pharmacy	7,614,138	6,554,090
Outpatient clinic	13,410,605	13,924,419
Emergency room	2,408,684	2,304,914
Observation room	202,270	141,560
Ambulance	1,011,654	995,194
Home health	360,736	327,057
Durable medical equipment	472,049	532,221
Emergency room physician fees	1,553,393	1,493,572
Hospice	636,744	523,330
Diabetic education	17,076	22,494
Subtotal	<u>61,868,255</u>	<u>57,650,574</u>
Total	<u>64,897,040</u>	<u>60,818,078</u>
Charity care	<u>(772,544)</u>	<u>(657,263)</u>
Total patient service revenue	<u>64,124,496</u>	<u>60,160,815</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(11,008,489)	(10,178,675)
Medicaid	(1,923,631)	(1,769,535)
Blue Cross	(5,464,070)	(6,123,182)
Other	<u>(3,548,703)</u>	<u>(3,566,278)</u>
Total contractual adjustments	<u>(21,944,893)</u>	<u>(21,637,670)</u>
NET PATIENT SERVICE REVENUE	42,179,603	38,523,145
PROVISION FOR BAD DEBTS	<u>(1,696,754)</u>	<u>(1,041,979)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 40,482,849</u>	<u>\$ 37,481,166</u>

INPATIENT		OUTPATIENT	
2010	2009	2010	2009
\$ 2,747,140	\$ 2,886,314	\$ -	\$ -
281,645	281,190	-	-
3,028,785	3,167,504	-	-
645,650	736,925	5,255,665	4,344,858
380,873	329,183	63,851	64,610
1,584,447	1,528,360	421,761	187,849
702,235	843,776	9,474,137	8,579,328
1,011,481	989,703	6,782,242	6,313,802
223,270	202,773	384,318	399,229
417,082	291,676	1,458,081	1,383,767
276,643	153,632	564,098	536,588
-	-	444,696	223,021
12,990	18,873	47,856	66,441
178,865	157,140	526,642	483,376
818,709	841,608	2,505,314	2,155,205
2,618,333	2,473,175	4,995,805	4,080,915
-	-	13,410,605	13,924,419
104,584	155,540	2,304,100	2,149,374
6,539	13,095	195,731	128,465
19,037	36,435	992,617	958,759
-	-	360,736	327,057
-	-	472,049	532,221
49,948	69,430	1,503,445	1,424,142
604,356	508,646	32,388	14,684
-	-	17,076	22,494
9,655,042	9,349,970	52,213,213	48,300,604
\$ 12,683,827	\$ 12,517,474	\$ 52,213,213	\$ 48,300,604

WINNESHIEK MEDICAL CENTER
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OTHER OPERATING REVENUES		
Contract fees and services		
Physical therapy	\$ 119,722	\$ 102,035
Occupational therapy	83,473	75,312
Dietary	18,395	14,134
Laundry and housekeeping	4,692	4,756
Speech therapy	3,327	2,967
Employee meals	90,623	94,143
Wellness services	44,057	44,717
Meal on Wheels and guest meals	17,752	18,175
Medical records transcripts	7,592	8,778
Vending machines	496	590
Other	<u>129,039</u>	<u>114,858</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 519,168</u>	 <u>\$ 480,465</u>

WINNESHIEK MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 126,175	\$ 248,565
Supplies and other expenses	<u>20,052</u>	<u>21,625</u>
	<u>146,227</u>	<u>270,190</u>
ADULTS AND PEDIATRICS		
Salaries and wages	1,551,865	1,757,195
Supplies and other expenses	<u>169,465</u>	<u>219,168</u>
	<u>1,721,330</u>	<u>1,976,363</u>
NURSERY		
Salaries and wages	108,053	124,863
Supplies and other expenses	<u>5,847</u>	<u>8,434</u>
	<u>113,900</u>	<u>133,297</u>
OPERATING ROOM		
Salaries and wages	931,700	965,143
Supplies and other expenses	<u>488,159</u>	<u>431,469</u>
	<u>1,419,859</u>	<u>1,396,612</u>
LABOR AND DELIVERY ROOM		
Salaries and wages	72,742	57,290
Supplies and other expenses	<u>6,197</u>	<u>6,441</u>
	<u>78,939</u>	<u>63,731</u>
ANESTHESIOLOGY		
Salaries and wages	703,962	668,653
Supplies and other expenses	<u>172,194</u>	<u>221,541</u>
	<u>876,156</u>	<u>890,194</u>
RADIOLOGY		
Salaries and wages	741,709	788,726
Supplies and other expenses	<u>1,837,046</u>	<u>746,196</u>
	<u>2,578,755</u>	<u>1,534,922</u>
LABORATORY		
Salaries and wages	805,936	845,652
Supplies and other expenses	<u>1,126,481</u>	<u>1,111,877</u>
	<u>1,932,417</u>	<u>1,957,529</u>
RESPIRATORY THERAPY		
Salaries and wages	110,116	119,315
Supplies and other expenses	<u>88,839</u>	<u>120,919</u>
	<u>198,955</u>	<u>240,234</u>

(continued)

WINNESHIEK MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
PHYSICAL THERAPY		
Salaries and wages	\$ 759,867	\$ 772,751
Supplies and other expenses	<u>68,325</u>	<u>230,392</u>
	<u>828,192</u>	<u>1,003,143</u>
OCCUPATIONAL THERAPY		
Salaries and wages	285,786	269,080
Supplies and other expenses	<u>21,503</u>	<u>24,482</u>
	<u>307,289</u>	<u>293,562</u>
SPEECH THERAPY		
Salaries and wages	38,798	63,438
Supplies and other expenses	<u>5,082</u>	<u>3,637</u>
	<u>43,880</u>	<u>67,075</u>
COMPREHENSIVE OUTPATIENT REHAB FACILITY		
Salaries and wages	15,970	21,934
Supplies and other expenses	<u>15,515</u>	<u>18,667</u>
	<u>31,485</u>	<u>40,601</u>
ELECTROCARDIOLOGY		
Salaries and wages	36,288	40,568
Supplies and other expenses	<u>36,152</u>	<u>31,913</u>
	<u>72,440</u>	<u>72,481</u>
CENTRAL SUPPLY		
Salaries and wages	34,099	31,423
Supplies and other expenses	<u>723,839</u>	<u>643,422</u>
	<u>757,938</u>	<u>674,845</u>
PHARMACY		
Salaries and wages	240,181	231,067
Supplies and other expenses	<u>1,752,484</u>	<u>1,424,920</u>
	<u>1,992,665</u>	<u>1,655,987</u>
CLINIC		
Salaries and wages	1,344,267	1,437,081
Supplies and other expenses	<u>7,404,202</u>	<u>7,412,957</u>
	<u>8,748,469</u>	<u>8,850,038</u>
MABEL CLINIC		
Salaries and wages	23,501	-
Supplies and other expenses	<u>9,569</u>	<u>333</u>
	<u>33,070</u>	<u>333</u>

(continued)

WINNESHIEK MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
MATERIALS MANAGEMENT		
Salaries and wages	\$ 110,503	\$ 109,276
Supplies and other expenses	<u>16,282</u>	<u>22,546</u>
	<u>126,785</u>	<u>131,822</u>
EMERGENCY ROOM		
Salaries and wages	991,747	1,030,104
Supplies and other expenses	<u>1,174,465</u>	<u>1,084,344</u>
	<u>2,166,212</u>	<u>2,114,448</u>
AMBULANCE		
Salaries and wages	393,241	375,543
Supplies and other expenses	<u>48,123</u>	<u>50,309</u>
	<u>441,364</u>	<u>425,852</u>
HOME HEALTH		
Salaries and wages	216,688	226,304
Supplies and other expenses	<u>21,037</u>	<u>27,503</u>
	<u>237,725</u>	<u>253,807</u>
DURABLE MEDICAL EQUIPMENT		
Salaries and wages	51,846	52,300
Supplies and other expenses	<u>99,573</u>	<u>94,132</u>
	<u>151,419</u>	<u>146,432</u>
HOSPICE		
Salaries and wages	184,525	155,114
Supplies and other expenses	<u>53,179</u>	<u>57,015</u>
	<u>237,704</u>	<u>212,129</u>
OCCUPATIONAL HEALTH		
Salaries and wages	147,935	166,653
Supplies and other expenses	<u>45,628</u>	<u>39,998</u>
	<u>193,563</u>	<u>206,651</u>
DIABETIC EDUCATION		
Salaries and wages	35,024	30,790
Supplies and other expenses	<u>2,218</u>	<u>1,141</u>
	<u>37,242</u>	<u>31,931</u>
MEDICAL RECORDS		
Salaries and wages	860,027	905,322
Supplies and other expenses	<u>295,479</u>	<u>263,160</u>
	<u>1,155,506</u>	<u>1,168,482</u>

(continued)

WINNESHIEK MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
DIETARY		
Salaries and wages	\$ 374,973	\$ 390,918
Supplies and other expenses	<u>135,002</u>	<u>149,430</u>
	<u>509,975</u>	<u>540,348</u>
OPERATION OF PLANT		
Salaries and wages	294,055	294,683
Supplies and other expenses	<u>634,210</u>	<u>782,958</u>
	<u>928,265</u>	<u>1,077,641</u>
FOUNDATION		
Salaries and wages	142,672	167,830
Supplies and other expenses	<u>69,157</u>	<u>70,381</u>
	<u>211,829</u>	<u>238,211</u>
SPECIALTY CLINIC		
Salaries and wages	<u>1,714</u>	<u>4,346</u>
HOUSEKEEPING		
Salaries and wages	402,998	233,593
Supplies and other expenses	<u>50,671</u>	<u>54,619</u>
	<u>453,669</u>	<u>288,212</u>
LAUNDRY AND LINEN		
Salaries and wages	86,597	107,049
Supplies and other expenses	<u>21,467</u>	<u>16,986</u>
	<u>108,064</u>	<u>124,035</u>
ADMINISTRATIVE AND GENERAL		
Salaries and wages	2,017,024	1,904,907
Supplies and other expenses	<u>2,468,617</u>	<u>2,672,754</u>
	<u>4,485,641</u>	<u>4,577,661</u>
UNASSIGNED EXPENSES		
Depreciation	2,447,481	2,326,377
Employee benefits	<u>4,176,014</u>	<u>3,902,509</u>
	<u>6,623,495</u>	<u>6,228,886</u>
TOTAL OPERATING EXPENSES	<u>\$ 39,952,138</u>	<u>\$ 38,892,031</u>

WINNESHIEK MEDICAL CENTER
SCHEDULES OF PATIENT RECEIVABLES
JUNE 30, 2010 AND 2009

ANALYSIS OF AGING Days Since Discharge	2010		2009	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 4,729,901	36.54%	\$ 5,202,533	47.00%
31 to 60 days	1,888,131	14.59%	1,460,438	13.19%
61 to 90 days	1,097,820	8.48%	789,704	7.13%
91 days and over	5,227,576	40.39%	3,615,735	32.68%
	12,943,428	100.00%	11,068,410	100.00%
Less: Allowance for doubtful accounts	1,390,000		1,103,000	
Allowance for contractual adjustments	3,559,139		2,995,927	
Net	\$ 7,994,289		\$ 6,969,483	
Net patient service revenue per calendar day	\$ 110,912		\$ 102,688	
Days of net revenue in net accounts receivable at year end	72		68	

WINNESHIEK MEDICAL CENTER
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
SUPPLIES		
Surgery	\$ 424,811	\$ 419,448
Pharmacy	319,910	299,055
Central supply	67,805	140,856
Dietary	<u>8,598</u>	<u>7,656</u>
 Total supplies	 <u>\$ 821,124</u>	 <u>\$ 867,015</u>
 PREPAID EXPENSE		
Insurance	\$ 210,420	\$ 185,460
Service contracts and other	<u>19,142</u>	<u>34,608</u>
 Total prepaid expense	 <u>\$ 229,562</u>	 <u>\$ 220,068</u>

WINNESHIEK MEDICAL CENTER
SCHEDULE OF INSURANCE COVERAGE
JUNE 30, 2010

<u>Insurer</u>	<u>Coverage Type</u>	<u>Effective Dates</u>	<u>Coverage Amount</u>
Farm Bureau	Worker's Compensation	April 2010 to April 2011	\$500,000/\$500,000/ \$500,000
PIC of Wisconsin	Commercial General Liability	April 2010 to April 2011	\$1,000,000
	Umbrella Excess Liability		\$5,000,000
	Medical Professional Liability - Each health care incident		\$1,000,000
	Medical Professional Liability - Total facility annual aggregate		\$3,000,000
General Casualty	Blanket Limit of Insurance	April 2010 to April 2011	\$60,295,600
	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
Cincinnati Insurance Company	Directors and Officers Liability	Nov 2007 to Nov 2010	\$3,000,000
	Employee Dishonesty	Sept 2009 to Sept 2010	\$100,000

WINNESHIEK MEDICAL CENTER
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Acute	2,957	3,504
Swing-bed	1,398	1,081
Newborn	511	546
	<u>4,866</u>	<u>5,131</u>
ADMISSIONS		
Acute	1,038	1,233
Swing-bed	172	121
	<u>1,210</u>	<u>1,354</u>
DISCHARGES		
Acute	1,038	1,227
Swing-bed	173	120
	<u>1,211</u>	<u>1,347</u>
AVERAGE LENGTH OF STAY, ACUTE	<u>2.85</u>	<u>2.86</u>
BEDS	<u>25</u>	<u>25</u>
OCCUPANCY PERCENTAGE		
Acute, based on 25 beds	<u>32.4%</u>	<u>38.4%</u>
Swing-bed, based on 25 beds	<u>15.3%</u>	<u>11.8%</u>
OUTPATIENT VISITS	<u>58,645</u>	<u>57,733</u>
CLINIC VISITS	<u>40,512</u>	<u>42,186</u>



**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**

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the accompanying balance sheets of Winneshiek Medical Center as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated September 28, 2010. 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.

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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Winneshiek Medical Center are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2010, 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.

The Medical Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Medical Center's responses, we did not audit the Medical Center's responses, and accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management in a separate letter dated September 28, 2010.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Winneshiek Medical Center 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Winneshiek Medical Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa
September 28, 2010

**WINNESHIEK MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-10 Segregation of Duties

Criteria – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, Winneshiek Medical Center should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, Winneshiek Medical Center should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management agrees with the finding and has reviewed the operating procedures of Winneshiek Medical Center. Due to the limited number of office employees, management will continue to monitor Winneshiek Medical Center's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-10 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition – Winneshiek Medical Center does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

**WINNESHIEK MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

Part I: Findings Related to the Financial Statements: (continued)

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of Winneshiek Medical Center. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Winneshiek Medical Center’s management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in Winneshiek Medical Center’s procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

**WINNESHIEK MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-10 Certified Budget – Disbursements during the year ended June 30, 2010, did not exceed the amount budgeted.
- II-B-10 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-10 Travel Expense – No expenditures of Winneshiek Medical Center funds for travel expenses of spouses of Winneshiek Medical Center officials and/or employees were noted.
- II-D-10 Business Transactions – Business transactions between the Medical Center and Medical Center officials and employees are detailed as follows:

<u>Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Spouse of employee is owner of business	Photo services	\$ 2,388
Spouse of employee is owner of business	Pharmacy services and supplies	\$ 10,298
Employee is owner of business	Bed and breakfast to house locums	\$ 1,170
Employee is owner of business	Bed and breakfast to house locums	\$ 218

- II-E-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-10 Deposits and Investments – Winneshiek Medical Center held an account at a financial institution which was not included in its approved depository resolution during the year ended June 30, 2010.

Recommendation – It is recommended that the Medical Center update its resolution of approved depositories to include this financial institution or transfer the funds to an approved financial institution. Furthermore, the Medical Center should ensure it only deposits funds in approved financial institutions in the future.

Response – The Medical Center will review and update its financial institution listing to include this financial institution.

Conclusion – Response accepted.

- II-G-10 Publication of Bills Allowed and Salaries – The Medical Center is organized under Chapter 347A and is not required to follow this section of the Iowa Code.



INDEPENDENT AUDITOR'S REPORT ON DEBT AGREEMENT COVENANTS

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the accompanying balance sheet of Winneshiek Medical Center as of June 30, 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year 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 audit.

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. 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 audit provides 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, 2010, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention that caused us to believe that Winneshiek Medical Center failed to comply with any of the terms, covenants, provisions, or conditions of Section Fifteen "Patient Rates and Charges" and Section Seventeen "Covenants Regarding the Operation of the Hospital," inclusive, of the Indentures dated March 1, 2005 and April 1, 2008, with Decorah Bank & Trust Company, Decorah, Iowa, insofar as they relate to accounting matters, except for a violation of the provisions in Section Sixteen "Application of Revenues," whereby amounts sufficient to meet the current expenses of the month plus an amount equal to 1/12th of expenses payable on an annual (or other non-monthly basis) shall be deposited in an Operating and Maintenance Fund each month. At June 30, 2010, the Medical Center had 20 days operating cash on hand. Our audit, however, was not directed primarily toward obtaining knowledge of such noncompliance.

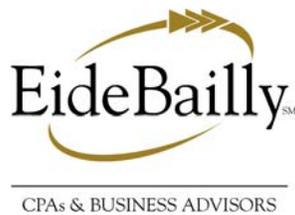
In connection with the foregoing, we advise you that we are in fact the independent auditor of Winneshiek Medical Center and are not a regular employee of the Medical Center.

We further certify that the undersigned has no interest, direct or indirect, in any contract with Winneshiek Medical Center other than to make the annual audit of the Medical Center and to furnish this certificate as respectively required in the loan agreement and is not connected with said Medical Center as an officer or employee thereof.

This report is intended solely for the information and use of the Board of Trustees, management of Winneshiek Medical Center, and the Decorah Bank & Trust, Decorah, Iowa, and is not intended to be and should not be used by anyone other than these specified parties.

Eide Sully LLP

Dubuque, Iowa
September 28, 2010



The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the financial statements of Winneshiek Medical Center for the year ended June 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 7, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Winneshiek Medical Center are described in Note 1 to the financial statements. The Medical Center adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) on July 1, 2009, as disclosed in the financial statements. Other than the adoption of ASC 740-10, no new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2010. We noted no transactions entered into by the Medical Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables, the amounts either owed to or receivable from third-party payors, and depreciation expense.

Collectibility of Patient Receivables – Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments.

Estimated Third-party Payor Settlements – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

Depreciation Expense – Management’s estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop these estimates related to the collectibility of patient receivables, amounts either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following adjustments were proposed as a result of the audit:

	<u>Increase (Decrease) on Net Assets</u>
To adjust the estimated health claims liability	\$ 86,882
To adjust flexible spending account balance	\$ (39,044)
To adjust estimated third-party payor settlements	\$ 328,754
To adjust allowance for doubtful accounts on patient accounts receivable	\$ (294,542)

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 28, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Medical Center’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Medical Center's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of Winneshiek Medical Center and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to Winneshiek Medical Center.

A handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa
September 28, 2010



The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

In planning and performing our audit of the financial statements of Winneshiek Medical Center (Medical Center) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Medical Center's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Medical Center's internal control to be significant deficiencies:

Segregation of Duties

One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size. We realize that with a limited number of office employees, segregation of duties is difficult.

We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Medical Center should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Medical Center should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Preparation of Financial Statements

A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The Medical Center does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size. We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective. The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Medical Center. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Medical Center management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

This communication is intended solely for the information and use of the officials, employees, and constituents of Winneshiek Medical Center, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
September 28, 2010