Financial Statements
June 30, 2011 and 2010

Winneshiek
MEDICAL CENTER

Name	Title	Term Expires
	Board of Trustees	
Ben Wyatt	President	2014
Arlene Houlihan	Vice-President	2012
Rick Burras	Secretary-Treasurer	2014
Sherry Gribble	Member	2017
Roger Huinker	Member	2017
Clark Goltz	Member	2014
David Gehling	Member	2012
	Medical Center Officials	
Dan Werner	Chief Administrative Officer	
David Jordahl	Chief Operating Officer	
Susan Halter	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 discretely presented component unit, Winneshiek Medical Center Foundation, as of June 30, 2011 and 2010, 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, 2011 and 2010, and the 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 22, 2011, on our consideration of the Medical Center's internal control over financial reporting and on 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 and the Budgetary Comparison Information on pages 29 and 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Dubuque, Iowa
September 22, 2011

This discussion and analysis of the financial performance of Winneshiek Medical Center provides an overall review of the Medical Center's financial activities and balances as of and for the years ended June 30, 2011, 2010, and 2009. The intent of this discussion is to provide further information on the Medical Center's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Medical Center's financial statements, including the notes thereto to enhance their understanding of the Medical Center's financial status.

Overview of the Financial Statements

The financial statements are composed of the balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Medical Center's finances.

The Medical Center's financial statements offer short and long term information about its activities. The balance sheets include all of the Medical Center's assets and liabilities, as well as the Winneshiek Medical Center Foundation's net assets, and provide information about the nature and amounts of investments in resources (assets) and the obligations to Medical Center creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Medical Center's operations over the past year and can be used to determine whether the Medical Center has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Medical Center and Foundation and the changes in them. The Medical Center's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The Balance Sheets indicate the assets of the Medical Center exceeded its liabilities by $26,736,339 at June 30, 2011, and $25,365,054 at June 30, 2010. The Medical Center's total assets increased by 1.4% from 2010 to $40,821,399 and increased by 2.4% from 2009 to $40,249,064. The increase in 2011 was primarily due to an increase in cash and cash equivalents and net accounts receivable.

- The Medical Center’s total liabilities decreased by 5.4% from 2010 to $14,085,060 and decreased by 2.9% from 2009 to $14,884,010. The decrease in 2010 was due to a decrease in accounts payable and long-term debt.
- The Statements of Revenues, Expenses and Changes in Net Assets indicate total operating revenues of $42,564,977 increased 3.8% over the previous fiscal year, total operating expenses of $41,715,340 increased 4.4% resulting in a gain from operations of $849,637 a 19.1% decrease from the previous year. Net nonoperating revenues of $398,162 and $123,486 in capital grants and contributions brought the excess of revenues over expenses to $1,371,285, a 1.2% increase over the previous year.
- The Medical Center’s current assets exceeded its current liabilities by $ 7,873,136 at June 30, 2011, providing a 2.5 current ratio.
- Gross patient charges increased 9.26% during fiscal year 2011.
- Total operating expenses increased 4.4% from the previous fiscal year.
- Total patient days of 4,311 decreased 11% from the previous fiscal year.
- Total operating room visits increased 15% from the previous fiscal year.

Organization Highlights

The Medical Center continued to make many positive changes over this last fiscal year, including:

- Implementation of a Picture Archiving Communication System (PACS) in collaboration with Mayo Clinic Health System Franciscan Healthcare
- Implementation of an electronic medical record in the clinic
- Purchase of new capital clinical and non-clinical equipment totaling over $1,000,000
- Signed contract with SISU to assist in attaining Meaningful Use
- Began new Energy Retrofit capital improvement project
- Upgraded existing MRI unit
- Expanded orthopedic services
- Successfully recruited 5 new physicians and 2 new associate providers to the medical practice
- Received 7 Service Excellence Awards within the Mayo Clinic Health System
- Recognized for Diabetes and Ambulatory Quality achievements within Mayo Clinic Health System
- Reverified as a Level IV trauma care facility

Capital Assets

Capital additions of $1,800,000 for the fiscal year ended June 30, 2011, included: new sleep lab rooms, various remodeling projects, a PACS system and related infrastructure costs, upgrading the MRI to enhance breast imaging services, a new security system in the obstetrical unit, radiant warmers for newborns, surgical table and instruments, defibrillators, IT infrastructure upgrades to support new electronic medical record in clinic and related hardware and software, audioscan, portable ultrasound machine, EKG machine, stress test machine, plasma freezer, and a mobile C-Arm for surgical procedures.

Long-Term Debt

At year end, Winneshiek Medical Center had $9,728,361 in short-term and 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. In 2011, new debt was incurred with the purchase of a Picture Archiving Communication System (PACS) and the MRI upgrade.

Condensed Financial Statements

Balance Sheets

	June 30, 2011	June 30, 2010	June 30, 2009
Current Assets	$ 13,264,394	$ 11,952,995	$ 9,731,577
Assets Limited as to Use or Restricted	2,061,245	2,022,143	1,549,882
Capital Assets, Net	24,955,228	25,764,556	27,204,177
Other Assets	540,532	509,370	471,346
Total assets	$ 40,821,399	$ 40,249,064	$ 38,956,982
Current Liabilities	$ 5,391,258	$ 5,943,953	$ 5,045,056
Long-Term Liabilities	8,693,802	8,940,057	9,901,450
Total liabilities	14,085,060	14,884,010	14,946,506
Net Assets			
Invested in capital assets, net of related debt	15,226,867	15,863,010	16,389,596
Restricted	1,528,183	1,468,229	1,316,348
Unrestricted	9,981,289	8,033,815	6,304,532
Total net assets	26,736,339	25,365,054	24,010,476
Total liabilites and net assets	$ 40,821,399	$ 40,249,064	$ 38,956,982

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30, 2011	2010	2009
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	$ 41,940,401	$ 40,482,849	$ 37,481,166
Other operating revenues	624,576	519,168	480,465
Total Operating Revenues	42,564,977	41,002,017	37,961,631
Operating Expenses			
Salaries, wages, and employee benefits	19,240,780	18,418,598	18,499,985
Supplies and other expenses	20,040,950	19,086,059	18,065,669
Depreciation	2,433,610	2,447,481	2,326,377
Total Operating Expenses	41,715,340	39,952,138	38,892,031
Operating Income (Loss)	849,637	1,049,879	(930,400)
Nonoperating Revenues (Expenses)			
Tax revenue	435,712	437,523	434,285
Interest	(412,729)	(461,880)	(452,895)
Investment income	28,292	26,763	40,908
Foundation investment income and contributions	31,162	38,024	86,696
Noncapital grants and contributions	99,932	32,953	83,239
Rental property, net	209,287	210,513	206,290
Gain on sale of capital assets	6,506	20	36,214
Total Nonoperating Revenues	398,162	283,916	434,737
Revenue in Excess of (Less Than) Expense	1,247,799	1,333,795	(495,663)
Capital Grants and Contributions	123,486	20,783	265,548
Increase (Decrease) in Net Assets	1,371,285	1,354,578	(230,115)
Net Assets Beginning of Year	25,365,054	24,010,476	24,240,591
Net Assets End of Year	$ 26,736,339	$ 25,365,054	$ 24,010,476

Economic and Other Factors and Next Year's Budget

The Medical Center's Board and management considered many factors when preparing the fiscal year 2012 budget. Of primary consideration in the 2012 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered.

- Medicare and Medicaid reimbursement rates
- Managed Care contracts
- Increase in self-pay accounts receivable due to uninsured and underinsured
- Staffing benchmarks
- Increased expectations for quality at a lower price
- Salary and benefit costs
- Increasing drug costs
- Energy costs
- Patient safety initiatives
- Pay-for-performance and quality indicators
- Technology advances and needs
- Lower return on investments
- Physician recruitment efforts

Summary

The Medical Center's Board of Trustees continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our 422 employees provides to every person they serve. We would also like to thank each member of the Medical Center's Medical Staff for their dedication and support provided.

Contacting the Medical Center's Finance Department

The Medical Center's financial statements are designed to present users with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

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

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents - Note 4	$ 2,477,692	$ 1,923,124
Receivables		
Patient, net of estimated uncollectibles		
of $5,592,000 in 2011 and $4,949,000 in 2010	8,582,184	8,366,186
Estimated third-party payor settlements	333,000	-
Succeeding year property tax	435,600	435,600
Other	274,176	177,399
Supplies	936,923	821,124
Prepaid expense	224,819	229,562
Total current assets	13,264,394	11,952,995
Assets Limited as to Use or Restricted - Note 4		
Internally designated for capital improvements	1,073,594	1,063,284
Restricted for Hospice expenditures	185,270	170,247
Restricted by contributors	710,381	696,612
Restricted under bond agreement	92,000	92,000
Total assets limited as to use or restricted	2,061,245	2,022,143
Capital Assets - Note 5		
Capital assets not being depreciated	1,261,266	1,736,872
Depreciable capital assets, net of accumulated depreciation	23,693,962	24,027,684
Total capital assets, net	24,955,228	25,764,556
Other Assets		
Assets held by Foundation - Note 4	540,532	509,370
Total assets	$ 40,821,399	$ 40,249,064

See Notes to Financial Statements

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 6	$ 1,034,559	$ 961,489
Accounts payable		
Trade	888,524	1,080,769
Related parties - Note 11	153,432	527,808
Estimated health and dental claims payable - Note 12	336,000	300,000
Estimated third-party payor settlements	-	280,000
Deferred revenue - contribution, net of accumulated amortization - Note 9	187,495	237,499
Accrued expenses		
Salaries and wages	610,670	534,337
Vacation	1,402,182	1,291,921
Payroll taxes and employee benefits	342,796	294,530
Deferred revenue for succeeding year property tax receivable	435,600	435,600
Total current liabilities	5,391,258	5,943,953
Long-Term Debt, Less Current Maturities - Note 6	8,693,802	8,940,057
Total liabilities	14,085,060	14,884,010
Net Assets		
Invested in capital assets, net of related debt	15,226,867	15,863,010
Restricted		
Expendable by contributors	895,651	866,859
Expendable under bond agreement	92,000	92,000
Expendable by Foundation - Note 4	540,532	509,370
Unrestricted	9,981,289	8,033,815
Total net assets	26,736,339	25,365,054
Total liabilities and net assets	$ 40,821,399	$ 40,249,064

	2011	2010
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $2,524,958 in 2011 and $1,696,754 in 2010) - Notes 2 and 3	$ 41,940,401	$ 40,482,849
Other operating revenues	624,576	519,168
Total Operating Revenues	42,564,977	41,002,017
Operating Expenses		
Salaries and wages	15,153,911	14,242,584
Employee benefits	4,086,869	4,176,014
Supplies and other expenses	20,040,950	19,086,059
Depreciation	2,433,610	2,447,481
Total Operating Expenses	41,715,340	39,952,138
Operating Income	849,637	1,049,879
Nonoperating Revenues (Expenses)		
Tax revenue	435,712	437,523
Interest	(412,729)	(461,880)
Investment income - Note 4	28,292	26,763
Foundation		
Investment income, net - Note 4	11,996	12,984
Contributions, net of fundraising expenses	19,166	25,040
Noncapital grants and contributions	99,932	32,953
Rental property, net	209,287	210,513
Gain on sale of capital assets	6,506	20
Net Nonoperating Revenues	398,162	283,916
Revenues in Excess of Expenses	1,247,799	1,333,795
Capital Grants and Contributions	123,486	20,783
Increase in Net Assets	1,371,285	1,354,578
Net Assets Beginning of Year	25,365,054	24,010,476
Net Assets End of Year	$ 26,736,339	$ 25,365,054

	2011	2010
Cash Flows from Operating Activities		
Receipts of patient service revenue	$ 41,111,403	$ 39,211,146
Payments of salaries and wages	(14,967,317)	(14,113,393)
Payments of supplies and other expenses	(24,721,230)	(22,616,827)
Other receipts and payments, net	527,799	609,295
Net Cash Provided by Operating Activities	1,950,655	3,090,221
Cash Flows from Noncapital Financing Activities		
Noncapital grants and contributions received	49,928	20,452
County tax revenue received	435,712	437,523
Net Cash Provided by Noncapital Financing Activities	485,640	457,975
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(973,918)	(1,007,860)
Proceeds from sale of capital assets	6,506	20
Principal payments on long-term debt	(823,549)	(913,035)
Interest payments on long-term debt	(412,729)	(461,880)
Capital contributions and grants	142,652	45,823
Net Cash used for Capital and Related Financing Activities	(2,061,038)	(2,336,932)
Cash Flows from Investing Activities		
Investment income	40,288	39,747
Net cash received on rental property	209,287	210,513
Increase in assets held by Foundation	(31,162)	(38,024)
Purchase of investments	(109,212)	(472,261)
Proceeds from sale of investments	70,110	-
Net Cash Provided by (used for) Investing Activities	179,311	(260,025)
Net Increase in Cash and Cash Equivalents	554,568	951,239
Cash and Cash Equivalents at Beginning of Year	1,923,124	971,885
Cash and Cash Equivalents at End of Year	$ 2,477,692	$ 1,923,124

	2011	2010
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	$ 849,637	$ 1,049,879
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,433,610	2,447,481
Provision for bad debts	2,524,958	1,696,754
Changes in assets and liabilities		
Patient receivables	(2,740,956)	(3,093,457)
Estimated third-party payor settlements	(613,000)	125,000
Other receivables	(96,777)	90,127
Supplies	(115,799)	45,891
Prepaid expense	4,743	(9,494)
Accounts payable - trade and related parties	(566,621)	444,794
Estimated health and dental claims payable	36,000	130,000
Accrued expenses	234,860	163,246
Net Cash Provided by Operating Activities	$ 1,950,655	$ 3,090,221

Supplemental Disclosure of Cash Flow Information

The Medical Center entered into a capital lease obligation in the amount of $328,883 for new equipment in 2011.

The Medical Center signed a promissory note in the amount of $321,481 for new equipment in 2011.

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 grants credit to patients, substantially all of whom are county residents or from other areas of northeastern Iowa and southeastern Minnesota.

Tax Exempt Status

The Medical Center is an Iowa non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Medical Center is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Medical Center believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Medical Center would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

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 (GASB) 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 non-profit 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.

Basis of Presentation

The balance sheets display 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.

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'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 (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.

The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Medical Center has elected not to apply provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

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.

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 or grantor 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. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. 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

Compensated Absences

Medical Center 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 projected vacation payouts is recorded as a current liability on the balance sheet, based on pay rates that are in effect at June 30, 2011 and 2010.

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 transactions associated with providing health care services – the Medical Center's principal activity. Non-exchange revenues, including interest income, taxes, grants and 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 $96,122 and $67,227 for advertising costs for the years ended June 30, 2011 and 2010, respectively.

Asset Retirement Obligation

Management has considered FASB Accounting Standards Codification Topic ASC 410-20, *Asset Retirement Obligations*, specifically as it relates to its legal obligation to report asset retirement activities, such as asbestos removal, on its existing properties. While there has been no formal study conducted, management acknowledges there is a potential for future obligations to remove such environmental concerns. Since there is an indeterminate settlement amount for the asset retirement obligations and because the range of time over which the Medical Center may settle such obligations are unknown, the Medical Center has not accrued an asset retirement obligation at June 30, 2011.

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 deposits and investments 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.

Subsequent Events

The Medical Center has evaluated subsequent events through September 22, 2011, the date which the financial statements were available to be issued.

Reclassifications

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. These reclassifications did not affect the financial position or changes in net assets as previously reported.

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 furnished under its charity care policy. The amounts of charges foregone were $1,024,938 and $772,544 for the years ended June 30, 2011 and 2010, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2011 and 2010, were $594,000 and $469,000, respectively.

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, 2010.

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, 2010.

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 44% and 4%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2011, and 45% and 2%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2010. The 2011 and 2010 net patient service revenue increased approximately $704,000 and $303,000, respectively, due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations. The 2011 and 2010 net patient service revenue increased approximately $237,000 and $433,000, respectively, 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.

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 is 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, 2011 and 2010, is as follows:

	2011	2010
Total Patient Service Revenue	$ 69,880,087	$ 64,124,496
Contractual Adjustments		
Medicare	(14,469,159)	(11,008,489)
Medicaid	(2,083,143)	(1,923,631)
Blue Cross	(6,208,592)	(5,464,070)
Other	(2,653,834)	(3,548,703)
Total contractual adjustments	(25,414,728)	(21,944,893)
Net Patient Service Revenue	44,465,359	42,179,603
Provision for Bad Debts	(2,524,958)	(1,696,754)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 41,940,401	$ 40,482,849

Note 4 - Deposits and Investments

The Medical Center’s deposits in banks at June 30, 2011 and 2010, 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.

Investments reported are not subject to risk categorization.

At June 30, 2011 and 2010, the Medical Center’s carrying amounts of cash and deposits are as follows:

	2011	2010
Checking and Savings Accounts	$ 2,754,962	$ 2,185,371
Checking and Savings Accounts - Foundation	206,193	188,383
Money Market Accounts	1,345,338	1,260,549
Certificates of Deposit	435,589	498,124
Certificates of Deposit - Foundation	279,770	274,870
Mutual Funds - Foundation	54,569	46,117
Interest Receivable	3,048	1,223
Total Deposits and Investments	$ 5,079,469	$ 4,454,637

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

	2011	2010
Cash and Cash Equivalents	$ 2,477,692	$ 1,923,124
Assets Limited as to Use or Restricted	2,061,245	2,022,143
Assets Held by Foundation	540,532	509,370
	$ 5,079,469	$ 4,454,637

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, 2011 and 2010, is summarized as follows:

	2011	2010
Investment Income	$ 28,292	$ 26,763
Foundation		
Interest and dividends	9,973	10,983
Change in unrealized gains and losses, net of investment expense	2,023	2,001
Foundation investment income	11,996	12,984
	$ 40,288	$ 39,747

Note 5 - Capital Assets

Summaries of capital assets for the years ended June 30, 2011 and 2010, are as follows:

	June 30, 2010 Balance	Additions	Deductions	Transfers	June 30, 2011 Balance
Capital Assets Not Being Depreciated:					
Land	$ 915,673	$ -	$ -	$ -	$ 915,673
Construction in progress	821,199	805,610	-	(1,281,216)	345,593
Total capital assets not being depreciated	1,736,872	805,610	-	(1,281,216)	1,261,266
Capital Assets Being Depreciated:					
Land improvements	433,356	-	-	-	433,356
Buildings and leasehold improvements	30,926,460	5,343	(1,983)	169,231	31,099,051
Fixed equipment	1,954,715	-	-	40,665	1,995,380
Major moveable equipment	11,858,651	1,022,882	(1,025,013)	1,071,320	12,927,840
Total capital assets being depreciated	45,173,182	1,028,225	(1,026,996)	1,281,216	46,455,627

Construction in progress at June 30, 2011 represents investment in various ongoing projects and equipment installations in progress.

	June 30, 2010 Balance	Additions	Deductions	Transfers	June 30, 2011 Balance
Less Accumulated Depreciation for:					
Land improvements	$ 341,007	$ 15,997	$ -	$ -	$ 357,004
Buildings and leasehold improvements	9,913,051	1,378,397	-	-	11,291,448
Fixed equipment	1,439,523	124,255	-	-	1,563,778
Major moveable equipment	9,451,917	915,152	(817,634)	-	9,549,435
Total accumulated depreciation	21,145,498	2,433,801	(817,634)	-	22,761,665
Total Capital Assets Being Depreciated, Net	24,027,684	(1,405,576)	(209,362)	1,281,216	23,693,962
Total Capital Assets, Net	$ 25,764,556	$ (599,966)	$ (209,362)	$ -	$ 24,955,228

	June 30, 2009 Balance	Additions	Deductions	Transfers	June 30, 2010 Balance
Capital Assets Not Being Depreciated:					
Land	$ 915,673	$ -	$ -	$ -	$ 915,673
Construction in progress	198,782	1,002,083	-	(379,666)	821,199
Total capital assets not being depreciated	1,114,455	1,002,083	-	(379,666)	1,736,872
Capital Assets Being Depreciated:					
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 moveable equipment	11,706,433	5,777	(114,580)	261,021	11,858,651
Total capital assets being depreciated	44,902,319	5,777	(114,580)	379,666	45,173,182
Less Accumulated Depreciation for:					
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 moveable equipment	8,678,485	888,012	(114,580)	-	9,451,917
Total accumulated depreciation	18,812,597	2,447,481	(114,580)	-	21,145,498
Total Capital Assets Being Depreciated, Net	26,089,722	(2,441,704)	-	379,666	24,027,684
Total Capital Assets, Net	$ 27,204,177	$ (1,439,621)	$ -	$ -	$ 25,764,556

Note 6 - Long-Term Debt

A schedule of changes in long-term debt for 2011 and 2010 is as follows:

	June 30, 2010 Balance	Additions	Deductions	June 30, 2011 Balance	Amounts Due Within One Year
Revenue Note, Series 2005	$ 6,932,576	$ -	$ (618,985)	$ 6,313,591	$ 647,076
Revenue Note, Series 2008	2,291,353	-	(80,757)	2,210,596	84,455
Rural Economic Development Loan	307,500	-	(45,000)	262,500	45,000
Equipment Loan	-	321,481	(32,148)	289,333	64,296
Capitalized Lease Obligation - Note 7	370,117	328,883	(46,659)	652,341	193,732
Total Long-Term Debt	$ 9,901,546	$ 650,364	$ (823,549)	9,728,361	$ 1,034,559
Less Current Maturities				(1,034,559)	
Long-Term Debt, Less Current Maturities				$ 8,693,802	

	June 30, 2009 Balance	Additions	Deductions	June 30, 2010 Balance	Amounts Due Within One Year
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	572,382	-	(202,265)	370,117	216,886
Total Long-Term Debt	$ 10,814,581	$ -	$ (913,035)	9,901,546	$ 961,489
Less Current Maturities				(961,489)	
Long-Term Debt, Less Current Maturities				$ 8,940,057	

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

	Long-Term Debt		
Year Ending June 30,	Principal	Interest	Total
2012	$ 1,034,559	$ 399,874	$ 1,434,433
2013	1,079,768	354,665	1,434,433
2014	1,127,224	307,209	1,434,433
2015	980,259	261,831	1,242,090
2016	951,417	223,472	1,174,889
2017-2021	3,386,876	542,705	3,929,581
2022-2026	725,348	185,668	911,016
2027-2031	442,910	27,030	469,940
	$ 9,728,361	$ 2,302,454	$ 12,030,815

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 that was completed during the fiscal year ending June 30, 2007.

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 interest rate on five year United States Treasury Notes. The note matures August 1, 2020. The balance of the note at June 30, 2011, is $6,313,591.

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 that was completed during the fiscal year ending June 30, 2009.

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. The balance of the note at June 30, 2011, is $2,210,596.

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 of $3,750 beginning May 2009 through April 2017. The agreement is secured by the net revenues of the Medical Center. The balance of the loan at June 30, 2011, is $262,500.

Equipment Loan:

The Medical Center entered into a loan agreement with Mayo Clinic Health System Franciscan Healthcare. The proceeds of the loan are to be used for the purchase of a Picture Archiving Communication System (PACS). The loan in the original amount of $321,481 is noninterest bearing and is payable in monthly installments beginning January 1, 2011 of $5,358 through January 1, 2015. The balance of the loan at June 30, 2011, is $289,333.

Obligations Under Capital Leases:

The capital lease requires monthly payments of principal and interest with interest at the rate of 5.96%. Principal and interest payments of $18,949 are due through August 2014.

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, 2011 and 2010, for all operating leases was $173,000 and $140,614, respectively. The capitalized leased asset consists of:

	2011	2010
Major Movable Equipment	$ 699,001	$ 992,119
Less Accumulated Amortization (Included as Depreciation on the Accompanying Financial Statements)	(43,688)	(644,878)
	$ 655,313	$ 347,241

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

Year Ending June 30,	Capital Leases	Operating Leases
2012	$ 227,392	$ 189,113
2013	227,392	130,027
2014	227,392	88,226
2015	34,970	20,991
Total minimum lease payments	717,146	$ 428,357
Less interest	(64,805)	
Present value of minimum lease payments - Note 6	$ 652,341	

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 expired in June of 2011. The contract is currently extended through December of 2011, with lease payments to be received in monthly installments of $6,656.

Note 9 - Deferred Revenue – Contribution

In April 2005, the Medical Center purchased the clinic building from Mayo Clinic Health System Decorah (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 being amortized as contribution revenue beginning in April 2010 through March 2016.

The remaining unamortized "option credit" as of June 30, 2011 and 2010, is $187,495 and $237,499, respectively.

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 4.50% of their annual covered salary, and the Medical Center is required to contribute 6.95% of annual covered payroll for the year ended June 30, 2011. Plan members were required to contribute 4.30% and 4.10% of their annual covered salary, and the Medical Center was required to contribute 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2010 and 2009, respectively. Contribution requirements are established by state statute. The Medical Center's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were $1,067,875, $947,772, and $920,446, 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, 2011 and 2010, were $913,768 and $748,639, respectively. As of June 30, 2011 and 2010, Winneshiek Medical Center's records reflect an amount due to MFMER of $68,839 and $73,240, respectively, for the various services related to these agreements.

Professional Services Agreement

Winneshiek Medical Center has a contractual agreement with Mayo Clinic Health System Decorah (Clinic) under which the Clinic provides professional medical services to patients of the Medical Center. Expenses recorded for the provision of these services amounted to $7,326,312 and $8,313,452 for the years ended June 30, 2011 and 2010, respectively. As of June 30, 2011 and 2010, Winneshiek Medical Center's records reflect an amount due to the Clinic of $84,593 and $454,568, respectively, for the various services related to this agreement. Included in the amount due at June 30, 2011, is a credit for $206,000 that will be credited to the Medical Center over time beginning in January 2012, until the full amount is recovered by the Medical Center, or December 31, 2012, whichever occurs first.

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.

Excess Liability Umbrella Insurance

The Medical Center also has excess liability umbrella coverage on a claims-made basis subject to a limit of $5 million per occurrence and an annual aggregate limit of $5 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, 2011 and 2010 totals $336,000 and $300,000, 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 an aggregate loss limit of $2,995,544 for 2011.

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.

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, 2011 and 2010, was as follows:

	2011	2010
Medicare	35%	34%
Medicaid	10%	6%
Commercial Insurance	38%	36%
Other Third-Party Payors and Patients	17%	24%
	100%	100%

Required Supplementary Information
June 30, 2011

Winneshiek
MEDICAL CENTER

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Amended Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	$ 435,712	$ -	$ 435,712	$ 429,027	$ 6,685
Estimated Other Revenues/ Receipts	43,063,642	(975,779)	42,087,863	42,879,968	(792,105)
	43,499,354	(975,779)	42,523,575	43,308,995	(785,420)
Expenses/Disbursements	42,128,069	(198,164)	41,929,905	43,397,965	1,468,060
Net	1,371,285	(777,615)	593,670	(88,970)	$ 682,640
Balance Beginning of Year	25,365,054	(21,419,787)	3,945,267	1,799,697	
Balance End of Year	$ 26,736,339	$ (22,197,402)	$ 4,538,937	$ 1,710,727	

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 347A 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 amend its original budget during the year ended June 30, 2011.

For the year ended June 30, 2011, the Medical Center's expenditures did not exceed the amount budgeted.

Other Supplementary Information
June 30, 2011 and 2010

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 as a whole. The schedules of net patient service revenue, other operating revenues, operating expenses, patient receivables, supplies and prepaid expenses, insurance coverage and statistical information are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The schedules of net patient service revenue, other operating revenues, operating expenses, and supplies and prepaid expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The schedules of patient receivables, insurance coverage, and statistical information have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Eide Bailly LLP

Dubuque, Iowa
September 22, 2011

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	Total	
	2011	2010
Patient Care Services		
Adults and pediatrics	$ 2,710,111	$ 2,747,140
Nursery	223,927	281,645
Subtotal	2,934,038	3,028,785
Other Professional Services		
Operating room	7,295,864	5,901,315
Labor and delivery room	350,652	444,724
Anesthesiology	2,192,110	2,006,208
Radiology	10,133,575	10,176,372
Laboratory	7,853,581	7,793,723
Respiratory therapy	557,187	607,588
Physical therapy	2,017,099	1,875,163
Occupational therapy	765,418	840,741
Occupational health	307,126	444,696
Speech therapy	142,723	60,846
Electrocardiology	750,534	705,507
Central supply	3,997,213	3,324,023
Implantable supplies	1,500,787	-
Pharmacy	9,081,349	7,614,138
Outpatient clinic	14,008,830	13,410,605
Emergency room	2,454,096	2,408,684
Observation room	468,801	202,270
Ambulance	1,069,205	1,011,654
Home health	338,242	360,736
Durable medical equipment	426,823	472,049
Emergency room physician fees	1,684,571	1,553,393
Hospice	541,546	636,744
Diabetic education	33,655	17,076
Subtotal	67,970,987	61,868,255
Total	70,905,025	64,897,040
Charity care	(1,024,938)	(772,544)
Total patient service revenue	69,880,087	64,124,496

Inpatient		Outpatient	
2011	2010	2011	2010
$ 2,710,111	$ 2,747,140	$ -	$ -
223,927	281,645	-	-
2,934,038	3,028,785	-	-
662,444	645,650	6,633,420	5,255,665
292,824	380,873	57,828	63,851
1,583,457	1,584,447	608,653	421,761
750,487	702,235	9,383,088	9,474,137
1,025,084	1,011,481	6,828,497	6,782,242
214,999	223,270	342,188	384,318
406,375	417,082	1,610,724	1,458,081
196,343	276,643	569,075	564,098
-	-	307,126	444,696
29,020	12,990	113,703	47,856
190,088	178,865	560,446	526,642
822,491	818,709	3,174,722	2,505,314
458,981	-	1,041,806	-
3,531,301	2,618,333	5,550,048	4,995,805
-	-	14,008,830	13,410,605
90,706	104,584	2,363,390	2,304,100
7,749	6,539	461,052	195,731
34,595	19,037	1,034,610	992,617
-	-	338,242	360,736
-	-	426,823	472,049
48,565	49,948	1,636,006	1,503,445
498,085	604,356	43,461	32,388
-	-	33,655	17,076
10,843,594	9,655,042	57,127,393	52,213,213
$ 13,777,632	$ 12,683,827	$ 57,127,393	$ 52,213,213

	Total	
	2011	2010
Total Patient Service Revenue	$ 69,880,087	$ 64,124,496
Contractual Adjustments		
Medicare	(14,469,159)	(11,008,489)
Medicaid	(2,083,143)	(1,923,631)
Blue Cross	(6,208,592)	(5,464,070)
Other	(2,653,834)	(3,548,703)
Total contractual adjustments	(25,414,728)	(21,944,893)
Net Patient Service Revenue	44,465,359	42,179,603
Provision for Bad Debts	(2,524,958)	(1,696,754)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 41,940,401	$ 40,482,849

	2011	2010
Other Operating Revenues		
Contract fees and services		
Physical therapy	$ 139,872	$ 119,722
Occupational therapy	110,909	83,473
Dietary	18,506	18,395
Speech therapy	7,274	3,327
Laundry and housekeeping	-	4,692
Employee meals	93,840	90,623
Wellness services	57,586	44,057
Vending services	23,795	496
Meals on Wheels and guest meals	19,816	17,752
Medical records transcripts	4,457	7,592
Other	148,521	129,039
Total Other Operating Revenues	$ 624,576	$ 519,168

	2011	2010
Nursing Administration		
Salaries and wages	$ 73,997	$ 126,175
Supplies and other expenses	155,969	20,052
	229,966	146,227
Adults and Pediatrics		
Salaries and wages	1,644,010	1,551,865
Supplies and other expenses	213,675	169,465
	1,857,685	1,721,330
Nursery		
Salaries and wages	98,224	108,053
Supplies and other expenses	3,635	5,847
	101,859	113,900
Operating Room		
Salaries and wages	1,021,094	931,700
Supplies and other expenses	511,258	488,159
	1,532,352	1,419,859
Labor and Delivery Room		
Salaries and wages	53,730	72,742
Supplies and other expenses	5,489	6,197
	59,219	78,939
Anesthesiology		
Salaries and wages	746,957	703,962
Supplies and other expenses	523,157	172,194
	1,270,114	876,156
Radiology		
Salaries and wages	803,967	741,709
Supplies and other expenses	1,534,164	1,837,046
	2,338,131	2,578,755
Laboratory		
Salaries and wages	812,860	805,936
Supplies and other expenses	1,251,538	1,126,481
	2,064,398	1,932,417
Respiratory Therapy		
Salaries and wages	115,037	110,116
Supplies and other expenses	124,185	88,839
	239,222	198,955

	2011	2010
Physical Therapy		
Salaries and wages	$ 860,208	$ 759,867
Supplies and other expenses	88,726	68,325
	948,934	828,192
Occupational Therapy		
Salaries and wages	358,503	285,786
Supplies and other expenses	21,047	21,503
	379,550	307,289
Speech Therapy		
Salaries and wages	85,571	38,798
Supplies and other expenses	4,721	5,082
	90,292	43,880
Comprehensive Outpatient Rehab Facility		
Salaries and wages	18,782	15,970
Supplies and other expenses	15,665	15,515
	34,447	31,485
Electrocardiology		
Salaries and wages	43,041	36,288
Supplies and other expenses	38,181	36,152
	81,222	72,440
Central Supply		
Salaries and wages	34,786	34,099
Supplies and other expenses	729,731	723,839
	764,517	757,938
Implantable Supplies		
Supplies and other expenses	889,032	-
Pharmacy		
Salaries and wages	249,070	240,181
Supplies and other expenses	1,947,444	1,752,484
	2,196,514	1,992,665
Clinic		
Salaries and wages	1,669,551	1,344,267
Supplies and other expenses	6,663,826	7,404,202
	8,333,377	8,748,469
Mabel Clinic		
Salaries and wages	20,647	23,501
Supplies and other expenses	12,483	9,569
	33,130	33,070

	2011	2010
Materials Management		
Salaries and wages	$ 111,414	$ 110,503
Supplies and other expenses	14,916	16,282
	126,330	126,785
Emergency Room		
Salaries and wages	995,710	991,747
Supplies and other expenses	1,214,909	1,174,465
	2,210,619	2,166,212
Ambulance		
Salaries and wages	367,852	393,241
Supplies and other expenses	71,700	48,123
	439,552	441,364
Home Health		
Salaries and wages	203,876	216,688
Supplies and other expenses	21,560	21,037
	225,436	237,725
Durable Medical Equipment		
Salaries and wages	53,047	51,846
Supplies and other expenses	92,341	99,573
	145,388	151,419
Hospice		
Salaries and wages	187,284	184,525
Supplies and other expenses	50,141	53,179
	237,425	237,704
Occupational Health		
Salaries and wages	106,002	147,935
Supplies and other expenses	35,956	45,628
	141,958	193,563
Diabetic Education		
Salaries and wages	49,138	35,024
Supplies and other expenses	2,135	2,218
	51,273	37,242
Medical Records		
Salaries and wages	871,805	860,027
Supplies and other expenses	283,327	295,479
	1,155,132	1,155,506

	2011	2010
Dietary		
Salaries and wages	$ 391,351	$ 374,973
Supplies and other expenses	139,300	135,002
	530,651	509,975
Operation of Plant		
Salaries and wages	296,505	294,055
Supplies and other expenses	672,703	634,210
	969,208	928,265
Foundation		
Salaries and wages	130,617	142,672
Supplies and other expenses	95,516	69,157
	226,133	211,829
Specialty Clinic		
Salaries and wages	-	1,714
Housekeeping		
Salaries and wages	401,596	402,998
Supplies and other expenses	62,522	50,671
	464,118	453,669
Laundry and Linen		
Salaries and wages	88,700	86,597
Supplies and other expenses	23,248	21,467
	111,948	108,064
Administrative and General		
Salaries and wages	2,188,979	2,017,024
Supplies and other expenses	2,526,750	2,468,617
	4,715,729	4,485,641
Unassigned Expenses		
Depreciation	2,433,610	2,447,481
Employee benefits	4,086,869	4,176,014
	6,520,479	6,623,495
Total Operating Expenses	$ 41,715,340	$ 39,952,138

Analysis of Aging

	2011		2010	
Days Since Discharge	Amount	Percent to Total	Amount	Percent to Total
30 Days or Less	$ 5,471,776	38.60%	$ 4,729,901	35.53%
31 to 60 Days	1,887,399	13.32%	1,888,131	14.18%
61 to 90 Days	995,400	7.02%	1,097,820	8.24%
91 Days and Over	5,819,605	41.06%	5,599,473	42.05%
	14,174,180	100.00%	13,315,325	100.00%
Less: Allowance for Doubtful Accounts	1,124,528		1,390,000	
Allowance for Contractual Adjustments	4,467,468		3,559,139	
	$ 8,582,184		$ 8,366,186	
Net Patient Service Revenue Per Calendar Day	$ 114,905		$ 110,912	
Days of Net Revenue in Net Accounts Receivable at Year End	75		75	

	2011	2010
Supplies		
Surgery	$ 523,114	$ 424,811
Pharmacy	322,637	319,910
Central supply	80,595	67,805
Dietary	10,577	8,598
Total Supplies	$ 936,923	$ 821,124

	2011	2010
Prepaid Expenses		
Insurance	$ 216,616	$ 210,420
Service contracts and other	8,203	19,142
Total Prepaid Expenses	$ 224,819	$ 229,562

Insurer	Coverage Type	Effective Dates	Coverage Amount
Farm Bureau	Worker's compensation	April 2011 to April 2012	$500,000/$500,000/ $500,000
PIC of Wisconsin	Commercial general liability	April 2011 to April 2012	$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 2011 to April 2012	$60,295,600
	Business income and expense coverage		$12,481,981
	Accounts receivable coverage		$2,500,000
	Auto liability		$1,000,000
The Hartford	Accidental death and dismemberment	March 2011 to March 2014	$50,000
Cincinnati Insurance Company	Directors and officers liability	Nov 2010 to Nov 2013	$3,000,000
	Employee dishonesty	Sept 2010 to Sept 2011	$100,000

	2011	2010
Patient Days		
Acute	2,760	2,957
Swing-bed	1,169	1,398
Newborn	382	511
Totals	4,311	4,866
Discharges		
Acute	989	1,038
Swing-bed	166	173
Totals	1,155	1,211
Average Length of Stay, Acute	2.79	2.85
Beds	25	25
Occupancy Percentage		
Acute, based on 25 beds	30.2%	32.4%
Swing-bed, based on 25 beds	12.8%	15.3%
Outpatient Visits	57,555	58,645
Clinic Visits	38,067	40,512

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 sheet of Winneshiek Medical Center (Medical Center) as of June 30, 2011, and its component unit, Winneshiek Medical Center Foundation, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated September 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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.

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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.*

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center and are reported in Part II of the accompanying Schedule of Findings and Responses. 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.

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.

Eide Bailly LLP

Dubuque, Iowa
September 22, 2011

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-11 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, 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.

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 the 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.

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

I-B-11 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), on a periodic or annual basis.

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.

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 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. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate these matters to those charged with governance. 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.

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.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 **Certified Budget:** Disbursements during the year ended June 30, 2011, did not exceed the amount budgeted.

II-B-11 **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-11 **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-11 **Business Transactions:** Business transactions between the Medical Center and Medical Center officials and employees are detailed as follows:

Business Connection	Transaction Description	Amount
Spouse of Employee is Owner of Business	Office equipment	$ 19,615
Spouse of Employee is Owner of Business	Pharmacy services/supplies	$ 13,692
Father of Employee is Owner of Business	Ambulance repair	$ 6,134
Spouse of Employee is Owner of Business	Tires/repair	$ 4,423
Spouse of Employee is Owner of Business	Office equipment	$ 1,942

II-E-11 **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-11 **Deposits and Investments:** No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Medical Center's investment policy were noted.

II-G-11 **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.

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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, 2011, 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, 2011, 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, 2011, the Medical Center had 24 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.

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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 Bailly LLP

Dubuque, Iowa
September 22, 2011

CPAs & BUSINESS ADVISORS

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the financial statements of Winneshiek Medical Center (Medical Center) for the year ended June 30, 2011, and have issued our report thereon dated September 22, 2011. 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 27, 2011. 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 the Medical Center, are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2011. 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, self-funded health insurance liability, 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.

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Self-Funded Health Insurance Liability – Management's estimate of self-funded health insurance liability is based on the timing and amounts of historical payments.

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, self-funded health insurance liability, 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 significant adjustments detected as a result of audit procedures were corrected by management:

	Increase (Decrease) to Net Assets
To adjust allowance for doubtful accounts	$ (371,897)
To accrue settlement amount with Mayo Clinic	206,000
To adjust the estimated third-party payor settlement	142,231
To accrue portion of awarded State Energy Program Grant	65,732
To adjust self-funded health insurance liability	62,858
To adjust accrued paid-time off liability	41,878

The net effect of the adjustments was to increase net assets by $146,802.

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 22, 2011.

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.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Matters

Following are additional comments for informational purposes only:

<u>Transmission of Electronic Health Information and the Implementation of ICD-10</u>

The International Classification of Diseases (ICD) has gone through its tenth revision (ICD-10). The replacement of ICD-9 is mandated effective October 1, 2013. Where ICD-9 contains more than 17,000 codes, ICD-10 contains more than 141,000 codes and accommodates a significant number of new diagnoses and procedures. The use of ICD-10-CM (Clinical Modifications) and ICD-10-PCS (Procedure Coding System) applies to all “Covered Entities,” which includes, in part, hospitals, physicians, nursing homes, home health agencies, health plans, and health care clearinghouses that transmit electronic health information in connection with the HIPAA (Health Insurance Portability and Accountability Act) transaction standards.

The adoption of ICD-10-CM and ICD-10-PCS will enable providers and others to better study the relationship of cost to specific medical conditions. Greater specificity in clinical coding provides an important reference point for improving understanding of medical treatment and should enable system designers to create new and better health information systems.

In relation to the adoption of ICD-10, further regulation was also issued which calls for an updated version of the current HIPAA electronic transaction standard (Version 5010). The newer version replaces the existing HIPAA transaction standards on January 1, 2012. The newer version (5010) of the electronic standards is necessary in order to distinguish the reporting of the new ICD-10 codes.

The failure to successfully implement ICD-10 could create coding and billing backlogs, cause cash flow delays, increase claims rejections/denials, lead to unintended shifts in payment and place payer contracts and/or market share arrangements at risk due to poor quality rating or high costs.

We encourage facilities to plan for the implementation of ICD-10 by:

- Conducting an information systems inventory
- Assessing vendor readiness and support
- Creating staff awareness
- Assessing and planning for staff training needs
- Evaluating health plan contract implications
- Budget planning (system transitions, education, decreased productivity, potential denials)
- Identifying gaps in health record documentation

Eide Bailly has staff available that can assist your facility in assessment of the above noted areas, such as information technology, coding, education and financial planning for ICD-10. We have a certified ICD10-CM trainer on our Health Care Consulting team who is available to provide education to pertinent personnel in the facility.

<u>Accounting for Leases</u>

On August 17, 2010, the Financial Accounting Standards Board (FASB) issued proposed accounting standards update 1850-100, *Leases*. This proposal has been discussed over the last several years and seeks to change the way in which substantially all leases are reflected in the financial statements. Under the guidance in the proposed standard, the lessee would recognize an asset representing its right to use the leased ('underlying') asset for the lease term (the 'right-of-use' asset) and a liability to make lease payments. Substantially all leases currently considered operating leases would now be recognized on the balance sheet. Assets and liabilities recognized by lessees and lessors would be measured on a basis that:

a) Assumes the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.

b) Uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease.

c) Is updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period.

We recommend that you review the proposed guidance and consider responding to the questions included in the proposed standard if these changes are of concern.

This information is intended solely for the use of the Finance Committee, 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.

Eide Bailly LLP

Dubuque, Iowa
September 22, 2011