Financial Statements
June 30, 2012 and 2011

Winneshiek
MEDICAL CENTER

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the accompanying balance sheets of Winneshiek Medical Center (Medical Center) and its component unit, Winneshiek Medical Center Foundation (Foundation), as of June 30, 2012 and 2011, 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.

As explained in Note 14 to the financial statements, the Foundation has recorded assets held in an irrevocable charitable remainder unitrust in which it is a sole beneficiary in the accompanying financial statements. The effect of this adjustment has been retroactively applied to July 1, 2010.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center and Foundation as of June 30, 2012 and 2011, 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 October 17, 2012, 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.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 and the Budgetary Comparison Information on pages 35 and 36 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
October 17, 2012

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, 2012, and 2011. 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 Fiscal Year 2012

For the fiscal year 2012, Winneshiek Medical Center increased net assets by $211,550. Even though operating expenses were significantly (7%) under budget for the year, total operating revenues were under budget by a greater percentage creating an operating loss of ($440,246) for the year.

Total Operating Revenues of $42.8 million for the fiscal year improved slightly from last fiscal year. Compared to the operating budget for the year, actual Total Operating Revenues fell short from budget by almost 12% or $5.7 million. Deductions from patient service revenues included charity care provided patients of $657,516. Revenues generated from services provided on an outpatient basis continued to grow with an increase in hospital outpatient visits and clinic visits over the previous year. This is despite the negative impact from reduced volumes in key ancillary outpatient service areas where services are being duplicated outside the Medical Center.

Total Operating Expenses of $43.3 million for the fiscal year were 3.7% higher than last fiscal year, but were 7% under budget for the year. Salaries, wages and employee benefits were held to a 2.5% increase over fiscal year 2011. Management continues to improve processes to gain efficiencies and control costs without negatively impacting the quality of patient care. Many expense categories are relatively fixed in nature due to the need for 24 hour availability of service for patients in the community.

Improved revenue cycle processes have decreased the number of days outstanding in patient accounts receivable and improved cash on hand. During the year, over $2,000,000 in capital equipment and plant improvements were paid for with cash generated from operations and another $1,040,000 from operations was used to make current debt payments. No new debt was incurred during the year. With an adjusted lower interest rate on current debt, interest expense incurred was lower for the year.

Organization Highlights

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

- Vision 2021, a new 10 year strategic plan, created with community input containing six organizational pillars of excellence
- Deployment of LEAN methodologies into the medical practice
- Successfully recruited 5 new physicians and 2 new associate providers to the medical practice
- Purchase of new capital clinical and non-clinical equipment totaling over $2,000,000
- Remodeled patient rooms in OB and began providing an epidural service for delivering mothers
- Completed new Energy Retrofit capital improvement project providing an annual reduction in utility costs Received 11 Service Excellence Awards within the Mayo Clinic Health System
- Recognized for Diabetes and Ambulatory Quality achievements within Mayo Clinic Health System

- Total volumes for fiscal year 2012 noting change from 2011
    - Total patient days of 4,076 decreased 5%
    - Births of 221 increased by 22% or 40 births
    - Total clinic visits of 40,573 increased 7%
    - Total operating room visits increased 15%
    - Emergency room visits increased 2%

Competitive Environment

The competitive environment facing Winneshiek Medical Center has slowly eroded key profitable service areas. Duplication of patient services such as Mammography, CT and MRI, and referrals of locally available specialty services at Winneshiek Medical Center to healthcare organizations outside the Medical Center, has negatively impacted the Medical Center's financial outcomes. The decrease in annual revenues generated from decreased utilization of fixed MRI and CT equipment at Winneshiek Medical Center is over $1,000,000 due to this duplication. Community support of Winneshiek Medical Center for such patient services is critical for continuance of providing the level of service Winneshiek County citizens are used to and expect. Patients can access Winneshiek Medical Center 24/7 with emergency care services provided by a Mayo Clinic Health Services physician-staffed Emergency Room and around-the-clock Ambulance Service availability.

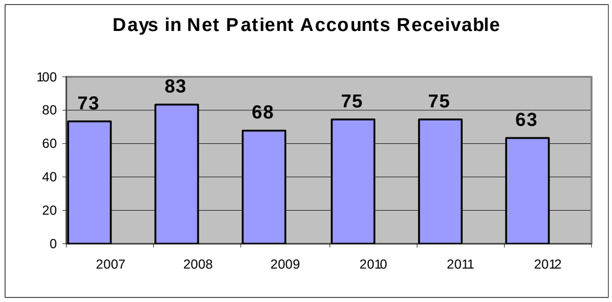
Brief Discussion of Financial Statements

The Medical Center's financial statements consist of three statements—the balance sheet, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows. The financial statements along with the accompanying notes provide information about the activities of the Medical Center, including resources held by the Medical Center. 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. The balance sheets provide information about the nature and amounts of assets owned by the Medical Center 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.

- The Balance Sheets indicate the Total Assets of the Medical Center exceeded its Total Liabilities by $27,363,676 at June 30, 2012, and $27,152,126 at June 30, 2011.
- The Medical Center's Current Assets exceeded its Current Liabilities by $ 7,498,920 at June 30, 2012, providing a 2.4 current ratio.
- The Medical Center's Total Assets decreased in 2012 by 2.6% to $40,161,176 and increased by 2.5% in 2011 to $41,237,186. The decrease in 2012 was primarily due to an increase in cash and cash equivalents of $544,724 or 22%, a decrease in net patient accounts receivable of $1,286,195 or 15% and a decrease in net depreciable capital assets of $511,555 or 2%.

- The Medical Center had a favorable decrease in Days in Net Patient Accounts Receivable of 12 days due to ongoing revenue cycle improvements.



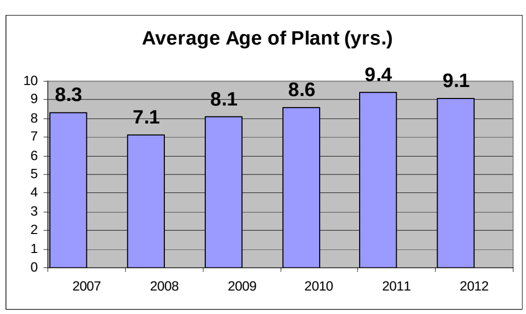
- The Medical Center's Total Liabilities decreased in 2012 by 9.1% to $12,797,500 and decreased in 2011 as well. Decreases in each year were due to payments made on long-term debt.

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 Medical Center's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Net nonoperating revenues of $460,254 and $191,542 in capital grants and contributions brought the excess of revenues over expenses, or increase in net assets, to $211,550 for the fiscal year.

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. This statement also provides 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.

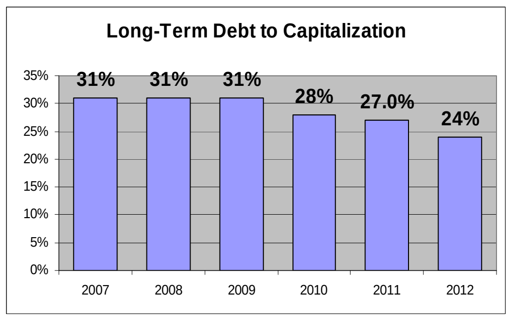
Capital Assets

Capital additions of $2,025,270 for the fiscal year ended June 30, 2012, included: diagnostic and surgical equipment, a new infant security system, remodel of patient rooms in OB, 2 new birthing beds, new lights in surgical suite, new sterilizer, lab microtome, automated pathology staining system, new treadmills in Rehab, three new anesthesia machines, completion of the energy retrofit project, relocation of the business office, and IT hardware and software to support the electronic medical record. Assets are owned by Winneshiek Medical Center, a county public critical access hospital. The Medical Center ended the year with an Average Age of Plant ratio (a cost indicator measuring the average age of the Medical Center's fixed assets) of 9.1, which favorably decreased from last fiscal year.



Long-Term Debt

At year end, Winneshiek Medical Center had $8,690,209 in short-term and long-term debt. In 2012, no new debt was incurred and debt payments of $1,040,000 were made. The Medical Center’s Long-Term Debt to Capitalization ratio improved by decreasing to 24% indicating the Medical Center’s ability to finance future operations with potential borrowings. Debt incurred between 2005 and 2011 was to finance a new addition, the dialysis center and additional clinic space, the renovation, equipping and furnishing of existing facilities, a Picture Archiving Communication System (PACS), a MRI, and the acquisition and construction of capital improvements and equipment. Interest expense reduced this fiscal year as the Series 2005 Hospital Revenue Note was adjusted to a lower interest rate.



Condensed Financial Statements of Winneshiek Medical Center and its Component Unit

Balance Sheets

	June 30, 2012	June 30, 2011	June 30, 2010
Current Assets	$ 12,699,960	$ 13,264,394	$ 11,952,995
Assets Limited as to Use or Restricted	2,070,580	2,061,245	2,022,143
Capital Assets, Net	24,497,327	24,955,228	25,764,556
Other Assets	893,309	956,319	509,370
Total assets	$ 40,161,176	$ 41,237,186	$ 40,249,064
Current Liabilities	$ 5,201,040	$ 5,391,258	$ 5,943,953
Long-Term Liabilities	7,596,460	8,693,802	8,940,057
Total liabilities	12,797,500	14,085,060	14,884,010
Net Assets			
Invested in capital assets, net of related debt	15,807,118	15,226,867	15,863,010
Restricted	1,887,815	1,943,970	1,110,124
Unrestricted	9,668,743	9,981,289	8,391,920
Total net assets	27,363,676	27,152,126	25,365,054
Total liabilites and net assets	$ 40,161,176	$ 41,237,186	$ 40,249,064

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,		
	2012	2011	2010
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	$ 42,038,397	$ 41,940,401	$ 40,482,849
Other operating revenues	774,447	624,576	519,168
Total Operating Revenues	42,812,844	42,564,977	41,002,017
Operating Expenses			
Salaries, wages, and employee benefits	19,733,064	19,258,175	18,419,238
Supplies and other expenses	21,067,912	20,023,555	19,085,419
Depreciation	2,452,114	2,433,610	2,447,481
Total Operating Expenses	43,253,090	41,715,340	39,952,138
Operating Income (Loss)	(440,246)	849,637	1,049,879
Nonoperating Revenues (Expenses)			
Tax revenue	436,415	435,712	437,523
Interest	(363,137)	(412,729)	(461,880)
Foundation investment income and contributions	145,436	88,844	38,024
Other	241,540	344,017	270,249
Total Nonoperating Revenues	460,254	455,844	283,916
Revenue in Excess of (Less Than) Expenses	20,008	1,305,481	1,333,795
Capital Grants and Contributions	191,542	123,486	20,783
Increase in Net Assets	211,550	1,428,967	1,354,578
Net Assets Beginning of Year	27,152,126	25,365,054	24,010,476
Cumulative Effect of Prior Period Adjustment	-	358,105	-
Net Assets Beginning of Year, as Restated	27,152,126	25,723,159	24,010,476
Net Assets End of Year	$ 27,363,676	$ 27,152,126	$ 25,365,054

Economic and Other Factors and Next Year's Budget

The Medical Center's Board and management considered many factors when preparing the fiscal year 2013 budget. Of primary consideration in the 2013 budget are the unknowns of health care reform and the impact of heightened competition in the local health care market. Other factors that may impact operational results for the year include: changes in Medicare and Medicaid reimbursement rates, managed care contracts, regulatory changes, local economic factors, technology needs, increasing pharmaceutical costs, and physician recruitment efforts. Management continues to monitor competitive threats and addresses them through its strategic planning process.

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 421 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

	2012	(As Restated) 2011
Assets		
Current Assets		
Cash and cash equivalents - Note 3	$ 3,022,416	$ 2,477,692
Receivables		
Patient, net of estimated uncollectibles of $1,661,000 in 2012 and $1,125,000 in 2011	7,295,989	8,582,184
Estimated third-party payor settlements	350,000	333,000
Succeeding year property tax	435,600	435,600
Other	420,135	274,176
Supplies	983,460	936,923
Prepaid expenses	192,360	224,819
Total current assets	12,699,960	13,264,394
Assets Limited as to Use or Restricted - Note 3		
Internally designated for capital improvements	1,076,074	1,073,594
Restricted for Hospice expenditures	187,340	185,270
Restricted by contributors	715,166	710,381
Restricted under bond agreement	92,000	92,000
Total assets limited as to use or restricted	2,070,580	2,061,245
Capital Assets - Note 5		
Capital assets not being depreciated	1,314,920	1,261,266
Depreciable capital assets, net of accumulated depreciation	23,182,407	23,693,962
Total capital assets, net	24,497,327	24,955,228
Other Assets		
Assets held by Foundation - Note 3	893,309	956,319
Total assets	$ 40,161,176	$ 41,237,186

	2012	(As Restated) 2011
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 6	$ 1,093,749	$ 1,034,559
Accounts payable		
Trade	600,254	888,524
Related parties - Note 11	9,210	153,432
Estimated health and dental claims payable - Note 12	345,000	336,000
Deferred revenue - contribution, net of accumulated amortization - Note 9	149,996	187,495
Accrued expenses		
Salaries and wages	726,337	610,670
Vacation	1,462,509	1,402,182
Payroll taxes and employee benefits	378,385	342,796
Deferred revenue for succeeding year property tax receivable	435,600	435,600
Total current liabilities	5,201,040	5,391,258
Long-Term Debt, Less Current Maturities - Note 6	7,596,460	8,693,802
Total liabilities	12,797,500	14,085,060
Net Assets		
Invested in capital assets, net of related debt	15,807,118	15,226,867
Restricted		
Expendable by contributors	902,506	895,651
Expendable under bond agreement	92,000	92,000
Expendable by Foundation - Note 3	893,309	956,319
Unrestricted	9,668,743	9,981,289
Total net assets	27,363,676	27,152,126
Total liabilities and net assets	$ 40,161,176	$ 41,237,186

	2012	(As Restated) 2011
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $2,211,207 in 2012 and $2,524,958 in 2011) - Note 2	$ 42,038,397	$ 41,940,401
Other operating revenues	774,447	624,576
Total Operating Revenues	42,812,844	42,564,977
Operating Expenses		
Salaries and wages	15,403,587	15,171,306
Employee benefits	4,329,477	4,086,869
Supplies and other expenses	21,067,912	20,023,555
Depreciation	2,452,114	2,433,610
Total Operating Expenses	43,253,090	41,715,340
Operating Income (Loss)	(440,246)	849,637
Nonoperating Revenues (Expenses)		
Tax revenue	436,415	435,712
Interest	(363,137)	(412,729)
Investment income - Note 3	10,504	28,292
Foundation		
Investment income, net - Note 3	(2,492)	11,996
Change in value in split-interest agreement - Note 4	34,215	57,682
Contributions, net of fundraising expenses	113,713	19,166
Noncapital grants and contributions	58,236	99,932
Rental property, net	207,235	209,287
Gain (loss) on sale of capital assets	(34,435)	6,506
Net Nonoperating Revenues	460,254	455,844
Revenues in Excess of Expenses	20,008	1,305,481
Capital Grants and Contributions	191,542	123,486
Increase in Net Assets	211,550	1,428,967
Net Assets Beginning of Year, as Previously Reported	-	25,365,054
Cumulative Effect of Prior Period Adjustment - Note 14	-	358,105
Net Assets Beginning of Year, as Restated	27,152,126	25,723,159
Net Assets End of Year	$ 27,363,676	$ 27,152,126

	2012	(As Restated) 2011
Cash Flows from Operating Activities		
Receipts of patient service revenue	$ 43,307,592	$ 41,111,403
Payments of salaries and wages	(15,227,593)	(14,984,712)
Payments of supplies and other expenses	(25,799,370)	(24,703,835)
Other receipts and payments, net	628,488	527,799
Net Cash provided by Operating Activities	2,909,117	1,950,655
Cash Flows from Noncapital Financing Activities		
Noncapital grants and contributions received	58,236	99,932
County tax revenue received	436,415	435,712
Net Cash provided by Noncapital Financing Activities	494,651	535,644
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(2,028,648)	(973,918)
Proceeds from sale of capital assets	-	6,506
Principal payments on long-term debt	(1,038,152)	(823,549)
Interest payments on long-term debt	(363,137)	(412,729)
Capital grants and contributions	267,756	92,648
Net Cash used for Capital and Related Financing Activities	(3,162,181)	(2,111,042)
Cash Flows from Investing Activities		
Investment income	8,012	40,288
Net cash received on rental property	207,235	209,287
(Increase) decrease in assets held by Foundation	97,225	(31,162)
Purchase of investments	(9,335)	(109,212)
Proceeds from sale of investments	-	70,110
Net Cash provided by Investing Activities	303,137	179,311
Net Increase in Cash and Cash Equivalents	544,724	554,568
Cash and Cash Equivalents at Beginning of Year	2,477,692	1,923,124
Cash and Cash Equivalents at End of Year	$ 3,022,416	$ 2,477,692

	2012	(As Restated) 2011
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ (440,246)	$ 849,637
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	2,452,114	2,433,610
Provision for bad debts	2,211,207	2,524,958
Changes in assets and liabilities		
Patient receivables	(925,012)	(2,740,956)
Estimated third-party payor settlements	(17,000)	(613,000)
Other receivables	(145,959)	(96,777)
Supplies	(46,537)	(115,799)
Prepaid expenses	32,459	4,743
Accounts payable - trade and related parties	(432,492)	(566,621)
Estimated health and dental claims payable	9,000	36,000
Accrued expenses	211,583	234,860
Net Cash provided by Operating Activities	$ 2,909,117	$ 1,950,655

Supplemental Disclosure of Cash Flow Information

The Medical Center entered into a capital lease obligations for new equipment in the amount of $0 in 2012 and $328,883 in 2011.

The Medical Center signed a promissory note for new equipment in the amount of $0 in 2012 and $321,481 in 2011.

Note 1 - Organization and Significant Accounting Policies

Organization

Winneshiek Medical Center (Medical Center) is a 25-bed county public critical access 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. The Medical Center has no other component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

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

> *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Medical Center.

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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity 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.

Physician Advances

The Medical Center has entered into agreements to recruit and support needed physician specialists to the communities served by the Medical Center. All monies advanced under these agreements will be forgiven over a specified period in which the physician practices in the community. Advances must be repaid if the physician fails to fulfill their contract responsibilities. Physician advances are included in other receivables on the balance sheet.

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. Delinquent property tax receivable represents unpaid taxes for the current and prior years. 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 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 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, 2012 and 2011.

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. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors 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.

Charity Care and Community Benefits

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.

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 $657,516 and $1,024,938 for the years ended June 30, 2012 and 2011, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2012 and 2011, were $388,000 and $594,000, 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.

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.

Investment Income

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

Self Insurance Reserves

The Medical Center provides for self-insurance reserves for estimated incurred but not reported claims for its employee health plan. These reserves, which are included in current liabilities on the balance sheet, are estimated based upon historical submission and payment data, utilization history, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified.

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.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Reclassifications have been made to the June 30, 2011 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

Note 2 - 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 45% and 4%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2012, and 44% and 4%, respectively, for the year ended June 30, 2011.The 2012 and 2011 net patient service revenue increased approximately $838,000 and $941,000, respectively, due to 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 and 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, 2012 and 2011, is as follows:

	2012	2011
Total Patient Service Revenue	$ 71,247,978	$ 69,880,087
Contractual Adjustments		
Medicare	(13,722,348)	(14,469,159)
Medicaid	(2,306,647)	(2,083,143)
Blue Cross	(7,895,000)	(6,208,592)
Other	(3,074,379)	(2,653,834)
Total contractual adjustments	(26,998,374)	(25,414,728)
Net Patient Service Revenue	44,249,604	44,465,359
Provision for Bad Debts	(2,211,207)	(2,524,958)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 42,038,397	$ 41,940,401

Note 3 - Deposits and Investments

The Medical Center's deposits in banks at June 30, 2012 and 2011, 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 by the Medical Center are not subject to risk categorization.

At June 30, 2012 and 2011, the Medical Center's carrying amounts of deposits and investments are as follows:

	2012	2011
Checking and Savings Accounts	$ 3,301,756	$ 2,754,962
Checking and Savings Accounts - Foundation	307,990	206,193
Money Market Accounts	1,352,460	1,345,338
Certificates of Deposit	437,895	435,589
Certificates of Deposit - Foundation	8,086	279,770
Mutual Funds - Foundation	127,231	54,569
Beneficial Interest in Remainder Trust - Foundation - Note 4	450,002	415,787
Interest Receivable	885	3,048
Total Deposits and Investments	$ 5,986,305	$ 5,495,256

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

	2012	2011
Cash and Cash Equivalents	$ 3,022,416	$ 2,477,692
Assets Limited as to Use or Restricted	2,070,580	2,061,245
Assets Held by Foundation	893,309	956,319
	$ 5,986,305	$ 5,495,256

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.

Deposits in mutual funds are held by the Foundation.

Investment Income

Investment income, including return on assets held by Foundation, for the years ended June 30, 2012 and 2011, is summarized as follows:

	2012	2011
Investment Income	$ 10,504	$ 28,292
Foundation		
Interest and dividends	9,899	9,973
Change in unrealized gains and losses, net of investment expense	(12,391)	2,023
Foundation investment income (loss)	(2,492)	11,996
	$ 8,012	$ 40,288

Note 4 - Beneficial Interest in Remainder Trust

The Winneshiek Medical Foundation has been named the beneficiary of the remainder interest in an irrevocable charitable remainder unitrust which is held by another party as the trustee for management purposes. Currently, the trustee makes annual distributions of 5% of the fair value of the assets in the trust to the beneficiaries. Upon the death of the donors, the remaining assets in the trusts shall be transferred to the Foundation. The Foundation has recorded its beneficial interest in this trust fund at fair value, estimated as the net present value of the estimated future amount to be received using a discount rate based on a risk free interest rate. The change in the fair value is reported as change in value in split-interest agreement in nonoperating revenues on the statement of revenues, expenses and changes in net assets. The beneficial interest is recorded at $450,002 and $415,787 at June 30, 2012 and 2011 and included in the assets held by foundation on the balance sheet.

Note 5 - Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011, was as follows:

	June 30, 2011 Balance	Additions	Deductions	Transfers	June 30, 2012 Balance
Capital Assets Not Being Depreciated:					
Land	$ 915,673	$ -	$ -	$ -	$ 915,673
Construction in progress	345,593	2,024,268	-	(1,970,614)	399,247
Total capital assets not being depreciated	1,261,266	2,024,268	-	(1,970,614)	1,314,920
Capital Assets Being Depreciated:					
Land improvements	433,356	-	-	-	433,356
Buildings and leasehold improvements	31,099,051	-	-	942,127	32,041,178
Fixed equipment	1,995,380	1,002	(18,000)	141,896	2,120,278
Major moveable equipment	12,927,840	-	(2,961,278)	886,591	10,853,153
Total capital assets being depreciated	46,455,627	1,002	(2,979,278)	1,970,614	45,447,965
Less Accumulated Depreciation for:					
Land improvements	357,004	14,370	-	-	371,374
Buildings and leasehold improvements	11,291,448	1,350,277	-	-	12,641,725
Fixed equipment	1,563,778	101,372	(18,000)	-	1,647,150
Major moveable equipment	9,549,435	982,716	(2,926,842)	-	7,605,309
Total accumulated depreciation	22,761,665	2,448,735	(2,944,842)	-	22,265,558
Total Capital Assets Being Depreciated, Net	23,693,962	(2,447,733)	(34,436)	1,970,614	23,182,407
Total Capital Assets, Net	$ 24,955,228	$ (423,465)	$ (34,436)	$ -	$ 24,497,327

Construction in progress at June 30, 2012 represents investment in various ongoing projects and equipment installations in progress.

	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
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

Note 6 - Long-Term Debt

A schedule of changes in long-term debt for the years ended June 30, 2012 and 2011 is as follows:

	June 30, 2011 Balance	Additions	Deductions	June 30, 2012 Balance	Amounts Due Within One Year
Revenue Note, Series 2005	$ 6,313,591	$ -	$ (650,670)	$ 5,662,921	$ 690,513
Revenue Note, Series 2008	2,210,596	-	(84,453)	2,126,143	88,334
Rural Economic Development Loan	262,500	-	(45,000)	217,500	45,000
Equipment Loan	289,333	-	(64,296)	225,037	64,296
Capitalized Lease Obligation - Note 7	652,341	-	(193,733)	458,608	205,606
Total Long-Term Debt	$ 9,728,361	$ -	$ (1,038,152)	8,690,209	$ 1,093,749
Less Current Maturities				(1,093,749)	
Long-Term Debt, Less Current Maturities				$ 7,596,460	

	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	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	

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
2013	$ 1,093,749	$ 191,946	$ 1,285,695
2014	1,120,323	165,372	1,285,695
2015	951,217	142,137	1,093,354
2016	898,791	127,363	1,026,154
2017	874,254	112,252	986,506
2018-2022	2,715,957	348,794	3,064,751
2023-2027	758,670	152,346	911,016
2028-2032	277,248	10,488	287,736
	$ 8,690,209	$ 1,250,698	$ 9,940,907

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 was 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.

The Medical Center is currently paying monthly installments of principal and interest totaling $63,900. Through April 2012, the interest rate was 4.46%. It has been adjusted to 1.43%, which is 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, 2012, is $5,662,921.

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 was 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, 2012, is $2,126,143.

Under the terms of the above mentioned Revenue Notes, the Medical Center is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use on the balance sheet. The Revenue Notes also place limits on the incurrence of additional borrowings and requires that the Medical Center satisfy certain measures of financial performance.

Rural Economic Development Loan:

The Medical Center entered into a loan agreement with Hawkeye Tri-County Electric Cooperative. The proceeds of the loan were 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, 2012, is $217,500.

Equipment Loan:

The Medical Center entered into a loan agreement with Mayo Clinic Health System Franciscan Healthcare. The proceeds of the loan were used for the purchase of a Picture Archiving Communication System (PACS). This system allowed the Medical Center to transition from a film-based radiology department to a digital environment. 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, 2012, is $225,037.

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, 2012 and 2011, for all operating leases was $261,275 and $173,000, respectively. The capitalized leased asset consists of:

	2012	2011
Major Movable Equipment	$ 699,001	$ 699,001
Less Accumulated Amortization	(218,438)	(43,688)
	$ 480,563	$ 655,313

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

Year Ending June 30,	Capital Leases	Operating Leases
2013	$ 227,393	$ 130,027
2014	227,393	88,226
2015	35,051	20,991
Total minimum lease payments	489,837	$ 239,244
Less interest	(31,229)	
Present value of minimum lease payments - Note 6	$ 458,608	

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 2012, 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, 2012 and 2011, is $149,996 and $187,495, 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 5.38% of their annual covered salary, and the Medical Center is required to contribute 8.07% of annual covered payroll for the year ended June 30, 2012. Plan members were required to contribute 4.50% and 4.30% of their annual covered salary, and the Medical Center was required to contribute 6.95% and 6.65% of annual covered payroll for the years ended June 30, 2011 and 2010, respectively. Contribution requirements are established by state statute. The Medical Center's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010, were $1,229,627, $1,067,875, and $947,772, 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, 2012 and 2011, were $1,012,002 and $913,768, respectively. As of June 30, 2012 and 2011, Winneshiek Medical Center's records reflect an amount due to MFMER of $60,568 and $79,184, 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 $8,560,357 and $7,326,312 for the years ended June 30, 2012 and 2011, respectively. As of June 30, 2012 and 2011, Winneshiek Medical Center's records reflect an amount due from the Clinic of $140,361 and $16,852, respectively, for the various services related to this agreement. As of June 30, 2012 and 2011, a credit for $103,000 and $206,000 was to be received over time by the Medical Center beginning in January 2012, until the full amount is recovered, 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.

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, 2012 and 2011 totals $345,000 and $336,000, 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 $2,774,199 for 2012.

Litigations, Claims, and Other Disputes

The Medical Center is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Medical Center.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

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 - Restatement

During the year ended June 30, 2012, the Winneshiek Medical Center Foundation determined that it is the sole beneficiary to assets held in an irrevocable charitable remainder unitrust. As a result, the Foundation's beneficial interest in the trust has been recorded on these financial statements.

The financial statements for 2011 have been retroactively restated for the change resulting in an increase of $57,682 in the originally reported change in net assets for 2011. Net assets as of the beginning of 2011 have been adjusted for the effect of the retroactive application of recognizing the Foundation's beneficial interest in the charitable remainder unitrust. This resulted in an increase in the 2011 beginning net assets of $358,105.

The financial statement line items for fiscal year 2011 were affected by the restatement as follows:

June 30, 2011	Fiscal year 2011 As Originally Reported	Fiscal year 2011 as Restated for Cumulative Effect of Adjustments	Effect of Change on Fiscal year 2011	Fiscal year 2011 As Restated
Assets				
Current Assets	$ 13,264,394	$ 13,264,394	$ -	$ 13,264,394
Assets Limited as to Use or Restricted	2,061,245	2,061,245	-	2,061,245
Capital Assets, Net	24,955,228	24,955,228	-	24,955,228
Other Assets				
Assets held by Foundation	540,532	898,637	57,682	956,319
Total assets	$ 40,821,399	$ 41,179,504	$ 57,682	$ 41,237,186
Liabilities and Net Assets				
Current Liabilities	$ 5,391,258	$ 5,391,258	$ -	$ 5,391,258
Long-Term Debt, Less Current Maturities	8,693,802	8,693,802	-	8,693,802
Total Liabilities	14,085,060	14,085,060	-	14,085,060
Net Assets				
Invested in capital assets, net of related debt	15,226,867	15,226,867	-	15,226,867
Restricted				
Expendable by contributors	895,651	895,651	-	895,651
Expendable under bond agreement	92,000	92,000	-	92,000
Expendable by Foundation	540,532	898,637	57,682	956,319
Unrestricted	9,981,289	9,981,289	-	9,981,289
Total net assets	26,736,339	27,094,444	57,682	27,152,126
Total liabilities and net assets	$ 40,821,399	$ 41,179,504	$ 57,682	$ 41,237,186

	Fiscal year 2011 As Originally Reported	Fiscal year 2011 as Restated for Cumulative Effect of Adjustments	Effect of Change on Fiscal year 2011	Fiscal year 2011 As Restated
Operating Revenues	$ 42,564,977	$ 42,564,977	$ -	$ 42,564,977
Operating Expenses	41,715,340	41,715,340	-	41,715,340
Operating Income	849,637	849,637	-	849,637
Nonoperating Revenues				
Tax revenue	435,712	435,712	-	435,712
Interest	(412,729)	(412,729)	-	(412,729)
Investment income	28,292	28,292	-	28,292
Foundation				
Investment income	11,996	11,996	-	11,996
Change in value in split-interest agreement	-	-	57,682	57,682
Contributions, net of fundraising expenses	19,166	19,166	-	19,166
Noncapital grants and contributions	99,932	99,932	-	99,932
Rental property, net	209,287	209,287	-	209,287
Gain on sale of capital assets	6,506	6,506	-	6,506
	398,162	398,162	57,682	455,844
Revenues in Excess of Expenses	1,247,799	1,247,799	57,682	1,305,481
Capital Grants and Contributions	123,486	123,486	-	123,486
Increase in Net Assets	1,371,285	1,371,285	57,682	1,428,967
Net Assets Beginning of Year, as Previously Reported	25,365,054	25,365,054	-	25,365,054
Cumulative Effect on Prior Periods	-	358,105	-	358,105
Net Assets Beginning of Year, as Restated	25,365,054	25,723,159	-	25,723,159
Net Assets End of Year	$ 26,736,339	$ 27,094,444	$ 57,682	$ 27,152,126

Note 15 - 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, 2012 and 2011, was as follows:

	2012	2011
Medicare	30%	35%
Medicaid	7%	10%
Blue Cross	19%	21%
Commercial Insurance	16%	17%
Self Pay	28%	17%
	100%	100%

Note 16 - Subsequent Events

The Medical Center has evaluated subsequent events through October 17, 2012, the date which the financial statements were available to be issued.

Required Supplementary Information
June 30, 2012

Winneshiek
MEDICAL CENTER

Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual (Cash Basis)

Required Supplementary Information

Year Ended June 30, 2012

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Adopted Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	$ 436,415	$ -	$ 436,415	$ 435,600	$ 815
Estimated Other Revenues/ Receipts	43,454,372	1,120,172	44,574,544	48,881,318	(4,306,774)
	43,890,787	1,120,172	45,010,959	49,316,918	(4,305,959)
Expenses/Disbursements	43,616,227	840,673	44,456,900	47,844,395	3,387,495
Net	274,560	279,499	554,059	1,472,523	$ (918,464)
Balance Beginning of Year	26,195,807	(21,656,870)	4,538,937	2,722,375	
Balance End of Year	$ 26,470,367	$ (21,377,371)	$ 5,092,996	$ 4,194,898	

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 not amend its original budget during the year ended June 30, 2012.

For the year ended June 30, 2012, the Medical Center's expenditures did not exceed the amount budgeted.

Other Supplementary Information
June 30, 2012 and 2011

Winneshiek
MEDICAL CENTER

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Independent Auditor's Report on Supplementary Information

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the financial statements of Winneshiek Medical Center (Medical Center), as of and for the years ended June 30, 2012 and 2011, and our report thereon dated October 17, 2012, which expressed an unqualified opinion on those financial statements, appears on page 2. Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of combining balance sheet, combining statement of revenues, expenses and changes in net assets, net patient service revenue, other operating revenues, operating expenses, supplies and prepaid expense are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole. The schedules of patient receivables, insurance coverage, and statistical information, which are the responsibility of management, have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Eide Bailly LLP

Dubuque, Iowa
October 17, 2012

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	Winneshiek Medical Center		Winneshiek Medical Center Foundation		Eliminations		Consolidated
Assets							
Current Assets							
Cash and cash equivalents	$	3,022,416	$	-	$	-	$ 3,022,416
Receivables							
Patient, net of estimated uncollectibles		7,295,989		-		-	7,295,989
Estimated third-party payor settlements		350,000		-		-	350,000
Succeeding year property tax		435,600		-		-	435,600
Other		420,135		-		(75,000)	345,135
Supplies		983,460		-		-	983,460
Prepaid expenses		192,360		-		-	192,360
Total current assets		12,699,960		-		(75,000)	12,624,960
Assets Limited as to Use or Restricted							
Internally designated for capital improvements		1,076,074		-		-	1,076,074
Restricted for Hospice expenditures		187,340		-		-	187,340
Restricted by contributors		715,166		-		-	715,166
Restricted under bond agreement		92,000		-		-	92,000
Total assets limited as to use or restricted		2,070,580		-		-	2,070,580
Capital Assets							
Capital assets not being depreciated		1,314,920		-		-	1,314,920
Depreciable capital assets, net of accumulated depreciation		23,182,407		-		-	23,182,407
Total capital assets, net		24,497,327		-		-	24,497,327
Other Assets							
Assets held by Foundation		-		968,309		-	968,309
Total assets	$	39,267,867	$	968,309	$	(75,000)	$ 40,161,176

Liabilities and Net Assets	Winneshiek Medical Center	Winneshiek Medical Center Foundation	Eliminations	Consolidated
Current Liabilities				
Current maturities of long-term debt	$ 1,093,749	$ -	$ -	$ 1,093,749
Accounts payable				
Trade	600,254	75,000	(75,000)	600,254
Related parties	9,210	-	-	9,210
Estimated health and dental claims payable	345,000	-	-	345,000
Deferred revenue - contribution, net of accumulated amortization	149,996	-	-	149,996
Accrued expenses				
Salaries and wages	726,337	-	-	726,337
Vacation	1,462,509	-	-	1,462,509
Payroll taxes and employee benefits	378,385	-	-	378,385
Deferred revenue for succeeding year property tax receivable	435,600	-	-	435,600
Total current liabilities	5,201,040	75,000	(75,000)	5,201,040
Long-Term Debt, Less Current				
Maturities	7,596,460	-	-	7,596,460
Total liabilities	12,797,500	75,000	(75,000)	12,797,500
Net Assets				
Invested in capital assets, net of related debt	15,807,118	-	-	15,807,118
Restricted				
Expendable by contributors	902,506	-	-	902,506
Expendable under bond agreement	92,000	-	-	92,000
Expendable by Foundation	-	893,309	-	893,309
Unrestricted	9,668,743	-	-	9,668,743
Total net assets	26,470,367	893,309	-	27,363,676
Total liabilities and net assets	$ 39,267,867	$ 968,309	$ (75,000)	$ 40,161,176

	Winneshiek Medical Center (As Restated)	Winneshiek Medical Center Foundation (As Restated)	Eliminations	Consolidated (As Restated)
Operating Revenues				
Net patient service revenue (net of provision for bad debts)	$ 42,038,397	$ -	$ -	$ 42,038,397
Other operating revenues	774,447	-	-	774,447
Total Operating Revenues	42,812,844	-	-	42,812,844
Operating Expenses				
Salaries and wages	15,403,587	-	-	15,403,587
Employee benefits	4,329,477	-	-	4,329,477
Supplies and other expenses	21,067,912	-	-	21,067,912
Depreciation	2,452,114	-	-	2,452,114
Total Operating Expenses	43,253,090	-	-	43,253,090
Operating Income (Loss)	(440,246)	-	-	(440,246)
Nonoperating Revenues (Expenses)				
County tax revenue	436,415	-	-	436,415
Interest	(363,137)	-	-	(363,137)
Investment income	10,504	-	-	10,504
Foundation				
Investment income, net	-	(2,492)	-	(2,492)
Change in value in split-interest agreement	-	34,215	-	34,215
Contributions, net of fundraising expenses	-	(94,733)	208,446	113,713
Noncapital grants and contributions	58,236	-	-	58,236
Rental property, net	207,235	-	-	207,235
Gain (loss) on sale of capital assets	(34,435)	-	-	(34,435)
Net Nonoperating Revenues	314,818	(63,010)	208,446	460,254
Revenues in Excess of Expenses	(125,428)	(63,010)	208,446	20,008
Capital Grants and Contributions	399,988	-	(208,446)	191,542
Increase in Net Assets	274,560	(63,010)	-	211,550
Net Assets Beginning of Year	26,195,807	956,319	-	27,152,126
Net Assets End of Year	$ 26,470,367	$ 893,309	$ -	$ 27,363,676

	Total 2012	Total 2011
Patient Care Services		
Adults and pediatrics	$ 2,655,032	$ 2,710,111
Nursery	307,878	223,927
Subtotal	2,962,910	2,934,038
Other Professional Services		
Operating room	7,489,986	7,295,864
Labor and delivery room	461,567	350,652
Anesthesiology	1,824,649	2,192,110
Radiology	9,699,756	10,133,575
Laboratory	8,075,687	7,853,581
Respiratory therapy	669,630	557,187
Physical therapy	2,043,457	2,017,099
Occupational therapy	908,414	765,418
Occupational health	196,598	307,126
Speech therapy	171,229	142,723
Electrocardiology	1,019,835	750,534
Central supply	3,985,363	3,997,213
Implantable supplies	1,399,855	1,500,787
Pharmacy	9,195,687	9,081,349
Outpatient clinic	14,571,642	14,008,830
Emergency room	2,487,687	2,454,096
Observation room	594,764	468,801
Ambulance	1,276,861	1,069,205
Home health	333,534	338,242
Durable medical equipment	448,393	426,823
Emergency room physician fees	1,481,905	1,684,571
Hospice	541,902	541,546
Diabetic education	64,183	33,655
Subtotal	68,942,584	67,970,987
Total	71,905,494	70,905,025
Charity care	(657,516)	(1,024,938)
Total patient service revenue	$ 71,247,978	$ 69,880,087

Inpatient		Outpatient	
2012	2011	2012	2011
$ 2,649,516	$ 2,710,111	$ 5,516	$ -
306,160	223,927	1,718	-
2,955,676	2,934,038	7,234	-
933,551	662,444	6,556,435	6,633,420
381,521	292,824	80,046	57,828
406,813	1,583,457	1,417,836	608,653
642,090	759,861	9,057,666	9,373,714
977,757	1,025,084	7,097,930	6,828,497
243,488	214,999	426,142	342,188
408,257	406,375	1,635,200	1,610,724
284,665	196,343	623,749	569,075
-	-	196,598	307,126
23,921	29,020	147,308	113,703
131,616	190,088	888,219	560,446
988,609	822,491	2,996,754	3,174,722
690,007	458,981	709,848	1,041,806
3,298,094	3,531,301	5,897,593	5,550,048
-	-	14,571,642	14,008,830
81,315	90,706	2,406,372	2,363,390
(3,448)	7,749	598,212	461,052
11,951	34,595	1,264,910	1,034,610
-	-	333,534	338,242
-	-	448,393	426,823
31,308	48,565	1,450,597	1,636,006
509,767	498,085	32,135	43,461
-	-	64,183	33,655
10,041,282	10,852,968	58,901,302	57,118,019
$ 12,996,958	$ 13,787,006	$ 58,908,536	$ 57,118,019

	Total	
	2012	2011
Total Patient Service Revenue	$ 71,247,978	$ 69,880,087
Contractual Adjustments		
Medicare	(13,722,348)	(14,469,159)
Medicaid	(2,306,647)	(2,083,143)
Blue Cross	(7,895,000)	(6,208,592)
Other	(3,074,379)	(2,653,834)
Total contractual adjustments	(26,998,374)	(25,414,728)
Net Patient Service Revenue	44,249,604	44,465,359
Provision for Bad Debts	(2,211,207)	(2,524,958)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 42,038,397	$ 41,940,401

	2012	2011
Other Operating Revenues		
Contract fees and services		
Physical therapy	$ 154,695	$ 139,872
Occupational therapy	127,941	110,909
Dietary	16,991	18,506
Speech therapy	9,083	7,274
Employee meals	99,366	93,840
Wellness services	70,124	57,586
Meals on Wheels and guest meals	24,148	19,816
Medical records transcripts	4,095	4,457
Vending services	389	23,795
Other	267,615	148,521
Total Other Operating Revenues	$ 774,447	$ 624,576

	2012	2011
Nursing Administration		
Salaries and wages	$ 81,814	$ 73,997
Supplies and other expenses	177,718	155,969
	259,532	229,966
Adults and Pediatrics		
Salaries and wages	1,677,365	1,644,022
Supplies and other expenses	375,023	213,663
	2,052,388	1,857,685
Nursery		
Salaries and wages	114,102	98,224
Supplies and other expenses	3,289	3,635
	117,391	101,859
Operating Room		
Salaries and wages	1,081,078	1,021,094
Supplies and other expenses	621,267	511,258
	1,702,345	1,532,352
Labor and Delivery Room		
Salaries and wages	72,857	53,730
Supplies and other expenses	4,688	5,489
	77,545	59,219
Anesthesiology		
Salaries and wages	391,643	746,957
Supplies and other expenses	859,142	520,266
	1,250,785	1,267,223
Radiology		
Salaries and wages	767,249	803,967
Supplies and other expenses	1,894,068	1,530,613
	2,661,317	2,334,580
Laboratory		
Salaries and wages	830,352	812,860
Supplies and other expenses	1,166,697	1,251,538
	1,997,049	2,064,398
Respiratory Therapy		
Salaries and wages	151,382	115,037
Supplies and other expenses	112,007	124,185
	263,389	239,222

	2012	2011
Physical Therapy		
Salaries and wages	$ 997,390	$ 860,208
Supplies and other expenses	147,201	87,676
	1,144,591	947,884
Occupational Therapy		
Salaries and wages	434,193	358,503
Supplies and other expenses	36,195	21,047
	470,388	379,550
Speech Therapy		
Salaries and wages	114,537	85,571
Supplies and other expenses	12,097	4,721
	126,634	90,292
Comprehensive Outpatient Rehab Facility		
Salaries and wages	17,298	18,782
Supplies and other expenses	16,587	16,419
	33,885	35,201
Electrocardiology		
Salaries and wages	44,634	43,041
Supplies and other expenses	128,082	38,181
	172,716	81,222
Central Supply		
Salaries and wages	37,620	34,786
Supplies and other expenses	702,151	729,731
	739,771	764,517
Implantable Supplies		
Supplies and other expenses	654,448	889,032
Pharmacy		
Salaries and wages	243,718	249,070
Supplies and other expenses	1,727,394	1,947,444
	1,971,112	2,196,514
Clinic		
Salaries and wages	1,778,959	1,669,551
Supplies and other expenses	6,470,179	6,663,826
	8,249,138	8,333,377
Mabel Clinic		
Salaries and wages	24,818	20,647
Supplies and other expenses	21,246	12,483
	46,064	33,130

	2012	2011
Materials Management		
Salaries and wages	$ 108,978	$ 111,414
Supplies and other expenses	21,200	14,916
	130,178	126,330
Emergency Room		
Salaries and wages	999,767	995,710
Supplies and other expenses	1,668,437	1,214,909
	2,668,204	2,210,619
Ambulance		
Salaries and wages	396,172	367,852
Supplies and other expenses	77,656	71,700
	473,828	439,552
Home Health		
Salaries and wages	217,159	203,876
Supplies and other expenses	32,241	21,560
	249,400	225,436
Durable Medical Equipment		
Salaries and wages	52,693	53,047
Supplies and other expenses	117,635	92,341
	170,328	145,388
Hospice		
Salaries and wages	181,361	187,284
Supplies and other expenses	50,900	50,141
	232,261	237,425
Occupational Health		
Salaries and wages	113,292	106,002
Supplies and other expenses	37,933	35,956
	151,225	141,958
Diabetic Education		
Salaries and wages	72,946	49,138
Supplies and other expenses	6,442	2,135
	79,388	51,273
Medical Records		
Salaries and wages	844,500	871,805
Supplies and other expenses	280,351	283,327
	1,124,851	1,155,132

	2012	2011
Dietary		
Salaries and wages	$ 403,900	$ 391,351
Supplies and other expenses	9,934	139,300
	413,834	530,651
Operation of Plant		
Salaries and wages	308,144	296,505
Supplies and other expenses	593,999	672,703
	902,143	969,208
Foundation		
Salaries and wages	129,478	130,617
Supplies and other expenses	40,535	16,815
	170,013	147,432
Housekeeping		
Salaries and wages	424,319	401,596
Supplies and other expenses	62,472	62,522
	486,791	464,118
Laundry and Linen		
Salaries and wages	30,322	88,700
Supplies and other expenses	90,507	23,248
	120,829	111,948
Administrative, Financial and General Services		
Salaries and wages	2,259,547	2,206,362
Supplies and other expenses	2,848,191	2,594,806
	5,107,738	4,801,168
Unassigned Expenses		
Depreciation	2,452,114	2,433,610
Employee benefits	4,329,477	4,086,869
	6,781,591	6,520,479
Total Operating Expenses	$ 43,253,090	$ 41,715,340

Analysis of Aging

	2012		2011	
Days Since Discharge	Amount	Percent to Total	Amount	Percent to Total
30 Days or Less	$ 5,188,805	41.38%	$ 5,471,776	38.60%
31 to 60 Days	1,764,251	14.07%	1,887,399	13.32%
61 to 90 Days	870,030	6.94%	995,400	7.02%
91 Days and Over	4,715,468	37.61%	5,819,605	41.06%
	12,538,554	100.00%	14,174,180	100.00%
Less: Allowance for Doubtful Accounts	1,661,465		1,124,528	
Allowance for Contractual Adjustments	3,581,100		4,467,468	
	$ 7,295,989		$ 8,582,184	
Net Patient Service Revenue Per Calendar Day	$ 115,174		$ 114,905	
Days of Net Patient Service Revenue in Net Accounts Receivable at Year End	63		75	

	2012	2011
Supplies		
Surgery	$ 518,884	$ 523,114
Pharmacy	373,499	322,637
Central supply	79,401	80,595
Dietary	11,676	10,577
Total Supplies	$ 983,460	$ 936,923
Prepaid Expenses		
Insurance	$ 192,360	$ 216,616
Service contracts and other	-	8,203
Total Prepaid Expenses	$ 192,360	$ 224,819

Insurer	Coverage Type	Effective Dates	Coverage Amount
Farm Bureau	Worker's compensation	April 2012 to April 2013	$500,000/$500,000/ $500,000
PIC of Wisconsin	Commercial general liability	April 2012 to April 2013	$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
Travelers	Blanket limit of insurance	April 2012 to April 2013	$64,258,100
	Business income and expense coverage		$14,568,867
	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 2011 to Sept 2012	$100,000

	2012	2011
Patient Days		
Acute	2,498	2,760
Swing-bed	1,096	1,169
Newborn	482	382
Totals	4,076	4,311
Discharges		
Acute	912	989
Swing-bed	134	166
Totals	1,046	1,155
Average Length of Stay, Acute	2.74	2.79
Beds	25	25
Occupancy Percentage		
Acute, based on 25 beds	27.4%	30.2%
Swing-bed, based on 25 beds	12.0%	12.8%
Outpatient Visits	58,041	57,555
Clinic Visits	40,573	38,067

CPAs & BUSINESS ADVISORS

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, 2012, 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 October 17, 2012. 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

The Medical Center's management is responsible for establishing and maintaining effective 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in Part I of the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness, and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency described in Part I of the accompany Schedule of Findings and Responses as item I-C-12 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items I-A-12, and I-B-12 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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
October 17, 2012

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-12 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-12 Reconciliation of Cash Account

Criteria: Reconciliations serve as an internal control over financial reporting and the safeguarding of assets. More specifically, accurate reconciliation of bank accounts is an important aspect of internal control over cash and cash management.

Condition: The Finance Department completes monthly reconciliations of the bank balances to the general ledger. However, it was noted that there is an unresolved difference each month which requires a manual adjustment to the operating cash account balance. It is our understanding that the monthly difference is a minimal amount (usually within $1,000 to $2,000). Also, we noted that the Finance Department does complete additional procedures such as reconciling daily batch reports to cash receipts as an additional compensating control over cash.

Cause: The Finance Department has identified the issue, but has not yet been able to determine the cause of the differences.

Effect: Ongoing, unresolved differences during the reconciliation process could result in errors on the financial statements and represents a weakness in internal control over cash.

Recommendation: We recommend that the Finance Department continue to work to resolve the monthly differences identified during the cash reconciliation process. In our experience, collaboration with the business office and the accounting software provider can help identify the underlying cause of the variances.

Response: Management is aware of this issue and is actively engaged in building a tool to assist them in performing daily cash balancing activities. This tool along with the existing cash receipts log will be in place by December 31, 2012.

Conclusion: Response accepted.

Material Weakness:

I-C-12 Preparation of Financial Statements/Material Audit Adjustment

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: 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. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of the cost or other considerations.

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

A material adjusting journal entry was proposed and recorded to the financial statements during the audit to restate prior period financial statements. This adjustment was due to a non-recurring transaction and should have been recorded in prior years.

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. The board had considered the cost benefit of improving the internal control over financial reporting and has decided to accept the risk associated with this condition.

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. Also, interim financial statements may be misstated if material adjusting journal entries are posted at year end.

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 and prevent material adjusting journal entries at year end.

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. The material audit adjustment recorded to restate the prior period financial statements was not the result of a recurring and usual transaction but due to clarification the Winneshiek Medical Center Foundation received regarding its sole beneficial right to assets held in an irrevocable charitable remainder unitrust. We will continue to consult with the auditors during the year regarding the accounting for unusual or non- recurring transactions to prevent material adjusting journal entries to the financial statements at year end.

Conclusion: Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-12 **Certified Budget:** Disbursements during the year ended June 30, 2012, did not exceed the amount budgeted.

II-B-12 **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-12 **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-12 **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	$ 53,487
Spouse of Employee is Owner of Business	Pharmacy services/supplies	$ 15,566
Father of Employee is Owner of Business	Ambulance repair	$ 6,581
Spouse of Employee is Owner of Business	Office equipment	$ 2,546

II-E-12 **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-12 **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-12 **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.

EideBailly
CPAs & BUSINESS ADVISORS

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, 2012, 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, 2012, 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, 2012, the Medical Center had 28 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
October 17, 2012

EideBailly

CPAs & BUSINESS ADVISORS

June 4, 2012

Mr. David Rooney
Interim Chief Administrative Officer
Winneshiek Medical Center
901 Montgomery Street
Decorah, IA 52101

Dear Mr. Rooney:

We are pleased to confirm our understanding of the services we are to provide Winneshiek Medical Center for the year ending June 30, 2012. We will audit the balance sheet of Winneshiek Medical Center as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ending. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to accompany the Medical Center's basic financial statements. As part of our engagement, we will apply certain limited procedures to the Medical Center's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis.

2. Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual Cash Basis).

Supplementary information other than RSI, such as combining and individual fund financial statements, also accompanies the Medical Center's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements.

1. Schedules of Net Patient Service Revenue.

2. Schedules of Other Operating Revenues.

3. Schedules of Operating Expenses.

4. Schedules of Supplies and Prepaid Expense.

The following additional information accompanying the basic financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which our auditor's report will disclaim an opinion.

1. Statistical Information.

2. Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics.

3. Schedules of Insurance Coverage at June 30, 2012.

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. Our audit will be conducted in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and will include tests of the accounting records of the Medical Center and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards.* The report on internal control and compliance will include a statement that the report 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, and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that the Medical Center is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

Management Responsibilities

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the Medical Center and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles. Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein.

You are responsible for management decisions and functions. As part of the audit, we will prepare a draft of your financial statements and related notes. In accordance with *Government Auditing Standards*, you will be required to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

Management is responsible for establishment and maintenance of a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, and the timing and format related thereto.

Audit Procedures-General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures-Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards.*

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards and *Government Auditing Standards*.

Audit Procedures-Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Medical Center's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Audit Administration, Fees, and Other

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash or other confirmations we request and will locate any documents selected by us for testing.

We will provide copies of our reports to the Medical Center; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

We will assist in preparing a depreciation schedule for the Medical Center. Our preparation of the depreciation schedule will be limited to calculating the depreciation. In accordance with *Government Auditing Standards*, you will be required to determine such key factors as the method and rate of depreciation and the salvage value and estimated useful life of the assets. In addition, you will be required to review and approve the depreciation schedule and have a responsibility to be in a position in fact and appearance to make an informed judgment on the depreciation schedule. Further you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

Our engagement will also include the preparation of the Medicare Statement of Reimbursable Cost and various other cost reports as listed below for the year ending June 30, 2012.

The audit documentation for this engagement is the property of Eide Bailly LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a cognizant or oversight agency for audit or its designee, a federal agency providing direct or indirect funding, or the United States Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Eide Bailly LLP personnel. Furthermore, upon request, we may provide photocopies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Gwen Moser is the engagement partner and is responsible for supervising the engagement and signing the report.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, typing, postage, travel, copies, telephone, etc.) except that we agree that our gross fee, including expenses, will not exceed $39,000. (As detailed below) Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Professional Fees	2012
Audit of financial statements of Winneshiek Medical Center, including management letter for administration and Board of Trustees	$ 29,500
Preparation of Medicare and Medicaid CAH Cost Reports	9,500
Total	$ 39,000

Should our relationship terminate before our audit procedures and cost report preparation are completed and a report is issued and cost reports delivered, you will be billed for services to the date of termination. All bills are payable upon receipt. A service charge of 1% per month, which is an annual rate of 12%, will be added to all accounts unpaid 30 days after billing date. If collection action is necessary, expenses and reasonable attorney’s fees will be added to the amount due.

In addition, we will be compensated for any time and expenses, including time and expenses of legal counsel, we may incur in conducting or responding to discovery requests or participating as a witness or otherwise in any legal, regulatory, or other proceedings as a result of our Firm’s performance of these services. You and your attorney will receive a copy of every subpoena we are asked to respond to on your behalf and will have the ability to control the extent of the discovery process to control the costs you may incur.

In order to complete your organization's audit field work in a timely and efficient manner, we require that your organization provide Eide Bailly LLP with an electronic copy of the year end working trial balance that is received in our office at least seven days prior to the scheduled field work date (or earlier if available). If we do not receive the working trial balance within seven days of the start of our planned field work date, it may be necessary to delay the audit.

In accordance with 42 U. S. C. § 1395x(v) (I) (i) & (ii), until the expiration of four (4) years after the furnishing of services under this Agreement, Eide Bailly LLP shall make available, upon written request by the Secretary, U.S. Department of Health and Human Services or upon request by the U.S. Comptroller General, or any of their duly authorized representatives, the contracts, books, documents and records of Eide Bailly LLP that are necessary to certify the nature and extent of costs of any agreement between Eide Bailly LLP and Winneshiek Medical Center.

It is further provided that if Eide Bailly LLP carries out any of its duties of such agreement or contract through a subcontract with a related organization, with a value or cost of $10,000 or more over a twelve (12) month period, such subcontract shall contain a clause to the effect that until the expiration of four (4) years after the furnishing of such services pursuant to such subcontract, the related organization shall make available, upon written request to the Secretary or upon request to the Comptroller General, or any of their duly authorized representatives, the subcontract, and books, documents and records of such organization that are necessary to verify the nature and extent of such costs.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2011 peer review report accompanies this letter.

Dispute Resolution

The following procedures shall be used to resolve any disagreement, controversy or claim that may arise out of any aspect of our services or relationship with you, including this engagement, for any reason ("Dispute"). Specifically, we agree to first mediate.

Mediation

All Disputes between us shall first be submitted to non-binding mediation by written notice ("Mediation Notice") to the other party. In mediation, we will work with you to resolve any differences voluntarily with the aid of an impartial mediator. The mediator will be selected by mutual agreement, but if we cannot agree on a mediator, one shall be designated by the American Arbitration Association ("AAA").

The mediation will be conducted as specified by the mediator and agreed upon by the parties. The parties agree to discuss their differences in good faith and to attempt, with the assistance of the mediator, to reach an amicable resolution of the Dispute.

Each party will bear its own costs in the mediation. The fees and expenses of the mediator will be shared equally by the parties.

Either party may commence suit on a Dispute after the mediator declares an impasse.

Choice of Venue

We both agree to submit any unresolved Dispute to trial by a federal or state court venued in Fargo, North Dakota.

No Punitive Damages

The exclusive remedy available to you in any adjudication proceeding shall be the right to pursue claims for actual damages that are directly caused by acts or omissions that are breaches by us of our duties under this agreement and/or under applicable accounting standards. In no event shall we be liable to you for any punitive or exemplary damages, or for attorneys' fees.

Time Limitation

The nature of our services makes it difficult, with the passage of time, to gather and present evidence that fully and fairly establishes the facts underlying any Dispute. We both agree that, notwithstanding any statute of limitations that might otherwise apply to a Dispute, it is reasonable that you may not bring any legal proceeding against us unless it is commenced within twenty-four (24) months ("Limitation Period") after the date when we deliver our report under this agreement to you, regardless of whether we do other services for you or that may relate to this engagement.

The Limitations Period applies and begins to run even if you have not suffered any damage or loss, or have not become aware of the existence or possible existence of a Dispute.

Indemnity

You agree to indemnify Eide Bailly LLP, its partners, affiliates, officers and employees (collectively "Eide Bailly"), against any losses, including settlement payments, judgments, damage awards, punitive or exemplary damages, and the costs of litigation (including attorneys' fees) associated with a claim brought by a third-party and that arises out of or is in any way related to the services provided under this engagement, provided that the services performed hereunder were performed in accordance with professional standards, in all material respects.

Assignments Prohibited

You agree that you will not and may not assign, sell, barter or transfer any legal rights, causes of actions, claims or Disputes you may have against Eide Bailly, its partners, affiliates, officers and employees, to any other person or party, or to any trustee, receiver or other third party.

If this letter defines the arrangements as you understand them, please sign and date this letter and return it to us. Thank you for this opportunity to be of assistance to you. We appreciate your business.

EIDE BAILLY LLP

Gwen A. Moser

Gwen A. Moser, CPA
Partner

ACCEPTED BY WINNESHIEK MEDICAL CENTER

__________________________________ __________________________________

Chief Administrative Officer Date

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

System Review Report

To the Partners of
Eide Bailly LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Eide Bailly LLP (the firm) applicable to non-SEC issuers in effect for the year ended July 31, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*, audits of employee benefit plans, and audits performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice of Eide Bailly LLP applicable to non-SEC issuers in effect for the year ended July 31, 2011, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass, pass with deficiency(ies)* or *fail*. Eide Bailly LLP has received a peer review rating of *pass*.

Cherry, Bekaert + Holland, LLP

Cherry, Bekaert & Holland, L.L.P.
November 21, 2011