Financial Statements
June 30, 2013 and 2012

Winneshiek
MEDICAL CENTER

Name	Title	Term Expires
	Board of Trustees	
Rick Burras	President	2014
Roger Huinker	Vice-President	2016
Ben Wyatt	Secretary-Treasurer	2014
Karl Jacobsen	Member	2018
Steve Hildebrand	Member	2018
Clark Goltz	Member	2014
Sherry Gribble	Member	2016
	Medical Center Officials	
Gretchen Dahlen	Chief Administrative Officer	
Steven Davis, M.D.	Interim Chief Medical Officer	
Linda Klimesh	Chief Nursing Officer	
Lynn Luloff	Chief Financial Officer	
David Rooney	Clinic Adminstrator	

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Independent Auditor's Report

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Winneshiek Medical Center (Medical Center) and its component unit, Winneshiek Medical Center Foundation, which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Medical Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of June 30, 2013 and 2012 and the changes in net position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 and the Budgetary Comparison Information on pages 36 and 37 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 30, 2013 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, 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* in considering the Medical Center's internal control over financial reporting and compliance.

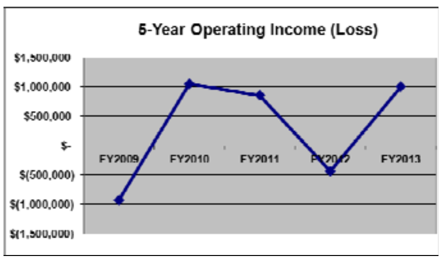
Eide Bailly LLP

Dubuque, Iowa
October 24, 2013

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, 2013, and 2012. 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 2013

For the fiscal year 2013, Winneshiek Medical Center experienced stronger financial performance by increasing net position by $1,789,548. With an 8.4% increase in Total Operating Revenues from FY2012, WMC was able to create an operating gain of $1,001,247 by minimizing expense increases to 4.9% from FY2012. This operating gain represents a $1,441,493 improvement from an operating loss of ($440,246) in FY2012 to a positive operating margin of 2.2% in FY2013.



Total Operating Revenues of $46.3 million for the fiscal year included EHR incentive monies received from Medicare and Medicaid of $388,308 and double digit increases in Inpatient, Skilled, Home Health and Hospice Revenues compared to FY2012. Total Operating Revenues fell short from budget by 1.4%, but improved from FY2012 by 8.4%. FY2013 marked growth in inpatient volumes with an 11% in Acute Patient Days, 8% in Acute admissions and 13 more births. We continue to operate the largest birthing center in the 9-county area. Skilled care revenues improved with a 37% increase in skilled patient days. 30% of the skilled admissions for the year were attributable to WMC's relationship with the Mayo Post Acute Care (MPAC) program. This transitional care program allows the Medical Center to continue a patient care treatment plan in a skilled setting.

Total Operating Expenses of $45.3 million for the fiscal year were 4.9% higher than last fiscal year, but came in just under budget. Many expense categories not only came in under budget for the year, but came in under last year's totals. Areas of increase included an increase of $237,050 in employer pension contributions from FY2012 and an increase in employee health insurance costs under the Medical Center's self-insured health insurance program of $568,976. Management continues to embrace LEAN concepts in gaining operational efficiencies in the delivery of healthcare.

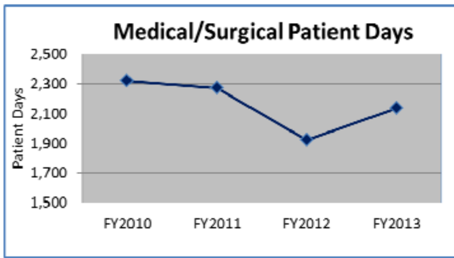
Cash flow improved during the year with Days Cash on Hand increasing from 45 Days Cash on Hand (all sources) to 66. Capital improvements of $1.2 million and debt payments of $1.1 million were paid for with cash generated from operations. WMC's county property tax subsidy rate was reduced slightly from FY2012. No new debt was incurred during the fiscal year. Capital ratios improved accordingly compared to FY2012.

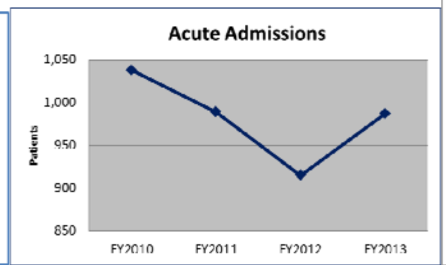
Substantial contributions to the Winneshiek Medical Center Foundation occurred during the year strengthening their ability to support continued quality health care for the region.

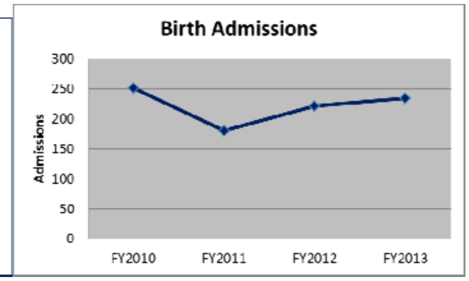
Organization Highlights

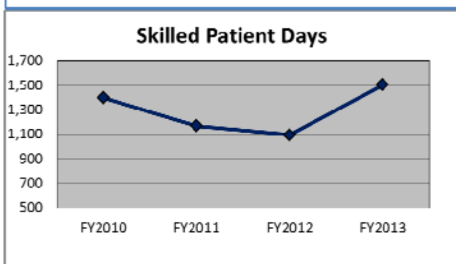
Winneshiek Medical Center's Strategic Plan is organized under six Pillars of Excellence. Notable improvements over last fiscal year for the Medical Center are organized below under their respective pillar.

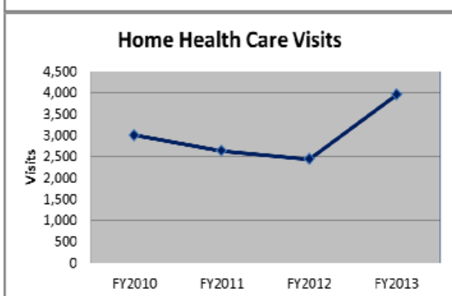
- **Health Outcomes**: Improved or maintained most quality improvement results for FY2013
- **Patient Satisfaction:** Overall patient satisfaction scores increased from 80% to 83% "top box"
- **Workforce Satisfaction:** Performed an extensive review of pay ranges for each job code and made adjustments to ensure market competitiveness
- **Operational Effectiveness Pillar:** Performed a continuous improvement event (Kaizen) in the clinic to transform work flow, which successfully gained operational efficiencies in the clinic; improved staff, provider, and patient satisfaction; and standardized processes.
- **Growth Pillar:**
    - Continued success in recruiting 6 new physicians and 3 new associate providers to the medical practice
    - Established Gynecology as a new specialty in the medical practice
    - Growth in total volumes for fiscal year 2013 from 2012 included:
        - Medical/Surgical patient days increased 11% or 214 patient days
        - Acute admissions increased 8% or 72 admissions
        - Birth admissions increased by 6% or 13 births
        - Skilled patient days increased by 37% or 409 patient days
        - Home Health Care visits increased by 62% or 1,513 visits
        - Hospice visits increased by 51% or 1,675 visits
        - Physical Therapy visits increased by 20% or 4,550 visits
- **Funding our Future:**
    - Generated net income of $1,001,247
    - Purchased new capital clinical and non-clinical equipment totaling over $1.2 million
    - Installed a new, state-of-the-art digital mammography system enhanced with features to provide a warmer, softer experience for women
    - Increased cash balances by $2.7 million

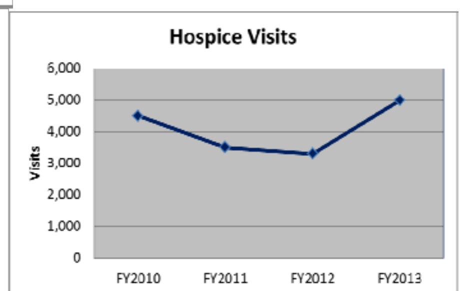


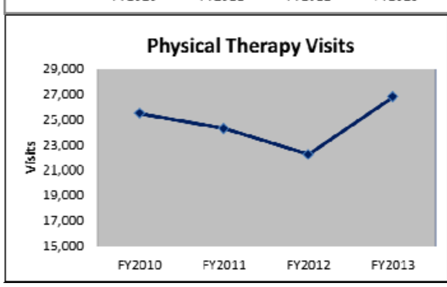












Competitive Environment

Like hospitals in many other communities, Winneshiek Medical Center exists within a competitive environment. As the county-owned hospital, people expect WMC to provide the services they rely on to care for them in their time of need, such as a 24/7 Emergency Room, Ambulance Service and Inpatient care. However, these critical service lines do not generate enough revenue to be sustainable; therefore, the Medical Center depends on more profitable services like MRI, CT scans, Mammograms and Surgical Services to make the organization profitable overall.

In Winneshiek County, key hospital-based, revenue-generating services (such as MRI diagnostic tests, CT scans, and Mammography) are duplicated in other local health facilities or, as with Surgical Services, referred out-of-county or out-of-state by certain physician groups, resulting in fewer cases and a decrease in revenue for Winneshiek Medical Center.

For every CT scan or MRI test that is not performed at WMC, the Medical Center loses out on more than $1000 in net revenue. In addition, during FY 2013, Winneshiek Medical Center experienced a 3.2% decrease in surgeries compared to FY 2012. During that time frame, Gundersen Health System surgeons performed 12.5% fewer surgeries (112 fewer cases), while Mayo Clinic Health System surgeons increased their utilization of the Winneshiek Medical Center surgical facilities and staff.

Support of the Medical Center is vital in order to continue to provide the critical access hospital services our community expects from us, such as a 24/7 Emergency Room, Ambulance Service and inpatient care – all accredited by The Joint Commission. Utilization of your local hospital-based services will help Winneshiek Medical Center maintain its current level of service for our county and area communities, and provide opportunities for continued expansion and investment in the hub of a strong local healthcare system.

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 position 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 $29,153,224 at June 30, 2013, and $27,363,676 at June 30, 2012.
- The Medical Center’s Current Assets exceeded its Current Liabilities by $9,117,922 at June 30, 2013, and $7,498,920 at June 30, 2012.
- The Medical Center’s Total Assets increased in 2013 by 6.6% or $2,648,904 primarily due to an increase in cash.
- The Medical Center’s Total Liabilities increased in 2013 by 6.7% or $859,356 and decreased in 2012 by 9.1% or $1,287,560. 2013’s increase is primarily due to an estimated third-party payer settlement of $1,010,000.

All of the current year’s revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net position. These statements measure the improved 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 position – the difference between assets and liabilities – is a way to measure financial health or financial position. Net nonoperating revenues of $740,513 and $47,788 in capital grants and contributions brought the excess of revenues over expenses, or increase in net position, to $1,789,548 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 $1,237,002 for the fiscal year ended June 30, 2013 included: diagnostic and surgical equipment; two lab analyzers; portable ultrasound machine; replacement of one ambulance unit; remount of an ambulance unit; powerload system for lifting patients to and from ambulance; Information Technology upgrades including new phone system and Meaningful Use software and hardware; plant improvements of clinic roof and hydraulic cylinder assembly for elevator; bone densitometer; and RT300 electrical stimulation bike for Rehab Services (monies donated by the SCI CAN Foundation). Assets are owned by Winneshiek Medical Center, a county public critical access hospital.

Long-Term Debt

At year-end, Winneshiek Medical Center had $7,592,564 in short-term and long-term debt. In 2013, no new debt was incurred and debt payments of $1,097,645 were made. The Medical Center's Long-Term Debt to Capitalization ratio and Debt Service Coverage ratio, key capital ratios, improved from FY2012 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 again this fiscal year due to the adjusted lower interest rate on the Series 2005 Hospital Revenue Note.

Condensed Financial Statements of Winneshiek Medical Center and its Component Unit

Balance Sheets

	June 30, 2013	June 30, 2012	June 30, 2011
Current Assets	$ 16,288,654	$ 12,699,960	$ 13,264,394
Assets Limited as to Use or Restricted	2,068,380	2,070,580	2,061,245
Capital Assets, Net	23,308,371	24,497,327	24,955,228
Other Assets	1,144,675	893,309	956,319
Total assets	$ 42,810,080	$ 40,161,176	$ 41,237,186
Current Liabilities	$ 7,170,732	$ 5,201,040	$ 5,391,258
Long-Term Liabilities	6,486,124	7,596,460	8,693,802
Total liabilities	13,656,856	12,797,500	14,085,060
Net Position			
Net investment in capital assets	15,715,807	15,807,118	15,226,867
Restricted	2,134,461	1,887,815	1,943,970
Unrestricted	11,302,956	9,668,743	9,981,289
Total net position	29,153,224	27,363,676	27,152,126
Total liabilites and net position	$ 42,810,080	$ 40,161,176	$ 41,237,186

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	2013	2012	2011
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	$ 45,321,500	$ 42,038,397	$ 41,940,401
Other operating revenues	963,187	678,526	624,576
Total Operating Revenues	46,284,687	42,716,923	42,564,977
Operating Expenses			
Salaries, wages, and employee benefits	22,066,334	19,733,064	19,258,175
Supplies and other expenses	20,847,806	20,967,015	20,023,555
Depreciation	2,369,300	2,457,090	2,433,610
Total Operating Expenses	45,283,440	43,157,169	41,715,340
Operating Income (Loss)	1,001,247	(440,246)	849,637
Nonoperating Revenues (Expenses)			
Tax revenue	435,899	436,415	435,712
Interest	(191,680)	(363,137)	(412,729)
Foundation investment income and contributions	336,980	145,436	88,844
Other	159,314	241,540	344,017
Net Nonoperating Revenues	740,513	460,254	455,844
Revenues in Excess of Expenses	1,741,760	20,008	1,305,481
Capital Grants and Contributions	47,788	191,542	123,486
Change in Net Position	1,789,548	211,550	1,428,967
Net Position Beginning of Year	27,363,676	27,152,126	25,365,054
Cumulative Effect of Prior Period Adjustment	-	-	358,105
Net Position Beginning of Year, as Restated	27,363,676	27,152,126	25,723,159
Net Position End of Year	$ 29,153,224	$ 27,363,676	$ 27,152,126

Economic and Other Factors and Next Year's Budget

The Medical Center's Board of Trustees and management considered many factors when preparing the fiscal year 2014 budget. Of primary consideration in the 2014 budget are financial challenges of the current healthcare environment. Key financial concerns are the unknown impact of health care reform, proposed changes in the critical access hospital designation, changes in Medicare and Medicaid reimbursement rates, rising bad debt, increasing operational costs for staff and supplies, funding capital and technology improvements, decreasing inpatient volumes, governmental mandates and competition in the local health care market. Management continues to monitor competitive threats and addresses them through its strategic planning process. Other concerns include how we embrace population health management and the impact of both health insurance exchanges and accountable care organizations on the Medical Center's future.

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 425 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

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents - Note 3	$ 5,699,327	$ 3,022,416
Receivables		
Patient, net of estimated uncollectibles of $1,742,000 in 2013 and $1,661,000 in 2012	8,411,833	7,295,989
Estimated third-party payor settlements	-	350,000
Succeeding year property tax	454,075	435,600
Other	333,995	420,135
Supplies	1,020,550	983,460
Prepaid expenses	368,874	192,360
Total current assets	16,288,654	12,699,960
Assets Limited as to Use or Restricted - Note 3		
Internally designated for capital improvements	1,078,594	1,076,074
Restricted for Hospice expenditures	176,350	187,340
Restricted by contributors	721,436	715,166
Restricted under bond agreement	92,000	92,000
Total assets limited as to use or restricted	2,068,380	2,070,580
Capital Assets - Note 5		
Capital assets not being depreciated	1,505,310	1,314,920
Depreciable capital assets, net of accumulated depreciation	21,803,061	23,182,407
Total capital assets, net	23,308,371	24,497,327
Other Assets		
Assets held by Foundation - Note 3	1,144,675	893,309
Total assets	$ 42,810,080	$ 40,161,176

See Notes to Financial Statements

	2013	2012
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 7	$ 1,106,440	$ 1,093,749
Accounts payable		
Trade	917,916	600,254
Related parties - Note 11	284,299	9,210
Estimated health and dental claims payable - Note 13	410,000	345,000
Estimated third-party payor settlements	1,010,000	-
Deferred revenue - contribution, net of accumulated amortization - Note 9	109,996	149,996
Accrued expenses		
Salaries and wages	828,911	726,337
Vacation	1,596,822	1,462,509
Payroll taxes and employee benefits	452,273	378,385
Deferred revenue for succeeding year property tax receivable	454,075	435,600
Total current liabilities	7,170,732	5,201,040
Long-Term Debt, Less Current Maturities - Note 7	6,486,124	7,596,460
Total liabilities	13,656,856	12,797,500
Net Position		
Net investment in capital assets	15,715,807	15,807,118
Restricted		
Expendable by contributors	897,786	902,506
Expendable under bond agreement	92,000	92,000
Expendable by Foundation - Notes 3 and 6	1,144,675	893,309
Unrestricted	11,302,956	9,668,743
Total net position	29,153,224	27,363,676
Total liabilities and net position	$ 42,810,080	$ 40,161,176

	2013	2012
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $2,861,216 in 2013 and $2,211,207 in 2012) - Note 2	$ 45,321,500	$ 42,038,397
Other operating revenues	963,187	678,526
Total Operating Revenues	46,284,687	42,716,923
Operating Expenses		
Salaries and wages	16,806,924	15,403,587
Employee benefits	5,259,410	4,329,477
Supplies and other expenses	20,847,806	20,967,015
Depreciation	2,369,300	2,457,090
Total Operating Expenses	45,283,440	43,157,169
Operating Income (Loss)	1,001,247	(440,246)
Nonoperating Revenues (Expenses)		
County tax revenue	435,899	436,415
Interest	(191,680)	(363,137)
Investment income - Note 3	12,744	10,504
Foundation		
Investment income, net - Note 3	40,500	(2,492)
Change in value in split-interest agreement - Note 4	2,998	34,215
Contributions, net of fundraising expenses	293,482	113,713
Noncapital grants and contributions	29,221	58,236
Rental property, net	173,679	207,235
Loss on sale of capital assets	(56,330)	(34,435)
Net Nonoperating Revenues	740,513	460,254
Revenues in Excess of Expenses	1,741,760	20,008
Capital Grants and Contributions	47,788	191,542
Change in Net Position	1,789,548	211,550
Net Position Beginning of Year	27,363,676	27,152,126
Net Position End of Year	$ 29,153,224	$ 27,363,676

	2013	2012
Cash Flows from Operating Activities		
Receipts of patient service revenue	$ 45,565,656	$ 43,307,592
Payments of salaries and wages	(16,570,037)	(15,227,593)
Payments of supplies and other expenses	(25,589,181)	(25,698,473)
Other receipts and payments, net	1,049,327	532,567
Net Cash provided by Operating Activities	4,455,765	2,914,093
Cash Flows from Noncapital Financing Activities		
Noncapital grants and contributions received	29,221	58,236
County tax revenue received	435,899	436,415
Net Cash provided by Noncapital Financing Activities	465,120	494,651
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(1,236,674)	(2,033,624)
Principal payments on long-term debt	(1,097,645)	(1,038,152)
Interest payments on long-term debt	(191,680)	(363,137)
Capital grants and contributions	301,270	267,756
Net Cash used for Capital and Related Financing Activities	(2,224,729)	(3,167,157)
Cash Flows from Investing Activities		
Investment income	53,244	8,012
Net cash received on rental property	173,679	207,235
(Increase) decrease in assets held by Foundation	(248,368)	97,225
Sale (purchase) of investments	2,200	(9,335)
Net Cash provided by (used for) Investing Activities	(19,245)	303,137
Net Increase in Cash and Cash Equivalents	2,676,911	544,724
Cash and Cash Equivalents at Beginning of Year	3,022,416	2,477,692
Cash and Cash Equivalents at End of Year	$ 5,699,327	$ 3,022,416

	2013	2012
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ 1,001,247	$ (440,246)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	2,369,300	2,457,090
Provision for bad debts	2,861,216	2,211,207
Changes in assets and liabilities		
Patient receivables	(3,977,060)	(925,012)
Estimated third-party payor settlements	1,360,000	(17,000)
Other receivables	86,140	(145,959)
Supplies	(37,090)	(46,537)
Prepaid expenses	(176,514)	32,459
Accounts payable - trade and related parties	592,751	(432,492)
Estimated health and dental claims payable	65,000	9,000
Accrued expenses	310,775	211,583
Net Cash provided by Operating Activities	$ 4,455,765	$ 2,914,093

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.

Reporting Entity

For financial reporting purposes, the 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. Governmental Accounting Standards Board (GASB) No. 61 requires organizations that are "closely related to, or financial integrated" with the primary government be evaluated as potential component units by the primary government. Under the provisions of GASB No. 61, Winneshiek Medical Center Foundation is included in the Medical Center's financial statements as a blended component unit. The Foundation was formed by the Medical Center to promote fundraising efforts substantially on behalf of the Medical Center. The Medical Center has no other component units which meet the Governmental Accounting Standards Board criteria.

Tax Exempt Status

The Medical Center and Foundation are organized as Iowa non-profit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Organizations are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes, as applicable. The Organizations have determined that they are not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990T) with the IRS.

The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. The Foundation 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 Foundation 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.

Basis of Presentation

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

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

Restricted net position:

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

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, 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. Payment of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency in the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances for which third-party coverage exists for part of the bill), the Medical Center records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Medical Center's process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed from June 30, 2012 to June 30, 2013. The Medical Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs from third-party payors. Management also reviews accounts to determine if classification as charity care is appropriate. The Medical Center has not significantly changed its charity care or uninsured discount policies during fiscal years 2012 or 2013.

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 position 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, 2013 and 2012.

Self-Insurance Reserves

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

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 position 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.

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.

The Medical Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated. On the basis of historical experience, a certain portion of the Medical Center’s uninsured patients will be unable or unwilling to pay for the services provided. As a result, the Medical Center records a provision for bad debts related to uninsured patients in the period the services are provided.

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. Because the Medical Center does not pursue the collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Medical Center’s charity care were $239,480 and $657,516 for the years ended June 30, 2013 and 2012, respectively. Total direct and indirect costs related to these foregone charges were $137,000 and $388,000 at June 30, 2013 and 2012, based on an average ratio of cost to gross charges.

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.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

Medicare

These incentive payments are available over the next three years. To qualify for the Medicare EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. For Medicare, once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report. The Medical Center recognizes Medicare EHR incentive payments as revenue when there is reasonable assurance that the Medical Center will comply with the conditions attached to the incentive payments.

Medicaid

The Medicaid EHR incentive payments are paid out based on state-specific legislation, and are not to exceed 50% of the entire Medicaid EHR incentive payment in any one year, and 90% of the entire Medicaid EHR incentive payment in any 2-year period. The incentives are paid over a minimum of a 3-year period and a maximum of a 6-year period. To qualify for the first Medicaid EHR incentive payment, the hospital must be in the Adopt, Implement, and Upgrade stages of the meaningful use criteria. To qualify for the second and third Medicaid EHR incentive payments, hospitals must satisfy the meaningful use criteria that are outlined within the Medicare EHR objectives. The Medicaid EHR incentive payments to hospitals for each payment year is calculated as a product of (1) an initial amount; (2) the Medicaid share; and (3) a transition factor applicable to that payment year. The Medical Center recognizes Medicaid EHR incentive payments in the year received.

EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

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.

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, 2012 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 position.

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 acute care services at cost plus one percent 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, 2011. Clinical services are paid on a cost basis or fixed fee schedule.

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 48% and 6%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2013 and 45% and 5%, respectively, for the year ended June 30, 2012. 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 net patient service revenue for the years ended June 30, 2013 and 2012 increased approximately $544,000 and $838,000, respectively, due to prior-year retroactive adjustments in excess of amounts previously estimated.

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, 2013 and 2012 follows:

	2013	2012
Total Patient Service Revenue	$ 77,708,358	$ 71,247,978
Contractual Adjustments		
Medicare	(15,857,978)	(13,722,348)
Medicaid	(2,206,890)	(2,306,647)
Blue Cross	(8,236,637)	(7,895,000)
Other	(3,224,137)	(3,074,379)
Total contractual adjustments	(29,525,642)	(26,998,374)
Net Patient Service Revenue	48,182,716	44,249,604
Provision for Bad Debts	(2,861,216)	(2,211,207)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 45,321,500	$ 42,038,397

Note 3 - Cash, Deposits and Investments

The Medical Center's deposits in banks at June 30, 2013 and 2012 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. Savings accounts classified as investments in the financial statements are presented as cash and deposits in this note.

At June 30, 2013 and 2012, the Medical Center's carrying amounts of cash, deposits and investments are as follows:

	2013	2012
Checking and Savings Accounts	$ 5,967,677	$ 3,301,756
Checking and Savings Accounts - Foundation	547,560	307,990
Money Market Accounts	1,357,858	1,352,460
Certificates of Deposit	440,129	437,895
Certificates of Deposit - Foundation	8,086	8,086
Mutual Funds - Foundation	136,029	127,231
Beneficial Interest in Remainder Trust - Foundation - Note 4	453,000	450,002
Interest Receivable	2,043	885
Total Cash, Deposits and Investments	$ 8,912,382	$ 5,986,305

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

	2013	2012
Cash and Cash Equivalents	$ 5,699,327	$ 3,022,416
Assets Limited as to Use or Restricted	2,068,380	2,070,580
Assets Held by Foundation	1,144,675	893,309
	$ 8,912,382	$ 5,986,305

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The Medical Center's 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 the Foundation, for the years ended June 30, 2013 and 2012 is summarized as follows:

	2013	2012
Investment Income (Consists Entirely of Interest Income)	$ 12,744	$ 10,504
Foundation		
Interest and dividends	7,992	9,899
Change in unrealized gains and losses, net of investment expense	32,508	(12,391)
Foundation investment income (loss)	40,500	(2,492)
	$ 53,244	$ 8,012

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 $453,000 and $450,002 at June 30, 2013and 2012 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, 2013 and 2012 was as follows:

	June 30, 2012 Balance	Additions	Deductions	Transfers	June 30, 2013 Balance
Capital Assets Not Being Depreciated:					
Land	$ 915,673	$ -	$ -	$ -	$ 915,673
Construction in progress	399,247	1,204,042	-	(1,013,652)	589,637
Total capital assets not being depreciated	1,314,920	1,204,042	-	(1,013,652)	1,505,310
Capital Assets Being Depreciated:					
Land improvements	433,356	-	-	-	433,356
Buildings and leasehold improvements	32,041,178	-	(39,972)	233,504	32,234,710
Fixed equipment	2,120,278	-	-	9,380	2,129,658
Major moveable equipment	10,853,153	32,960	(903,550)	770,768	10,753,331
Total capital assets being depreciated	45,447,965	32,960	(943,522)	1,013,652	45,551,055
Less Accumulated Depreciation for:					
Land improvements	371,374	11,412	-	-	382,786
Buildings and leasehold improvements	12,641,725	1,299,615	(39,972)	-	13,901,368
Fixed equipment	1,647,150	85,093	-	-	1,732,243
Major moveable equipment	7,605,309	971,937	(845,649)	-	7,731,597
Total accumulated depreciation	22,265,558	2,368,057	(885,621)	-	23,747,994
Total Capital Assets Being Depreciated, Net	23,182,407	(2,335,097)	(57,901)	1,013,652	21,803,061
Total Capital Assets, Net	$ 24,497,327	$ (1,131,055)	$ (57,901)	$ -	$ 23,308,371

Construction in progress at June 30, 2013 consists primarily of costs related to implementation of an electronic medical record system which is expected to be completed in 2014.

	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

Note 6 - Winneshiek Medical Center Foundation

Winneshiek Medical Center Foundation (Foundation) was established in September 18, 1984 with the general intent to solicit and manage gifts of money and/or property primarily for the benefit of Winneshiek Medical Center. The Foundation is included in the Medical Center's financial statements as a blended component unit. A summary of the Foundation's assets, liabilities, and net assets, results of operations, and changes in net assets follows:

	2013	2012
Assets, Cash and Investments	$ 1,144,675	$ 893,309
Liabilities, Accounts Payable and Accruals	$ -	$ 75,000
Net Assets	1,144,675	818,309
Total liabilities and net assets	$ 1,144,675	$ 893,309
Revenue		
Contributions	$ 311,498	$ 126,379
Investment income (loss)	40,500	(2,492)
Change in value in split-interest agreement	2,998	34,215
Total revenue	354,996	158,102
Expenses		
Distributions to Winneshiek Medical Center	85,614	208,446
Other	18,016	12,666
Total expenses	103,630	221,112
Revenue in excess of (less than) expenses	251,366	(63,010)
Net Assets, Beginning of Year	893,309	956,319
Net Assets, End of Year	$ 1,144,675	$ 893,309

Note 7 - Long-Term Debt

A summary of changes in the Medical Center's long-term debt for 2013 and 2012 follows:

	June 30, 2012 Balance	Additions	Deductions	June 30, 2013 Balance	Amounts Due Within One Year
Revenue Note, Series 2005	$ 5,662,921	$ -	$ (695,113)	$ 4,967,808	$ 686,546
Revenue Note, Series 2008	2,126,143	-	(88,335)	2,037,808	92,392
Rural Economic Development Loan	217,500	-	(45,000)	172,500	45,000
Equipment Loan	225,037	-	(64,296)	160,741	64,296
Capital Lease Obligation - Note 8	458,608	-	(204,901)	253,707	218,206
Total Long-Term Debt	$ 8,690,209	$ -	$ (1,097,645)	7,592,564	$ 1,106,440
Less Current Maturities				(1,106,440)	
Long-Term Debt, Less Current Maturities				$ 6,486,124	

	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
Capital Lease Obligation	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	

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
2014	$ 1,106,440	$ 168,885	$ 1,275,325
2015	948,876	145,180	1,094,056
2016	896,224	129,931	1,026,155
2017	872,190	114,316	986,506
2018	850,557	98,449	949,006
2019-2023	2,020,778	297,140	2,317,918
2024-2028	793,524	117,492	911,016
2029	103,975	1,557	105,532
	$ 7,592,564	$ 1,072,950	$ 8,665,514

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%. Effective May 2012, the rate was 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, 2013 is $4,967,808.

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, 2013 is $2,037,808.

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, 2013 is $172,500.

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, 2013 is $160,741.

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 8 - 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, 2013 and 2012 for all operating leases was $346,584 and $261,275, respectively. The capitalized leased asset consists of:

	2013	2012
Major Movable Equipment	$ 699,001	$ 699,001
Less Accumulated Amortization	(393,188)	(218,438)
	$ 305,813	$ 480,563

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

Year Ending June 30,	Capital Leases	Operating Leases
2014	$ 227,393	$ 193,538
2015	35,753	126,303
2016	-	105,312
Total minimum lease payments	263,146	$ 425,153
Less interest	(9,439)	
Present value of minimum lease payments - Note 7	$ 253,707	

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, 2013 and 2012 is $109,996 and $149,996, 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 5.78% of their annual covered salary, and the Medical Center is required to contribute 8.67% of annual covered payroll for the year ended June 30, 2013. Plan members were required to contribute 5.38% and 4.50% of their annual covered salary, and the Medical Center was required to contribute 8.07% and 6.95% of annual covered payroll for the years ended June 30, 2012 and 2011, respectively. Contribution requirements are established by state statute. The Medical Center’s contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were $1,466,677, $1,229,627, and $1,067,875, 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, 2013 and 2012 were $822,596 and $1,012,002, respectively. As of June 30, 2013 and 2012 Winneshiek Medical Center's records reflect an amount due to MFMER of $74,073 and $60,568, 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 $8,233,931 and $8,276,643 for the years ended June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, Winneshiek Medical Center's records reflect an amount due from the Clinic of $11,609 and $140,361, respectively, for the various services related to this agreement.

Note 12 - Contingencies

Malpractice Insurance

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

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, 2013 and 2012 totals $410,000 and $345,000, 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 at June 30, 2013 and 2012 of $60,000 and $50,000, respectively, per participant and an aggregate loss limit at June 30, 2013 and 2012 of $2,747,319 and $2,774,199.

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 - 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, 2013 and 2012 was as follows:

	2013	2012
Medicare	34%	30%
Medicaid	5%	7%
Blue Cross	16%	19%
Commercial Insurance	16%	16%
Self Pay	29%	28%
	100%	100%

Note 15 - Electronic Health Record Incentive Payments

During the year ended June 30, 2013, the Medical Center recognized revenue of $388,308 related to electronic health record (EHR) incentive payments from Medicaid and Medicare. These incentive payments are included as other operating revenues in the accompanying financial statements. Of the $388,308, $145,600 is related to Medicaid EHR incentive payments for the Medical Center and $242,708 is related to Medicare EHR incentive payments for the Medical Center's physicians. The Medical Center's Medicaid incentive payment represents 40% of the potential benefit to be received from the State of Iowa Medicaid program and is a result of the Medical Center meeting the Adopt, Implement, and Upgrade stages of the Medicaid meaningful use criteria. The Medical Center's physicians Medicare incentive payment represents the physicians meeting stage one of the Medicare meaningful use criteria. The Medical Center will begin their meaningful use attestation in July 2013 for the Medicare portion.

Note 16 - Subsequent Events

The Medical Center has evaluated subsequent events through October 24, 2013, the date which the financial statements were available to be issued.

Required Supplementary Information
June 30, 2013

Winneshiek
MEDICAL CENTER

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Adopted Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	$ 435,899	$ -	$ 435,899	$ 435,600	$ 299
Estimated Other Revenues/ Receipts	46,577,403	346,626	46,924,029	48,021,671	(1,097,642)
	47,013,302	346,626	47,359,928	48,457,271	(1,097,343)
Expenses/Disbursements	45,475,120	(789,903)	44,685,217	47,981,859	3,296,642
Net	1,538,182	1,136,529	2,674,711	475,412	$ 2,199,299
Balance Beginning of Year	26,470,367	(21,377,371)	5,092,996	3,724,935	
Balance End of Year	$ 28,008,549	$ (20,240,842)	$ 7,767,707	$ 4,200,347	

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, 2013.

For the year ended June 30, 2013, the Medical Center's expenditures did not exceed the amount budgeted.

Other Supplementary Information
June 30, 2013 and 2012

Winneshiek
MEDICAL CENTER

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, 2013 and 2012, and our report thereon dated October 24, 2013, which expressed an unmodified opinion on those financial statements, appears on pages 2 and 3. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of combining balance sheet, combining statement of revenues, expenses and changes in net position, net patient service revenue, other operating revenues, operating expenses, and supplies are presented for the purposes of additional analysis and are not a required part of the 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 audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Eide Bailly LLP

Dubuque, Iowa
October 24, 2013

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	Winneshiek Medical Center	Winneshiek Medical Center Foundation	Eliminations	Combined
Assets				
Current Assets				
Cash and cash equivalents	$ 5,699,327	$ -	$ -	$ 5,699,327
Receivables				
Patient, net of estimated uncollectibles	8,411,833	-	-	8,411,833
Succeeding year property tax	454,075	-	-	454,075
Other	333,995	-	-	333,995
Supplies	1,020,550	-	-	1,020,550
Prepaid expenses	368,874	-	-	368,874
Total current assets	16,288,654	-	-	16,288,654
Assets Limited as to Use or Restricted				
Internally designated for capital improvements	1,078,594	-	-	1,078,594
Restricted for Hospice expenditures	176,350	-	-	176,350
Restricted by contributors	721,436	-	-	721,436
Restricted under bond agreement	92,000	-	-	92,000
Total assets limited as to use or restricted	2,068,380	-	-	2,068,380
Capital Assets				
Capital assets not being depreciated	1,505,310	-	-	1,505,310
Depreciable capital assets, net of accumulated depreciation	21,803,061	-	-	21,803,061
Total capital assets, net	23,308,371	-	-	23,308,371
Other Assets				
Assets held by Foundation	-	1,144,675	-	1,144,675
Total assets	$ 41,665,405	$ 1,144,675	$ -	$ 42,810,080

Liabilities and Net Position/Assets	Winneshiek Medical Center	Winneshiek Medical Center Foundation	Eliminations	Combined
Current Liabilities				
Current maturities of long-term debt	$ 1,106,440	$ -	$ -	$ 1,106,440
Accounts payable				
Trade	917,916	-	-	917,916
Related parties	284,299	-	-	284,299
Estimated health and dental claims payable	410,000	-	-	410,000
Estimated third-party payor settlements	1,010,000	-	-	1,010,000
Deferred revenue - contribution, net of accumulated amortization	109,996	-	-	109,996
Accrued expenses				
Salaries and wages	828,911	-	-	828,911
Vacation	1,596,822	-	-	1,596,822
Payroll taxes and employee benefits	452,273	-	-	452,273
Deferred revenue for succeeding year property tax receivable	454,075	-	-	454,075
Total current liabilities	7,170,732	-	-	7,170,732
Long-Term Debt, Less Current Maturities	6,486,124	-	-	6,486,124
Total liabilities	13,656,856	-	-	13,656,856
Net Position/Assets				
Net investment in capital assets	15,715,807	-	-	15,715,807
Restricted				
Expendable by contributors	897,786	-	-	897,786
Expendable under bond agreement	92,000	-	-	92,000
Expendable by Foundation	-	1,144,675	-	1,144,675
Unrestricted	11,302,956	-	-	11,302,956
Total net position/assets	28,008,549	1,144,675	-	29,153,224
Total liabilities and net position/assets	$ 41,665,405	$ 1,144,675	$ -	$ 42,810,080

	Winneshiek Medical Center	Winneshiek Medical Center Foundation	Eliminations	Combined
Operating Revenues				
Net patient service revenue (net of provision for bad debts)	$ 45,321,500	$ -	$ -	$ 45,321,500
Other operating revenues	963,187	-	-	963,187
Total Operating Revenues	46,284,687	-	-	46,284,687
Operating Expenses				
Salaries and wages	16,806,924	-	-	16,806,924
Employee benefits	5,259,410	-	-	5,259,410
Supplies and other expenses	20,847,806	-	-	20,847,806
Depreciation	2,369,300	-	-	2,369,300
Total Operating Expenses	45,283,440	-	-	45,283,440
Operating Income	1,001,247	-	-	1,001,247
Nonoperating Revenues (Expenses)				
County tax revenue	435,899	-	-	435,899
Interest	(191,680)	-	-	(191,680)
Investment income	12,744	-	-	12,744
Foundation				
Investment income, net	-	40,500	-	40,500
Change in value in split-interest agreement	-	2,998	-	2,998
Contributions, net of fundraising expenses	-	207,868	85,614	293,482
Noncapital grants and contributions	29,221	-	-	29,221
Rental property, net	173,679	-	-	173,679
Loss on sale of capital assets	(56,330)	-	-	(56,330)
Net Nonoperating Revenues	403,533	251,366	85,614	740,513
Revenues in Excess of Expenses	1,404,780	251,366	85,614	1,741,760
Capital Grants and Contributions	133,402	-	(85,614)	47,788
Change in Net Position/Assets	1,538,182	251,366	-	1,789,548
Net Position/Assets Beginning of Year	26,470,367	893,309	-	27,363,676
Net Position/Assets End of Year	$ 28,008,549	$ 1,144,675	$ -	$ 29,153,224

	Total 2013	Total 2012
Patient Care Services		
Adults and pediatrics	$ 2,637,376	$ 2,183,875
Swing bed	702,017	471,157
Nursery	377,820	307,878
Subtotal	3,717,213	2,962,910
Other Professional Services		
Operating room	8,221,772	7,489,986
Labor and delivery room	411,260	461,567
Anesthesiology	1,748,802	1,824,649
Radiology	9,609,186	9,699,756
Laboratory	8,542,972	8,075,687
Respiratory therapy	1,439,699	669,630
Physical therapy	2,576,788	2,043,457
Occupational therapy	995,199	908,414
Occupational health	336,381	196,598
Speech therapy	169,766	171,229
Electrocardiology	1,078,385	1,019,835
Central supply	3,773,710	3,985,363
Implantable supplies	1,271,559	1,399,855
Pharmacy	10,647,738	9,195,687
Outpatient clinic	15,382,682	14,571,642
Emergency room	2,794,248	2,487,687
Observation room	516,786	594,764
Ambulance	1,350,482	1,276,861
Home health	492,332	333,534
Durable medical equipment	490,550	448,393
Emergency room physician fees	1,474,135	1,481,905
Hospice	856,305	541,902
Diabetic education	49,888	64,183
Subtotal	74,230,625	68,942,584
Total	77,947,838	71,905,494
Charity care	(239,480)	(657,516)
Total patient service revenue	$ 77,708,358	$ 71,247,978

Inpatient		Outpatient	
2013	2012	2013	2012
$ 2,596,473	$ 2,178,359	$ 40,903	$ 5,516
702,017	471,157	-	-
369,036	306,160	8,784	1,718
3,667,526	2,955,676	49,687	7,234
997,449	933,551	7,224,323	6,556,435
382,554	381,521	28,706	80,046
403,866	406,813	1,344,936	1,417,836
725,937	642,090	8,883,249	9,057,666
1,105,898	977,757	7,437,074	7,097,930
964,626	243,488	475,073	426,142
545,789	408,257	2,030,999	1,635,200
316,457	284,665	678,742	623,749
-	-	336,381	196,598
39,076	23,921	130,690	147,308
186,301	131,616	892,084	888,219
895,043	988,609	2,878,667	2,996,754
579,766	690,007	691,793	709,848
4,404,173	3,298,094	6,243,565	5,897,593
-	-	15,382,682	14,571,642
112,240	81,315	2,682,008	2,406,372
-	-	516,786	594,764
48,117	11,951	1,302,365	1,264,910
-	-	492,332	333,534
-	-	490,550	448,393
47,144	31,308	1,426,991	1,450,597
759,782	509,767	96,523	32,135
-	-	49,888	64,183
12,514,218	10,044,730	61,716,407	58,897,854
$ 16,181,744	$ 13,000,406	$ 61,766,094	$ 58,905,088

	Total 2013	Total 2012
Total Patient Service Revenue	$ 77,708,358	$ 71,247,978
Contractual Adjustments		
Medicare	(15,857,978)	(13,722,348)
Medicaid	(2,206,890)	(2,306,647)
Blue Cross	(8,236,637)	(7,895,000)
Other	(3,224,137)	(3,074,379)
Total contractual adjustments	(29,525,642)	(26,998,374)
Net Patient Service Revenue	48,182,716	44,249,604
Provision for Bad Debts	(2,861,216)	(2,211,207)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 45,321,500	$ 42,038,397

	2013	2012
Other Operating Revenues		
Electronic Medical Record incentive payment	$ 388,308	$ -
Contract fees and services		
Physical therapy	135,079	154,695
Occupational therapy	92,274	127,941
Speech therapy	21,053	9,083
Dietary	17,568	16,991
Employee meals	102,061	99,366
Wellness services	51,820	70,124
Meals on Wheels and guest meals	27,770	24,148
Medical records transcripts	4,189	4,095
Vending services	394	389
Other	122,671	171,694
Total Other Operating Revenues	$ 963,187	$ 678,526

	2013	2012
Nursing Administration		
Salaries and wages	$ 74,745	$ 81,814
Supplies and other expenses	182,077	177,718
	256,822	259,532
Adults and Pediatrics		
Salaries and wages	1,824,728	1,677,365
Supplies and other expenses	352,555	374,572
	2,177,283	2,051,937
Nursery		
Salaries and wages	112,122	114,102
Supplies and other expenses	13,249	3,289
	125,371	117,391
Operating Room		
Salaries and wages	1,133,074	1,081,078
Supplies and other expenses	559,430	621,267
	1,692,504	1,702,345
Labor and Delivery Room		
Salaries and wages	77,001	72,857
Supplies and other expenses	5,326	4,688
	82,327	77,545
Anesthesiology		
Salaries and wages	882,874	391,643
Supplies and other expenses	194,363	859,142
	1,077,237	1,250,785
Radiology		
Salaries and wages	729,054	767,249
Supplies and other expenses	1,965,911	1,894,068
	2,694,965	2,661,317
Laboratory		
Salaries and wages	779,328	830,352
Supplies and other expenses	1,063,252	1,166,697
	1,842,580	1,997,049
Respiratory Therapy		
Salaries and wages	163,466	151,382
Supplies and other expenses	106,950	112,007
	270,416	263,389

	2013	2012
Physical Therapy		
Salaries and wages	$ 1,127,724	$ 997,390
Supplies and other expenses	142,216	147,201
	1,269,940	1,144,591
Occupational Therapy		
Salaries and wages	452,837	434,193
Supplies and other expenses	29,737	36,195
	482,574	470,388
Speech Therapy		
Salaries and wages	103,654	114,537
Supplies and other expenses	8,002	12,097
	111,656	126,634
Comprehensive Outpatient Rehab Facility		
Salaries and wages	16,984	17,298
Supplies and other expenses	19,714	16,587
	36,698	33,885
Electrocardiology		
Salaries and wages	53,715	44,634
Supplies and other expenses	131,008	128,082
	184,723	172,716
Central Supply		
Salaries and wages	40,649	37,620
Supplies and other expenses	572,347	697,626
	612,996	735,246
Implantable Supplies		
Supplies and other expenses	563,572	654,448
Pharmacy		
Salaries and wages	271,252	243,718
Supplies and other expenses	1,987,205	1,727,394
	2,258,457	1,971,112
Clinic		
Salaries and wages	2,008,301	1,778,959
Supplies and other expenses	7,228,556	6,374,258
	9,236,857	8,153,217
Mabel Clinic		
Salaries and wages	35,909	24,818
Supplies and other expenses	26,014	21,246
	61,923	46,064

	2013	2012
Materials Management		
Salaries and wages	$ 108,517	$ 108,978
Supplies and other expenses	26,860	21,200
	135,377	130,178
Emergency Room		
Salaries and wages	1,068,465	999,767
Supplies and other expenses	1,695,571	1,668,437
	2,764,036	2,668,204
Ambulance		
Salaries and wages	385,589	396,172
Supplies and other expenses	82,389	77,656
	467,978	473,828
Home Health		
Salaries and wages	245,185	217,159
Supplies and other expenses	45,994	32,241
	291,179	249,400
Durable Medical Equipment		
Salaries and wages	59,042	52,693
Supplies and other expenses	111,332	117,635
	170,374	170,328
Hospice		
Salaries and wages	215,100	181,361
Supplies and other expenses	54,475	50,900
	269,575	232,261
Occupational Health		
Salaries and wages	171,608	113,292
Supplies and other expenses	43,591	37,933
	215,199	151,225
Diabetic Education		
Salaries and wages	80,481	72,946
Supplies and other expenses	4,127	6,442
	84,608	79,388
Medical Records		
Salaries and wages	865,935	844,500
Supplies and other expenses	258,668	280,351
	1,124,603	1,124,851

	2013	2012
Dietary		
Salaries and wages	$ 425,812	$ 403,900
Supplies and other expenses	-	9,934
	425,812	413,834
Operation of Plant		
Salaries and wages	317,120	308,144
Supplies and other expenses	588,194	593,999
	905,314	902,143
Foundation		
Salaries and wages	15,529	14,339
Supplies and other expenses	2,628	1,426
	18,157	15,765
Community Relations		
Salaries and wages	120,612	115,139
Supplies and other expenses	69,650	39,109
	190,262	154,248
Housekeeping		
Salaries and wages	435,090	424,319
Supplies and other expenses	79,733	62,472
	514,823	486,791
Laundry and Linen		
Salaries and wages	29,083	30,322
Supplies and other expenses	103,808	90,507
	132,891	120,829
Administrative, Financial and General Services		
Salaries and wages	2,376,339	2,259,547
Supplies and other expenses	2,529,302	2,848,191
	4,905,641	5,107,738
Unassigned Expenses		
Depreciation	2,369,300	2,457,090
Employee benefits	5,259,410	4,329,477
	7,628,710	6,786,567
Total Operating Expenses	$ 45,283,440	$ 43,157,169

Analysis of Aging

	2013		2012	
Days Since Discharge	Amount	Percent to Total	Amount	Percent to Total
30 Days or Less	$ 6,353,368	47.11%	$ 5,188,805	41.38%
31 to 60 Days	1,874,297	13.90%	1,764,251	14.07%
61 to 90 Days	1,145,340	8.49%	870,030	6.94%
91 Days and Over	4,114,016	30.50%	4,715,468	37.61%
	13,487,021	100.00%	12,538,554	100.00%
Less: Allowance for Doubtful Accounts	1,741,582		1,661,465	
Allowance for Contractual Adjustments	3,333,606		3,581,100	
	$ 8,411,833		$ 7,295,989	
Net Patient Service Revenue Per Calendar Day	$ 124,168		$ 115,174	
Days of Net Patient Service Revenue in Net Accounts Receivable at Year End	68		63	

	2013	2012
Supplies		
Surgery	$ 528,672	$ 518,884
Pharmacy	406,351	373,499
Central supply	74,346	79,401
Dietary	11,181	11,676
Total Supplies	$ 1,020,550	$ 983,460

Insurer	Coverage Type	Effective Dates	Coverage Amount
Farm Bureau	Worker's compensation	April 2013 to April 2014	$500,000/$500,000/ $500,000
PIC of Wisconsin	Commercial general liability	April 2013 to April 2014	$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 2013 to April 2014	$67,023,755
	Business income and expense coverage		$34,336,099
	Crime 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 2013	$100,000

	2013	2012
Patient Days		
Acute	2,741	2,498
Swing-bed	1,505	1,096
Newborn	502	482
Totals	4,748	4,076
Discharges		
Acute	983	912
Swing-bed	147	136
Totals	1,130	1,048
Average Length of Stay, Acute	2.79	2.74
Beds	25	25
Occupancy Percentage		
Acute, based on 25 beds	30.0%	27.4%
Swing-bed, based on 25 beds	16.5%	12.0%
Outpatient Visits	60,371	58,041
Clinic Visits	39,188	40,536

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Winneshiek Medical Center (Medical Center) as of and for the year ended June 30, 2013 and its component unit, Winneshiek Medical Center Foundation, and the related notes to the financial statements and have issued our report thereon dated October 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses, that we consider to be significant deficiencies. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items I-A-13 and I-B-13 to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance which is described in Part II of the accompanying Schedule of Findings and Responses.

Medical Center's Responses to Findings

The Medical Center's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Medical Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Dubuque, Iowa
October 24, 2013

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

2013-A Segregation of Duties

Criteria: An effective system of internal control depends on an adequate segregation of duties with respect to the execution and recording of transactions, as well as the custody of an organization's assets. Accordingly, an effective system of internal control will be designed such that these functions are performed by different employees, so that no one individual handles a transaction from its inception to its completion.

Condition: Certain employees perform duties that are incompatible.

Cause: The 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: The lack of segregation of duties increases the risk of fraud related to misappropriation of assets, financial statement misstatement, or both. 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. It is the responsibility of management and those charged with governance to determine whether to accept the degree of risk associated with the condition because of cost or other considerations.

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.

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

2013-B Preparation of Financial Statements

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

Condition – Winneshiek Medical Center does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. In conjunction with completion of our audit, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause – The outsourcing of these services is not unusual in an organization of your size. We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures; in accordance with GAAP can be considered costly and ineffective.

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.

Recommendation – It is the responsibility of the Medical Center’s management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the 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.

Part II: Other Findings Related to Required Statutory Reporting:

2013-IA-A **Certified Budget:** Disbursements during the year ended June 30, 2013 did not exceed the amount budgeted.

2013-IA-B **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.

2013-IA-C **Travel Expense:** No expenditures of Winneshiek Medical Center funds for travel expenses of spouses of Winneshiek Medical Center officials and/or employees were noted.

2013-IA-D **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	$ 15,515
Spouse of Employee is Owner of Business	Pharmacy services/supplies	$ 16,477
Father of Employee is Owner of Business	Ambulance repair	$ 8,286
Spouse of Employee is Owner of Business	Ambulance repair	$ 206
Daughter of Employee is Owner of Business	Housing rental	$ 2,000
Spouse of Employee is Owner of Business	Snow removal	$ 10,650

2013-IA-E **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.

Part II: Other Findings Related to Required Statutory Reporting: (continued)

2013-IA-F **Deposits and Investments:** The Medical Center exceeded limits within its depository resolution at certain times during the year ended June 30, 2013.

Recommendation – It is recommended that the Medical Center monitor deposits at each bank to ensure deposits do not exceed the amount allowed by the current depository resolution. We also recommend evaluating the adequacy of the current maximum deposit amounts based on the existing cash and deposit balances.

Response – We will monitor cash balances and assess the adequacy of maximum depository amounts.

2013-IA-G **Publication of Bills Allowed and Salaries:** The Medical Center is organized under Chapter 347A and is not required to follow this section of the Iowa Code.

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Independent Auditor's Report on Debt Agreement Covenants

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited, 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, the financial statements of Winneshiek Medical Center (Medical Center) as of and for the year ended June 30, 2013 and its component unit, Winneshiek Medical Center Foundation, and the related notes to the financial statements and have issued our report thereon dated October 24, 2013.

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. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Medical Center's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Indentures, insofar as they relate to accounting matters.

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 24, 2013

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October 24, 2013

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the financial statements of Winneshiek Medical Center (Medical Center) for the year ended June 30, 2013, and have issued our report thereon dated October 24, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 14, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Medical Center are described in Note 1 to the financial statements. No new significant accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Medical Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> *Collectibility of Patient Receivables* – Management's estimate of the allowance for contractual adjustments and doubtful accounts on patient receivables is based on historical loss levels and an analysis of the estimated collections of individual accounts.
>
> *Estimated Third-party Payor Settlements* – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.
>
> *Self-Funded Health Insurance Liability* – Management's estimate of self-funded health insurance liability is based on the timing and amounts of historical payments and a review of claims paid subsequent to year-end.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

> The disclosure of the Medical Center's long-term debt in Note 7 to the financial statements discloses required debt covenants which could present risks to the Medical Center if the covenants are not met.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following misstatements were detected as a result of our audit procedures and have been corrected by management. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

	Increase (Decrease) to Net Position
To adjust estimated third-party settlements	$ (90,000)
To adjust estimated health and dental claims payable	57,000
Other	(9,000)

The net effect of the adjustments was to decrease net position by ($42,000).

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 24, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

Supplementary Information

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

New Accounting Pronouncements

Newly Implemented Standards

During the year ended June 30, 2013, the Medical Center implemented the following new accounting standards:

> Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity:* Changes under Statement No. 61 include an increased emphasis on financial relationships between primary governments and other organizations, clarification of the requirements to blend component units, and clarification of reporting equity interests in legally separate organizations. The adoption of this Statement did not have a material impact on the financial statements.
>
> GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements:* Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*; however, the adoption of this Statement did not have a material impact on the financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position:* Statement No. 63 amends Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The adoption of this Statement did not have a material impact on the financial statements.

Upcoming Accounting Pronouncements

We recommend that the Medical Center review the following upcoming statements and evaluate the potential impact of these statements on the financial statements when implemented.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*: Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 is effective for financial statements for periods beginning after December 15, 2012, with early application encouraged.

GASB Statement No. 67, *Financial Reporting for Pension Plans:* Statement No. 67 revises existing guidance for the financial reports of most pension plans and Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Among other provisions, Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement calls for immediate recognition of more pension expense than is currently required. The provisions in Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

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

Sincerely,

EIDE BAILLY LLP

Eide Bailly LLP

Dubuque, Iowa

xc: Ms. Gretchen Dahlen