



Financial Statements  
June 30, 2014 and 2013



**Winneshiek**  
MEDICAL CENTER

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Winneshiek Medical Center  
Board of Trustees and Medical Center Officials

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| Name                            | Title                                | Term Expires |
|---------------------------------|--------------------------------------|--------------|
| <u>Board of Trustees</u>        |                                      |              |
| Rick Burras                     | Chairman                             | 2014         |
| Roger Huinker                   | Vice-Chairman                        | 2016         |
| Ben Wyatt                       | Secretary-Treasurer                  | 2014         |
| Karl Jacobsen                   | Member                               | 2018         |
| Steve Hildebrand                | Member                               | 2018         |
| Clark Goltz                     | Member                               | 2014         |
| Sherry Gribble                  | Member                               | 2016         |
| <u>Medical Center Officials</u> |                                      |              |
| Lisa Radtke                     | Interim Chief Administrative Officer |              |
| Robert Flinchbaugh, D.O.        | Chief Medical Officer                |              |
| Linda Klimesh                   | Chief Nursing Officer                |              |
| Lynn Luloff                     | Chief Financial Officer              |              |
| David Rooney                    | Clinic Administrator                 |              |



## **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, 2014 and 2013, 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.

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, 2014 and 2013, and the results of its operations, changes in net position, and cash flows for the years then ended in accordance 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 10 and the Budgetary Comparison Information on pages 37 and 38 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 September 18, 2014 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.



Dubuque, Iowa  
September 18, 2014

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, 2014, 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 2014**

For the fiscal year 2014, Winneshiek Medical Center increased its net position by \$1,508,096. With an 8.3% increase in Total Operating Revenues from FY2014, WMC was able to create an operating gain of \$786,656 or an operating margin of 1.6%.

Total Operating Revenues of \$50.1 million for the fiscal year included EHR incentive monies received from Medicare and Medicaid of \$746,690. A 13% rate of growth was experienced in outpatient service revenues when compared to FY2013. Total patient service revenue generated in an outpatient setting increased from 79% of total revenue in 2013 to 81% in 2014. That growth was facilitated by an increase in providers and the expansion of outreach family practice clinics during the fiscal year.

Total Operating Expenses of \$49.3 million for the fiscal year were 9.09% higher than last fiscal year, but came in just under budget. Management has challenged the organization to balance the growth in operating expenses with increased net revenues for long term financial sustainability this coming fiscal year. LEAN concepts are being utilized in gaining operational efficiencies in the delivery of healthcare.

Cash flow remained stable during the year. Capital improvements of \$1.8 million and debt payments of \$1.1 million were paid for with cash generated from operations. There was no change in WMC's county property tax subsidy rate from FY2013. No new debt was incurred during the fiscal year. Capital ratios improved accordingly compared to FY2013.

### **Organization Highlights**

2014 marked 100 years of Winneshiek Medical Center serving the healthcare needs of the region. A number of events and celebrations occurred during the year to honor the founders of the Medical Center and recognize the contributions of the communities served.

Winneshiek Medical Center was named a 2014 Top 100 Critical Access Hospital by iVantage Health Analytics, a healthcare business intelligence and technology company. This award is based on an aggregate of hospital-specific data for 66 performance indicator variables, which include quality, outcomes, patient perspective, affordability, population risk and efficiency.

Winneshiek Medical Center's Home Health Department was recognized as one of the top 25% Home Health agencies in the United States in a survey released by OCS HomeCare, a National Research Corporation Company. This recognition was based on performance measures including: quality of care, quality improvement, patient experience, process measure implementation and financial management.

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 FY2014
    - Exceeded our goal on diabetes measures
    - Readmissions rate decreased below our target goal by 20%
- **Patient Satisfaction:**
  - Met or exceeded the Avatar national Top Box average of 80% for overall patient satisfaction and inpatient medical surgical care
  - Emergency Department and Obstetrics Department far exceeded the Avatar national Top Box average for patient satisfaction. These departments received Mayo Clinic Health System Service Excellence awards for being above the Top Box 90<sup>th</sup> percentile compiled from Avatar patient survey data
  - Winneshiek Medical Center received the Service Excellence Award in the HCAHPS (Hospital Consumer Assessment of Healthcare Providers and Systems) domain of Communication about Medications. Our facility was in the top 10% of hospitals nationally
- **Workforce Satisfaction:**
  - In October 2013, staff completed a satisfaction survey. Overall staff satisfaction went up significantly by 17 points from the 2011 survey
- **Operational Effectiveness Pillar:**
  - Achieved reaccreditation from The Joint Commission
  - Added a Pyxis medication delivery machine in the inpatient unit
  - Senior and departmental leadership completed training in Lean Management Systems. Successful deployment of Lean Management Systems facilitated operational efficiencies and process improvement by:
    - Reducing the defect rate of surgical cancellations and delays, and increasing efficiency of surgical coordinator
- **Growth Pillar:**
  - Successfully recruited six new physicians and one new associate provider to the medical practice
  - Opened a new primary care and rehabilitation outreach clinic in Ossian, Iowa in March 2014
  - Expanded hours of operation for primary care outreach clinic in Mabel, Minnesota, which increased volume of clinic visits by 400%
  - Expanded occupational health services to regional employers
  - Established a gynecology outreach practice through collaboration with the Mayo Clinic Health System Prairie du Chien practice
  - Provided medical directors to local nursing homes
  - Established an agreement with local educational institution of higher learning to provide student health services
  - Established an outreach agreement to provide surgical podiatry services at Mayo Clinic Health System Franciscan Healthcare
  - Growth in total volumes for fiscal year 2014 from 2013 included:
    - Surgical visits increased 3%
    - Skilled patient days increased by 2%
    - Home Health Care visits increased by 12%
    - Same Day Services visits increased by 17%
    - Emergency Department visits increased by 5%
    - Urgent Care visits increased 2%
    - Laboratory tests increased 28%

- Ultrasound procedures increased 8%
  - Radiology procedures increased 2%
  - CT scans performed increased 7%
  - MRI procedures increased 10%
  - Outpatient Occupational Therapy visits increased 22%
  - Clinic visits increased 14%
- **Funding our Future:**
- Generated net income of \$786,656
  - Purchased new capital clinical and non-clinical equipment totaling over \$1.8 million
  - Days of Net Patient Service Revenue in Net Accounts Receivable decreased three days
  - Increased Current Ratio from 2.47 to 2.84
  - Meaningful Use attestation for Stage 1 for Clinic and Hospital
  - Implemented patient insurance verification process and collection of co-pays at time of service
  - Became a CMS Certified Application Counselor Organization
  - Expanded financial assistance policy

## **Competitive Environment**

Like hospitals in many other communities, Winneshiek Medical Center exists within a competitive environment. As the county-owned hospital, people expect Winneshiek Medical Center to provide the services they rely on to care for them in their time of need, such as a 24/7 emergency department, ambulance service and inpatient care—all accredited by The Joint Commission. However, these critical service lines do not always generate enough revenue to be self-sustaining; therefore, the Medical Center depends on patient utilization of other outpatient services such as imaging services, laboratory services, rehabilitation and surgical services to maintain financial stability.

Through Winneshiek Medical Center's relationship with Mayo Clinic Health System, Winneshiek Medical Center is fortunate to be able to recruit full-time physicians in primary care and multi-specialties to serve the patients of Northeast Iowa and Southeast Minnesota. This integrated practice model positions Winneshiek Medical Center to be the leading healthcare provider in the region for another one hundred years. It also strengthens Winneshiek Medical Center for adapting to upcoming changes in the delivery of healthcare. This collaboration provides Winneshiek Medical Center with professional resources, economies of scale in purchases, and the ability to excel in providing quality patient care.

Support of the Medical Center is vital in order to continue to provide the critical access hospital services our community expects from us. Utilization of local hospital-based services will help Winneshiek Medical Center sustain its current level of service for Northeast Iowa and Southeast Minnesota, 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
- \$30,661,320 at June 30, 2014, \$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 \$10,709,019 at June 30, 2014, \$9,681,993 at June 30, 2013, and \$7,498,920 at June 30, 2012.
- The Medical Center's Total Assets slightly decreased in 2014 primarily due to a decrease in the purchase of depreciable capital assets. They increased in 2013 by 6.6% primarily due to an increase in cash and decreased in 2012 by 2.6% primarily due to a decrease in net patient accounts receivable and net depreciable capital assets.
- The Medical Center's Total Liabilities and Deferred Inflows of Resources decreased in 2014 by 12.9% or \$1,763,795, increased in 2013 by 6.7% or \$859,356, and decreased in 2012 by 9.1% or \$1,287,560. The 2014 decrease is attributable to an \$848,682 decrease in accounts payable balances and payment made on current debt obligations of \$1.1 million. 2013's increase is primarily due to an estimated third-party payor settlement of \$1,010,000. 2012's decrease was due to payments made on long-term debt.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net 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 \$610,729 and \$110,711 in capital grants and contributions brought the excess of revenues over expenses, or increase in net position, to \$1,508,096 for the 2014 fiscal year. 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 2013 fiscal year. Net nonoperating revenues of \$460,254 and \$191,542 in capital grants and contributions brought the excess of revenues over expenses, or increase in net position, to \$211,550 for the 2012 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 \$1,835,550 for the fiscal year ended June 30, 2014 included:

- Information Technology upgrades including Meaningful Use software and hardware
- Engineering updates replacing existing mechanical equipment, completing upgrades to fire alarm and sprinkler system, and remodeling projects to meet patient care needs
- Clinical equipment including a C-Arm, anesthesia machine, microscope, ultrasonic cleaner, video tower for scope, pulmonary function testing equipment
- Portable ultrasound system for the Emergency Department
- Diagnostic and surgical equipment
- Establishment of a new primary care and rehabilitation outreach clinic in Ossian, Iowa

Assets are owned by Winneshiek Medical Center, a county public critical access hospital.

### Long-Term Debt

Winneshiek Medical Center had \$6,470,313, \$7,592,564, and \$8,690,209 in short-term and long-term debt at June 30, 2014, 2013, and 2012, respectively. In 2014, 2013 and 2012, no new debt was incurred and debt payments of \$1,122,251, \$1,097,645, and \$1,040,000, respectively, were made. The Medical Center's Long-Term Debt to Capitalization ratio and Debt Service Coverage ratio, key capital ratios, improved over the past three year 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.

### Condensed Financial Statements of Winneshiek Medical Center and its Component Unit

#### Balance Sheets

|  | June 30,<br>2014            | June 30,<br>2013            | June 30,<br>2012            |
|--|-----------------------------|-----------------------------|-----------------------------|
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Current Assets                         | \$ 16,530,274               | \$ 16,288,654               | \$ 12,699,960               |
| Assets Limited as to Use or Restricted | 2,047,164                   | 2,068,380                   | 2,070,580                   |
| Capital Assets, Net                    | 22,659,378                  | 23,308,371                  | 24,497,327                  |
| Other Assets                           | <u>1,317,565</u>            | <u>1,144,675</u>            | <u>893,309</u>              |
| Total assets                           | <u><u>\$ 42,554,381</u></u> | <u><u>\$ 42,810,080</u></u> | <u><u>\$ 40,161,176</u></u> |
| <br>                                   |                             |                             |                             |
| Current Liabilities                    | \$ 5,821,255                | \$ 6,606,661                | \$ 4,615,444                |
| Long-Term Liabilities                  | 5,520,181                   | 6,486,124                   | 7,596,460                   |
| Deferred Inflows of Resources          | <u>551,625</u>              | <u>564,071</u>              | <u>585,596</u>              |
| Total liabilities                      | <u>11,893,061</u>           | <u>13,656,856</u>           | <u>12,797,500</u>           |
| <br>                                   |                             |                             |                             |
| Net Position                           |                             |                             |                             |
| Net investment in capital assets       | 16,189,065                  | 15,715,807                  | 15,807,118                  |
| Restricted                             | 1,878,385                   | 1,722,289                   | 1,887,815                   |
| Unrestricted                           | <u>12,593,870</u>           | <u>11,715,128</u>           | <u>9,668,743</u>            |
| Total net position                     | <u>30,661,320</u>           | <u>29,153,224</u>           | <u>27,363,676</u>           |
| Total liabilities and net position     | <u><u>\$ 42,554,381</u></u> | <u><u>\$ 42,810,080</u></u> | <u><u>\$ 40,161,176</u></u> |

*Statements of Revenues, Expenses, and Changes in Net Position*

|   | Year Ended June 30,  |                      |                      |
|---|----------------------|----------------------|----------------------|
|   | 2014                 | 2013                 | 2012                 |
| Operating Revenues  |                      |                      |                      |
| Net patient service revenue (net of provision<br>for bad debts) | \$ 48,603,092        | \$ 45,321,500        | \$ 42,038,397        |
| Other operating revenues  | 1,530,550            | 963,187              | 678,526              |
| <b>Total Operating Revenues</b>                                 | <b>50,133,642</b>    | <b>46,284,687</b>    | <b>42,716,923</b>    |
| Operating Expenses  |                      |                      |                      |
| Salaries, wages, and employee benefits                          | 23,425,915           | 22,066,334           | 19,733,064           |
| Supplies and other expenses                                     | 23,443,413           | 20,847,321           | 20,967,015           |
| Depreciation  | 2,477,658            | 2,369,785            | 2,457,090            |
| <b>Total Operating Expenses</b>                                 | <b>49,346,986</b>    | <b>45,283,440</b>    | <b>43,157,169</b>    |
| <b>Operating Income (Loss)</b>                                  | <b>786,656</b>       | <b>1,001,247</b>     | <b>(440,246)</b>     |
| Nonoperating Revenues (Expenses)                                |                      |                      |                      |
| County tax revenue  | 454,943              | 435,899              | 436,415              |
| Interest  | (163,443)            | (191,680)            | (363,137)            |
| Foundation investment income and contributions                  | 172,890              | 336,980              | 145,436              |
| Other   | 146,339              | 159,314              | 241,540              |
| <b>Net Nonoperating Revenues</b>                                | <b>610,729</b>       | <b>740,513</b>       | <b>460,254</b>       |
| Revenues in Excess of Expenses                                  | 1,397,385            | 1,741,760            | 20,008               |
| Capital Grants and Contributions                                | 110,711              | 47,788               | 191,542              |
| <b>Change in Net Position</b>                                   | <b>1,508,096</b>     | <b>1,789,548</b>     | <b>211,550</b>       |
| Net Position Beginning of Year, as Restated                     | 29,153,224           | 27,363,676           | 27,152,126           |
| <b>Net Position End of Year</b>                                 | <b>\$ 30,661,320</b> | <b>\$ 29,153,224</b> | <b>\$ 27,363,676</b> |

## **Economic and Other Factors and Next Year's Budget**

The Medical Center's Board of Trustees and management team considered many factors when preparing the fiscal year 2015 budget. Of primary consideration in the 2015 budget are financial challenges of the rapidly changing healthcare environment. Some of the key concerns include:

- The unknown impact of health care reform
- Population health management
- Impact of both health insurance exchanges and accountable care organizations
- 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
- Competition in the local health care market

These concerns are at the forefront as management completes the update to the Medical Center's strategic plan and a master facility plan. This strategic update will also review Winneshiek Medical Center's affiliation with Mayo Clinic Health System as it secures the scope and quality of patient services available to the Northeast Iowa and Southeast Minnesota region. Integration with Mayo Clinic Health System will assist Winneshiek Medical Center strategically focus on how it will need to evolve in their delivery of care on behalf of its patients and the communities it serves.

## **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 435 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

|   | <u>2014</u>          | <u>2013</u>          |
|---|----------------------|----------------------|
| Assets  |                      |                      |
| Current Assets  |                      |                      |
| Cash and cash equivalents - Note 3                          | \$ 5,571,852         | \$ 5,699,327         |
| Receivables   |                      |                      |
| Patient, net of estimated uncollectibles                    |                      |                      |
| of \$1,789,000 in 2014 and \$1,742,000 in 2013              | 8,601,401            | 8,411,833            |
| Succeeding year property tax                                | 481,629              | 454,075              |
| Other   | 408,377              | 333,995              |
| Supplies  | 1,104,907            | 1,020,550            |
| Prepaid expenses  | <u>362,108</u>       | <u>368,874</u>       |
| Total current assets  | <u>16,530,274</u>    | <u>16,288,654</u>    |
| Assets Limited as to Use or Restricted - Note 3             |                      |                      |
| Internally designated for capital improvements              | 1,080,564            | 1,078,594            |
| Restricted for Hospice expenditures                         | 148,295              | 176,350              |
| Restricted by contributors                                  | 726,305              | 721,436              |
| Restricted under bond agreement                             | <u>92,000</u>        | <u>92,000</u>        |
| Total assets limited as to use or restricted                | <u>2,047,164</u>     | <u>2,068,380</u>     |
| Capital Assets - Note 5                                     |                      |                      |
| Capital assets not being depreciated                        | 1,450,335            | 1,505,310            |
| Depreciable capital assets, net of accumulated depreciation | <u>21,209,043</u>    | <u>21,803,061</u>    |
| Total capital assets, net                                   | <u>22,659,378</u>    | <u>23,308,371</u>    |
| Other Assets  |                      |                      |
| Investments held by Foundation - Note 3                     | <u>1,317,565</u>     | <u>1,144,675</u>     |
| Total assets  | <u>\$ 42,554,381</u> | <u>\$ 42,810,080</u> |

See Notes to Financial Statements

Winneshiek Medical Center  
Balance Sheets  
June 30, 2014 and 2013

|  | 2014          | 2013          |
|--|---------------|---------------|
| Liabilities and Net Position   |               |               |
| Current Liabilities  |               |               |
| Current maturities of long-term debt - Note 7                                | \$ 950,132    | \$ 1,106,440  |
| Accounts payable   |               |               |
| Trade  | 566,067       | 917,916       |
| Related parties - Note 11  | 329,542       | 284,299       |
| Estimated health and dental claims payable - Note 13                         | 350,000       | 410,000       |
| Estimated third-party payor settlements                                      | 527,924       | 1,010,000     |
| Accrued expenses   |               |               |
| Salaries and wages   | 965,467       | 828,911       |
| Vacation   | 1,652,849     | 1,596,822     |
| Payroll taxes and employee benefits  | 479,274       | 452,273       |
| Total current liabilities  | 5,821,255     | 6,606,661     |
| Long-Term Debt, Less Current Maturities - Note 7                             | 5,520,181     | 6,486,124     |
| Total liabilities  | 11,341,436    | 13,092,785    |
| Deferred Inflows of Resources  |               |               |
| Deferred revenue for succeeding year property tax receivable                 | 481,629       | 454,075       |
| Deferred revenue - contribution, net of accumulated<br>amortization - Note 9 | 69,996        | 109,996       |
| Total deferred inflows of resources  | 551,625       | 564,071       |
| Net Position   |               |               |
| Net investment in capital assets   | 16,189,065    | 15,715,807    |
| Restricted   |               |               |
| Expendable for donor purposes  | 1,786,385     | 1,630,289     |
| Expendable under bond agreement  | 92,000        | 92,000        |
| Unrestricted   | 12,593,870    | 11,715,128    |
| Total net position   | 30,661,320    | 29,153,224    |
| Total liabilities and net position   | \$ 42,554,381 | \$ 42,810,080 |

**Winneshiek Medical Center**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2014 and 2013**

|   | 2014          | 2013          |
|---|---------------|---------------|
| Operating Revenues  |               |               |
| Net patient service revenue (net of provision for bad debts of<br>\$1,981,346 in 2014 and \$2,861,216 in 2013) - Note 2 | \$ 48,603,092 | \$ 45,321,500 |
| Other operating revenues  | 1,530,550     | 963,187       |
| Total Operating Revenues  | 50,133,642    | 46,284,687    |
| Operating Expenses  |               |               |
| Salaries and wages  | 17,906,548    | 16,806,924    |
| Employee benefits   | 5,519,367     | 5,259,410     |
| Supplies and other expenses   | 23,443,413    | 20,847,321    |
| Depreciation  | 2,477,658     | 2,369,785     |
| Total Operating Expenses  | 49,346,986    | 45,283,440    |
| Operating Income  | 786,656       | 1,001,247     |
| Nonoperating Revenues (Expenses)  |               |               |
| County tax revenue  | 454,943       | 435,899       |
| Interest  | (163,443)     | (191,680)     |
| Investment income - Note 3  | 11,455        | 12,744        |
| Foundation  |               |               |
| Investment income, net - Note 3   | 41,084        | 40,500        |
| Change in value in split-interest agreement - Note 4  | 66,868        | 2,998         |
| Contributions, net of fundraising expenses  | 64,938        | 293,482       |
| Noncapital grants and contributions   | 7,117         | 29,221        |
| Rental property, net  | 134,556       | 173,679       |
| Loss on sale of capital assets  | (6,789)       | (56,330)      |
| Net Nonoperating Revenues   | 610,729       | 740,513       |
| Revenues in Excess of Expenses  | 1,397,385     | 1,741,760     |
| Capital Grants and Contributions  | 110,711       | 47,788        |
| Change in Net Position  | 1,508,096     | 1,789,548     |
| Net Position Beginning of Year  | 29,153,224    | 27,363,676    |
| Net Position End of Year  | \$ 30,661,320 | \$ 29,153,224 |

Winneshiek Medical Center  
Statements of Cash Flows  
Years Ended June 30, 2014 and 2013

|  | 2014          | 2013          |
|--|---------------|---------------|
| Cash Flows from Operating Activities                       |               |               |
| Receipts of patient service revenue                        | \$ 47,931,448 | \$ 45,565,656 |
| Payments of salaries and wages                             | (17,713,965)  | (16,570,037)  |
| Payments of supplies and other expenses                    | (29,379,976)  | (25,588,696)  |
| Other receipts and payments, net                           | 1,456,168     | 1,049,327     |
|  | 2,293,675     | 4,456,250     |
| Net Cash provided by Operating Activities                  |               |               |
| Cash Flows from Noncapital Financing Activities            |               |               |
| Noncapital grants and contributions received               | 7,117         | 29,221        |
| County tax revenue received                                | 454,943       | 435,899       |
|  | 462,060       | 465,120       |
| Net Cash provided by Noncapital Financing Activities       |               |               |
| Cash Flows from Capital and Related Financing Activities   |               |               |
| Purchase of capital assets                                 | (1,835,454)   | (1,237,159)   |
| Principal payments on long-term debt                       | (1,122,251)   | (1,097,645)   |
| Interest payments on long-term debt                        | (163,443)     | (191,680)     |
| Capital grants and contributions                           | 135,649       | 301,270       |
|  | (2,985,499)   | (2,225,214)   |
| Net Cash used for Capital and Related Financing Activities |               |               |
| Cash Flows from Investing Activities                       |               |               |
| Investment income  | 52,539        | 53,244        |
| Net cash received on rental property                       | 134,556       | 173,679       |
| Increase in assets held by Foundation                      | (106,022)     | (248,368)     |
| Sale of investments  | 21,216        | 2,200         |
|  | 102,289       | (19,245)      |
| Net Cash provided by (used for) Investing Activities       |               |               |
| Net Change in Cash and Cash Equivalents                    | (127,475)     | 2,676,911     |
| Cash and Cash Equivalents at Beginning of Year             | 5,699,327     | 3,022,416     |
| Cash and Cash Equivalents at End of Year                   | \$ 5,571,852  | \$ 5,699,327  |

Winneshiek Medical Center  
Statements of Cash Flows  
Years Ended June 30, 2014 and 2013

|   | 2014         | 2013         |
|---|--------------|--------------|
| Reconciliation of Operating Income to Net Cash  |              |              |
| Provided by Operating Activities  |              |              |
| Operating income  | \$ 786,656   | \$ 1,001,247 |
| Adjustments to reconcile operating income to net cash<br>provided by operating activities |              |              |
| Depreciation  | 2,477,658    | 2,369,785    |
| Provision for bad debts   | 1,981,344    | 2,861,216    |
| Changes in assets and liabilities   |              |              |
| Patient receivables   | (2,170,912)  | (3,977,060)  |
| Estimated third-party payor settlements   | (482,076)    | 1,360,000    |
| Other receivables   | (74,382)     | 86,140       |
| Supplies  | (84,357)     | (37,090)     |
| Prepaid expenses  | 6,766        | (176,514)    |
| Accounts payable - trade and related parties  | (306,606)    | 592,751      |
| Estimated health and dental claims payable  | (60,000)     | 65,000       |
| Accrued expenses  | 219,584      | 310,775      |
|   | \$ 2,293,675 | \$ 4,456,250 |
| Net Cash provided by Operating Activities   |              |              |

## Note 1 - Organization and Significant Accounting Policies

### Organization

Winneshiek Medical Center (Medical Center) is a 25-bed county public critical access hospital located in Decorah, Iowa. The Medical Center is organized under Chapter 347A of the Iowa Code and receives tax support from Winneshiek County, Iowa. The Medical Center grants credit to patients, substantially all of whom are county residents or from other areas of northeastern Iowa and southeastern Minnesota.

### Tax Exempt Status

The Medical Center 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.

### 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. Winneshiek Medical Center Foundation is included in the Medical Center's financial statements as a blended component unit. The Medical Center has no other component units.

### 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.

### **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.

### **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, 2013 to June 30, 2014. 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 2013 or 2014.

### **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 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.

Property tax revenue recognized by the Medical Center becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2012, assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014, and reflects the tax asking contained in the budget certified by the County Auditor in March 2013.

### **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  |

### **Deferred Outflows and Inflows of Resources**

#### *Deferred Outflows of Resources*

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Medical Center currently has no items that qualify for reporting in this category.

#### *Deferred Inflows of Resources*

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Medical Center's two items that qualify for reporting in this category are deferred revenue related to succeeding year property tax receivable and deferred contribution revenue. The property tax revenue is recognized in the succeeding year when it becomes available. The deferred contribution revenue is being amortized into income over a length of time – refer to Note 9.

### **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, 2014 and 2013.

### **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.

### **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 \$200,651 and \$239,480 for the years ended June 30, 2014 and 2013. Total direct and indirect costs related to these foregone charges were \$114,000 and \$137,000 at June 30, 2014 and 2013, 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*

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.

### **Reclassifications**

Reclassifications have been made to the June 30, 2013 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.

### **Subsequent Events**

The Medical Center has evaluated subsequent events through September 18, 2014, the date which the financial statements were available to be issued.

## **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**

The Medical Center is licensed as a Critical Access Hospital (CAH). The Medical Center is reimbursed for most acute care services at cost plus 1%, less 2% for the sequestration adjustment, 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, 2012. 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, 2011.

### 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, Blue Cross, and Medicaid programs accounted for approximately 44%, 30%, and 5%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2014 and 44%, 27%, and 5%, respectively, for the year ended June 30, 2013. 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, 2014 and 2013 increased approximately \$54,000 and \$544,000, 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, 2014 and 2013 follows:

|  | <u>2014</u>          | <u>2013</u>          |
|--|----------------------|----------------------|
| Total Patient Service Revenue                                | <u>\$ 85,690,440</u> | <u>\$ 77,708,358</u> |
| Contractual Adjustments                                      |                      |                      |
| Medicare   | (19,279,803)         | (15,857,978)         |
| Medicaid   | (3,285,198)          | (2,206,890)          |
| Blue Cross   | (8,322,194)          | (8,236,637)          |
| Other  | <u>(4,218,809)</u>   | <u>(3,224,137)</u>   |
| Total contractual adjustments                                | <u>(35,106,004)</u>  | <u>(29,525,642)</u>  |
| Net Patient Service Revenue                                  | 50,584,436           | 48,182,716           |
| Provision for Bad Debts                                      | <u>(1,981,344)</u>   | <u>(2,861,216)</u>   |
| Net Patient Service Revenue (Net of Provision for Bad Debts) | <u>\$ 48,603,092</u> | <u>\$ 45,321,500</u> |

**Note 3 - Cash, Deposits and Investments**

The Medical Center's deposits in banks at June 30, 2014 and 2013 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, 2014 and 2013 the Medical Center's carrying amounts of cash, deposits and investments are as follows:

|  | 2014         | 2013         |
|--|--------------|--------------|
| Checking and Savings Accounts                                | \$ 5,812,147 | \$ 5,967,677 |
| Checking and Savings Accounts - Foundation                   | 509,571      | 535,088      |
| Money Market Accounts  | 1,362,301    | 1,357,858    |
| Certificates of Deposit                                      | 443,997      | 440,129      |
| Certificates of Deposit - Foundation                         | 8,086        | 8,086        |
| Mutual Funds - Foundation                                    | -            | 136,029      |
| Beneficial Interest in Remainder Trust - Foundation - Note 4 | 519,868      | 453,000      |
| Beneficial Interest in Community Foundation - Foundation     | 280,040      | 12,472       |
| Interest Receivable  | 571          | 2,043        |
|  | \$ 8,936,581 | \$ 8,912,382 |

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

|  | 2014         | 2013         |
|--|--------------|--------------|
| Cash and Cash Equivalents              | \$ 5,571,852 | \$ 5,699,327 |
| Assets Limited as to Use or Restricted | 2,047,164    | 2,068,380    |
| Investments Held by Foundation         | 1,317,565    | 1,144,675    |
|  | \$ 8,936,581 | \$ 8,912,382 |

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 were held by the Foundation.

**Investment Income**

Investment income, including return on assets held by the Foundation, for the years ended June 30, 2014 and 2013 is summarized as follows:

|  | 2014      | 2013      |
|--|-----------|-----------|
| Investment Income (Consists Entirely of Interest Income)         | \$ 11,455 | \$ 12,744 |
| Foundation   |           |           |
| Interest and dividends   | 4,892     | 7,992     |
| Change in unrealized gains and losses, net of investment expense | 36,192    | 32,508    |
| Foundation investment income                                     | 41,084    | 40,500    |
|  | \$ 52,539 | \$ 53,244 |

**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 position. The beneficial interest is recorded at \$520,000 and \$453,000 at June 30, 2014 and 2013 and included in the investments held by Foundation on the balance sheet.

**Note 5 - Capital Assets**

Capital assets activity for the years ended June 30, 2014 and 2013 was as follows:

|   | June 30, 2013<br>Balance | Additions           | Deductions        | Transfers          | June 30, 2014<br>Balance |
|---|--------------------------|---------------------|-------------------|--------------------|--------------------------|
| Capital Assets Not Being Depreciated:       |                          |                     |                   |                    |                          |
| Land  | \$ 915,673               | \$ -                | \$ -              | \$ -               | \$ 915,673               |
| Construction in progress                    | 589,637                  | 1,823,179           | -                 | (1,878,154)        | 534,662                  |
| Total capital assets not being depreciated  | <u>1,505,310</u>         | <u>1,823,179</u>    | <u>-</u>          | <u>(1,878,154)</u> | <u>1,450,335</u>         |
| Capital Assets Being Depreciated:           |                          |                     |                   |                    |                          |
| Land improvements                           | 433,356                  | -                   | -                 | -                  | 433,356                  |
| Buildings and leasehold improvements        | 32,234,710               | 6,338               | (229,445)         | 379,494            | 32,391,097               |
| Fixed equipment                             | 2,129,658                | -                   | (74,044)          | 230,228            | 2,285,842                |
| Major moveable equipment                    | 10,753,331               | 6,033               | (98,263)          | 1,268,432          | 11,929,533               |
| Total capital assets being depreciated      | <u>45,551,055</u>        | <u>12,371</u>       | <u>(401,752)</u>  | <u>1,878,154</u>   | <u>47,039,828</u>        |
| Less Accumulated Depreciation for:          |                          |                     |                   |                    |                          |
| Land improvements                           | 382,786                  | 10,822              | -                 | -                  | 393,608                  |
| Buildings and leasehold improvements        | 13,901,368               | 1,274,282           | (222,657)         | -                  | 14,952,993               |
| Fixed equipment                             | 1,732,243                | 90,840              | (74,044)          | -                  | 1,749,039                |
| Major moveable equipment                    | 7,731,597                | 1,101,808           | (98,260)          | -                  | 8,735,145                |
| Total accumulated depreciation              | <u>23,747,994</u>        | <u>2,477,752</u>    | <u>(394,961)</u>  | <u>-</u>           | <u>25,830,785</u>        |
| Total Capital Assets Being Depreciated, Net | <u>21,803,061</u>        | <u>(2,465,381)</u>  | <u>(6,791)</u>    | <u>1,878,154</u>   | <u>21,209,043</u>        |
| Total Capital Assets, Net                   | <u>\$ 23,308,371</u>     | <u>\$ (642,202)</u> | <u>\$ (6,791)</u> | <u>\$ -</u>        | <u>\$ 22,659,378</u>     |

Construction in progress at June 30, 2014 consists of various projects, including ongoing plant upgrades and ongoing expansion of the electronic medical record. The majority of the projects are expected to be completed in fiscal year 2015.

Winneshiek Medical Center  
Notes to Financial Statements  
June 30, 2014 and 2013

|  | June 30, 2012        |                       |                    |                    | June 30, 2013        |
|--|----------------------|-----------------------|--------------------|--------------------|----------------------|
|  | <u>Balance</u>       | <u>Additions</u>      | <u>Deductions</u>  | <u>Transfers</u>   | <u>Balance</u>       |
| 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<br>being depreciated  | <u>1,314,920</u>     | <u>1,204,042</u>      | <u>-</u>           | <u>(1,013,652)</u> | <u>1,505,310</u>     |
| Capital Assets Being                           |                      |                       |                    |                    |                      |
| Depreciated:                                   |                      |                       |                    |                    |                      |
| Land improvements                              | 433,356              | -                     | -                  | -                  | 433,356              |
| Buildings and leasehold<br>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<br>being depreciated      | <u>45,447,965</u>    | <u>32,960</u>         | <u>(943,522)</u>   | <u>1,013,652</u>   | <u>45,551,055</u>    |
| Less Accumulated Depreciation for:             |                      |                       |                    |                    |                      |
| Land improvements                              | 371,374              | 11,412                | -                  | -                  | 382,786              |
| Buildings and leasehold<br>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<br>depreciation              | <u>22,265,558</u>    | <u>2,368,057</u>      | <u>(885,621)</u>   | <u>-</u>           | <u>23,747,994</u>    |
| Total Capital Assets Being<br>Depreciated, Net | <u>23,182,407</u>    | <u>(2,335,097)</u>    | <u>(57,901)</u>    | <u>1,013,652</u>   | <u>21,803,061</u>    |
| Total Capital Assets, Net                      | <u>\$ 24,497,327</u> | <u>\$ (1,131,055)</u> | <u>\$ (57,901)</u> | <u>\$ -</u>        | <u>\$ 23,308,371</u> |

**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 condensed combining balance statement, statement of revenues, expenses, and changes in net position/assets and statement of cash flows as of and for the year ending June 30, 2014 follow:

|  | Winneshiek<br>Medical Center | Winneshiek<br>Medical Center<br>Foundation | Eliminations | Combined             |
|--|------------------------------|--|--------------|----------------------|
| <b>Assets</b>                                    |                              |  |              |                      |
| Current Assets                                   | \$ 16,530,274                | \$ -                                       | \$ -         | \$ 16,530,274        |
| Assets Limited as to Use of Restricted           | 2,047,164                    | -  | -            | 2,047,164            |
| Capital Assets, Net                              | 22,659,378                   | -  | -            | 22,659,378           |
| Other Assets                                     | -                            | 1,317,565                                  | -            | 1,317,565            |
| <b>Total Assets</b>                              | <b>\$ 41,236,816</b>         | <b>\$ 1,317,565</b>                        | <b>\$ -</b>  | <b>\$ 42,554,381</b> |
| <b>Liabilities and Net Position/Assets</b>       |                              |  |              |                      |
| Current Liabilities                              | \$ 5,821,255                 | \$ -                                       | \$ -         | \$ 5,821,255         |
| Long-Term Debt, Less Current Maturities          | 5,520,181                    | -  | -            | 5,520,181            |
| Deferred Inflows of Resources                    | 551,625                      | -  | -            | 551,625              |
| <b>Total Liabilities</b>                         | <b>11,893,061</b>            | <b>-</b>                                   | <b>-</b>     | <b>11,893,061</b>    |
| <b>Net Position/Assets</b>                       |                              |  |              |                      |
| Net investment in capital assets                 | 16,189,065                   | -  | -            | \$ 16,189,065        |
| Restricted                                       | 966,600                      | 911,785                                    | -            | 1,878,385            |
| Unrestricted                                     | 12,188,090                   | 405,780                                    | -            | 12,593,870           |
| <b>Total Net Position/Assets</b>                 | <b>29,343,755</b>            | <b>1,317,565</b>                           | <b>-</b>     | <b>30,661,320</b>    |
| <b>Total Liabilities and Net Position/Assets</b> | <b>\$ 41,236,816</b>         | <b>\$ 1,317,565</b>                        | <b>\$ -</b>  | <b>\$ 42,554,381</b> |

Winneshiek Medical Center  
Notes to Financial Statements  
June 30, 2014 and 2013

|   | Winneshiek<br>Medical Center | Winneshiek<br>Medical Center<br>Foundation | Eliminations    | Combined             |
|---|------------------------------|--|-----------------|----------------------|
| Operating Revenues                                |                              |  |                 |                      |
| Net patient service revenue                       | \$ 48,603,092                | \$ -                                       | \$ -            | \$ 48,603,092        |
| Other operating revenues                          | 1,530,550                    | -  | -               | 1,530,550            |
| Total Operating Revenues                          | <u>50,133,642</u>            | <u>-</u>                                   | <u>-</u>        | <u>50,133,642</u>    |
| Operating Expenses                                |                              |  |                 |                      |
| Salaries, wages and employee benefits             | 23,425,915                   | -  | -               | 23,425,915           |
| Supplies and other                                | 23,443,413                   | -  | -               | 23,443,413           |
| Depreciation                                      | 2,477,658                    | -  | -               | 2,477,658            |
| Total Operating Expenses                          | <u>49,346,986</u>            | <u>-</u>                                   | <u>-</u>        | <u>49,346,986</u>    |
| Operating Income                                  | <u>786,656</u>               | <u>-</u>                                   | <u>-</u>        | <u>786,656</u>       |
| Non Operating Revenues (Expenses)                 |                              |  |                 |                      |
| County tax revenue                                | 454,943                      | -  | -               | 454,943              |
| Interest  | (163,443)                    | -  | -               | (163,443)            |
| Foundation investment income and<br>contributions | -                            | 235,287                                    | (62,397)        | 172,890              |
| Other   | 146,339                      | -  | -               | 146,339              |
| Net Nonoperating Revenues                         | <u>437,839</u>               | <u>235,287</u>                             | <u>(62,397)</u> | <u>610,729</u>       |
| Revenues in Excess of Expenses                    | 1,224,495                    | 235,287                                    | (62,397)        | 1,397,385            |
| Capital Grants and Contributions (Transfers)      | <u>110,711</u>               | <u>(62,397)</u>                            | <u>62,397</u>   | <u>110,711</u>       |
| Change in Net Position/Assets                     | 1,335,206                    | 172,890                                    | -               | 1,508,096            |
| Net Position/Assets Beginning of Year             | <u>28,008,549</u>            | <u>1,144,675</u>                           | <u>-</u>        | <u>29,153,224</u>    |
| Net Position/Assets End of Year                   | <u>\$ 29,343,755</u>         | <u>\$ 1,317,565</u>                        | <u>\$ -</u>     | <u>\$ 30,661,320</u> |

Winneshiek Medical Center  
Notes to Financial Statements  
June 30, 2014 and 2013

|   | <u>Winneshiek<br/>Medical Center</u> | <u>Winneshiek<br/>Medical Center<br/>Foundation</u> | <u>Eliminations</u> | <u>Combined</u>     |
|---|--------------------------------------|---|---------------------|---------------------|
| Net Cash provided by Operating Activities                                   | \$ 2,293,675                         | \$ -  | \$ -                | \$ 2,293,675        |
| Net Cash provided by Noncapital<br>Financing Activities                     | 462,060                              | -   | -                   | 462,060             |
| Net Cash provided by (used for) Capital<br>and Related Financing Activities | (3,050,437)                          | 64,938  | -                   | (2,985,499)         |
| Net cash provided by (used for) Investing<br>Activities                     | <u>167,227</u>                       | <u>(64,938)</u>                                     | <u>-</u>            | <u>102,289</u>      |
| Net Change in Cash and Cash Equivalents                                     | (127,475)                            | -   | -                   | (127,475)           |
| Cash and Cash Equivalents at Beginning<br>of Year                           | <u>5,699,327</u>                     | <u>-</u>  | <u>-</u>            | <u>5,699,327</u>    |
| Cash and Cash Equivalents at End of Year                                    | <u>\$ 5,571,852</u>                  | <u>\$ -</u>   | <u>\$ -</u>         | <u>\$ 5,571,852</u> |

**Note 7 - Long-Term Debt**

A summary of changes in the Medical Center's long-term debt for 2014 and 2013 follows:

|  | June 30, 2013<br>Balance | Additions | Deductions     | June 30, 2014<br>Balance | Amounts Due<br>Within One<br>Year |
|--|--------------------------|-----------|----------------|--------------------------|-----------------------------------|
| Revenue Note, Series 2005                  | \$ 4,967,808             | \$ -      | \$ (700,570)   | \$ 4,267,238             | \$ 710,486                        |
| Revenue Note, Series 2008                  | 2,037,808                | -         | (92,392)       | 1,945,416                | 96,636                            |
| Rural Economic Development<br>Loan         | 172,500                  | -         | (45,000)       | 127,500                  | 45,000                            |
| Equipment Loan                             | 160,741                  | -         | (64,296)       | 96,445                   | 64,296                            |
| Capital Lease Obligation -<br>Note 8       | 253,707                  | -         | (219,993)      | 33,714                   | 33,714                            |
| Total Long-Term Debt                       | \$ 7,592,564             | \$ -      | \$ (1,122,251) | 6,470,313                | \$ 950,132                        |
| Less Current Maturities                    |                          |           |                | (950,132)                |                                   |
| Long-Term Debt, Less<br>Current Maturities |                          |           |                | \$ 5,520,181             |                                   |
|  |                          |           |                |                          |                                   |
|  | June 30, 2012<br>Balance | Additions | Deductions     | June 30, 2013<br>Balance | Amounts Due<br>Within One<br>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<br>Loan         | 217,500                  | -         | (45,000)       | 172,500                  | 45,000                            |
| Equipment Loan                             | 225,037                  | -         | (64,296)       | 160,741                  | 64,296                            |
| Capital Lease Obligation                   | 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<br>Current Maturities |                          |           |                | \$ 6,486,124             |                                   |

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

| Year Ending June 30, | Long-Term Debt      |                   |                     |
|----------------------|---------------------|-------------------|---------------------|
|                      | Principal           | Interest          | Total               |
| 2015                 | \$ 950,132          | \$ 145,181        | \$ 1,095,313        |
| 2016                 | 898,792             | 129,931           | 1,028,723           |
| 2017                 | 874,254             | 114,316           | 988,570             |
| 2018                 | 852,107             | 98,449            | 950,556             |
| 2019                 | 867,835             | 86,580            | 954,415             |
| 2020-2024            | 1,274,612           | 247,985           | 1,522,597           |
| 2025-2029            | 752,581             | 81,623            | 834,204             |
|                      | <u>\$ 6,470,313</u> | <u>\$ 904,065</u> | <u>\$ 7,374,378</u> |

**Hospital Revenue Note, Series 2005:**

The Board of Trustees of Winneshiek Medical Center authorized the issuance of a \$10,000,000 Hospital Revenue Note, Series 2005. The note is payable solely from future revenues of the Medical Center. The purpose of the note 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. The current interest rate is 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, 2014 is \$4,267,238.

**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, 2014 is \$1,945,416.

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, 2014 is \$127,500.

**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, 2016. The balance of the loan at June 30, 2014 is \$96,445.

**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, 2014 and 2013 for all operating leases was \$352,823 and \$350,675. The capitalized leased asset consists of:

|                               | 2014       | 2013       |
|-------------------------------|------------|------------|
| Major Movable Equipment       | \$ 699,001 | \$ 699,001 |
| Less Accumulated Amortization | (567,938)  | (393,188)  |
|                               | \$ 131,063 | \$ 305,813 |

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

| Year Ending June 30,                             | Capital<br>Leases | Operating<br>Leases |
|--|-------------------|---------------------|
| 2015   | \$ 33,967         | \$ 300,565          |
| 2016   | -                 | 173,066             |
| 2017   | -                 | 42,328              |
| 2018   | -                 | 16,000              |
| 2019   | -                 | 5,333               |
| Total minimum lease payments                     | 33,967            | <u>\$ 537,292</u>   |
| Less interest                                    | <u>(253)</u>      |                     |
| Present value of minimum lease payments - Note 7 | <u>\$ 33,714</u>  |                     |

**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, 2014 and 2013 is \$69,996 and \$109,996.

**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 5.95% of their annual covered salary, and the Medical Center is required to contribute 8.93% of annual covered payroll for the year ended June 30, 2014. Plan members were required to contribute 5.78% and 5.38% of their annual covered salary, and the Medical Center was required to contribute 8.67% and 8.07% of annual covered payroll for the years ended June 30, 2013 and 2012, respectively. Contribution requirements are established by state statute. The Medical Center’s contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$1,576,422, \$1,468,487, and \$1,229,627, 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, 2014 and 2013 were \$1,239,686 and \$822,596, respectively. As of June 30, 2014 and 2013 Winneshiek Medical Center's records reflect an amount due to MFMER of \$198,495 and \$74,073, 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 \$9,929,770 and \$8,233,931 for the years ended June 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, Winneshiek Medical Center's records reflect an amount due from the Clinic of \$25,230 and \$11,609, respectively, for settlement related to the various services under 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, 2014 and 2013 totals \$350,000 and \$410,000, 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, 2014 and 2013 of \$75,000 and \$60,000, respectively, per participant and an aggregate loss limit at June 30, 2014 and 2013 of \$2,828,341 and \$2,747,319.

**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, 2014 and 2013 was as follows:

|                      | 2014 | 2013 |
|----------------------|------|------|
| Medicare             | 28%  | 34%  |
| Medicaid             | 7%   | 5%   |
| Blue Cross           | 18%  | 16%  |
| Commercial Insurance | 17%  | 16%  |
| Self Pay             | 30%  | 29%  |
|                      | 100% | 100% |

**Note 15 - Electronic Health Record Incentive Payments**

The Medical Center attested as a meaningful user of Electronic Health Records (EHR) during the year ended June 30, 2014. Accordingly, the Medical Center received \$601,090 as lump sum incentive payments related to Medicare EHR. During the year ended June 30, 2013, the Medical Center received \$242,708 related to Medicare EHR incentive payments for the Medical Center physicians. These incentive payments are included as other operating revenues in the accompanying financial statements.

The Medical Center recognized revenue of \$145,600 and \$145,600 for the years ended June 30, 2014 and 2013 related to Medicaid EHR incentive payments received. The incentive payments are included in other operating revenue in the accompanying financial statements. The Hospital has received a total of \$291,200 of Medicaid EHR incentive to date. This represents 80% of the potential benefit to be received from the State of Iowa Medicaid program.



Required Supplementary Information  
June 30, 2014



Winneshiek  
MEDICAL CENTER

Winneshiek Medical Center  
 Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Position –  
 Budget and Actual (Cash Basis)  
 Required Supplementary Information  
 Year Ended June 30, 2014

|  | Actual<br>Accrual<br>Basis | Accrual<br>Adjustments | Actual<br>Cash Basis | Adopted<br>Budget   | Variance<br>Favorable<br>(Unfavorable) |
|--|----------------------------|------------------------|----------------------|---------------------|--|
| Estimated Amount to be<br>Raised by Taxation | \$ 454,943                 | \$ -                   | \$ 454,943           | \$ 454,075          | \$ 868                                 |
| Estimated Other Revenues/<br>Receipts        | <u>50,390,692</u>          | <u>(779,237)</u>       | <u>49,611,455</u>    | <u>51,408,698</u>   | <u>(1,797,243)</u>                     |
|  | 50,845,635                 | (779,237)              | 50,066,398           | 51,862,773          | (1,796,375)                            |
| Expenses/Disbursements                       | <u>49,510,429</u>          | <u>704,660</u>         | <u>50,215,089</u>    | <u>51,055,109</u>   | <u>840,020</u>                         |
| Net  | 1,335,206                  | (1,483,897)            | (148,691)            | 807,664             | <u>\$ (956,355)</u>                    |
| Balance Beginning of Year                    | <u>28,008,549</u>          | <u>(20,240,842)</u>    | <u>7,767,707</u>     | <u>4,360,084</u>    |  |
| Balance End of Year                          | <u>\$ 29,343,755</u>       | <u>\$ (21,724,739)</u> | <u>\$ 7,619,016</u>  | <u>\$ 5,167,748</u> |  |

**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, 2014.

For the year ended June 30, 2014, the Medical Center's expenditures did not exceed the amount budgeted.



Other Supplementary Information  
June 30, 2014 and 2013



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, 2014 and 2013, and our report thereon dated September 18, 2014, 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.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Dubuque, Iowa  
September 18, 2014

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|   | Winneshiek<br>Medical Center | Winneshiek<br>Medical Center<br>Foundation | Eliminations | Combined             |
|---|------------------------------|--|--------------|----------------------|
| <b>Assets</b>   |                              |  |              |                      |
| <b>Current Assets</b>                                       |                              |  |              |                      |
| Cash and cash equivalents                                   | \$ 5,571,852                 | \$ -                                       | \$ -         | \$ 5,571,852         |
| Receivables   |                              |  |              |                      |
| Patient, net of estimated uncollectibles                    | 8,601,401                    | -  | -            | 8,601,401            |
| Succeeding year property tax                                | 481,629                      | -  | -            | 481,629              |
| Other   | 408,377                      | -  | -            | 408,377              |
| Supplies  | 1,104,907                    | -  | -            | 1,104,907            |
| Prepaid expenses  | 362,108                      | -  | -            | 362,108              |
| Total current assets  | <u>16,530,274</u>            | <u>-</u>                                   | <u>-</u>     | <u>16,530,274</u>    |
| <b>Assets Limited as to Use or Restricted</b>               |                              |  |              |                      |
| Internally designated for capital improvements              | 1,080,564                    | -  | -            | 1,080,564            |
| Restricted for Hospice expenditures                         | 148,295                      | -  | -            | 148,295              |
| Restricted by contributors                                  | 726,305                      | -  | -            | 726,305              |
| Restricted under bond agreement                             | 92,000                       | -  | -            | 92,000               |
| Total assets limited as to use or restricted                | <u>2,047,164</u>             | <u>-</u>                                   | <u>-</u>     | <u>2,047,164</u>     |
| <b>Capital Assets</b>                                       |                              |  |              |                      |
| Capital assets not being depreciated                        | 1,450,335                    | -  | -            | 1,450,335            |
| Depreciable capital assets, net of accumulated depreciation | <u>21,209,043</u>            | <u>-</u>                                   | <u>-</u>     | <u>21,209,043</u>    |
| Total capital assets, net                                   | <u>22,659,378</u>            | <u>-</u>                                   | <u>-</u>     | <u>22,659,378</u>    |
| <b>Other Assets</b>   |                              |  |              |                      |
| Investments held by Foundation                              | <u>-</u>                     | <u>1,317,565</u>                           | <u>-</u>     | <u>1,317,565</u>     |
| Total assets  | <u>\$ 41,236,816</u>         | <u>\$ 1,317,565</u>                        | <u>\$ -</u>  | <u>\$ 42,554,381</u> |

Winneshiek Medical Center  
Schedule of Combining Balance Sheets  
June 30, 2014

|   | Winneshiek<br>Medical Center | Winneshiek<br>Medical Center<br>Foundation | Eliminations | Combined             |
|---|------------------------------|--|--------------|----------------------|
| <b>Liabilities and Net Position/Assets</b>                          |                              |  |              |                      |
| <b>Current Liabilities</b>  |                              |  |              |                      |
| Current maturities of long-term debt                                | \$ 950,132                   | \$ -                                       | \$ -         | \$ 950,132           |
| Accounts payable  |                              |  |              |                      |
| Trade   | 566,067                      | -  | -            | 566,067              |
| Related parties   | 329,542                      | -  | -            | 329,542              |
| Estimated health and dental<br>claims payable                       | 350,000                      | -  | -            | 350,000              |
| Estimated third-party payor<br>settlements                          | 527,924                      | -  | -            | 527,924              |
| Accrued expenses  |                              |  |              |                      |
| Salaries and wages  | 965,467                      | -  | -            | 965,467              |
| Vacation  | 1,652,849                    | -  | -            | 1,652,849            |
| Payroll taxes and employee<br>benefits                              | 479,274                      | -  | -            | 479,274              |
| Total current liabilities   | <u>5,821,255</u>             | <u>-</u>                                   | <u>-</u>     | <u>5,821,255</u>     |
| <b>Long-Term Debt, Less Current</b>                                 |                              |  |              |                      |
| Maturities  | 5,520,181                    | -  | -            | 5,520,181            |
| Total liabilities   | <u>11,341,436</u>            | <u>-</u>                                   | <u>-</u>     | <u>11,341,436</u>    |
| <b>Deferred Inflows of Resources</b>                                |                              |  |              |                      |
| Deferred revenue for succeeding<br>year property tax receivable     | 481,629                      | -  | -            | 481,629              |
| Deferred revenue - contribution, net<br>of accumulated amortization | 69,996                       | -  | -            | 69,996               |
|   | <u>551,625</u>               | <u>-</u>                                   | <u>-</u>     | <u>551,625</u>       |
| <b>Net Position/Assets</b>  |                              |  |              |                      |
| Net investment in capital assets                                    | 16,189,065                   | -  | -            | 16,189,065           |
| Restricted  |                              |  |              |                      |
| Expendable for donor purposes                                       | 874,600                      | 911,785                                    | -            | 1,786,385            |
| Expendable under bond<br>agreement                                  | 92,000                       | -  | -            | 92,000               |
| Unrestricted  | 12,188,090                   | 405,780                                    | -            | 12,593,870           |
| Total net position/assets   | <u>29,343,755</u>            | <u>1,317,565</u>                           | <u>-</u>     | <u>30,661,320</u>    |
| Total liabilities and net<br>position/assets                        | <u>\$ 41,236,816</u>         | <u>\$ 1,317,565</u>                        | <u>\$ -</u>  | <u>\$ 42,554,381</u> |

**Winneshiek Medical Center**  
Schedule of Combining Statement of Revenues, Expenses, and Changes in Net Position/Assets  
Year Ended June 30, 2014

|   | Winneshiek<br>Medical Center | Winneshiek<br>Medical Center<br>Foundation | Eliminations    | Combined             |
|---|------------------------------|--|-----------------|----------------------|
| Operating Revenues  |                              |  |                 |                      |
| Net patient service revenue (net of<br>provision for bad debts) | \$ 48,603,092                | \$ -                                       | \$ -            | \$ 48,603,092        |
| Other operating revenues  | 1,530,550                    | -  | -               | 1,530,550            |
| Total Operating Revenues  | <u>50,133,642</u>            | <u>-</u>                                   | <u>-</u>        | <u>50,133,642</u>    |
| Operating Expenses  |                              |  |                 |                      |
| Salaries and wages  | 17,906,548                   | -  | -               | 17,906,548           |
| Employee benefits   | 5,519,367                    | -  | -               | 5,519,367            |
| Supplies and other expenses                                     | 23,443,413                   | -  | -               | 23,443,413           |
| Depreciation  | 2,477,658                    | -  | -               | 2,477,658            |
| Total Operating Expenses  | <u>49,346,986</u>            | <u>-</u>                                   | <u>-</u>        | <u>49,346,986</u>    |
| Operating Income  | <u>786,656</u>               | <u>-</u>                                   | <u>-</u>        | <u>786,656</u>       |
| Nonoperating Revenues (Expenses)                                |                              |  |                 |                      |
| County tax revenue  | 454,943                      | -  | -               | 454,943              |
| Interest  | (163,443)                    | -  | -               | (163,443)            |
| Investment income   | 11,455                       | -  | -               | 11,455               |
| Foundation  |                              |  |                 |                      |
| Investment income, net  | -                            | 41,084                                     | -               | 41,084               |
| Change in value in split-interest<br>agreement                  | -                            | 66,868                                     | -               | 66,868               |
| Contributions, net of<br>fundraising expenses                   | -                            | 127,335                                    | (62,397)        | 64,938               |
| Noncapital grants and contributions                             | 7,117                        | -  | -               | 7,117                |
| Rental property, net  | 134,556                      | -  | -               | 134,556              |
| Loss on sale of capital assets                                  | (6,789)                      | -  | -               | (6,789)              |
| Net Nonoperating Revenues                                       | <u>437,839</u>               | <u>235,287</u>                             | <u>(62,397)</u> | <u>610,729</u>       |
| Revenues in Excess of Expenses                                  | 1,224,495                    | 235,287                                    | (62,397)        | 1,397,385            |
| Capital Grants and  |                              |  |                 |                      |
| Contributions (Transfers)                                       | 110,711                      | (62,397)                                   | 62,397          | 110,711              |
| Change in Net Position/Assets                                   | 1,335,206                    | 172,890                                    | -               | 1,508,096            |
| Net Position Beginning of Year                                  | <u>28,008,549</u>            | <u>1,144,675</u>                           | <u>-</u>        | <u>29,153,224</u>    |
| Net Position End of Year  | <u>\$ 29,343,755</u>         | <u>\$ 1,317,565</u>                        | <u>\$ -</u>     | <u>\$ 30,661,320</u> |

|                               | Total                |                      |
|-------------------------------|----------------------|----------------------|
|                               | 2014                 | 2013                 |
| Patient Care Services         |                      |                      |
| Adults and pediatrics         | \$ 2,527,030         | \$ 2,637,376         |
| Swing bed                     | 745,875              | 702,017              |
| Nursery                       | 366,697              | 377,820              |
| Subtotal                      | <u>3,639,602</u>     | <u>3,717,213</u>     |
| Other Professional Services   |                      |                      |
| Operating room                | 8,856,144            | 8,221,772            |
| Labor and delivery room       | 455,756              | 411,260              |
| Anesthesiology                | 1,743,567            | 1,748,802            |
| Radiology                     | 11,076,671           | 9,609,186            |
| Laboratory                    | 10,037,704           | 8,542,972            |
| Respiratory therapy           | 1,300,711            | 1,439,699            |
| Physical therapy              | 2,577,328            | 2,576,788            |
| Occupational therapy          | 1,127,196            | 995,199              |
| Occupational health           | 226,125              | 336,381              |
| Speech therapy                | 139,869              | 169,766              |
| Electrocardiology             | 1,112,997            | 1,078,385            |
| Central supply                | 3,859,610            | 3,773,710            |
| Implantable supplies          | 1,128,934            | 1,271,559            |
| Pharmacy                      | 11,441,170           | 10,647,738           |
| Outpatient clinic             | 18,258,621           | 15,382,682           |
| Emergency room                | 3,170,560            | 2,794,248            |
| Observation room              | 454,430              | 516,786              |
| Ambulance                     | 1,374,548            | 1,350,482            |
| Home health                   | 638,965              | 492,332              |
| Durable medical equipment     | 551,900              | 490,550              |
| Emergency room physician fees | 1,841,330            | 1,474,135            |
| Hospice                       | 817,717              | 856,305              |
| Diabetic education            | 59,636               | 49,888               |
| Subtotal                      | <u>82,251,489</u>    | <u>74,230,625</u>    |
| Total                         | 85,891,091           | 77,947,838           |
| Charity care                  | <u>(200,651)</u>     | <u>(239,480)</u>     |
| Total patient service revenue | <u>\$ 85,690,440</u> | <u>\$ 77,708,358</u> |

Winneshiek Medical Center  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2014 and 2013

| Inpatient            |                      | Outpatient           |                      |
|----------------------|----------------------|----------------------|----------------------|
| 2014                 | 2013                 | 2014                 | 2013                 |
| \$ 2,484,066         | \$ 2,596,473         | \$ 42,964            | \$ 40,903            |
| 745,875              | 702,017              | -                    | -                    |
| 357,721              | 369,036              | 8,976                | 8,784                |
| <u>3,587,662</u>     | <u>3,667,526</u>     | <u>51,940</u>        | <u>49,687</u>        |
| 959,927              | 997,449              | 7,896,217            | 7,224,323            |
| 436,337              | 382,554              | 19,419               | 28,706               |
| 341,694              | 403,866              | 1,401,873            | 1,344,936            |
| 794,196              | 725,937              | 10,282,475           | 8,883,249            |
| 1,113,589            | 1,105,898            | 8,924,115            | 7,437,074            |
| 774,931              | 964,626              | 525,780              | 475,073              |
| 553,929              | 545,789              | 2,023,399            | 2,030,999            |
| 303,630              | 316,457              | 823,566              | 678,742              |
| -                    | -                    | 226,125              | 336,381              |
| 35,592               | 39,076               | 104,277              | 130,690              |
| 183,519              | 186,301              | 929,478              | 892,084              |
| 833,143              | 895,043              | 3,026,467            | 2,878,667            |
| 537,410              | 579,766              | 591,524              | 691,793              |
| 4,683,084            | 4,404,173            | 6,758,086            | 6,243,565            |
| -                    | -                    | 18,258,621           | 15,382,682           |
| 90,856               | 112,240              | 3,079,704            | 2,682,008            |
| -                    | -                    | 454,430              | 516,786              |
| 69,655               | 48,117               | 1,304,893            | 1,302,365            |
| -                    | -                    | 638,965              | 492,332              |
| -                    | -                    | 551,900              | 490,550              |
| 46,363               | 47,144               | 1,794,967            | 1,426,991            |
| 756,097              | 759,782              | 61,620               | 96,523               |
| -                    | -                    | 59,636               | 49,888               |
| <u>12,513,952</u>    | <u>12,514,218</u>    | <u>69,737,537</u>    | <u>61,716,407</u>    |
| <u>\$ 16,101,614</u> | <u>\$ 16,181,744</u> | <u>\$ 69,789,477</u> | <u>\$ 61,766,094</u> |

Winneshiek Medical Center  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2014 and 2013

|  | <u>2014</u>          | <u>2013</u>          |
|--|----------------------|----------------------|
| Total Patient Service Revenue                                | <u>\$ 85,690,440</u> | <u>\$ 77,708,358</u> |
| Contractual Adjustments                                      |                      |                      |
| Medicare   | (19,279,803)         | (15,857,978)         |
| Medicaid   | (3,285,198)          | (2,206,890)          |
| Blue Cross   | (8,322,194)          | (8,236,637)          |
| Other  | <u>(4,218,809)</u>   | <u>(3,224,137)</u>   |
| Total contractual adjustments                                | <u>(35,106,004)</u>  | <u>(29,525,642)</u>  |
| Net Patient Service Revenue                                  | 50,584,436           | 48,182,716           |
| Provision for Bad Debts                                      | <u>(1,981,344)</u>   | <u>(2,861,216)</u>   |
| Net Patient Service Revenue (Net of Provision for Bad Debts) | <u>\$ 48,603,092</u> | <u>\$ 45,321,500</u> |

Winneshiek Medical Center  
Schedules of Other Operating Revenues  
Years Ended June 30, 2014 and 2013

|  | <u>2014</u>         | <u>2013</u>       |
|--|---------------------|-------------------|
| Other Operating Revenues                     |                     |                   |
| Electronic Medical Record incentive payments | \$ 746,690          | \$ 388,308        |
| Contract fees and services                   |                     |                   |
| Physical therapy                             | 231,650             | 135,079           |
| Podiatry                                     | 104,000             | -                 |
| Occupational therapy                         | 99,411              | 92,274            |
| Dietary                                      | 14,482              | 17,568            |
| Speech therapy                               | 8,356               | 21,053            |
| OB/GYN                                       | 5,100               | -                 |
| Employee meals                               | 104,775             | 102,061           |
| Meals on Wheels and guest meals              | 28,049              | 27,770            |
| Wellness services                            | 21,605              | 51,820            |
| Medical records transcripts                  | 4,213               | 4,189             |
| Vending services                             | 531                 | 394               |
| Other  | <u>161,688</u>      | <u>122,671</u>    |
| Total Other Operating Revenues               | <u>\$ 1,530,550</u> | <u>\$ 963,187</u> |

Winneshiek Medical Center  
Schedules of Operating Expenses  
Years Ended June 30, 2014 and 2013

|                             | 2014             | 2013             |
|-----------------------------|------------------|------------------|
| Nursing Administration      |                  |                  |
| Salaries and wages          | \$ 95,603        | \$ 74,745        |
| Supplies and other expenses | 176,613          | 182,077          |
|                             | <u>272,216</u>   | <u>256,822</u>   |
| Adults and Pediatrics       |                  |                  |
| Salaries and wages          | 1,895,485        | 1,824,728        |
| Supplies and other expenses | 363,059          | 352,555          |
|                             | <u>2,258,544</u> | <u>2,177,283</u> |
| Nursery                     |                  |                  |
| Salaries and wages          | 110,804          | 112,122          |
| Supplies and other expenses | 18,658           | 13,249           |
|                             | <u>129,462</u>   | <u>125,371</u>   |
| Operating Room              |                  |                  |
| Salaries and wages          | 1,170,059        | 1,133,074        |
| Supplies and other expenses | 571,412          | 559,430          |
|                             | <u>1,741,471</u> | <u>1,692,504</u> |
| Labor and Delivery Room     |                  |                  |
| Salaries and wages          | 68,851           | 77,001           |
| Supplies and other expenses | 5,994            | 5,326            |
|                             | <u>74,845</u>    | <u>82,327</u>    |
| Anesthesiology              |                  |                  |
| Salaries and wages          | 885,625          | 882,874          |
| Supplies and other expenses | 107,974          | 194,363          |
|                             | <u>993,599</u>   | <u>1,077,237</u> |
| Radiology                   |                  |                  |
| Salaries and wages          | 748,324          | 729,054          |
| Supplies and other expenses | 1,795,183        | 1,965,911        |
|                             | <u>2,543,507</u> | <u>2,694,965</u> |
| Laboratory                  |                  |                  |
| Salaries and wages          | 753,794          | 779,328          |
| Supplies and other expenses | 1,500,510        | 1,063,252        |
|                             | <u>2,254,304</u> | <u>1,842,580</u> |
| Respiratory Therapy         |                  |                  |
| Salaries and wages          | 170,827          | 163,466          |
| Supplies and other expenses | 134,193          | 106,950          |
|                             | <u>305,020</u>   | <u>270,416</u>   |

Winneshiek Medical Center  
Schedules of Operating Expenses  
Years Ended June 30, 2014 and 2013

|   | 2014              | 2013             |
|---|-------------------|------------------|
| Physical Therapy                        |                   |                  |
| Salaries and wages                      | \$ 1,141,833      | \$ 1,127,724     |
| Supplies and other expenses             | 132,527           | 142,216          |
|   | <u>1,274,360</u>  | <u>1,269,940</u> |
| Occupational Therapy                    |                   |                  |
| Salaries and wages                      | 536,857           | 452,837          |
| Supplies and other expenses             | 33,168            | 29,737           |
|   | <u>570,025</u>    | <u>482,574</u>   |
| Speech Therapy                          |                   |                  |
| Salaries and wages                      | 89,635            | 103,654          |
| Supplies and other expenses             | 12,697            | 8,002            |
|   | <u>102,332</u>    | <u>111,656</u>   |
| Comprehensive Outpatient Rehab Facility |                   |                  |
| Salaries and wages                      | 13,842            | 16,984           |
| Supplies and other expenses             | 18,456            | 19,714           |
|   | <u>32,298</u>     | <u>36,698</u>    |
| Electrocardiology                       |                   |                  |
| Salaries and wages                      | 61,676            | 53,715           |
| Supplies and other expenses             | 137,155           | 131,008          |
|   | <u>198,831</u>    | <u>184,723</u>   |
| Central Supply                          |                   |                  |
| Salaries and wages                      | 43,547            | 40,649           |
| Supplies and other expenses             | 647,341           | 572,347          |
|   | <u>690,888</u>    | <u>612,996</u>   |
| Implantable Supplies                    |                   |                  |
| Supplies and other expenses             | 575,541           | 563,572          |
| Pharmacy                                |                   |                  |
| Salaries and wages                      | 347,027           | 271,252          |
| Supplies and other expenses             | 2,249,513         | 1,987,205        |
|   | <u>2,596,540</u>  | <u>2,258,457</u> |
| Clinic                                  |                   |                  |
| Salaries and wages                      | 2,147,965         | 2,008,301        |
| Supplies and other expenses             | 8,370,983         | 7,228,071        |
|   | <u>10,518,948</u> | <u>9,236,372</u> |
| Mabel Clinic                            |                   |                  |
| Salaries and wages                      | 208,025           | 35,909           |
| Supplies and other expenses             | 37,194            | 26,014           |
|   | <u>245,219</u>    | <u>61,923</u>    |

Winneshiek Medical Center  
Schedules of Operating Expenses  
Years Ended June 30, 2014 and 2013

|                             | 2014             | 2013             |
|-----------------------------|------------------|------------------|
| Ossian Clinic               |                  |                  |
| Salaries and wages          | \$ 57,762        | \$ -             |
| Supplies and other expenses | 95,140           | -                |
|                             | <u>152,902</u>   | <u>-</u>         |
| Materials Management        |                  |                  |
| Salaries and wages          | 111,814          | 108,517          |
| Supplies and other expenses | 5,931            | 26,860           |
|                             | <u>117,745</u>   | <u>135,377</u>   |
| Emergency Room              |                  |                  |
| Salaries and wages          | 1,137,720        | 1,068,465        |
| Supplies and other expenses | 2,083,689        | 1,695,571        |
|                             | <u>3,221,409</u> | <u>2,764,036</u> |
| Ambulance                   |                  |                  |
| Salaries and wages          | 411,285          | 385,589          |
| Supplies and other expenses | 74,842           | 82,389           |
|                             | <u>486,127</u>   | <u>467,978</u>   |
| Home Health                 |                  |                  |
| Salaries and wages          | 294,341          | 245,185          |
| Supplies and other expenses | 57,649           | 45,994           |
|                             | <u>351,990</u>   | <u>291,179</u>   |
| Durable Medical Equipment   |                  |                  |
| Salaries and wages          | 62,097           | 59,042           |
| Supplies and other expenses | 146,893          | 111,332          |
|                             | <u>208,990</u>   | <u>170,374</u>   |
| Hospice                     |                  |                  |
| Salaries and wages          | 207,657          | 215,100          |
| Supplies and other expenses | 80,961           | 54,475           |
|                             | <u>288,618</u>   | <u>269,575</u>   |
| Occupational Health         |                  |                  |
| Salaries and wages          | 207,193          | 171,608          |
| Supplies and other expenses | 39,169           | 43,591           |
|                             | <u>246,362</u>   | <u>215,199</u>   |
| Diabetic Education          |                  |                  |
| Salaries and wages          | 78,622           | 80,481           |
| Supplies and other expenses | 4,524            | 4,127            |
|                             | <u>83,146</u>    | <u>84,608</u>    |
| Medical Records             |                  |                  |
| Salaries and wages          | 935,569          | 865,935          |
| Supplies and other expenses | 281,830          | 258,668          |
|                             | <u>1,217,399</u> | <u>1,124,603</u> |

Winneshiek Medical Center  
Schedules of Operating Expenses  
Years Ended June 30, 2014 and 2013

|  | 2014                 | 2013                 |
|--|----------------------|----------------------|
| Dietary  |                      |                      |
| Salaries and wages                             | \$ 444,655           | \$ 425,812           |
| Supplies and other expenses                    | 6,542                | -                    |
|  | <u>451,197</u>       | <u>425,812</u>       |
| Operation of Plant                             |                      |                      |
| Salaries and wages                             | 337,360              | 317,120              |
| Supplies and other expenses                    | 701,511              | 588,194              |
|  | <u>1,038,871</u>     | <u>905,314</u>       |
| Foundation                                     |                      |                      |
| Salaries and wages                             | 20,053               | 15,529               |
| Supplies and other expenses                    | -                    | 2,628                |
|  | <u>20,053</u>        | <u>18,157</u>        |
| Community Relations                            |                      |                      |
| Salaries and wages                             | 133,719              | 120,612              |
| Supplies and other expenses                    | 36,116               | 69,650               |
|  | <u>169,835</u>       | <u>190,262</u>       |
| Housekeeping                                   |                      |                      |
| Salaries and wages                             | 458,915              | 435,090              |
| Supplies and other expenses                    | 93,863               | 79,733               |
|  | <u>552,778</u>       | <u>514,823</u>       |
| Laundry and Linen                              |                      |                      |
| Salaries and wages                             | 20,293               | 29,083               |
| Supplies and other expenses                    | 103,876              | 103,808              |
|  | <u>124,169</u>       | <u>132,891</u>       |
| Administrative, Financial and General Services |                      |                      |
| Salaries and wages                             | 2,482,225            | 2,376,339            |
| Supplies and other expenses                    | 2,758,195            | 2,529,302            |
|  | <u>5,240,420</u>     | <u>4,905,641</u>     |
| Unassigned Expenses                            |                      |                      |
| Depreciation                                   | 2,477,658            | 2,369,785            |
| Employee benefits                              | 5,519,367            | 5,259,410            |
|  | <u>7,997,025</u>     | <u>7,629,195</u>     |
| Total Operating Expenses                       | <u>\$ 49,346,986</u> | <u>\$ 45,283,440</u> |

Winneshiek Medical Center  
Schedules of Patient Receivables (Unaudited)  
June 30, 2014 and 2013

**Analysis of Aging**

| Days Since Discharge   | 2014                |                  | 2013                |                  |
|--|---------------------|------------------|---------------------|------------------|
|  | Amount              | Percent to Total | Amount              | Percent to Total |
| 30 Days or Less  | \$ 7,049,168        | 48.54%           | \$ 6,353,368        | 47.11%           |
| 31 to 60 Days  | 2,064,609           | 14.22%           | 1,874,297           | 13.90%           |
| 61 to 90 Days  | 876,104             | 6.03%            | 1,145,340           | 8.49%            |
| 91 Days and Over   | 4,531,209           | 31.21%           | 4,114,016           | 30.50%           |
|  | 14,521,090          | <u>100.00%</u>   | 13,487,021          | <u>100.00%</u>   |
| Less: Allowance for Doubtful<br>Accounts   | 1,789,029           |                  | 1,741,582           |                  |
| Allowance for Contractual<br>Adjustments   | 4,130,660           |                  | 3,333,606           |                  |
|  | <u>\$ 8,601,401</u> |                  | <u>\$ 8,411,833</u> |                  |
| Net Patient Service Revenue<br>Per Calendar Day                                  | <u>\$ 133,159</u>   |                  | <u>\$ 124,168</u>   |                  |
| Days of Net Patient Service<br>Revenue in Net Accounts<br>Receivable at Year End | <u>65</u>           |                  | <u>68</u>           |                  |

Winneshiek Medical Center  
Schedules of Supplies  
June 30, 2014 and 2013

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|                | <u>2014</u>         | <u>2013</u>         |
|----------------|---------------------|---------------------|
| Supplies       |                     |                     |
| Surgery        | \$ 528,543          | \$ 528,672          |
| Pharmacy       | 494,342             | 406,351             |
| Central supply | 69,697              | 74,346              |
| Dietary        | <u>12,325</u>       | <u>11,181</u>       |
| Total Supplies | <u>\$ 1,104,907</u> | <u>\$ 1,020,550</u> |

Winneshiek Medical Center  
Schedule of Insurance Coverage (Unaudited)  
June 30, 2014

| Insurer                         | Coverage Type  | Effective Dates          | Coverage Amount                   |
|---------------------------------|--|--------------------------|-----------------------------------|
| United Heartland                | Worker's compensation  | April 2014 to April 2015 | \$500,000/\$500,000/<br>\$500,000 |
| PIC of Wisconsin                | Commercial general liability   | April 2014 to April 2015 | \$1,000,000                       |
|                                 | Umbrella excess liability  |                          | \$5,000,000                       |
|                                 | Medical professional liability<br>- each health care incident          |                          | \$1,000,000                       |
|                                 | Medical professional liability<br>- total facility annual<br>aggregate |                          | \$3,000,000                       |
| Travelers                       | Blanket limit of insurance   | April 2014 to April 2015 | \$67,235,443                      |
|                                 | Business income and<br>expense coverage                                |                          | \$37,115,460                      |
|                                 | Crime coverage   |                          | \$2,500,000                       |
|                                 | Auto liability   |                          | \$1,000,000                       |
| The Hartford                    | Accidental death and<br>dismemberment                                  | March 2014 to March 2017 | \$50,000                          |
| Cincinnati Insurance<br>Company | Directors and officers liability                                       | Nov 2013 to Nov 2016     | \$3,000,000                       |
|                                 | Employee dishonesty  | Sept 2013 to Sept 2016   | \$100,000                         |
| Chubb                           | Cyber Liability  | Sept 2013 to Sept 2014   | \$1,000,000                       |

Winneshiek Medical Center  
Schedules of Statistical Information (Unaudited)  
Years Ended June 30, 2014 and 2013

|                               | <u>2014</u>   | <u>2013</u>   |
|-------------------------------|---------------|---------------|
| Patient Days                  |               |               |
| Acute                         | 2,486         | 2,741         |
| Swing-bed                     | 1,533         | 1,505         |
| Newborn                       | 447           | 502           |
| Totals                        | <u>4,466</u>  | <u>4,748</u>  |
| Discharges                    |               |               |
| Acute                         | 900           | 983           |
| Swing-bed                     | 151           | 147           |
| Totals                        | <u>1,051</u>  | <u>1,130</u>  |
| Average Length of Stay, Acute | <u>2.76</u>   | <u>2.79</u>   |
| Beds                          | <u>25</u>     | <u>25</u>     |
| Occupancy Percentage          |               |               |
| Acute, based on 25 beds       | <u>27.2%</u>  | <u>30.0%</u>  |
| Swing-bed, based on 25 beds   | <u>16.8%</u>  | <u>16.5%</u>  |
| Outpatient Visits             | <u>62,874</u> | <u>60,371</u> |
| Clinic Visits                 | <u>44,671</u> | <u>39,188</u> |



**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, 2014 and its component unit, Winneshiek Medical Center Foundation, and the related notes to the financial statements and have issued our report thereon dated September 18, 2014.

**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 2014-A and 2014-B to be significant deficiencies.

## **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*.

## **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.



Dubuque, Iowa  
September 18, 2014

**Part I: Findings Related to the Financial Statements:**

**Significant Deficiencies:**

**2014-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)**

**2014-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:**

**2014-IA-A Certified Budget:** Disbursements during the year ended June 30, 2014 did not exceed the amount budgeted.

**2014-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.

**2014-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.

**2014-IA-D Business Transactions:** Business transactions between the Medical Center and Medical Center officials and employees are detailed as follows:

| <u>Business Connection</u>                 | <u>Transaction Description</u> | <u>Amount</u> |
|--|--------------------------------|---------------|
| Spouse of Employee is<br>Owner of Business | Office equipment               | \$ 19,499     |
| Spouse of Employee is<br>Owner of Business | Pharmacy services/supplies     | \$ 4,155      |
| Father of Employee is<br>Owner of Business | Ambulance repair               | \$ 3,255      |

**2014-IA-E Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.

**2014-IA-F Deposits and Investments:** No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Medical Center’s investment policy were noted.

**2014-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.



## 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, 2014 and its component unit, Winneshiek Medical Center Foundation, and the related notes to the financial statements and have issued our report thereon dated September 18, 2014.

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  
September 18, 2014



September 18, 2014

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, 2014, and have issued our report thereon dated September 18, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 10, 2014. 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.

During the year ended June 30, 2014, the Medical Center implemented the following new accounting standard:

*Government Accounting Standards Board Statement No. 65, Items Previously Reported 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.

We noted no transactions entered into by the Medical Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

*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. Management has corrected all such misstatements. 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.

#### **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 September 18, 2014.

#### **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.

### *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.

In 2012, the Governmental Accounting Standards Board (GASB) released accounting standards *Financial Reporting for Pension Plans*, Statement No. 67 and Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB Statements No. 67 and 68) for public pension plans and participating employers. GASB Statement No. 67 revised existing guidance for the financial reports of most public pension plans. The provisions in Statement No. 67 were effective for financial statements for periods beginning after June 15, 2013. Statement No. 68 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. 68 are effective for fiscal years beginning after June 15, 2014.

In general, GASB Statement No. 68 will require a net pension liability to be recognized on the balance sheet of government employers, such as the Medical Center, whom are participating in a public pension plan to account for the employer's share of any pension liability that exceeds the pension plan's net assets available for paying benefits. An employer's pension liability, along with other information required for footnote disclosure and supplemental information accompanying the basic financial statements, will be calculated at the public pension plan level and forwarded to the individual employers. However, it is still the employer's responsibility to ensure that all necessary information is timely obtained and included in the employer's financial statements.

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

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

Dubuque, Iowa

xc: Ms. Lisa Radtke