

FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008



WINNESHIEK MEDICAL CENTER

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WINNESHIEK MEDICAL CENTER
BOARD OF TRUSTEES AND MEDICAL CENTER OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Ben Wyatt	President	2014
Arlene Houlihan	Vice-President	2012
Rick Burras	Secretary-Treasurer	2014
Sherry Gribble	Member	2010
Roger Huinker	Member	2011
Don Nelson	Member	2012
Clark Goltz	Member	2014
<u>Medical Center Officials</u>		
Dan Werner	Chief Administrative Officer	
David Jordahl	Chief Operating Officer	
Kurt Carlson	Chief Medical Officer	
Lynn Luloff	Chief Financial Officer	
Sheryl Juve	Chief Nursing Officer	



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the accompanying balance sheet of Winneshiek Medical Center and its component unit, Winneshiek Medical Center Foundation, as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Winneshiek Medical Center and its component unit, as of June 30, 2008, were audited by other auditors whose report dated November 26, 2008, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Winneshiek Medical Center and Winneshiek Medical Center's Foundation as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2009, on our consideration of the Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Eide Sallly LLP

Dubuque, Iowa
October 23, 2009

Winneshiek Medical Center

Management's Discussion and Analysis

This section of Winneshiek Medical Center's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2009. We encourage readers to consider this analysis in conjunction with the financial statements in this report.

Financial Highlights

The assets of the Medical Center exceeded its liabilities by \$24,010,476 at June 30, 2009 and \$24,240,591 at June 30, 2008.

The Medical Center's total assets decreased by 3.5% from 2008 to \$38,956,982 and increased 2.5% from 2007 to \$40,384,520. A significant portion of the decrease from 2008 was in net accounts receivable.

The Medical Center's total liabilities decreased by 7.4% from 2008 to \$14,946,506 and increased 2.5% from 2007 to \$16,143,929. A significant portion of the decrease from 2008 was in accounts payable.

During the year, the Medical Center's total operating revenues increased 1.6% from 2008 to \$37,961,631 and 6.1% from 2007 to \$37,375,316, while the operating expenses increased 3.7% from 2008 to \$38,892,031 and 7.2% from 2007 to \$37,511,592. The Medical Center had a loss from operations of (\$930,400), which is (-2.45) % of total operating revenues.

The Medical Center made capital asset investments totaling \$2,035,220 during the fiscal year. The source of funding for these capital additions was derived from operations and advances of principal under an existing note.

Overview of the Financial Statements

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

The balance sheet provides information about the nature and amounts of the Medical Center's assets and liabilities. The balance sheet at June 30, 2009, reports total assets of \$38,956,982, total liabilities of \$14,946,506 and net assets of \$24,010,476.

The statement of revenues, expenses, and changes in net assets provides information on the Medical Center's revenues and expenses. This statement indicates total operating revenues of \$37,961,631 and total operating expenses of \$38,892,031 during fiscal year 2009. The operating loss was (\$930,400) in 2009, compared to an operating loss of (\$136,276) in 2008, and an operating gain of \$241,652 in 2007.

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

Winneshiek Medical Center

Management's Discussion and Analysis

Long-Term Debt

At year-end, Winneshiek Medical Center had \$9,901,450 in long-term debt. The debt was incurred to finance the new addition, the dialysis center addition and additional Clinic space, the renovation, equipping and furnishing of existing facilities, and the acquisition and construction of capital improvements and equipment.

Factors Bearing on Financial Future

Going forward the Medical Center has included in its Strategic Plan goals of: expanding services; retaining and recruiting a strong motivated staff; expanding its service area and exploring partnerships; applying for the Malcolm Baldrige Quality Program; planning additional renovations developed from a Facilities Improvement Plan; developing a Master Facilities Plan; and implementing ongoing process improvement. The Medical Center operates in an industry subject to constant changes in governmental regulations and reimbursement. The Medical Center monitors legislation being considered by Congress for rural healthcare providers.

Requests for Information

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

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

WINNESHIEK MEDICAL CENTER
BALANCE SHEETS
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,131,973	\$ 697,457
Receivables		
Patient, net of estimated uncollectibles		
of \$4,099,000 in 2009 and \$3,241,000 in 2008	6,969,483	8,395,564
Succeeding year property tax	435,600	427,297
Other	267,526	285,638
Supplies	867,015	826,298
Prepaid expense	<u>220,068</u>	<u>128,522</u>
Total current assets	<u>9,891,665</u>	<u>10,760,776</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Internally designated for capital improvements	704,880	1,037,651
Restricted by contributors	<u>684,914</u>	<u>666,313</u>
Total assets limited as to use or restricted	<u>1,389,794</u>	<u>1,703,964</u>
CAPITAL ASSETS, net - Note 5	<u>27,204,177</u>	<u>27,505,633</u>
OTHER ASSETS		
Assets held by Foundation - Note 4	<u>471,346</u>	<u>414,147</u>
 Total assets	 <u>\$ 38,956,982</u>	 <u>\$ 40,384,520</u>

See notes to financial statements.

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 6	\$ 913,131	\$ 775,578
Accounts payable		
Trade	293,122	301,220
Related party - Note 11	870,661	1,849,777
Construction	-	373,292
Estimated health claims payable - Note 12	170,000	219,971
Estimated third-party payor settlements	155,000	249,156
Deferred revenue, contribution - Note 9	250,000	250,000
Accrued expenses		
Salaries and wages	498,565	451,031
Vacation	1,198,502	1,065,144
Payroll taxes and employee benefits	260,475	256,574
Deferred revenue for succeeding year property tax receivable	<u>435,600</u>	<u>427,297</u>
 Total current liabilities	 5,045,056	 6,219,040
 LONG-TERM DEBT, less current maturities - Note 6	 <u>9,901,450</u>	 <u>9,924,889</u>
 Total liabilities	 <u>14,946,506</u>	 <u>16,143,929</u>
 CONTINGENCIES - Note 12		
 NET ASSETS		
Invested in capital assets, net of related debt	16,389,596	16,805,166
Restricted		
By contributors	684,914	666,313
Held by Foundation - Note 4	471,346	414,147
Unrestricted	<u>6,464,620</u>	<u>6,354,965</u>
 Total net assets	 <u>24,010,476</u>	 <u>24,240,591</u>
 Total liabilities and net assets	 <u>\$ 38,956,982</u>	 <u>\$ 40,384,520</u>

WINNESHIEK MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$1,041,979 in 2009 and \$1,536,591 in 2008) - Notes 2 and 3	\$ 37,481,166	\$ 36,837,159
Other operating revenues	<u>480,465</u>	<u>538,157</u>
TOTAL OPERATING REVENUES	<u>37,961,631</u>	<u>37,375,316</u>
OPERATING EXPENSES		
Salaries and wages	14,597,476	14,159,773
Employee benefits	3,902,509	3,815,968
Supplies and other expenses	18,065,669	17,162,036
Depreciation	<u>2,326,377</u>	<u>2,373,815</u>
TOTAL OPERATING EXPENSES	<u>38,892,031</u>	<u>37,511,592</u>
OPERATING LOSS	<u>(930,400)</u>	<u>(136,276)</u>
NONOPERATING REVENUES (EXPENSES)		
Tax revenue	434,285	436,453
Interest	(452,895)	(165,971)
Investment income - Note 4	40,908	56,001
Foundation		
Investment income, net - Note 4	2,552	3,662
Contributions, net of fundraising expenses	84,144	96,442
Noncapital grants and contributions	83,239	24,576
Rental property, net	206,290	159,743
Gain on sale of capital assets	<u>36,214</u>	<u>4,763</u>
NET NONOPERATING REVENUES	<u>434,737</u>	<u>615,669</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	(495,663)	479,393
Capital contributions and grants	<u>265,548</u>	<u>109,255</u>
INCREASE (DECREASE) IN NET ASSETS	(230,115)	588,648
NET ASSETS BEGINNING OF YEAR	<u>24,240,591</u>	<u>23,651,943</u>
NET ASSETS END OF YEAR	<u>\$ 24,010,476</u>	<u>\$ 24,240,591</u>

See notes to financial statements.

WINNESHIEK MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 38,813,091	\$ 35,159,215
Payments of salaries and wages	(14,416,584)	(14,066,260)
Payments of supplies and other expenses	(23,133,725)	(20,656,115)
Other receipts and payments, net	<u>498,577</u>	<u>585,486</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,761,359</u>	<u>1,022,326</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions received	83,239	24,576
County tax revenue received	<u>434,285</u>	<u>436,453</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>517,524</u>	<u>461,029</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(2,002,207)	(2,407,875)
Proceeds from sale of capital assets	13,500	4,763
Decrease in construction payable	(373,292)	(150,615)
Principal payments on long-term debt	(796,187)	(1,256,675)
Proceeds from issuance of long-term debt	910,301	1,489,699
Interest payments on long-term debt	(452,895)	(165,971)
Capital contributions and grants	<u>349,692</u>	<u>205,697</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,351,088)</u>	<u>(2,280,977)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	43,460	59,661
Net cash received on rental property	206,290	159,743
Increase in assets held by Foundation	(57,199)	(100,102)
Decrease in assets limited as to use or restricted	<u>314,170</u>	<u>170,072</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>506,721</u>	<u>289,374</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	434,516	(508,248)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>697,457</u>	<u>1,205,705</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,131,973</u>	<u>\$ 697,457</u>

(continued)

WINNESHIEK MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH		
PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (930,400)	\$ (136,276)
Adjustments to reconcile operating loss to net cash		
provided by operating activities		
Depreciation	2,326,377	2,373,815
Provision for bad debts	1,041,979	1,536,591
Changes in assets and liabilities		
Patient receivables	384,102	(2,994,992)
Estimated third-party payor settlements	(94,156)	(219,543)
Other receivables	18,112	47,329
Supplies	(40,717)	(133,008)
Prepaid expense	(91,546)	14,222
Accounts payable - trade and related	(987,214)	147,548
Estimated health claims payable	(49,971)	105,927
Accrued expenses	<u>184,793</u>	<u>280,713</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,761,359</u>	<u>\$ 1,022,326</u>

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

Reporting Entity

For financial reporting purposes, Winneshiek Medical Center has included all funds, organizations, agencies, boards, commissions, and authorities. The Medical Center has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Medical Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Medical Center. Winneshiek Medical Center Foundation meets these criteria and is included in the Medical Center's financial statements under the provisions of GASB Statement No. 14 as a blended component unit. The Foundation was formed by the Medical Center to promote fundraising efforts on behalf of the Medical Center. The Foundation is a nonprofit corporation and is a tax-exempt corporation pursuant to Section 501(c)(3) of the Internal Revenue Code. Winneshiek Medical Center has no other component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

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

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have 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 unrestricted resources first.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Measurement Focus and Basis of Accounting

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Patient Receivables

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

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

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

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors 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 Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Supplies

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

Assets Limited as to Use or Restricted

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

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

Capital Assets

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

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

Compensated Absences

The Medical Center's employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation payments is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009 and 2008.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

Operating Revenues and Expenses

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

Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Grants and Contributions

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

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Medical Center incurred \$58,719 and \$107,695 for advertising costs for the years ended June 30, 2009 and 2008, respectively.

Charity Care

To fulfill its mission of community service, the Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is recorded in the accounting system at the established rates, but the Medical Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Investment Income

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

County Tax Revenue

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

Subsequent Events

The Medical Center has evaluated subsequent events through October 23, 2009, the date which the financial statements were available to be issued.

Reclassification

Certain items from the 2008 financial statements have been reclassified to conform to the current year presentation.

Other Significant Accounting Policies

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

NOTE 2 – CHARITY CARE AND COMMUNITY BENEFITS

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies under its charity care policy. The amounts of charges foregone were \$657,263 and \$737,049 for the years ended June 30, 2009 and 2008, respectively. The estimated costs of the charges foregone, based upon an overall cost to charge ratio calculation, for the years ended June 30, 2009 and 2008, were \$415,000 and \$465,000, respectively.

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

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

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 3 – NET PATIENT SERVICE REVENUE

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare:

Winneshiek Medical Center is licensed as a Critical Access Hospital (CAH). The Medical Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Medical Center and are subject to audits thereof by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2006.

Medicaid:

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid fiscal intermediary. The Medical Center's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2006.

Other Payors:

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

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.

Revenue from the Medicare and Medicaid programs accounted for approximately 43% and 4%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2009, and 38% and 4%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2008.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Total patient service revenue	<u>\$ 60,160,815</u>	<u>\$ 57,916,857</u>
Contractual adjustments		
Medicare	(10,178,675)	(12,082,802)
Medicaid	(1,769,535)	(1,379,904)
Blue Cross	(6,123,182)	(3,857,495)
Other	<u>(3,566,278)</u>	<u>(2,222,906)</u>
Total contractual adjustments	<u>(21,637,670)</u>	<u>(19,543,107)</u>
Net patient service revenue	38,523,145	38,373,750
Provision for bad debts	<u>(1,041,979)</u>	<u>(1,536,591)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 37,481,166</u>	<u>\$ 36,837,159</u>

NOTE 4 – DEPOSITS AND INVESTMENTS

The Medical Center's deposits in banks at June 30, 2009 and 2008, were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Medical Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Investments reported are not subject to risk categorization.

At June 30, 2009 and 2008, the Medical Center's carrying amounts of cash and deposits are as follows:

	<u>2009</u>	<u>2008</u>
Checking and savings accounts	\$ 1,131,973	\$ 697,457
Checking and savings accounts - Foundation	160,719	304,948
Money market accounts	895,884	793,468
Certificates of deposit	487,445	903,690
Certificates of deposit - Foundation	272,014	8,263
Mutual funds - Foundation	38,613	29,646
Contributions receivable - Foundation	-	71,290
Interest receivable	<u>6,465</u>	<u>6,806</u>
Total deposits and investments	<u>\$ 2,993,113</u>	<u>\$ 2,815,568</u>

(continued on next page)

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 1,131,973	\$ 697,457
Assets limited as to use or restricted	1,389,794	1,703,964
Assets held by Foundation	<u>471,346</u>	<u>414,147</u>
	<u>\$ 2,993,113</u>	<u>\$ 2,815,568</u>

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

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

Investment Income

Investment income, including return on assets held by Foundation, for the years ended June 30, 2009 and 2008, is summarized as follows:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ <u>40,908</u>	\$ <u>56,001</u>
Foundation		
Interest and dividends	2,811	3,662
Realized gains and losses, net	(241)	-
Change in unrealized gains and losses, net of interest expense	<u>(18)</u>	<u>-</u>
Foundation investment income	<u>2,552</u>	<u>3,662</u>
	<u>\$ 43,460</u>	<u>\$ 59,663</u>

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 5 – CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2009 and 2008, are as follows:

	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Capital assets					
Land	\$ 551,673	\$ -	\$ -	\$ 364,000	\$ 915,673
Land improvements	392,132	-	-	36,024	428,156
Buildings and leasehold improvements	29,295,760	-	-	1,517,255	30,813,015
Fixed equipment	1,906,385	-	-	48,330	1,954,715
Major movable equipment	11,424,585	29,497	(454,205)	706,556	11,706,433
Construction and equipment installations in progress	865,224	2,005,723	-	(2,672,165)	198,782
Total	44,435,759	\$ 2,035,220	\$ (454,205)	\$ -	46,016,774
Accumulated depreciation					
Land improvements	307,542	\$ 16,693	\$ -	\$ -	324,235
Buildings and leasehold improvements	7,244,548	1,267,631	-	-	8,512,179
Fixed equipment	1,155,427	142,271	-	-	1,297,698
Major movable equipment	8,222,609	899,782	(443,906)	-	8,678,485
Total	16,930,126	\$ 2,326,377	\$ (443,906)	\$ -	18,812,597
Capital assets, net	\$ 27,505,633				\$ 27,204,177
	June 30, 2007				June 30, 2008
	Balance	Additions	Deductions	Transfers	Balance
Capital assets					
Land	\$ 551,673	\$ -	\$ -	\$ -	\$ 551,673
Land improvements	351,768	-	-	40,364	392,132
Buildings and leasehold improvements	26,302,825	-	-	2,992,935	29,295,760
Fixed equipment	1,817,692	23,010	(14,540)	80,223	1,906,385
Major movable equipment	11,062,245	287,249	(183,890)	258,981	11,424,585
Construction and equipment installations in progress	1,679,530	2,558,197	-	(3,372,503)	865,224
Total	41,765,733	\$ 2,868,456	\$ (198,430)	\$ -	44,435,759

(continued on next page)

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

	June 30, 2007				June 30, 2008
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Accumulated depreciation					
Land improvements	\$ 293,365	\$ 14,177	\$ -	\$ -	\$ 307,542
Buildings and leasehold improvements	6,020,608	1,226,209	(2,269)	-	7,244,548
Fixed equipment	1,016,256	137,492	1,679	-	1,155,427
Major movable equipment	<u>6,963,933</u>	<u>995,937</u>	<u>262,739</u>	<u>-</u>	<u>8,222,609</u>
Total	<u>14,294,162</u>	<u>\$ 2,373,815</u>	<u>\$ 262,149</u>	<u>\$ -</u>	<u>16,930,126</u>
Capital assets, net	<u>\$ 27,471,571</u>				<u>\$ 27,505,633</u>

Construction in progress at June 30, 2009, represents equipment not yet operational.

NOTE 6 – LONG-TERM DEBT

A schedule of changes in long-term debt for 2009 and 2008 is as follows:

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

(continued on next page)

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

	June 30, 2007			June 30, 2008	
	Balance	Additions	Deductions	Balance	Amounts Due Within One Year
Revenue Note, Series 2001	\$ 387,061	\$ -	\$ (387,061)	\$ -	\$ -
Revenue Note, Series 2005	8,630,608	-	(540,850)	8,089,758	509,040
Revenue Note, Series 2008	-	1,489,699	-	1,489,699	70,410
Rural economic development loan	360,000	-	-	360,000	7,500
Capitalized lease obligation	1,089,774	-	(328,764)	761,010	188,628
Total long-term debt	<u>\$ 10,467,443</u>	<u>\$ 1,489,699</u>	<u>\$ (1,256,675)</u>	10,700,467	<u>\$ 775,578</u>
Less current maturities				<u>(775,578)</u>	
Long-term debt, less current maturities				<u>\$ 9,924,889</u>	

Hospital Revenue Note, Series 2001:

In December, 2001, the Board of Trustees of Winneshiek Medical Center authorized the issuance of a \$3,500,000 Hospital Revenue Note, Series 2001. The note was 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 acquisition of real estate, the renovation and furnishing of the special care unit and the acquisition and construction of improvements and equipment included in the Medical Center's capital budget for the fiscal years ended June 30, 2003 and 2004 and to refund a 1996 Hospital Revenue Note.

Advances of principal under the note in an amount not to exceed \$3,500,000 were made by the lender from time to time at the request of the Medical Center during the period beginning on the date of issuance of the note to and including May 31, 2003. Advances totaled \$2,245,912.

Beginning on February 1, 2003, the Medical Center began paying monthly installments of principal and interest totaling \$35,939, including interest at 4.30%. The note was paid off during the year ended June 30, 2008.

Hospital Revenue Note, Series 2005:

The Board of Trustees of Winneshiek Medical Center authorized the issuance of a \$10,000,000 Hospital Revenue Note, Series 2005. The note is payable solely from future revenues of the Medical Center. The purpose of the note is to finance the renovation, equipping and furnishing of existing facilities, the construction of a one-story addition, and the acquisition and construction of improvements and equipment included in the Medical Center's capital budget for the fiscal years ended June 30, 2006 and 2007.

Advances of principal under the note in an amount not to exceed \$10,000,000 were made by the lender from time to time at the request of the Medical Center during the period beginning on the date of issuance of the note to and including August 31, 2007. Advances through June 30, 2007, totaled \$10,000,000. The balance of the note at June 30, 2009, is \$7,521,161.

Beginning on July 1, 2005, the Medical Center began paying monthly installments of principal and interest totaling \$76,295. Interest is payable at 4.46% until April 2012 when it will be adjusted to 40 basis points above the annualized income rate on five year United States Treasury Notes. The note matures August 1, 2020.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Hospital Revenue Note, Series 2008:

In April, 2008, the Board of Trustees of Winneshiek Medical Center authorized the issuance of a \$2,400,000 Hospital Revenue Note, Series 2008. The note is payable solely from future revenues of the Medical Center. The purpose of the note is to finance the cost of improvements to the Medical Center including the building of a new Dialysis Center and additional Clinic space, and the acquisition and construction of improvements and equipment included in the Medical Center's capital budget for the fiscal years ended June 30, 2008 and 2009.

Advances of principal under the note in an amount not to exceed \$2,400,000 were made from time to time at the request of the Medical Center during the period beginning on the date of issuance of the note to and including December 31, 2008. Advances through June 30, 2009, totaled \$2,400,000. The balance of the note at June 30, 2009, is \$2,368,538.

Beginning on January 1, 2009, the Medical Center began paying monthly installments of principal and interest totaling \$15,184. Interest is payable at 4.50% until January 2016, when it will be adjusted to 40 basis points above the annualized interest rate on five year United States Treasury Notes. The note will further be adjusted in 2021 and 2026 in a similar manner. The note matures January 2029.

Rural Economic Development Loan:

The Medical Center entered into a loan agreement with Hawkeye Tri-County Electric Cooperative. The proceeds of the loan are to be used for the expansion and refurbishment of the Medical Center's facility. The loan in the original amount of \$360,000 is noninterest bearing and is payable in monthly installments beginning May 2009 of \$3,750 through April 2017. The agreement is secured by the net revenues of the Medical Center.

Obligations Under Capital Leases:

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

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

Year Ending June 30,	Long-Term Debt		Total
	Principal	Interest	
2010	\$ 913,131	\$ 462,251	\$ 1,375,382
2011	961,532	417,135	1,378,667
2012	929,762	370,264	1,300,026
2013	809,866	332,878	1,142,744
2014	844,722	298,022	1,142,744
2015-2019	4,707,148	909,071	5,616,219
2020-2024	895,697	243,891	1,139,588
2025-2029	752,723	81,623	834,346
	<u>\$ 10,814,581</u>	<u>\$ 3,115,135</u>	<u>\$ 13,929,716</u>

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 7 – LEASES

The Medical Center leases certain equipment and building space under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2009 and 2008, for all operating leases was \$98,773 and \$85,677, respectively. The capitalized leased assets consist of:

	<u>2009</u>	<u>2008</u>
Major movable equipment	\$ 992,119	\$ 992,119
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(446,454)</u>	<u>(248,030)</u>
	<u>\$ 545,665</u>	<u>\$ 744,089</u>

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

<u>Year Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2010	\$ 235,920	\$ 81,965
2011	235,920	81,965
2012	157,280	70,881
2013	<u>-</u>	<u>31,353</u>
Total minimum lease payments	629,120	<u>\$ 266,164</u>
Less interest	<u>(56,738)</u>	
Present value of minimum lease payments - Note 6	<u>\$ 572,382</u>	

NOTE 8 – MEDICAL OFFICE SPACE LEASE

The Medical Center, as lessor, leases a building to be used as a medical office under an operating lease agreement that expires December 1, 2011. Lease payments are to be received in monthly installments of \$6,656.

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

<u>Year Ending June 30,</u>	
2010	\$ 79,872
2011	79,872
2012	<u>39,936</u>
	<u>\$ 199,680</u>

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 9 – DEFERRED REVENUE, CONTRIBUTION

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

NOTE 10 – PENSION AND RETIREMENT BENEFITS

The Medical Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary, and the Medical Center is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Plan members were required to contribute 3.90% and 3.70% of their annual covered salary, and the Medical Center was required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements are established by state statute. The Medical Center’s contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$920,446, \$897,787, and \$740,609, respectively, equal to the required contributions for each year.

NOTE 11 – RELATED ORGANIZATIONS

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, 2009 and 2008, were approximately \$645,518 and \$465,859, respectively.

As of June 30, 2009 and 2008, Winneshiek Medical Center’s records reflect an amount due to MFMER of \$45,651 and \$134,122, respectively, for the various services related to these agreements.

Professional Services Agreement

Winneshiek Medical Center has a contractual agreement with Decorah Clinic - Mayo Health System (Clinic) under which the Clinic provides professional medical services to patients of the Medical Center. Amounts paid to the Clinic for the provision of these services amounted to \$8,325,370 and \$6,705,841 for the years ended June 30, 2009 and 2008, respectively.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

As of June 30, 2009 and 2008, Winneshiek Medical Center's records reflect an amount due to the Clinic of \$825,010 and \$1,715,655, respectively, for the various services related to this agreement.

NOTE 12 – CONTINGENCIES

Malpractice Insurance

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

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, 2009 and 2008 totals \$170,000 and \$219,971, respectively, which is for incurred but not reported (IBNR) and reported but not paid claims. This amount is based on estimates of the amount necessary to pay current year claims. The Plan has purchased stop loss coverage of \$40,000 per participant and \$1,000,000 aggregate for 2009.

Health Care Legislation and Regulation

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

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

Disputed Liability

The Medical Center reimburses Decorah Clinic Physicians – Mayo Health System (Clinic) for physician services under its Physician Services Agreement (Agreement). This Agreement outlines the compensation and benefits which will be reimbursed, as well as how these amounts will be determined. The Medical Center and Clinic are currently in discussions regarding amounts billed to the Medical Center related to a Supplemental Retirement/Deferred Compensation Plan benefit provided to the physicians. The amount in dispute is \$412,000 and relates to the current and prior fiscal years. As this amount is in dispute, the Medical Center has not accrued a liability as of June 30, 2009.

WINNESHIEK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	27%	28%
Medicaid	7	4
Commercial insurance	43	43
Other third-party payors and patients	<u>23</u>	<u>25</u>
	<u>100%</u>	<u>100%</u>

REQUIRED SUPPLEMENTARY INFORMATION



WINNESHIEK MEDICAL CENTER
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2009

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 434,285	\$ -	\$ 434,285	\$ 435,600	\$ (1,315)
Estimated other revenues/receipts	<u>38,680,526</u>	<u>2,180,425</u>	<u>40,860,951</u>	<u>41,621,097</u>	<u>(760,146)</u>
	39,114,811	2,180,425	41,295,236	42,056,697	(761,461)
Expenses/disbursements	<u>39,344,926</u>	<u>1,829,964</u>	<u>41,174,890</u>	<u>40,851,686</u>	<u>(323,204)</u>
Net	(230,115)	350,461	120,346	1,205,011	<u>\$ (1,084,665)</u>
Balance beginning of year	<u>24,240,591</u>	<u>(21,839,170)</u>	<u>2,401,421</u>	<u>2,336,840</u>	
Balance end of year	<u>\$ 24,010,476</u>	<u>\$ (21,488,709)</u>	<u>\$ 2,521,767</u>	<u>\$ 3,541,851</u>	

WINNESHIEK MEDICAL CENTER

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

JUNE 30, 2009

NOTE 1 – BUDGETARY COMPARISON

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

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Medical Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The Medical Center did not amend its original budget during the year ended June 30, 2009.

For the year ended June 30, 2009, the Medical Center's expenditures exceeded the amount budgeted.





INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

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

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

Dubuque, Iowa
October 23, 2009

WINNESHIEK MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2009 AND 2008

	TOTAL	
	2009	2008
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 2,886,314	\$ 2,750,243
Nursery	281,190	286,025
Subtotal	3,167,504	3,036,268
OTHER PROFESSIONAL SERVICES		
Operating room	5,081,783	4,851,494
Labor and delivery room	393,793	334,662
Anesthesiology	1,716,209	1,761,798
Radiology	9,423,104	8,712,857
Laboratory	7,303,505	6,599,817
Respiratory therapy	602,002	654,178
Physical therapy	1,675,443	1,603,398
Occupational therapy	690,220	627,623
Occupational health	223,021	196,228
Speech therapy	85,314	50,841
Electrocardiology	640,516	545,919
Central supply	2,996,813	2,517,746
Pharmacy	6,554,090	6,309,220
Outpatient clinic	13,924,419	14,781,435
Emergency room	2,304,914	2,072,458
Observation room	141,560	106,464
Ambulance	995,194	991,224
Home health	327,057	255,682
Durable medical equipment	532,221	419,961
Emergency room physician fees	1,493,572	1,479,992
Hospice	523,330	727,564
Diabetic education	22,494	17,077
Subtotal	57,650,574	55,617,638
Total	60,818,078	58,653,906
Charity care	(657,263)	(737,049)
Total patient service revenue	60,160,815	57,916,857
CONTRACTUAL ADJUSTMENTS		
Medicare	(10,178,675)	(12,082,802)
Medicaid	(1,769,535)	(1,379,904)
Blue Cross	(6,123,182)	(3,857,495)
Other	(3,566,278)	(2,222,906)
Total contractual adjustments	(21,637,670)	(19,543,107)
NET PATIENT SERVICE REVENUE	38,523,145	38,373,750
PROVISION FOR BAD DEBTS	(1,041,979)	(1,536,591)
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	\$ 37,481,166	\$ 36,837,159

INPATIENT		OUTPATIENT	
2009	2008	2009	2008
\$ 2,886,314	\$ 2,750,243	\$ -	\$ -
281,190	286,025	-	-
3,167,504	3,036,268	-	-
736,925	669,291	4,344,858	4,182,203
329,183	286,518	64,610	48,144
1,528,360	1,542,236	187,849	219,562
843,776	660,433	8,579,328	8,052,424
989,703	920,794	6,313,802	5,679,023
202,773	207,010	399,229	447,168
291,676	237,076	1,383,767	1,366,322
153,632	102,311	536,588	525,312
-	-	223,021	196,228
18,873	5,319	66,441	45,522
157,140	126,261	483,376	419,658
841,608	672,675	2,155,205	1,845,071
2,473,175	2,141,404	4,080,915	4,167,816
-	-	13,924,419	14,781,435
155,540	148,738	2,149,374	1,923,720
13,095	7,028	128,465	99,436
36,435	23,695	958,759	967,529
-	-	327,057	255,682
-	-	532,221	419,961
69,430	63,560	1,424,142	1,416,432
508,646	702,444	14,684	25,120
-	-	22,494	17,077
9,349,970	8,516,793	48,300,604	47,100,845
\$ 12,517,474	\$ 11,553,061	\$ 48,300,604	\$ 47,100,845

WINNESHIEK MEDICAL CENTER
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OTHER OPERATING REVENUES		
Contract fees and services		
Physical therapy	\$ 102,035	\$ 100,780
Occupational therapy	75,312	69,271
Dietary	14,134	10,100
Laundry and housekeeping	4,756	8,300
Speech therapy	2,967	6,815
Employee meals	94,143	85,297
Meal on Wheels and guest meals	18,175	15,398
Medical records transcripts	8,778	7,662
Vending machines	590	2,552
Other	<u>159,575</u>	<u>231,982</u>
 TOTAL OTHER OPERATING REVENUES	 <u><u>\$ 480,465</u></u>	 <u><u>\$ 538,157</u></u>

WINNESHIEK MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 248,565	\$ 243,465
Supplies and other expenses	<u>21,625</u>	<u>10,536</u>
	<u>270,190</u>	<u>254,001</u>
ADULTS AND PEDIATRICS		
Salaries and wages	1,757,195	1,631,353
Supplies and other expenses	<u>219,168</u>	<u>137,352</u>
	<u>1,976,363</u>	<u>1,768,705</u>
NURSERY		
Salaries and wages	124,863	121,863
Supplies and other expenses	<u>8,434</u>	<u>7,495</u>
	<u>133,297</u>	<u>129,358</u>
OPERATING ROOM		
Salaries and wages	965,143	1,001,670
Supplies and other expenses	<u>431,469</u>	<u>413,555</u>
	<u>1,396,612</u>	<u>1,415,225</u>
LABOR AND DELIVERY ROOM		
Salaries and wages	57,290	65,395
Supplies and other expenses	<u>6,441</u>	<u>7,216</u>
	<u>63,731</u>	<u>72,611</u>
ANESTHESIOLOGY		
Salaries and wages	668,653	547,416
Supplies and other expenses	<u>221,541</u>	<u>238,968</u>
	<u>890,194</u>	<u>786,384</u>
RADIOLOGY		
Salaries and wages	788,726	760,970
Supplies and other expenses	<u>746,196</u>	<u>826,549</u>
	<u>1,534,922</u>	<u>1,587,519</u>
LABORATORY		
Salaries and wages	845,652	874,456
Supplies and other expenses	<u>1,111,877</u>	<u>1,035,318</u>
	<u>1,957,529</u>	<u>1,909,774</u>
RESPIRATORY THERAPY		
Salaries and wages	119,315	129,573
Supplies and other expenses	<u>120,919</u>	<u>135,936</u>
	<u>240,234</u>	<u>265,509</u>

(continued)

WINNESHIEK MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
PHYSICAL THERAPY		
Salaries and wages	\$ 772,751	\$ 864,353
Supplies and other expenses	<u>230,392</u>	<u>231,284</u>
	<u>1,003,143</u>	<u>1,095,637</u>
OCCUPATIONAL THERAPY		
Salaries and wages	269,080	218,036
Supplies and other expenses	<u>24,482</u>	<u>23,270</u>
	<u>293,562</u>	<u>241,306</u>
SPEECH THERAPY		
Salaries and wages	63,438	49,524
Supplies and other expenses	<u>3,637</u>	<u>7,323</u>
	<u>67,075</u>	<u>56,847</u>
COMPREHENSIVE OUTPATIENT REHAB FACILITY		
Salaries and wages	21,934	26,841
Supplies and other expenses	<u>18,667</u>	<u>19,113</u>
	<u>40,601</u>	<u>45,954</u>
ELECTROCARDIOLOGY		
Salaries and wages	40,568	37,770
Supplies and other expenses	<u>31,913</u>	<u>36,026</u>
	<u>72,481</u>	<u>73,796</u>
CENTRAL SUPPLY		
Salaries and wages	31,423	30,692
Supplies and other expenses	<u>643,422</u>	<u>577,756</u>
	<u>674,845</u>	<u>608,448</u>
PHARMACY		
Salaries and wages	231,067	227,145
Supplies and other expenses	<u>1,424,920</u>	<u>1,419,949</u>
	<u>1,655,987</u>	<u>1,647,094</u>
CLINIC		
Salaries and wages	1,437,081	1,360,370
Supplies and other expenses	<u>7,412,957</u>	<u>7,185,223</u>
	<u>8,850,038</u>	<u>8,545,593</u>
MABEL CLINIC		
Supplies and other expenses	<u>333</u>	<u>-</u>
		(continued)

WINNESHIEK MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
MATERIALS MANAGEMENT		
Salaries and wages	\$ 109,276	\$ 106,996
Supplies and other expenses	22,546	20,959
	<u>131,822</u>	<u>127,955</u>
EMERGENCY ROOM		
Salaries and wages	1,030,104	989,905
Supplies and other expenses	1,084,344	1,092,199
	<u>2,114,448</u>	<u>2,082,104</u>
AMBULANCE		
Salaries and wages	375,543	352,565
Supplies and other expenses	50,309	61,746
	<u>425,852</u>	<u>414,311</u>
HOME HEALTH		
Salaries and wages	226,304	192,210
Supplies and other expenses	27,503	18,539
	<u>253,807</u>	<u>210,749</u>
DURABLE MEDICAL EQUIPMENT		
Salaries and wages	52,300	50,229
Supplies and other expenses	94,132	67,501
	<u>146,432</u>	<u>117,730</u>
HOSPICE		
Salaries and wages	155,114	184,982
Supplies and other expenses	57,015	63,865
	<u>212,129</u>	<u>248,847</u>
OCCUPATIONAL HEALTH		
Salaries and wages	166,653	131,189
Supplies and other expenses	39,998	27,059
	<u>206,651</u>	<u>158,248</u>
DIABETIC EDUCATION		
Salaries and wages	30,790	-
Supplies and other expenses	1,141	394
	<u>31,931</u>	<u>394</u>
MEDICAL RECORDS		
Salaries and wages	905,322	784,430
Supplies and other expenses	263,160	267,609
	<u>1,168,482</u>	<u>1,052,039</u>

(continued)

WINNESHIEK MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
DIETARY		
Salaries and wages	\$ 390,918	\$ 381,096
Supplies and other expenses	<u>149,430</u>	<u>204,094</u>
	<u>540,348</u>	<u>585,190</u>
OPERATION OF PLANT		
Salaries and wages	294,683	288,306
Supplies and other expenses	<u>782,958</u>	<u>695,761</u>
	<u>1,077,641</u>	<u>984,067</u>
FOUNDATION		
Salaries and wages	167,830	152,028
Supplies and other expenses	<u>70,381</u>	<u>97,906</u>
	<u>238,211</u>	<u>249,934</u>
SPECIALTY CLINIC		
Salaries and wages	<u>4,346</u>	<u>4,027</u>
HOUSEKEEPING		
Salaries and wages	233,593	177,801
Supplies and other expenses	<u>54,619</u>	<u>47,861</u>
	<u>288,212</u>	<u>225,662</u>
LAUNDRY AND LINEN		
Salaries and wages	107,049	102,901
Supplies and other expenses	<u>16,986</u>	<u>18,410</u>
	<u>124,035</u>	<u>121,311</u>
ADMINISTRATIVE AND GENERAL		
Salaries and wages	1,904,907	2,070,216
Supplies and other expenses	<u>2,672,754</u>	<u>2,165,263</u>
	<u>4,577,661</u>	<u>4,235,479</u>
UNASSIGNED EXPENSES		
Depreciation	2,326,377	2,373,815
Employee benefits	<u>3,902,509</u>	<u>3,815,969</u>
	<u>6,228,886</u>	<u>6,189,784</u>
TOTAL OPERATING EXPENSES	<u>\$ 38,892,031</u>	<u>\$ 37,511,592</u>

WINNESHIEK MEDICAL CENTER
SCHEDULES OF PATIENT RECEIVABLES
JUNE 30, 2009 AND 2008

ANALYSIS OF AGING Days Since Discharge	2009		2008	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 5,202,533	47.00%	\$ 4,054,616	34.84%
31 to 60 days	1,460,438	13.19%	2,398,240	20.61%
61 to 90 days	789,704	7.13%	921,542	7.92%
91 days and over	3,615,735	32.68%	4,262,603	36.63%
	11,068,410	100.00%	11,637,001	100.00%
Less: Allowance for doubtful accounts	1,103,000		1,729,784	
Allowance for contractual adjustments	2,995,927		1,511,653	
Net	\$ 6,969,483		\$ 8,395,564	
Net patient service revenue per calendar day	\$ 102,688		\$ 100,648	
Days of net revenue in net accounts receivable at year end	68		83	

WINNESHIEK MEDICAL CENTER
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
SUPPLIES		
Surgery	\$ 419,448	\$ 434,779
Pharmacy	299,055	247,693
Central supply	140,856	141,220
Dietary	<u>7,656</u>	<u>2,606</u>
 Total supplies	 <u>\$ 867,015</u>	 <u>\$ 826,298</u>
 PREPAID EXPENSE		
Insurance	\$ 185,460	\$ 87,502
Service contracts and other	<u>34,608</u>	<u>41,020</u>
 Total prepaid expense	 <u>\$ 220,068</u>	 <u>\$ 128,522</u>

WINNESHIEK MEDICAL CENTER
SCHEDULE OF INSURANCE COVERAGE
JUNE 30, 2009

Insurer	Coverage Type	Effective Dates	Coverage Amount
Farm Bureau	Worker's Compensation	April 2009 to April 2010	\$500,000/\$500,000/ \$500,000
PIC of Wisconsin	Commercial General Liability	April 2009 to April 2010	\$1,000,000
	Umbrella Excess Liability		\$5,000,000
	Medical Professional Liability - Each health care incident		\$1,000,000
	Medical Professional Liability - Total facility annual aggregate		\$3,000,000
Chubb	Blanket Limit of Insurance	April 2009 to April 2010	\$58,539,600
	Business Income and Expense Coverage		\$8,391,700
	Accounts Receivable Coverage		\$2,500,000
	Auto Liability		\$1,000,000
The Hartford	Accidental Death and Dismemberment	March 2008 to March 2011	\$50,000
Cincinnati Insurance Company	Directors and Officers Liability	Nov 2007 to Nov 2010	\$3,000,000
	Employee Dishonesty	Sept 2008 to Sept 2009	\$100,000

WINNESHIEK MEDICAL CENTER
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Acute	3,504	3,450
Swing-bed	1,081	994
Newborn	546	573
	<u>5,131</u>	<u>5,017</u>
ADMISSIONS		
Acute	1,233	1,220
Swing-bed	121	146
	<u>1,354</u>	<u>1,366</u>
DISCHARGES		
Acute	1,227	1,225
Swing-bed	120	145
	<u>1,347</u>	<u>1,370</u>
AVERAGE LENGTH OF STAY, ACUTE	<u>2.86</u>	<u>2.82</u>
BEDS	<u>25</u>	<u>25</u>
OCCUPANCY PERCENTAGE		
Acute, based on 25 beds	<u>38.4%</u>	<u>37.8%</u>
Swing-bed, based on 25 beds	<u>11.8%</u>	<u>10.9%</u>
OUTPATIENT VISITS	<u>57,733</u>	<u>56,359</u>
CLINIC VISITS	<u>42,186</u>	<u>41,495</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the accompanying balance sheet of Winneshiek Medical Center as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated October 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Winneshiek Medical Center as of June 30, 2008, were audited by other auditors whose report dated November 26, 2008, expressed an unqualified opinion on those financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Medical Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Medical Center's financial statements that is more than inconsequential will not be prevented or detected by the Medical Center's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Medical Center's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that none are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

We also noted certain additional matters that we reported to management in a separate letter dated October 23, 2009.

This report, a public record by law, is intended solely for the information and use of the Finance Committee, Board of Trustees, management, officials, employees, and constituents of the Medical Center and other parties to whom the Medical Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

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

Dubuque, Iowa
October 23, 2009

WINNESHIEK MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties

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

Condition – Certain employees perform duties that are incompatible.

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

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

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

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

Conclusion – Response accepted.

I-B-09 Preparation of Financial Statements

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

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

WINNESHIEK MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009

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

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

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

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

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

Conclusion – Response accepted.

I-C-09 Significant Audit Adjustments

Criteria – Reconciliation of general ledger accounts and estimates is essential to prepare reliable financial statements. Furthermore, reconciliations serve as an internal control over financial reporting.

Condition – During the audit process, we proposed certain audit adjustments that we consider to be significant related to the Medical Center's interim financial reporting process. These adjustments involved estimates related to the Medical Center's allowance for contractual adjustments, bad debts, and health claims liability. Significant audit adjustments indicate that interim financial reporting could be significantly misstated.

Cause – Staff in the accounting and finance positions are relatively new to the Medical Center in the past fiscal year. As a result, many issues have required immediate attention.

Effect – Failure to periodically review account balances and estimates can result in errors on the interim financial statements and represents a weakness in internal control over financial reporting.

Recommendation – Management should continue to evaluate the accuracy and completeness of its internal financial statements, including accruals related to the Medical Center's significant estimates to ensure that they are fairly stated.

**WINNESHIEK MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

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

Response – Management will review and modify procedures as necessary to improve internal financial reporting, including a review of accruals related to the Medical Center's significant estimates to ensure that they are fairly stated.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-09 Certified Budget – Disbursements during the year ended June 30, 2009, exceeded the amount budgeted by \$323,204.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-B-09 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-09 Travel Expense – No expenditures of Winneshiek Medical Center funds for travel expenses of spouses of Winneshiek Medical Center officials and/or employees were noted.

II-D-09 Business Transactions – Business transactions between the Medical Center and Medical Center officials and employees are detailed as follows:

<u>Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Spouse of employee is owner of business	Snow and ice removal services	\$ 84,746
Spouse of employee is owner of business	Photo services	\$ 844
Spouse of employee is owner of business	Pharmacy services	\$ 18,095

II-E-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

WINNESHIEK MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009

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

- II-F-09 Deposits and Investments – Winneshiek Medical Center held an account at a financial institution which was not included in its approved depository resolution during the year ended June 30, 2009.

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

Response – Subsequent to year end, the Medical Center reviewed and updated its financial institution listing to include this financial institution.

Conclusion – Response accepted.

- II-G-09 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.

- II-H-09 Tax Levy for Maintenance and Operation of the Medical Center – Winneshiek Medical Center is organized under Chapter 347A of the Code of Iowa as a county hospital payable from revenue. Section 347A.3 of the Code of Iowa defines whereby a county hospital under Chapter 347A may receive property tax revenues as follows: “If in any year, after payment of the accruing interest on and principal due of revenue bonds issued under chapter 331, division IV, part 4, and payable from the operation of the county hospital, there is a balance of such revenues insufficient to pay the expenses of operation, maintenance, and funded depreciation of the hospital, the board of the hospital trustees shall certify that fact as soon as ascertained to the board of supervisors of the county, and the board of supervisors shall make the amount of the deficiency for paying the expenses of operation, maintenance, and funded depreciation of the hospital available from other county funds or shall levy a tax not to exceed one dollar and eight cents per thousand dollars of assessed value in any one year on all the taxable property in the county in an amount sufficient for that purpose...”

Recommendation – It is recommended that the Medical Center Board of Trustees and management review its process to request property tax revenues from the county board of supervisors.

Response – While Section 347A.3 sets forth the general requirements for a tax levy by a 347A county hospital, the levy procedures used in practice by county hospitals follows the budget process established by the Iowa Department of Management pursuant to Chapter 24 of the Code of Iowa. In practice, the tax levy amount requested is set by the Medical Center’s Board of Trustees during the annual budgeting process. The Medical Center’s budgeting process follows the guidelines set forth in the Iowa Code Chapter 24. This process, although differing from the process described in Iowa Code Section 347A.3, appears to be in general usage by 347A county hospitals in Iowa and, again, is in compliance with the process outlined by Iowa Code Chapter 24 which has been interpreted to include county hospitals under Chapter 347A.

Conclusion – Response accepted.

WINNESHIEK MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009

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

II-I-09 Publication of Sale of Real and Personal Property – Chapter 347.30 of the Code of Iowa states “A county or city hospital shall serve notice and hold a public hearing before selling or leasing any real (or personal) property. The notice shall definitely describe the property, indicate the date and location of the hearing, and shall be published by at least one insertion each week for two consecutive weeks in a newspaper having general circulation in the county where the property is located. The hearing shall not take place prior to two weeks after the second publication.” The Medical Center sold personal property during the year without proper notice of publication prior to the sale.

Recommendation – In the future it is recommended that the Medical Center publish proper notice in accordance with Chapter 347.30 of the Code of Iowa prior to the sale of personal property.

Response – Going forward the Medical Center will publish proper notice in accordance with Chapter 347.30 of the Code of Iowa prior to the sale of personal property that has use to the general public. Therefore, if the item is equipment that is strictly for medical use, the Medical Center will continue to find an appropriate “purchaser” of this equipment at a fair price.

Conclusion – Response accepted.



INDEPENDENT AUDITOR'S REPORT ON DEBT AGREEMENT COVENANTS

The Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the accompanying balance sheet of Winneshiek Medical Center as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Winneshiek Medical Center as of June 30, 2009, and the respective changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention that caused us to believe that Winneshiek Medical Center failed to comply with any of the terms, covenants, provisions, or conditions of Section Fifteen "Patient Rates and Charges" and Section Seventeen "Covenants Regarding the Operation of the Hospital," inclusive, of the Indentures dated March 1, 2005 and April 1, 2008, with Decorah Bank & Trust Company, Decorah, Iowa, insofar as they relate to accounting matters, except for a violation of the provisions in Section Sixteen "Application of Revenues," whereby amounts sufficient to meet the current expenses of the month plus an amount equal to 1/12th of expenses payable on an annual (or other non-monthly basis) shall be deposited in an Operating and Maintenance Fund each month. At June 30, 2009, the Medical Center had 11 days operating cash on hand. Section Sixteen also requires the Medical Center to deposit in a Principal and Interest Sinking Fund amounts sufficient to accumulate in equal monthly payments the amount necessary to pay principal of and interest on such Parity Obligations when due. No such Principal and Interest Sinking Fund has been established. Our audit, however, was not directed primarily toward obtaining knowledge of such noncompliance.

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

Eide Bailly LLP

Dubuque, Iowa
October 23, 2009

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Board of Trustees
Winneshiek Medical Center
Decorah, Iowa

We have audited the financial statements of Winneshiek Medical Center for the year ended June 30, 2009, and have issued our report thereon dated October 23, 2009. 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 April 3, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Winneshiek Medical Center are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2009. We noted no transactions entered into by the Medical Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables, the amounts either owed to or receivable from third-party payors, the liability for self-insured employee medical and dental insurance for claims incurred but not reported at year-end, and depreciation expense.

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

Estimated Third-Party Payor Settlements – The 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 Insurance Liability – Management's estimate of self-funded medical and dental insurance liability is based on the timing and amounts of historical payments

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

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We evaluated the key factors and assumptions used to develop these estimates related to the collectibility of patient receivables, amounts either owed to or receivable from third-party payors, the liability for self-insured employee medical and dental insurance for claims incurred but not reported at year-end, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. 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.

We discussed all adjustments to the financial statements with the Medical Center's staff during the audit. The following adjustments were made during the fiscal year 2009 audit:

Decrease in net assets prior to audit adjustments	\$ (124,886)
To adjust hospital contractual allowances on accounts receivable	(190,938)
To adjust estimated health claims liability (IBNR claims accrual)	163,143
To adjust clinic contractual allowances on accounts receivable	(122,622)
To adjust allowance for doubtful accounts on anesthesia accounts receivable	(70,000)
To adjust accumulated depreciation related to the 805 building	61,899
To adjust employee flexible benefit plan liability account	39,044
To adjust prepaid expenses	20,296
Other adjustments	<u>(6,051)</u>
Decrease in net assets as reported	<u>\$ (230,115)</u>

In addition, the following adjustment was not corrected within the financial statements:

To accrue extended sick leave liability	<u>\$ (34,743)</u>
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This amount represents an accrued benefit for employees who were covered under the previous sick leave plan which has since been replaced by the current PTO benefit. These employees are vested in this benefit, and it will be paid out as it is taken. Therefore, this liability will decrease as employees use the benefit. This liability was not recorded in the initial year it was incurred. The net effect of the adjustment would decrease net assets by \$34,743. Management has determined that its effect is immaterial to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 23, 2009.

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 Comments

We have included additional comments regarding the Medical Center's operations. These comments are not a result of an in-depth study of any specific areas but are based on observations made during the course of our audit.

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

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

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

Dubuque, Iowa
October 23, 2009

WINNESHIEK MEDICAL CENTER

YEAR ENDED JUNE 30, 2009

OTHER COMMENTS

Segregation of Duties and Compensating Controls over Accounting Procedures

We realize that an optimal segregation of duties in organizations of your size is difficult. However, during our review of the internal controls of Winneshiek Medical Center related to accounting functions, we identified some areas where other compensating controls or monitoring procedures could be implemented to obtain the maximum internal control possible under the circumstances. Those recommendations are as follows:

Oversight over Expenditures - Maintaining the Approved Vendor List

The Accounts Payable Clerk processes the checks and related check registers and distribution reports. The same individual also has the authority to make changes to the master vendor list. As a result, this individual has the capability to create improper checks to a fictitious vendor. To reduce this risk, we recommend that only the Purchasing Manager be given the authority to update the master vendor list. In addition, we recommend that the Chief Financial Officer or Director of Accounting Services generate and review a “vendor addition/deletion” report periodically for unusual activity/vendors.

Oversight Over Expenditures - Accounting for Pre-Numbered Checks

It is our understanding that the checks (and/or check register) and supporting documentation are presented by the Accounts Payable Clerk to the Director of Accounting for approval. The checks are pre-numbered. As an additional control over disbursements, we recommend that the Director of Accounting account for the sequential numbering of all checks. For example, the Director of Accounting should log the check numbers to maintain track of checks approved to ensure that all checks generated are presented for approval.

Implementation of a Cash Clearing General Ledger Account

At times, the Medical Center will receive payments from third-party payors prior to receiving the remittance that details the patient accounts to apply the payments against. We noted that these receipts are posted to the Accounts Payable – Other account until a reconciliation of payments is completed. In order to assist in this reconciling process and to reduce the possibility of errors in the Accounts Payable – Other account, we recommend that a separate clearing account be set up on the general ledger and used for this process.

Credit Balances in Patient Accounts Receivable

We noted significant credit balances in the patient accounts receivable ledger. It is our understanding that these amounts may represent either refunds due to insurance companies/patients for overpayments or payments received that have not yet been properly applied against the applicable account balance. The cash receipts process should be reviewed to determine the failure in the system which results in payments not being properly applied against appropriate account balances in a timely manner.

WINNESHIEK MEDICAL CENTER

YEAR ENDED JUNE 30, 2009

OTHER COMMENTS

Revenue Cycle and Controls over Cash Receipts

It is our understanding that the Medical Center has implemented a “work group” to review and make suggestions to improve the revenue cycle process. As you reorganize this process, we want to remind you that an effective internal control system requires that certain duties be segregated as much as possible. More specifically, individuals receipting cash should not have the capability to access the patient accounting system. Therefore, it is recommended that the payment posting clerks and other business office staff not be involved in the cash receipting process.

Controls Over Credit Card Purchases

The Medical Center maintains corporate credit cards for use by certain employees to assist in completing their assigned job functions. It is our understanding that each individual purchaser/user of the card reviews the statements and approves their department’s charges. To strengthen internal controls over credit card expenditures and to reduce the risk of improper use of corporate credit cards, we recommend that the business purpose of each expenditure be documented as well by the purchasing employee. As a final review of credit card charges, we recommend that all charges, including business purpose and employee approval, be subject to an independent review by either the Director of Accounting or Chief Financial Officer. The final reviewer should also document their review.

Restricted Assets Documentation

The Medical Center has recorded a restricted net asset balance called the “Falck Endowment Fund.” Management has not been able to locate documentation of the initial amount of the contribution, nor the restrictions placed on the earnings of the investments. As a result, as of June 30, 2009, the investment balance and related earnings of \$684,914 are reported as restricted net assets on the Balance Sheet. The terms of the original restriction and those related to the earnings can impact how the investment should be accounted for and reported. We encourage continued efforts to determine the original intent of the gift to ensure that it is accounted for appropriately.