

WINDOM AREA HOSPITAL
Windom, Minnesota

COMBINED FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2008 AND 2007

WINDOM AREA HOSPITAL
Windom, Minnesota
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Windom Area Hospital and Affiliate
Windom, Minnesota

We have audited the accompanying combined balance sheets of Windom Area Hospital and its discretely presented component unit as of April 30, 2008 and 2007, and the related combined statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the management of Windom Area Hospital. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Windom Area Hospital as of April 30, 2008 and 2007 and the results of its operations, changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2008 on our consideration of Windom Area Hospital'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.

The management's discussion and analysis on pages 2 through 6, is not a required part of the basic combined financial statements but is 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 supplementary information. However, we did not audit the information and express no opinion on management's discussion and analysis.



LarsonAllen LLP

Minneapolis, Minnesota
July 15, 2008

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2008 AND 2007

Introduction

The Windom Area Hospital (Hospital) offers readers of our financial statements this narrative overview and analysis of the financial activities of Windom Area Hospital for the fiscal years ended April 30, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with the Hospital's combined financial statements, including the notes thereto.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Windom Area Hospital's audited combined financial statements. The combined financial statements are composed of the balance sheet, combined statement of revenues, expenses, and changes in net assets, and the statement of cash flows. The combined financial statements also include notes to the combined financial statements that explain in more detail some of the information in the combined financial statements. The combined financial statements are designed to provide readers with a broad overview of the Hospital's finances.

The combined financial statements include the Hospital and Foundation finances. The mission of the Windom Area Foundation is to provide charitable support for medical and educational programs of Windom Area Hospital. Total Foundation net assets equal \$89,737 at year-end.

Required Financial Statements

The Hospital's combined financial statements report information of Windom Area Hospital using accounting methods similar to those used by private sector healthcare organizations. These statements offer short and long-term information about its activities. The combined balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The combined balance sheet also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

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

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

Financial Highlights

Hospital total assets increased by \$605,083 to \$16,840,089 in FY 08 and by \$1,661,643 to \$16,235,006 in FY 07. Net property, plant and equipment decreased by \$169,840 in fiscal year 2008 and increased by \$222,255 in fiscal year 2007. Total liabilities decreased by \$637,991 in FY 2008 and increased by \$361,177 in FY 2007. The total margin was 9.4%, 9.3% and 10.0% for the years ended April 30, 2008, 2007 and 2006, respectively.

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2008 AND 2007

Financial Analysis of the Hospital

The combined balance sheet and the combined statement of revenues, expenses, and changes in net assets report the net assets of the Hospital and the changes in them. The Hospital's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

Net Assets

A summary of the Hospital's balance sheets at April 30, 2008, 2007 and 2006 is presented below:

Table 1
Condensed Combined Balance Sheets (in Thousands)

	April 30,		
	2008	2007	2006
Current Assets	\$ 3,593	\$ 3,808	\$ 3,680
Assets Limited as to Use	5,708	4,669	3,507
Capital Assets	7,476	7,647	7,424
Other Assets	63	111	12
Total Assets	\$ 16,840	\$ 16,235	\$ 14,623
Current Liabilities	\$ 1,021	\$ 1,567	\$ 1,203
Long-Term Debt Outstanding	2,091	2,184	2,186
Total Liabilities	3,113	3,751	3,389
Invested in Capital Assets, Net of Related Debt	5,385	5,367	5,147
Restricted	2,888	2,135	1,329
Unrestricted	5,455	4,983	4,758
Total Net Assets	13,727	12,484	11,234
Total Liabilities and Net Assets	\$ 16,840	\$ 16,235	\$ 14,623

As can be seen by Table 1, net assets increased by \$1.2 million to \$13.7 million in fiscal year 2008. In fiscal year 2007, net assets increased by \$1.3 million to \$12.5 million. The change in net assets results primarily from operating income.

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2008 AND 2007

Revenues, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for the fiscal years ended April 30, 2008, 2007 and 2006.

Table 2
Condensed Combined Statements of Revenue, Expenses, and Changes in Net Assets (in Thousands)

	Year Ended April 30,		
	2008	2007	2006
Operating Revenues	\$ 12,681	\$ 12,060	\$ 11,546
Operating Expenses	11,741	11,104	10,465
Operating Income	940	956	1,081
Non-Operating Income	258	217	120
Excess of Revenues over Expenses	1,198	1,173	1,201
Capital Grants and Contributions	45	77	8
Changes in Net Assets	1,243	1,250	1,209
Total Net Assets, Beginning of Year	12,484	11,234	9,879
Total Net Assets, End of Year	<u>\$ 13,727</u>	<u>\$ 12,484</u>	<u>\$ 11,088</u>

Operating and Financial Performance

Volume: Inpatient admissions (excluding newborns) for fiscal year 2008 were 698 compared to 788 in fiscal year 2007 and 748 in fiscal year 2006. This is a decrease of 90 or 11% between 2008 and 2007 and an increase of 40 or 5% between 2007 and 2006. Patient days (excluding newborns) for fiscal year 2008 were 1,933 compared to 2,129 in fiscal year 2007 and 1,989 in fiscal year 2006. This is a decrease of 196 or 9% from 2007 and an increase of 140 or 7% between 2007 and 2006. The length of stay increased from 2.6 days in 2006 to 2.7 days in 2007 and increased to 2.8 days in 2008. Emergency department visits increased to 3,332 in fiscal year 2008 from 3,163 in fiscal year 2007. This is an increase of 169 visits or 5%. They increased from 2,772 in 2006, which is an increase of 391 or 14%. All other outpatient visits for 2008 were 16,400 compared to 17,337 in 2007 and 17,917 in 2006. This is a decrease of 937 visits from 2007 to 2008 and a decrease of 580 visits from 2006 to 2007. Total surgeries decreased to 1,376 from 1,436 in the previous fiscal year. This is a decrease of 59 surgeries or 4%. In fiscal year 2007 surgeries increased from 1,234 which is an increase of 202 surgeries or 16%.

Net Patient Service Revenue: Effective May 1, 2007, a 6% rate increase was implemented. As a result of the rate increase, net patient service revenue increased \$518,265 or 4% compared to fiscal year 2007. Revenue deductions, the amount of patient service revenue uncollectible due to contractual agreements, government reimbursement policies, and bad debts decreased to \$5,137,592 from \$5,545,684, an 8% decrease.

Other Operating Revenue: Other operating revenue decreased \$43,940 and \$58,901 in fiscal years 2008 and 2007, respectively, from the previous year. The decrease is due to the write-down of the investment in Southwest Radiology Center due to the Hospital's share of losses during the fiscal year.

WINDOM AREA HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2008 AND 2007

Nursing Services: Nursing service expenses increased \$31,664 and increased \$485,249 in fiscal years 2008 and 2007, respectively, from the previous year. This increase is a result of standard wage increases given in the fiscal year.

Other Professional Services: Other professional services increased \$140,457 and \$50,573 in fiscal years 2008 and 2007, respectively, from the previous year. The largest increases were due to continuously escalating pharmacy drug costs along with increased salaries for pharmacy, radiology and laboratory.

General Services: General services increased \$160,231 and \$54,857 in fiscal years 2008 and 2007, respectively, when compared to the previous year. Increases in expenses relating to maintenance of the facility and utilities account for most of this increase.

Administrative and Fiscal Services: Expenses in this category increased by \$235,515 and \$83 in fiscal years 2008 and 2007, respectively, when compared to the previous year. Salaries and related employee benefit costs, primarily health insurance continue to rise.

Interest and Amortization: Interest and amortization decreased \$2,622 and \$2,288 in fiscal years 2008 and 2007, respectively, when compared to the previous year. This decrease is attributed to interest expense for the 2003 gross revenue bonds decreasing over the life of the bonds.

Depreciation: Depreciation increased \$71,877 and \$50,904 in fiscal years 2008 and 2007, respectively, when compared to the previous year. This is a reflection of the updates to facilities and equipment.

Non-Operating Revenue and Expenses: The total in this category increased \$40,725 and increased \$98,028 in fiscal years 2008 and 2007, respectively, when compared to the previous year. The increase is due to a rise in total investments receiving interest and a corresponding increase in interest rates.

Capital Assets

At the end of fiscal years 2008, 2007 and 2006, the Hospital had invested \$7,476,375, \$7,646,215 and \$7,423,960, respectively, in net capital assets. The \$169,840 decrease in capital assets in fiscal year 2008 is primarily a result increased depreciation expense caused new capital assets over the past two years.

Capital Grants and Contributions

For the years ended 2008, 2007 and 2006, the Hospital had a total of \$45,143, \$77,271 and \$154,065, respectively, in capital grants and contributions. The 2008 balance is made up of smaller grants.

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2008 AND 2007

Economic and Other Factors and Next Year's Budget

The Windom Area Hospital's Board of Directors and management considered many factors when setting the fiscal year 2009 budget. Of primary importance in setting the 2009 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare and Medicaid reimbursement rates continued decline
- Health Insurance Portability and Accountability Act (HIPAA)
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies
- Surging drug costs

Contacting the Hospital's Finance Department

Windom Area Hospital's combined financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Windom Area Hospital's accountability. If you have questions about the report or need additional financial information, please contact Administration at Windom Area Hospital, 2150 Hospital Drive, PO Box 339, Windom, MN 56101.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED BALANCE SHEET
APRIL 30, 2008

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 1,150,683	\$ 40,986	\$ 1,191,669
Assets Limited as to Use, Current Portion	-	-	-
Patient Accounts Receivable, Net	1,981,715	-	1,981,715
Accrued Interest Receivable	38,176	-	38,176
Loan Receivable	19,615	-	19,615
Supplies	292,922	-	292,922
Prepaid Expenses	68,763	-	68,763
Total Current Assets	3,551,874	40,986	3,592,860
ASSETS LIMITED AS TO USE			
Debt Service Account Under Bond Indenture	2,767,931	-	2,767,931
Board Designated for Capital Improvements	2,819,961	-	2,819,961
Restricted By Donor	71,226	48,751	119,977
Total Assets Limited as to Use	5,659,118	48,751	5,707,869
CAPITAL ASSETS			
Capital Assets	13,462,163	-	13,462,163
Less: Accumulated Depreciation	(5,985,788)	-	(5,985,788)
Net Capital Assets	7,476,375	-	7,476,375
OTHER ASSETS			
Investment in Partnership	52,364	-	52,364
Deferred Debt Acquisition Costs, Net	10,621	-	10,621
Total Other Assets	62,985	-	62,985
Total Assets	\$ 16,750,352	\$ 89,737	\$ 16,840,089

See accompanying Notes to Combined Financial Statements.

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Current Maturities of Long-Term Debt	\$ -	\$ -	\$ -
Accounts Payable	425,700	-	425,700
Due to Third-Party Payors	53,000	-	53,000
Accrued Expenses	542,548	-	542,548
Total Current Liabilities	<u>1,021,248</u>	<u>-</u>	<u>1,021,248</u>
LONG-TERM DEBT, Net of Current Maturities	2,091,472	-	2,091,472
NET ASSETS			
Invested in Capital Assets Net of Related Debt	5,384,903	-	5,384,903
Restricted:			
Expendable for Bond Indenture	2,767,931	-	2,767,931
Expendable for Specific Donor Restrictions	71,226	48,751	119,977
Unrestricted	5,413,572	40,986	5,454,558
Total Net Assets	<u>13,637,632</u>	<u>89,737</u>	<u>13,727,369</u>
Total Liabilities and Net Assets	<u>\$ 16,750,352</u>	<u>\$ 89,737</u>	<u>\$ 16,840,089</u>

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED BALANCE SHEET
APRIL 30, 2007

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 1,297,075	\$ 45,966	\$ 1,343,041
Assets Limited as to Use, Current Portion	142,298	-	142,298
Patient Accounts Receivable, Net	1,930,490	-	1,930,490
Accrued Interest Receivable	39,600	-	39,600
Supplies	265,340	-	265,340
Prepaid Expenses	87,280	-	87,280
Total Current Assets	3,762,083	45,966	3,808,049
ASSETS LIMITED AS TO USE			
Debt Service Account Under Bond Indenture	2,051,984	-	2,051,984
Board Designated for Capital Improvements	2,677,213	-	2,677,213
Restricted By Donor	48,199	34,321	82,520
Subtotal	4,777,396	34,321	4,811,717
Less: Current Portion	(142,298)	-	(142,298)
Total Assets Limited as to Use	4,635,098	34,321	4,669,419
CAPITAL ASSETS			
Capital Assets	13,151,530	-	13,151,530
Less: Accumulated Depreciation	(5,505,315)	-	(5,505,315)
Net Capital Assets	7,646,215	-	7,646,215
OTHER ASSETS			
Investment in Partnership	100,000	-	100,000
Deferred Debt Acquisition Costs, Net	11,323	-	11,323
Total Other Assets	111,323	-	111,323
Total Assets	\$ 16,154,719	\$ 80,287	\$ 16,235,006

See accompanying Notes to Combined Financial Statements.

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Current Maturities of Long-Term Debt	\$ 95,000	\$ -	\$ 95,000
Accounts Payable	468,975	-	468,975
Due to Third-Party Payors	400,000	-	400,000
Accrued Expenses	602,710	-	602,710
Total Current Liabilities	<u>1,566,685</u>	<u>-</u>	<u>1,566,685</u>
LONG-TERM DEBT, Net of Current Maturities	2,184,026	-	2,184,026
NET ASSETS			
Invested in Capital Assets Net of Related Debt	5,367,189	-	5,367,189
Restricted:			
Expendable for Bond Indenture	2,051,984	-	2,051,984
Expendable for Specific Donor Restrictions	48,199	34,321	82,520
Unrestricted	4,936,636	45,966	4,982,602
Total Net Assets	<u>12,404,008</u>	<u>80,287</u>	<u>12,484,295</u>
Total Liabilities and Net Assets	<u>\$ 16,154,719</u>	<u>\$ 80,287</u>	<u>\$ 16,235,006</u>

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2008

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
REVENUE			
Net Patient Service Revenue	\$ 12,548,901	\$ -	\$ 12,548,901
Other Revenue	111,347	20,981	132,328
Total Revenue	<u>12,660,248</u>	<u>20,981</u>	<u>12,681,229</u>
EXPENSES			
Nursing Services	3,407,929	-	3,407,929
Other Professional Services	3,683,376	-	3,683,376
General Services	1,128,277	-	1,128,277
Administrative and Fiscal Services	2,640,207	34,139	2,674,346
Interest and Amortization	114,928	-	114,928
Depreciation	732,571	-	732,571
Total Expenses	<u>11,707,288</u>	<u>34,139</u>	<u>11,741,427</u>
INCOME (LOSS) FROM OPERATIONS	952,960	(13,158)	939,802
NONOPERATING REVENUE AND EXPENSES			
Interest Income and Donations	275,001	-	275,001
Noncapital Grants and Contributions	-	14,430	14,430
Loss on Disposal of Assets	(31,302)	-	(31,302)
Total Nonoperating Revenue and Expenses	<u>243,699</u>	<u>14,430</u>	<u>258,129</u>
EXCESS OF REVENUE OVER EXPENSES	1,196,659	1,272	1,197,931
Capital Grants and Contributions	<u>36,965</u>	<u>8,178</u>	<u>45,143</u>
INCREASE IN NET ASSETS	1,233,624	9,450	1,243,074
NET ASSETS			
Beginning of Year	<u>12,404,008</u>	<u>80,287</u>	<u>12,484,295</u>
End of Year	<u>\$ 13,637,632</u>	<u>\$ 89,737</u>	<u>\$ 13,727,369</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2007

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
REVENUE			
Net Patient Service Revenue	\$ 11,883,828	\$ -	\$ 11,883,828
Other Revenue	146,191	30,077	176,268
Total Revenue	<u>12,030,019</u>	<u>30,077</u>	<u>12,060,096</u>
EXPENSES			
Nursing Services	3,376,265	-	3,376,265
Other Professional Services	3,542,919	-	3,542,919
General Services	968,046	-	968,046
Administrative and Fiscal Services	2,408,604	30,227	2,438,831
Interest and Amortization	117,550	-	117,550
Depreciation	660,694	-	660,694
Total Expenses	<u>11,074,078</u>	<u>30,227</u>	<u>11,104,305</u>
INCOME (LOSS) FROM OPERATIONS	955,941	(150)	955,791
NONOPERATING REVENUE AND EXPENSES			
Interest Income and Donations	210,308	-	210,308
Noncapital Grants and Contributions	-	9,005	9,005
Loss on Disposal of Assets	(1,909)	-	(1,909)
Total Nonoperating Revenue and Expenses	<u>208,399</u>	<u>9,005</u>	<u>217,404</u>
EXCESS OF REVENUE OVER EXPENSES	1,164,340	8,855	1,173,195
Capital Grants and Contributions	<u>73,487</u>	<u>3,784</u>	<u>77,271</u>
INCREASE IN NET ASSETS	1,237,827	12,639	1,250,466
NET ASSETS			
Beginning of Year	<u>11,166,181</u>	<u>67,648</u>	<u>11,233,829</u>
End of Year	<u>\$ 12,404,008</u>	<u>\$ 80,287</u>	<u>\$ 12,484,295</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2008

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on Behalf of Patients	\$ 12,132,485	\$ -	\$ 12,132,485
Payments to Suppliers and Contractors	(6,891,353)	(34,139)	(6,925,492)
Payments to Employees	(4,192,287)	-	(4,192,287)
Other Receipts and Payments, Net	239,030	35,411	274,441
Net Cash Provided by Operating Activities	<u>1,287,875</u>	<u>1,272</u>	<u>1,289,147</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Capital Grants and Contributions	36,965	8,178	45,143
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Expenditures	(562,731)	-	(562,731)
Cash Payments for Interest	(111,349)	-	(111,349)
Principal Payments on Debt	(187,554)	-	(187,554)
Net Cash Used by Capital and Related Financing Activities	<u>(861,634)</u>	<u>-</u>	<u>(861,634)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Investments	(2,419,009)	(14,430)	(2,433,439)
Sale of Investments	1,537,287	-	1,537,287
Change in Other Assets	(2,877)	-	(2,877)
Interest Income and Donations	275,001	-	275,001
Net Cash Used by Investing Activities	<u>(609,598)</u>	<u>(14,430)</u>	<u>(624,028)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(146,392)	(4,980)	(151,372)
Cash and Cash Equivalents - Beginning	<u>1,297,075</u>	<u>45,966</u>	<u>1,343,041</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 1,150,683</u>	<u>\$ 40,986</u>	<u>\$ 1,191,669</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED APRIL 30, 2008

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income (Loss) from Operations	\$ 952,960	\$ (13,158)	\$ 939,802
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation Expense	732,571	-	732,571
Interest Expense Considered a Capital Financing Activity	111,349	-	111,349
Amortization	3,579	-	3,579
Loss on Disposal of Assets	(31,302)	-	(31,302)
Provision for Bad Debts	204,540	-	204,540
Equity in Earnings from Joint Ventures	47,636	-	47,636
Noncapital Grants and Contributions	-	14,430	14,430
(Increase) Decrease in:			
Patient Accounts Receivable	(255,765)	-	(255,765)
Other Accounts Receivable	(19,615)	-	(19,615)
Accrued Interest Receivable	1,424	-	1,424
Supplies and Prepaid Expenses	(9,065)	-	(9,065)
Increase (Decrease) in:			
Accounts Payable	(43,275)	-	(43,275)
Due to Third-Party Payors	(347,000)	-	(347,000)
Accrued Expenses	(60,162)	-	(60,162)
Net Cash Provided by Operating Activities	<u>\$ 1,287,875</u>	<u>\$ 1,272</u>	<u>\$ 1,289,147</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2007

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on Behalf of Patients	\$ 11,796,290	\$ -	\$ 11,796,290
Payments to Suppliers and Contractors	(6,340,053)	(30,227)	(6,370,280)
Payments to Employees	(3,794,607)	-	(3,794,607)
Other Receipts and Payments, Net	258,281	39,082	297,363
Net Cash Provided by Operating Activities	<u>1,919,911</u>	<u>8,855</u>	<u>1,928,766</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Capital Grants and Contributions	73,487	3,784	77,271
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Expenditures	(882,949)	-	(882,949)
Cash Payments for Interest	(113,999)	-	(113,999)
Principal Payments on Long-Term Debt	2,446	-	2,446
Net Cash Used by Capital and Related Financing Activities	<u>(994,502)</u>	<u>-</u>	<u>(994,502)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Investments	(2,221,537)	(12,789)	(2,234,326)
Sale of Investments	1,144,538	-	1,144,538
Capital Contribution for Investment in Partnership	(100,000)	-	(100,000)
Change in Other Assets	(2,878)	-	(2,878)
Interest Income and Donations	210,308	-	210,308
Net Cash Used by Investing Activities	<u>(969,569)</u>	<u>(12,789)</u>	<u>(982,358)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	29,327	(150)	29,177
Cash and Cash Equivalents - Beginning	<u>1,267,748</u>	<u>46,116</u>	<u>1,313,864</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 1,297,075</u></u>	<u><u>\$ 45,966</u></u>	<u><u>\$ 1,343,041</u></u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED APRIL 30, 2007

	<u>Primary Enterprise</u>	<u>Component Unit (Foundation)</u>	<u>Total Reporting Entity (Memorandum Only)</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from Operations	\$ 955,941	\$ (150)	\$ 955,791
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	660,694	-	660,694
Interest Expense Considered a Capital Financing Activity	113,999	-	113,999
Amortization	3,551	-	3,551
Loss on Disposal of Assets	(1,909)	-	(1,909)
Provision for Bad Debts	351,348	9,005	360,353
(Increase) Decrease in:			
Patient Accounts Receivable	(521,639)	-	(521,639)
Accrued Interest Receivable	(17,247)	-	(17,247)
Supplies and Prepaid Expenses	16,442	-	16,442
Increase (Decrease) in:			
Accounts Payable	168,813	-	168,813
Due to Third-Party Payors	100,000	-	100,000
Accrued Expenses	89,918	-	89,918
Net Cash Provided by Operating Activities	<u>\$ 1,919,911</u>	<u>\$ 8,855</u>	<u>\$ 1,928,766</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Windom Area Hospital (Hospital), an enterprise fund of the City of Windom, Minnesota, is managed by a board of directors appointed by the City Council, and is licensed to provide hospital services. The Hospital is exempt from Federal and State income taxes.

For financial reporting purposes, the Hospital is divided into the "Primary Enterprise" and "Component Unit." The Primary Enterprise consists of the Hospital.

The Windom Area Hospital Foundation, Inc. (Foundation) is a 501(c)(3) Organization whose sole purpose is to support the Windom Area Hospital. The Foundation conducts fundraising campaigns on behalf of the Windom Area Hospital. The Foundation's operations have been discretely presented as a component unit of the Hospital.

The memorandum-only totals aggregate the Primary Enterprise and its Component Unit. In accordance with governmental accounting standards, no consolidating or other eliminations were made in arriving at the totals; thus, they do not represent consolidated information.

Method of Accounting

The Hospital reports in accordance with the *Audit and Accounting Guide for Health Care Organizations* published by the American Institute of Certified Public Accountants which prescribes accounting and reporting policies, some of which are unique to providers of health care services.

Proprietary Fund Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenue and expenses are subject to accrual.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Windom Area Hospital has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

Use of Estimates

The preparation of combined financial statements in conformity with U.S. 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 combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. 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 non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents are considered to be highly liquid investments with an original maturity of ninety days or less, and exclude assets limited as to use.

Accounts Receivable and Allowance for Uncollectible Accounts

The Hospital provides an allowance for uncollectible self-pay and miscellaneous commercial insurance accounts. Patients are not required to provide collateral for services rendered. Payment for services is required upon receipt of an invoice, after payment by insurance, if any. Self-pay accounts are analyzed for collectibility based on the months past due and payment history. An allowance is estimated for these accounts based on the historical experience of the Hospital. Accounts that are determined to be uncollectible are sent to a collection agency and written off at that time. At April 30, 2008 and 2007, the allowance for uncollectible accounts was approximately \$342,000 and \$413,000, respectively.

Supplies

Supplies are stated at cost (principally on the first-in, first-out basis) not in excess of market value. Market value is determined by comparison with recent purchases or realizable value.

Assets Limited as to Use

Assets limited as to use include assets set aside for debt service, for construction payments, and by the board of directors for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Investments

Investments are recorded at cost, if purchased, or at fair market value on the date received, if by gift or bequest. All investments are carried at market value.

Investment in Partnership

The Hospital reports its investment in partnership under the equity method of accounting. The equity method of accounting is generally required when ownership is 50% or less. The equity method does not include all the accounts of the entity in the financial statements; rather the investment is carried at cost, adjusted for the partner's share of the earnings, losses and distributions.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Debt Acquisition Costs

Deferred debt acquisition costs are being amortized on the straight-line method over the life of the related debt.

Capital Assets

Capital assets are stated at cost, if purchased, or at fair market value on the date received, if donated, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the property.

Policy for Care of the Underserved

The Hospital provides care to patients who meet certain criteria under their charity care policy without charge or at amounts less than their established rates. The Hospital believes the underserved are those persons who are unable through private resources, employer support, or public aid to provide payment for health care services or those unable to gain access to health related care because of limited resources, inadequate education, or discrimination. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Net Patient Service Revenue

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

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services.

Net Assets

Net assets of the Hospital are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets are non-capital net assets* that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses, and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters.

NOTE 2 NET PATIENT SERVICE REVENUE

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

Medicare

The Hospital has elected the Critical Access Hospital (CAH) designation. As a CAH, the Hospital is reimbursed for inpatient, outpatient and swing beds services for Medicare patients on a reasonable cost basis. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a reimbursement methodology similar to inpatient Medicare. Outpatient Medicaid services are reimbursed on reasonable cost.

Revenue from the Medicare program accounted for approximately 38% and 39% for the years ended 2008 and 2007, respectively, and revenue from the Medicaid program accounted for approximately 3% of the Hospital's net patient revenue for both years ended 2008 and 2007. Laws and regulations governing the Medicare and Medicaid 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.

Other

The Hospital has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2008 AND 2007

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

The following is a reconciliation of gross patient service revenue to net patient service revenue:

	<u>2008</u>	<u>2007</u>
Gross Patient Service Revenue	\$ 17,686,493	\$ 17,429,512
Adjustments and Discounts:		
Medicare	(2,655,563)	(3,226,389)
Medicaid	(399,433)	(239,820)
Other	(1,878,056)	(1,728,127)
Provision for Bad Debt	(204,540)	(351,348)
Total Adjustments and Discounts	<u>(5,137,592)</u>	<u>(5,545,684)</u>
Net Patient Service Revenue	<u>\$ 12,548,901</u>	<u>\$ 11,883,828</u>

NOTE 3 ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets by Windom Area Hospital at April 30, 2008 and 2007 consist of these amounts:

	<u>2008</u>	<u>2007</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,623,863	\$ 1,615,741
Receivable from Medicare	580,679	562,189
Receivable from Medicaid	119,173	165,560
Total Patient Accounts Receivable	<u>2,323,715</u>	<u>2,343,490</u>
Less: Allowance for Uncollectible Amounts	(342,000)	(413,000)
Net Patient Accounts Receivable	<u>\$ 1,981,715</u>	<u>\$ 1,930,490</u>

NOTE 4 DEPOSITS AND INVESTMENTS

Deposits

Minnesota Statutes require that all City Hospitals' deposits be protected by insurance, surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% in the case of mortgage notes pledged). Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Hospital or in a financial institution other than that furnishing the collateral.

The Hospital's deposits at year-end were fully covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2008 AND 2007

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

Credit Risk – Minnesota Statutes authorize City Hospitals to invest in obligations of the U.S. Government and its agencies and of the State of Minnesota and its agencies, bankers acceptances, commercial paper, and certain other types of securities.

Interest Rate Risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Concentration of Credit Risk – The Hospital places no limit on the amount it may invest in any one issuer or institution.

At April 30, 2008 and 2007, the carrying amounts of deposits and investments are included in the Hospital's balance sheets as follows:

	<u>2008</u>	<u>2007</u>
Carrying Amount:		
Deposits	<u>\$ 6,899,538</u>	<u>\$ 6,154,758</u>
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 1,191,669	\$ 1,343,041
Debt Service Account Under Bond Indenture	2,767,931	2,051,984
Board Designated for Capital Improvements	2,819,961	2,677,213
Restricted By Donor	119,977	82,520
	<u>\$ 6,899,538</u>	<u>\$ 6,154,758</u>

Debt service funds are designated for the servicing of the General Obligation Hospital Bonds of 2003 and are required by bond indenture agreements.

The Hospital's Board of Directors has designated certain assets for capital improvements. The board of directors retains control and may, at its discretion, subsequently use these assets for other purposes.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2008 AND 2007

NOTE 5 CAPITAL ASSETS

Capital assets (in thousands) for the years ended April 30, 2008 and 2007 consist of the following:

	Balance April 30, 2007	Additions and Transfers	Retirements	Balance April 30, 2008
Land	\$ 24	\$ -	\$ -	\$ 24
Land Improvements	265	-	-	265
Buildings	6,784	891	-	7,675
Fixed Equipment	2,454	-	(140)	2,314
Moveable Equipment	3,217	131	(218)	3,130
Construction in Progress	408	537	(891)	54
Total at Historical Cost	<u>13,152</u>	<u>1,559</u>	<u>(1,249)</u>	<u>13,462</u>
Less Accumulated Depreciation for:				
Land Improvements	(229)	(8)	-	(237)
Buildings	(1,773)	(303)	-	(2,076)
Fixed Equipment	(1,573)	(10)	43	(1,540)
Moveable Equipment	(1,931)	(411)	209	(2,133)
Total Accumulated Depreciation	<u>(5,506)</u>	<u>(732)</u>	<u>252</u>	<u>(5,986)</u>
Capital Assets, Net	<u>\$ 7,646</u>	<u>\$ 827</u>	<u>\$ (997)</u>	<u>\$ 7,476</u>
	Balance April 30, 2006	Additions and Transfers	Retirements	Balance April 30, 2007
Land	\$ 24	\$ -	\$ -	\$ 24
Land Improvements	233	32	-	265
Buildings	6,784	-	-	6,784
Fixed Equipment	2,458	-	(4)	2,454
Moveable Equipment	3,236	526	(545)	3,217
Construction in Progress	78	330	-	408
Total at Historical Cost	<u>12,813</u>	<u>888</u>	<u>(549)</u>	<u>13,152</u>
Less Accumulated Depreciation for:				
Land Improvements	(218)	(11)	-	(229)
Buildings	(1,499)	(274)	-	(1,773)
Fixed Equipment	(1,489)	(87)	3	(1,573)
Moveable Equipment	(2,183)	(289)	541	(1,931)
Total Accumulated Depreciation	<u>(5,389)</u>	<u>(661)</u>	<u>544</u>	<u>(5,506)</u>
Capital Assets, Net	<u>\$ 7,424</u>	<u>\$ 227</u>	<u>\$ (5)</u>	<u>\$ 7,646</u>

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2008 AND 2007

NOTE 5 CAPITAL ASSETS (CONTINUED)

Construction in progress at April 30, 2008 consists of some planning costs for a future hospital expansion and renovation project along with other small miscellaneous projects.

Construction in progress at April 30, 2007 related to an addition and renovation of the dietary department. The project was completed in October 2007 with a total cost of \$891,000. The project was funded through internal funds, therefore there was no capitalized interest.

NOTE 6 INVESTMENT IN PARTNERSHIP

In April 2007, the Hospital obtained a 7% partnership interest in Southwest Minnesota Radiation Center, LLC. The Hospital's initial investment in Southwest Minnesota Radiation Center, LLC was \$100,000. The Hospital received no distributions during the current fiscal year and its portion of the equity loss was \$47,636 in fiscal 2008 for an ending investment balance at April 30, 2008 of \$52,364.

NOTE 7 LONG-TERM DEBT

A summary of long-term debt at April 30, 2008 and 2007 consists of the following:

	Balance April 30, 2007	Additions	Reductions	Balance April 30, 2008
2003 Gross Revenue Hospital Bonds	\$ 2,320,000	\$ -	\$ (190,000)	\$ 2,130,000
Less: Current Portion				-
Less: Unamortized Bond Discount				(38,528)
Total Long-Term Debt, Net of Current Maturities				<u>\$ 2,091,472</u>
	Balance April 30, 2006	Additions	Reductions	Balance April 30, 2007
2003 Gross Revenue Hospital Bonds	\$ 2,320,000	\$ -	\$ -	\$ 2,320,000
Less: Current Portion				(95,000)
Less: Unamortized Bond Discount				(40,974)
Total Long-Term Debt, Net of Current Maturities				<u>\$ 2,184,026</u>

2003 Gross Revenue Hospital Bonds: City of Windom, Minnesota, Gross Revenue Hospital Bonds, Series 2003, maturing in June 2023. Bonds bear interest rate from 1.75% to 5.50% with an average coupon rate of 5.09%. Bonds are secured by the revenues of the Hospital.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2008 AND 2007

NOTE 7 LONG-TERM DEBT (CONTINUED)

The aggregate maturities on long-term debt as of April 30, 2008 are as follows:

<u>Year Ending April 30,</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ -	\$ 53,828
2010	100,000	105,655
2011	105,000	101,424
2012	110,000	96,718
2013	115,000	91,570
2014-2018	660,000	366,424
2019-2023	845,000	172,374
2024	195,000	5,363
Total	<u>\$ 2,130,000</u>	<u>\$ 993,354</u>

The provisions of the above debt agreement contains various restrictive covenants and certain amounts to be deposited with the trustee. Such deposits are included with assets limited as to use.

NOTE 8 DEFINED BENEFIT PENSION PLAN - STATEWIDE

Plan Description

Substantially all employees of the Hospital are required by State Law to belong to the pension plan administered by the Public Employees Retirement Association (PERA).

Disclosure relating to this plan follows:

Plan Description

The Hospital contributes to the Public Employees Retirement Fund (PERF), a cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERF provides retirement, disability, and death benefits to plan members and beneficiaries. Benefits are established by State Statute and vest after three years of credited service. PERA issues a publicly available financial report that includes combined financial statements and required supplementary information for the plan. That report may be obtained by contacting PERA, 514 St. Peter Street #200, St. Paul, MN 55102 or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Plan members are required to contribute 5.75% of the annual covered salary and the Hospital is required to contribute at an actuarially determined rate. The current rate is 6.00% of annual covered payroll. The contribution requirements of plan members and the Hospital are established and may be amended by State Statute. The Hospital's contributions, equal to the required contributions, to PERF for the years ended April 30, 2008 and 2007 was \$287,037 and \$253,503, respectively.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2008 AND 2007

NOTE 9 CONCENTRATIONS OF CREDIT RISK

The Hospital is located in Windom, Minnesota. The Hospital grants credit, without collateral, to its patients, most of whom are local residents and are insured under third-party payor agreements. The Hospital also grants credit, without collateral, for other miscellaneous receivables.

NOTE 10 CONTINGENCIES

Malpractice Claims

The Hospital's malpractice insurance is a claims made policy. Should this policy lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

Other

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- Lawsuits alleging negligence in care
- Environmental pollution
- Violation of regulatory body's rules and regulations
- Violation of federal and/or state laws

No contingent liabilities such as, but not limited to those described above, are reflected in the accompanying combined financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

NOTE 11 MANAGEMENT CONTRACT

The Hospital has a management agreement with Sanford Health Services (Sanford). This agreement gives Sanford, through the Hospital's administrator full authority to implement and fulfill the policy decisions of the Hospital's board of directors. Either party may terminate this agreement with proper notice. Total management fees, including the administrator's salary and benefits, were \$195,399 and \$178,519 for the years ended April 30, 2008 and 2007, respectively.

INDEPENDENT AUDITORS' REPORT ON LEGAL COMPLIANCE

Board of Directors
Windom Area Hospital
Windom, Minnesota

We have audited the combined financial statements of Windom Area Hospital and its discretely presented component unit as of and for the year ended April 30, 2008, and have issued our report thereon dated July 15, 2008.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous provisions. Our study included all of the listed categories, except we did not test for tax increment financing as the Hospital has no tax increment financing. The results of our tests indicate that for the items tested, the Hospital complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the board of directors, management, and the Office of the State Auditor of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

Larson Allen LLP

LarsonAllen LLP

Minneapolis, Minnesota
July 15, 2008

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

Board of Directors
Windom Area Hospital
Windom, Minnesota

We have audited the combined financial statements of Windom Area Hospital and its discretely presented component unit as of and for the year ended April 30, 2008, and have issued our report thereon dated July 15, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Windom Area Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Windom Area Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit Windom Area Hospital's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the board of directors and is not intended to be and should not be used by anyone other than these specified parties.



LarsonAllen LLP

Minneapolis, Minnesota
July 15, 2008

**WINDOM AREA HOSPITAL
SCHEDULE OF FINDINGS
APRIL 30, 2008**

Material Weaknesses

07-1 Control over the Financial Reporting Process

As part of the audit, management requested us to prepare a draft of your financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management did not perform a detailed review of the completeness of the footnote disclosures.

Response

Management determined committing the resources necessary to perform a review of the footnote disclosures for completeness would be a duplication of expenditures, as this is part of the cost of the audit engagement. In addition, the CEO and CFO review internal financial statements on a monthly basis and present the results to the board of directors.

07-2 Segregation of Duties -- Accounts Payable, Payroll and Accounts Receivable

The Hospital's CFO has the ability to create new vendors, enter invoices, and print checks. Together these functions create an opportunity for misappropriation of the Hospital's assets.

The Hospital's payroll clerk has the ability to set up employees for payment, enter hours, changes wage rates, and process the payroll. This creates an elevated risk of misappropriation of assets wherein one individual could create fictitious employees, modify wage rates, or hours prior to and after payroll generation and other potential acts which could go undetected. We recommend limiting the ability to create a new employee and printing checks to an individual who does not have additional access to other areas of the payroll cycle. An alternative would be periodically printing a report of all new employees to be reviewed and signed by someone in HR that does not have rights to create new employees.

The business office manager at the Hospital is able to write-off patient balances from the Hospital's records, post payments, and has access to cash receipts. We suggest that the ability to post payments be limited to an individual who does not have the access to cash receipts.

Employee expense reports did not always have adequate supporting documentation attached to the reimbursement request. We suggest obtaining and attaching all receipts to the request before department heads approve the expense reports.

Response

Management will review the cost and benefit of implementing these findings in order to strengthen internal controls.

**WINDOM AREA HOSPITAL
SCHEDULE OF FINDINGS (CONTINUED)
APRIL 30, 2008**

Material Weaknesses (Continued)

07-3 Misstatements Detected by the Audit

During the course of the audit, several adjusting journal entries were proposed to properly state the balances of the general ledger accounts at year-end.

Response

Management feels that the proposed adjustments were necessary to properly state the balances of the general ledger accounts at year-end. In addition, management will under take the necessary steps in order to ensure the general ledger accounts are accurately maintained throughout the year.

