

WINDOM AREA HOSPITAL
Windom, Minnesota

COMBINED FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2009 AND 2008

WINDOM AREA HOSPITAL
Windom, Minnesota
TABLE OF CONTENTS
YEARS ENDED APRIL 30, 2009 AND 2008

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2
COMBINED FINANCIAL STATEMENTS	
COMBINED BALANCE SHEETS	7
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	11
COMBINED STATEMENTS OF CASH FLOWS	13
NOTES TO COMBINED FINANCIAL STATEMENTS	17
INDEPENDENT AUDITORS' REPORT ON LEGAL COMPLIANCE	27
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	28
SCHEDULE OF FINDINGS	30

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2009 AND 2008

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, 2009 and 2008. 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 \$86,441 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 \$1,049,104 to \$17,889,193 in FY 2009 and by \$605,083 to \$16,840,089 in FY 2008. Net property, plant and equipment decreased by \$18,104 in FY 2009 and by \$169,840 in FY 2008. Total liabilities decreased by \$108,861 in FY 2009 and by \$637,991 in FY 2008. The total margin was 7.3%, 9.4% and 9.3% for the years ended April 30, 2009, 2008 and 2007, respectively.

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2009 AND 2008

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, 2009, 2008 and 2007 is presented below:

Table 1
Condensed Combined Balance Sheets (in Thousands)

	April 30,		
	2009	2008	2007
Current Assets	\$ 4,100	\$ 3,593	\$ 3,808
Assets Limited as to Use	6,186	5,708	4,669
Capital Assets	7,458	7,476	7,647
Other Assets	146	63	111
Total Assets	\$ 17,889	\$ 16,840	\$ 16,235
Current Liabilities	\$ 1,010	\$ 1,022	\$ 1,567
Long-Term Debt Outstanding	1,994	2,091	2,184
Total Liabilities	3,004	3,113	3,751
Invested in Capital Assets, Net of Related Debt	5,364	5,385	5,367
Restricted	305	324	287
Unrestricted	9,216	8,018	6,830
Total Net Assets	14,885	13,727	12,484
Total Liabilities and Net Assets	\$ 17,889	\$ 16,840	\$ 16,235

As can be seen by Table 1, net assets increased by approximately \$1.2 million to \$14.9 million in fiscal year 2009. In fiscal year 2008, net assets increased by approximately \$1.2 million to \$13.7 million. The change in net assets results primarily from operating income.

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2009 AND 2008

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, 2009, 2008 and 2007.

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

	Year Ended April 30,		
	2009	2008	2007
Operating Revenues	\$ 13,377	\$ 12,681	\$ 12,060
Operating Expenses	12,601	11,741	11,104
Operating Income	776	940	956
Non-Operating Income	194	258	217
Excess of Revenues over Expenses	970	1,198	1,173
Capital Grants and Contributions	188	45	77
Changes in Net Assets	1,158	1,243	1,250
Total Net Assets, Beginning of Year	13,727	12,484	11,234
Total Net Assets, End of Year	<u>\$ 14,885</u>	<u>\$ 13,727</u>	<u>\$ 12,484</u>

Operating and Financial Performance

Volume: Inpatient admissions (excluding newborns) for fiscal year 2009 were 583 compared to 698 in fiscal year 2008 and 788 in fiscal year 2007. This is a decrease of 115 or 17% between 2009 and 2008 and a decrease of 90 or 11% between 2008 and 2007. Patient days (excluding newborns) for fiscal year 2009 were 1,554 compared to 1,933 in fiscal year 2008 and 2,129 in fiscal year 2007. This is a decrease of 379 or 20% from 2008 and a decrease of 196 or 9% between 2008 and 2007. The length of stay increased from 2.7 days in 2007 to 2.8 days in 2008 and decreased to 2.7 days in 2009. Emergency department visits decreased to 3,245 in fiscal year 2009 from 3,332 in fiscal year 2008. This is a decrease of 87 visits or 3%. They increased from 3,163 in 2007, which is an increase of 169 or 5%. All other outpatient visits for 2009 were 17,468 compared to 16,400 in 2008 and 17,337 in 2007. This is an increase of 1,068 visits from 2008 to 2009 and a decrease of 937 visits from 2007 to 2008. Total surgeries increased to 1,435 in fiscal year 2009 from 1,376 in fiscal year 2008. This is an increase of 59 surgeries or 4%. In fiscal year 2008 surgeries decreased from 1,435 which is a decrease of 59 surgeries or 4%.

Net Patient Service Revenue: As a result of the rate increases during the year, net patient service revenue increased \$685,176 or 4% compared to fiscal year 2008. Revenue deductions, the amount of patient service revenue uncollectible due to contractual agreements, government reimbursement policies, and bad debts increased to \$5,778,048 from \$5,137,592, a 12% increase.

Other Operating Revenue: Other operating revenue increased \$10,880 and decreased \$43,940 in fiscal years 2009 and 2008, respectively, from the previous year. The decrease in fiscal year 2008 was due to the write-down of the investment in Southwest Radiology Center due to the Hospital's share of losses during the fiscal year. The increase in fiscal year 2009 is due to a smaller share in losses in Southwest Radiology Center

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2009 AND 2008

Nursing Services: Nursing service expenses increased \$261,117 and \$31,664 in fiscal years 2009 and 2008, respectively, from the previous year. This increase is a result of standard wage increases given in the fiscal year and increased surgery supply expense related to higher utilization.

Other Professional Services: Other professional services increased \$424,135 and \$140,457 in fiscal years 2009 and 2008, respectively, from the previous year. The largest increases were due to continuously escalating pharmacy drug costs along with increased salaries and other expenses, especially for radiology.

General Services: General services decreased \$54,618 and increased \$160,231 in fiscal years 2009 and 2008, respectively, when compared to the previous year. Decreases in these expenses are related to fewer supplies being needed during the fiscal year as there were fewer projects being completed throughout the Hospital.

Administrative and Fiscal Services: Expenses in this category increased by \$164,123 and \$235,515 in fiscal years 2009 and 2008, respectively, when compared to the previous year. Salaries and related employee benefit costs, primarily health insurance continue to rise. There were also increased costs related to the installation and maintenance of several new IT systems during the fiscal year.

Interest and Amortization: Interest and amortization decreased \$3,417 and \$2,622 in fiscal years 2009 and 2008, 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 \$68,588 and \$71,877 in fiscal years 2009 and 2008, 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 decreased \$63,816 and increased \$40,725 in fiscal years 2009 and 2008, respectively, when compared to the previous year. The decrease is due to a decrease in interest rates on investments.

Capital Assets

At the end of fiscal years 2009, 2008 and 2007, the Hospital had invested \$7,458,271, \$7,476,375 and \$7,646,215, respectively, in net capital assets. The \$18,104 decrease in capital assets in fiscal year 2009 is primarily a result increased depreciation expense caused by new capital assets over the past two years.

Capital Grants and Contributions

For the years ended 2009, 2008 and 2007, the Hospital had a total of \$187,722, \$45,143 and \$77,271, respectively, in capital grants and contributions. The 2009 balance is made up of much larger grants than the prior years.

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2009 AND 2008

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 2010 budget. Of primary importance in setting the 2010 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
- Recovery Audit Contractors
- Government pressure to computerize health records
- 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, 2009

ASSETS	<u>Primary Enterprise</u>	<u>Component Unit (Foundation)</u>	<u>Total Reporting Entity (Memorandum Only)</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 1,669,178	\$ 37,173	\$ 1,706,351
Assets Limited as to Use, Current Portion	144,856	-	144,856
Patient Accounts Receivable, Net	1,793,363	-	1,793,363
Accrued Interest Receivable	18,830	-	18,830
Loan Receivable	22,628	-	22,628
Supplies	317,007	-	317,007
Prepaid Expenses	96,518	-	96,518
Total Current Assets	<u>4,062,380</u>	<u>37,173</u>	<u>4,099,553</u>
ASSETS LIMITED AS TO USE			
Debt Service Account Under Bond Indenture	204,318	-	204,318
Board Designated for Debt Service	1,789,600	-	1,789,600
Board Designated for Capital Improvements	4,236,275	-	4,236,275
Restricted by Donor	51,226	49,268	100,494
Subtotal	<u>6,281,419</u>	<u>49,268</u>	<u>6,330,687</u>
Less: Current Portion	(144,856)	-	(144,856)
Total Assets Limited as to Use	<u>6,136,563</u>	<u>49,268</u>	<u>6,185,831</u>
CAPITAL ASSETS			
Capital Assets	13,916,864	-	13,916,864
Less: Accumulated Depreciation	(6,458,593)	-	(6,458,593)
Net Capital Assets	<u>7,458,271</u>	<u>-</u>	<u>7,458,271</u>
OTHER ASSETS			
Investment in Partnership	135,619	-	135,619
Deferred Debt Acquisition Costs, Net	9,919	-	9,919
Total Other Assets	<u>145,538</u>	<u>-</u>	<u>145,538</u>
Total Assets	<u>\$ 17,802,752</u>	<u>\$ 86,441</u>	<u>\$ 17,889,193</u>

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	\$ 100,000	\$ -	\$ 100,000
Accounts Payable	278,451	-	278,451
Due to Third-Party Payors	120,000	-	120,000
Accrued Expenses	511,490	-	511,490
Total Current Liabilities	<u>1,009,941</u>	<u>-</u>	<u>1,009,941</u>
LONG-TERM DEBT, Net of Current Maturities	1,993,918	-	1,993,918
NET ASSETS			
Invested in Capital Assets Net of Related Debt	5,364,353	-	5,364,353
Restricted:			
Expendable for Bond Indenture	204,318	-	204,318
Expendable for Specific Donor Restrictions	51,226	49,268	100,494
Unrestricted	9,178,996	37,173	9,216,169
Total Net Assets	<u>14,798,893</u>	<u>86,441</u>	<u>14,885,334</u>
Total Liabilities and Net Assets	<u>\$ 17,802,752</u>	<u>\$ 86,441</u>	<u>\$ 17,889,193</u>

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

	<u>Primary Enterprise</u>	<u>Component Unit (Foundation)</u>	<u>Total Reporting Entity (Memorandum Only)</u>
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	<u>3,551,874</u>	<u>40,986</u>	<u>3,592,860</u>
ASSETS LIMITED AS TO USE			
Debt Service Account Under Bond Indenture	204,318	-	204,318
Board Designated for Debt Service	1,887,154	-	1,887,154
Board Designated for Capital Improvements	3,496,420	-	3,496,420
Restricted by Donor	71,226	48,751	119,977
Total Assets Limited as to Use	<u>5,659,118</u>	<u>48,751</u>	<u>5,707,869</u>
CAPITAL ASSETS			
Capital Assets	13,462,163	-	13,462,163
Less: Accumulated Depreciation	(5,985,788)	-	(5,985,788)
Net Capital Assets	<u>7,476,375</u>	<u>-</u>	<u>7,476,375</u>
OTHER ASSETS			
Investment in Partnership	52,364	-	52,364
Deferred Debt Acquisition Costs, Net	10,621	-	10,621
Total Other Assets	<u>62,985</u>	<u>-</u>	<u>62,985</u>
 Total Assets	 <u>\$ 16,750,352</u>	 <u>\$ 89,737</u>	 <u>\$ 16,840,089</u>

See accompanying Notes to Combined Financial Statements.

LIABILITIES AND NET ASSETS	<u>Primary Enterprise</u>	<u>Component Unit (Foundation)</u>	<u>Total Reporting Entity (Memorandum Only)</u>
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>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	204,318	-	204,318
Expendable for Specific Donor Restrictions	71,226	48,751	119,977
Unrestricted	7,977,185	40,986	8,018,171
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 STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2009

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
REVENUE			
Net Patient Service Revenue	\$ 13,234,077	\$ -	\$ 13,234,077
Other Revenue	133,222	9,986	143,208
Total Revenue	<u>13,367,299</u>	<u>9,986</u>	<u>13,377,285</u>
EXPENSES			
Nursing Services	3,669,046	-	3,669,046
Other Professional Services	4,107,511	-	4,107,511
General Services	1,073,659	-	1,073,659
Administrative and Fiscal Services	2,827,804	10,665	2,838,469
Interest and Amortization	111,511	-	111,511
Depreciation	801,159	-	801,159
Total Expenses	<u>12,590,690</u>	<u>10,665</u>	<u>12,601,355</u>
INCOME (LOSS) FROM OPERATIONS	776,609	(679)	775,930
NONOPERATING REVENUE AND EXPENSES			
Interest Income	202,146	-	202,146
Noncapital Grants and Contributions	-	6,861	6,861
Loss on Disposal of Assets	(14,694)	-	(14,694)
Total Nonoperating Revenue and Expenses	<u>187,452</u>	<u>6,861</u>	<u>194,313</u>
EXCESS OF REVENUE OVER EXPENSES	964,061	6,182	970,243
Capital Grants and Contributions	184,213	3,509	187,722
Related Party Transfers	12,987	(12,987)	-
INCREASE (DECREASE) IN NET ASSETS	1,161,261	(3,296)	1,157,965
NET ASSETS			
Beginning of Year	<u>13,637,632</u>	<u>89,737</u>	<u>13,727,369</u>
End of Year	<u>\$ 14,798,893</u>	<u>\$ 86,441</u>	<u>\$ 14,885,334</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, 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	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 CASH FLOWS
YEAR ENDED APRIL 30, 2009

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on Behalf of Patients	\$ 13,505,762	\$ -	\$ 13,505,762
Payments to Suppliers and Contractors	(7,315,996)	(10,665)	(7,326,661)
Payments to Employees	(4,700,534)	-	(4,700,534)
Other Receipts and Payments, Net	143,636	16,847	160,483
Net Cash Provided by Operating Activities	<u>1,632,868</u>	<u>6,182</u>	<u>1,639,050</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Capital Grants and Contributions	184,213	3,509	187,722
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Expenditures	(783,055)	-	(783,055)
Cash Payments for Interest	(108,363)	-	(108,363)
Net Cash Used by Capital and Related Financing Activities	<u>(891,418)</u>	<u>-</u>	<u>(891,418)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Investments	(2,067,882)	(10,370)	(2,078,252)
Sale of Investments	1,445,581	9,853	1,455,434
Change in Other Assets	-	-	-
Transfer from (to) Related Party	12,987	(12,987)	-
Interest Income	202,146	-	202,146
Net Cash Used by Investing Activities	<u>(407,168)</u>	<u>(13,504)</u>	<u>(420,672)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	518,495	(3,813)	514,682
Cash and Cash Equivalents - Beginning	<u>1,150,683</u>	<u>40,986</u>	<u>1,191,669</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 1,669,178</u>	<u>\$ 37,173</u>	<u>\$ 1,706,351</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED APRIL 30, 2009

	<u>Primary Enterprise</u>	<u>Component Unit (Foundation)</u>	<u>Total Reporting Entity (Memorandum Only)</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income (Loss) from Operations	\$ 776,609	\$ (679)	\$ 775,930
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation Expense	801,159	-	801,159
Interest Expense Considered a Capital Financing Activity	108,363	-	108,363
Amortization	3,148	-	3,148
Loss on Disposal of Assets	(14,694)	-	(14,694)
Provision for Bad Debts	407,034	-	407,034
Equity in Earnings from Joint Ventures	(83,255)	-	(83,255)
Noncapital Grants and Contributions	-	6,861	6,861
(Increase) Decrease in:			
Patient Accounts Receivable	(218,682)	-	(218,682)
Other Accounts Receivable	(3,013)	-	(3,013)
Accrued Interest Receivable	19,346	-	19,346
Supplies and Prepaid Expenses	(51,840)	-	(51,840)
Increase (Decrease) in:			
Accounts Payable	(147,249)	-	(147,249)
Due to Third-Party Payors	67,000	-	67,000
Accrued Expenses	(31,058)	-	(31,058)
Net Cash Provided by Operating Activities	<u>\$ 1,632,868</u>	<u>\$ 6,182</u>	<u>\$ 1,639,050</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 Long-Term 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	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
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2009 AND 2008

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, 2009 AND 2008

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, 2009 and 2008, the allowance for uncollectible accounts was approximately \$420,000 and \$342,000, 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, 2009 AND 2008

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, 2009 AND 2008

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

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

	2009	2008
Gross Patient Service Revenue	\$ 19,012,125	\$ 17,686,493
Adjustments and Discounts:		
Medicare	(2,971,304)	(2,655,563)
Medicaid	(354,393)	(399,433)
Other	(2,045,317)	(1,878,056)
Provision for Bad Debt	(407,034)	(204,540)
Total Adjustments and Discounts	<u>(5,778,048)</u>	<u>(5,137,592)</u>
Net Patient Service Revenue	<u>\$ 13,234,077</u>	<u>\$ 12,548,901</u>

NOTE 3 ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets by Windom Area Hospital at April 30, 2009 and 2008 consist of these amounts:

	2009	2008
Receivable from Patients and Their Insurance Carriers	\$ 1,602,810	\$ 1,623,363
Receivable from Medicare	462,935	580,679
Receivable from Medicaid	147,618	119,173
Total Patient Accounts Receivable	<u>2,213,363</u>	<u>2,323,215</u>
Less: Allowance for Uncollectible Amounts	(420,000)	(341,500)
Net Patient Accounts Receivable	<u>\$ 1,793,363</u>	<u>\$ 1,981,715</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, 2009 AND 2008

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, 2009 and 2008, the carrying amounts of deposits and investments are included in the Hospital's balance sheets as follows:

	2009	2008
Carrying Amount:		
Deposits	\$ 8,037,038	\$ 6,899,538
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 1,706,351	\$ 1,191,669
Debt Service Account Under Bond Indenture	204,318	204,318
Board Designated for Debt Service	1,789,600	1,887,154
Board Designated for Capital Improvements	4,236,275	3,496,420
Restricted By Donor	100,494	119,977
	\$ 8,037,038	\$ 6,899,538

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, 2009 AND 2008

NOTE 5 CAPITAL ASSETS

Capital assets (in thousands) for the years ended April 30, 2009 and 2008 consist of the following:

	Balance April 30, 2008	Additions and Transfers	Retirements	Balance April 30, 2009
Land	\$ 24	\$ -	\$ -	\$ 24
Land Improvements	265	-	-	265
Buildings	7,675	75	-	7,750
Fixed Equipment	2,314	-	(3)	2,311
Moveable Equipment	3,130	733	(344)	3,519
Construction in Progress	54	13	(20)	47
Total at Historical Cost	<u>13,462</u>	<u>821</u>	<u>(367)</u>	<u>13,916</u>
Less Accumulated Depreciation for:				
Land Improvements	(237)	(5)	-	(242)
Buildings	(2,076)	(333)	-	(2,409)
Fixed Equipment	(1,540)	(79)	3	(1,616)
Moveable Equipment	(2,133)	(388)	330	(2,191)
Total Accumulated Depreciation	<u>(5,986)</u>	<u>(805)</u>	<u>333</u>	<u>(6,458)</u>
Capital Assets, Net	<u>\$ 7,476</u>	<u>\$ 16</u>	<u>\$ (34)</u>	<u>\$ 7,458</u>
	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>

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2009 AND 2008

NOTE 7 LONG-TERM DEBT (CONTINUED)

The aggregate maturities on long-term debt as of April 30, 2009 are as follows:

<u>Year Ending April 30,</u>	Long-Term Debt	
	Principal	Interest
2010	\$ 100,000	\$ 105,655
2011	105,000	101,424
2012	110,000	96,718
2013	115,000	91,569
2014	120,000	86,015
2015-2019	690,000	332,411
2020-2024	890,000	125,734
Total	<u>\$ 2,130,000</u>	<u>\$ 939,526</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

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. The plan is established and administered in accordance with Minnesota State Statutes, Chapters 353 and 356.

Benefits are established by State Statute and are based upon the members highest average salary for any five successive years of allowable service, age and years of credit at termination of service. PERA issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by contacting PERA, 60 Empire Drive, Suite #200, St. Paul, MN 55103 or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Plan members are required to contribute 6% of the annual covered salary and the Hospital is required to contribute at an actuarially determined rate. The current rate is 6.75% 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, 2009 and 2008 was \$319,351 and \$287,037, respectively. The Hospital's contributions were equal to the contractually required contributions for each year as set by state statute.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2009 AND 2008

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 \$200,120 and \$195,399 for the years ended April 30, 2009 and 2008, 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, 2009, and have issued our report thereon dated June 26, 2009.

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.



LarsonAllen LLP

Minneapolis, Minnesota
June 26, 2009

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, 2009, and have issued our report thereon dated June 26, 2009. 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
June 26, 2009

**WINDOM AREA HOSPITAL
SCHEDULE OF FINDINGS
APRIL 30, 2009**

Material Weaknesses

09-1 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.

09-2 Segregation of Duties -- Accounts Payable, Payroll, Accounts Receivable and Expense Reports

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 accounts payable clerk also has the ability to both enter invoices, and print checks. We recommend the ability to print checks to be limited to someone who does not have access to enter invoices, or add vendors.

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. The Hospital does have a mitigating control now where a report showing all new employees is printed and reviewed monthly by another employee.

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, 2009

Material Weaknesses (Continued)

09-3 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.