

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**

**COMBINED FINANCIAL STATEMENTS**  
**YEARS ENDED APRIL 30, 2010 AND 2009**

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
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# LarsonAllen<sup>®</sup> LLP

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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, 2010 and 2009, 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, 2010 and 2009 and the results of its operations, changes in its 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 8, 2010 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*  
LarsonAllen LLP

Minneapolis, Minnesota  
July 8, 2010



(1)

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**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**APRIL 30, 2010 AND 2009**

**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, 2010 and 2009. 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 combined balance sheet, combined statement of revenues, expenses and changes in net assets, and the combined 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 \$106,897 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 \$714,653 to \$18,603,846 in FY 2010 and by \$1,049,104 to \$17,889,193 in FY 2009. Net property, plant and equipment decreased by \$689,380 in FY 2010 and by \$18,104 in FY 2009. Total liabilities decreased by \$165,858 in FY 2010 and by \$108,861 in FY 2009. The total margin was 6.4%, 7.3% and 9.4% for the years ended April 30, 2010, 2009 and 2008, respectively.

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**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, 2010, 2009 and 2008 is presented below:

**Table 1**  
**Condensed Combined Balance Sheets (in Thousands)**

	April 30,		
	2010	2009	2008
Current Assets	\$ 4,855	\$ 4,100	\$ 3,593
Assets Limited as to Use	6,934	6,186	5,708
Capital Assets	6,769	7,458	7,476
Other Assets	46	146	63
<b>Total Assets</b>	<b>\$ 18,604</b>	<b>\$ 17,889</b>	<b>\$ 16,840</b>
Current Liabilities	\$ 947	\$ 1,010	\$ 1,022
Long-Term Debt Outstanding	1,891	1,994	2,091
<b>Total Liabilities</b>	<b>2,838</b>	<b>3,004</b>	<b>3,113</b>
Invested in Capital Assets, Net of Related Debt	4,773	5,364	5,385
Restricted	324	305	324
Unrestricted	10,670	9,216	8,018
<b>Total Net Assets</b>	<b>15,766</b>	<b>14,885</b>	<b>13,727</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 18,604</b>	<b>\$ 17,889</b>	<b>\$ 16,840</b>

As can be seen by Table 1, net assets increased by approximately \$881,000 to \$15.8 million in fiscal year 2010. In fiscal year 2009, net assets increased by approximately \$1.2 million to \$14.9 million. The change in net assets results primarily from operating income.

**WINDOM AREA HOSPITAL**  
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**APRIL 30, 2010 AND 2009**

**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, 2010, 2009 and 2008.

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

	Year Ended April 30,		
	2010	2009	2008
Operating Revenues	\$ 13,477	\$ 13,377	\$ 12,681
Operating Expenses	12,778	12,601	11,741
Operating Income	699	776	940
Non-Operating Income	166	194	258
Excess of Revenues over Expenses	866	970	1,198
Capital Grants and Contributions	15	188	45
Changes in Net Assets	881	1,158	1,243
Total Net Assets, Beginning of Year	14,885	13,727	12,484
Total Net Assets, End of Year	<u>\$ 15,766</u>	<u>\$ 14,885</u>	<u>\$ 13,727</u>

**Operating and Financial Performance**

**Volume:** Inpatient admissions (excluding newborns) for fiscal year 2010 were 508 compared to 583 in fiscal year 2009 and 698 in fiscal year 2008. This is a decrease of 75 or 13% between 2010 and 2009 and a decrease of 115 or 17% between 2009 and 2008. Patient days (excluding newborns) for fiscal year 2010 were 1,454 compared to 1,554 in fiscal year 2009 and 1,933 in fiscal year 2008. This is a decrease of 100 or 6% from 2009 and a decrease of 379 or 20% between 2009 and 2008. The length of stay decreased from 2.8 days in 2008 to 2.7 days in 2009 and increased to 2.9 days in 2010. Emergency department visits decreased to 3,238 in fiscal year 2010 from 3,245 in fiscal year 2009. This is a decrease of 7 visits or .2%. They decreased from 3,332 in 2008, which is a decrease of 87 or 3%. All other outpatient visits for 2010 were 17,661 compared to 17,468 in 2009 and 16,400 in 2008. This is an increase of 193 visits from 2009 to 2010 and an increase of 1,068 visits from 2008 to 2009. Total surgeries decreased to 1,316 in fiscal year 2010 from 1,435 in fiscal year 2009. This is a decrease of 119 surgeries or 8%. In fiscal year 2009, surgeries increased from 1,376 which is an increase of 59 surgeries or 4%.

**Net Patient Service Revenue:** As a result of the rate increases during the year, net patient service revenue increased \$194,204 or approximately 1% compared to fiscal year 2009. Revenue deductions, the amount of patient service revenue uncollectible due to contractual agreements, government reimbursement policies, and bad debts decreased to \$5,633,855 from \$5,778,048, a less than 1% decrease.

**Other Operating Revenue:** Other operating revenue decreased \$94,406 and increased \$10,880 in fiscal years 2010 and 2009, respectively, from the previous year. The increase in fiscal year 2009 is due to a smaller share in losses in Southwest MN Radiation Center. The decrease in fiscal year 2010 is due to a larger share in losses in Southwest MN Radiation Center.

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**Nursing Services:** Nursing service expenses increased \$193,368 and \$261,117 in fiscal years 2010 and 2009, respectively, from the previous year. This increase is a result of standard wage increases given in the fiscal year and increased surgery supply expense.

**Other Professional Services:** Other professional services decreased \$157,676 and increased \$424,135 in fiscal years 2010 and 2009, respectively, from the previous year. The large decrease in the current year is due to decreased pharmacy and radiology expenses related to lower utilization.

**General Services:** General services decreased \$8,272 and \$54,618 in fiscal years 2010 and 2009, respectively, when compared to the previous year. Decreases in these expenses are related to reduced maintenance and supply costs as fewer projects were going on.

**Administrative and Fiscal Services:** Expenses in this category increased by \$137,928 and \$164,123 in fiscal years 2010 and 2009, 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 \$3,512 and \$3,417 in fiscal years 2010 and 2009, 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 \$19,196 and \$68,588 in fiscal years 2010 and 2009, 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 \$28,236 and \$63,816 in fiscal years 2010 and 2009, respectively, when compared to the previous year. The decrease is due to a decrease in interest rates on cash and investments.

#### **Capital Assets**

At the end of fiscal years 2010, 2009 and 2008, the Hospital had invested \$6,768,891, \$7,458,271 and \$7,476,375, respectively, in net capital assets. The \$689,380 decrease in capital assets in fiscal year 2010 is primarily a result of increased depreciation expense caused by new capital assets over the past two years.

#### **Capital Grants and Contributions**

For the years ended 2010, 2009 and 2008, the Hospital had a total of \$14,982, \$187,722 and \$45,143, respectively, in capital grants and contributions. Due to economic conditions in the current year contributions and grants have significantly decreased.

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**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 2011 budget. Of primary importance in setting the 2011 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
- Increasing 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, 2010**

<b>ASSETS</b>	<u>Primary Enterprise</u>	<u>Component Unit (Foundation)</u>	<u>Total Reporting Entity (Memorandum Only)</u>
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 2,302,116	\$ 40,227	\$ 2,342,343
Assets Limited as to Use, Current Portion	149,523	-	149,523
Patient Accounts Receivable, Net	1,868,060	-	1,868,060
Accrued Interest Receivable	17,350	-	17,350
Loan Receivable	10,961	-	10,961
Supplies	285,932	-	285,932
Prepaid Expenses	94,432	-	94,432
Due from Third-Party Payors	86,000	-	86,000
<b>Total Current Assets</b>	<u>4,814,374</u>	<u>40,227</u>	<u>4,854,601</u>
<b>ASSETS LIMITED AS TO USE</b>			
Debt Service Account Under Bond Indenture	205,655	-	205,655
Board Designated for Debt Service	(205,655)	-	(205,655)
Board Designated for Capital Improvements	6,965,637	-	6,965,637
Restricted by Donor	51,226	66,670	117,896
<b>Subtotal</b>	<u>7,016,863</u>	<u>66,670</u>	<u>7,083,533</u>
Less: Current Portion	(149,523)	-	(149,523)
<b>Total Assets Limited as to Use</b>	<u>6,867,340</u>	<u>66,670</u>	<u>6,934,010</u>
<b>CAPITAL ASSETS</b>			
Capital Assets	14,003,470	-	14,003,470
Less: Accumulated Depreciation	(7,234,579)	-	(7,234,579)
<b>Net Capital Assets</b>	<u>6,768,891</u>	<u>-</u>	<u>6,768,891</u>
<b>OTHER ASSETS</b>			
Investment in Partnership	37,559	-	37,559
Deferred Debt Acquisition Costs, Net	8,785	-	8,785
<b>Total Other Assets</b>	<u>46,344</u>	<u>-</u>	<u>46,344</u>
<b>Total Assets</b>	<u><u>\$ 18,496,949</u></u>	<u><u>\$ 106,897</u></u>	<u><u>\$ 18,603,846</u></u>

See accompanying Notes to Combined Financial Statements.

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Current Maturities of Long-Term Debt	\$ 105,000	\$ -	\$ 105,000
Accounts Payable	281,634	-	281,634
Accrued Expenses	560,003	-	560,003
Total Current Liabilities	<u>946,637</u>	<u>-</u>	<u>946,637</u>
<b>LONG-TERM DEBT, Net of Current Maturities</b>	<u>1,891,364</u>	<u>-</u>	<u>1,891,364</u>
Total Liabilities	2,838,001	-	2,838,001
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>NET ASSETS</b>			
Invested in Capital Assets Net of Related Debt	4,772,527	-	4,772,527
Restricted:			
Expendable for Bond Indenture	205,655	-	205,655
Expendable for Specific Donor Restrictions	51,226	66,670	117,896
Unrestricted	10,629,540	40,227	10,669,767
Total Net Assets	<u>15,658,948</u>	<u>106,897</u>	<u>15,765,845</u>
Total Liabilities and Net Assets	<u>\$ 18,496,949</u>	<u>\$ 106,897</u>	<u>\$ 18,603,846</u>

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**COMBINED BALANCE SHEET**  
**APRIL 30, 2009**

<b>ASSETS</b>	<u>Primary Enterprise</u>	<u>Component Unit (Foundation)</u>	<u>Total Reporting Entity (Memorandum Only)</u>
<b>CURRENT ASSETS</b>			
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	4,062,380	37,173	4,099,553
<b>ASSETS LIMITED AS TO USE</b>			
Debt Service Account Under Bond Indenture	204,318	-	204,318
Board Designated for Debt Service	(204,318)	-	(204,318)
Board Designated for Capital Improvements	6,230,193	-	6,230,193
Restricted by Donor	51,226	49,268	100,494
Subtotal	6,281,419	49,268	6,330,687
Less: Current Portion	(144,856)	-	(144,856)
Total Assets Limited as to Use	6,136,563	49,268	6,185,831
<b>CAPITAL ASSETS</b>			
Capital Assets	13,916,864	-	13,916,864
Less: Accumulated Depreciation	(6,458,593)	-	(6,458,593)
Net Capital Assets	7,458,271	-	7,458,271
<b>OTHER ASSETS</b>			
Investment in Partnership	135,619	-	135,619
Deferred Debt Acquisition Costs, Net	9,919	-	9,919
Total Other Assets	145,538	-	145,538
Total Assets	\$ 17,802,752	\$ 86,441	\$ 17,889,193

See accompanying Notes to Combined Financial Statements.

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
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>
<b>LONG-TERM DEBT, Net of Current Maturities</b>	<u>1,993,918</u>	<u>-</u>	<u>1,993,918</u>
 Total Liabilities	 3,003,859	 -	 3,003,859
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>NET ASSETS</b>			
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 STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**YEAR ENDED APRIL 30, 2010**

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>REVENUE</b>			
Net Patient Service Revenue	\$ 13,428,281	\$ -	\$ 13,428,281
Other Revenue	38,953	9,849	48,802
Total Revenue	<u>13,467,234</u>	<u>9,849</u>	<u>13,477,083</u>
<b>EXPENSES</b>			
Nursing Services	3,862,414	-	3,862,414
Other Professional Services	3,949,835	-	3,949,835
General Services	1,065,387	-	1,065,387
Administrative and Fiscal Services	2,965,732	5,909	2,971,641
Interest and Amortization	107,999	-	107,999
Depreciation	820,355	-	820,355
Total Expenses	<u>12,771,722</u>	<u>5,909</u>	<u>12,777,631</u>
<b>INCOME FROM OPERATIONS</b>	695,512	3,940	699,452
<b>NONOPERATING REVENUE AND EXPENSES</b>			
Interest Income	142,857	-	142,857
Noncapital Grants and Contributions	-	23,601	23,601
Loss on Disposal of Assets	(381)	-	(381)
Total Nonoperating Revenue and Expenses	<u>142,476</u>	<u>23,601</u>	<u>166,077</u>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	837,988	27,541	865,529
Capital Grants and Contributions	3,618	11,364	14,982
Related Party Transfers	18,449	(18,449)	-
<b>INCREASE IN NET ASSETS</b>	860,055	20,456	880,511
<b>NET ASSETS</b>			
Beginning of Year	<u>14,798,893</u>	<u>86,441</u>	<u>14,885,334</u>
End of Year	<u>\$ 15,658,948</u>	<u>\$ 106,897</u>	<u>\$ 15,765,845</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, 2009**

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>REVENUE</b>			
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>
<b>EXPENSES</b>			
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>
<b>INCOME (LOSS) FROM OPERATIONS</b>	776,609	(679)	775,930
<b>NONOPERATING REVENUE AND EXPENSES</b>			
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>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	964,061	6,182	970,243
Capital Grants and Contributions	184,213	3,509	187,722
Related Party Transfers	12,987	(12,987)	-
<b>INCREASE (DECREASE) IN NET ASSETS</b>	1,161,261	(3,296)	1,157,965
<b>NET ASSETS</b>			
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**  
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**COMBINED STATEMENT OF CASH FLOWS**  
**YEAR ENDED APRIL 30, 2010**

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from and on Behalf of Patients	\$ 13,160,731	\$ -	\$ 13,160,731
Payments to Suppliers and Contractors	(6,978,593)	(5,909)	(6,984,502)
Payments to Employees	(4,884,769)	-	(4,884,769)
Other Receipts and Payments, Net	241,483	33,450	274,933
Net Cash Provided by Operating Activities	<u>1,538,852</u>	<u>27,541</u>	<u>1,566,393</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Capital Grants and Contributions	3,618	11,364	14,982
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Expenditures	(130,975)	-	(130,975)
Cash Payments for Interest	(104,851)	-	(104,851)
Principal Payments on Debt	(100,000)	-	(100,000)
Net Cash Used by Capital and Related Financing Activities	<u>(335,826)</u>	<u>-</u>	<u>(335,826)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of Investments	(2,431,046)	(34,966)	(2,466,012)
Sale of Investments	1,695,602	17,564	1,713,166
Change in Other Assets	432	-	432
Transfer from (to) Related Party	18,449	(18,449)	-
Interest Income	142,857	-	142,857
Net Cash Used by Investing Activities	<u>(573,706)</u>	<u>(35,851)</u>	<u>(609,557)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>			
	632,938	3,054	635,992
Cash and Cash Equivalents - Beginning	<u>1,669,178</u>	<u>37,173</u>	<u>1,706,351</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u><u>\$ 2,302,116</u></u>	<u><u>\$ 40,227</u></u>	<u><u>\$ 2,342,343</u></u>

See accompanying Notes to Combined Financial Statements.

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**COMBINED STATEMENT OF CASH FLOWS (CONTINUED)**  
**YEAR ENDED APRIL 30, 2010**

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Income from Operations	\$ 695,512	\$ 3,940	\$ 699,452
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	820,355	-	820,355
Interest Expense Considered a Capital Financing Activity	104,851	-	104,851
Amortization	3,148	-	3,148
Loss on Disposal of Assets	(381)	-	(381)
Provision for Bad Debts	381,523	-	381,523
Equity in Earnings from Joint Ventures	98,060	-	98,060
Noncapital Grants and Contributions	-	23,601	23,601
(Increase) Decrease in:			
Patient Accounts Receivable	(456,220)	-	(456,220)
Other Accounts Receivable	11,667	-	11,667
Accrued Interest Receivable	1,480	-	1,480
Supplies and Prepaid Expenses	33,161	-	33,161
Increase (Decrease) in:			
Accounts Payable	3,183	-	3,183
Due to Third-Party Payors	(206,000)	-	(206,000)
Accrued Expenses	48,513	-	48,513
Net Cash Provided by Operating Activities	<u>\$ 1,538,852</u>	<u>\$ 27,541</u>	<u>\$ 1,566,393</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)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
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>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Capital Grants and Contributions	184,213	3,509	187,722
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
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>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of Investments	(2,067,882)	(10,370)	(2,078,252)
Sale of Investments	1,445,581	9,853	1,455,434
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>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	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>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<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**

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
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**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2010 AND 2009**

**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, 2010 AND 2009**

**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, 2010 and 2009, the allowance for uncollectible accounts was approximately \$476,000 and \$420,000, 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, 2010 AND 2009**

**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. All capital assets other than land and construction in progress are depreciated on a straight-line basis over the estimated useful lives of the property:

Land Improvements	8-20 Years
Buildings	10-40 Years
Fixed Equipment	5-20 Years
Moveable Equipment	3-20 Years

**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.

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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*.

**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.

**Recent Pronouncement**

On January 1, 2009, the Hospital adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement creates a uniform method to account for Other Post-Employment Benefit (OPEB) plans. OPEBs are generally provided to an employee in exchange for their services to the employer. OPEBs can be made up of several different types of plans (but not pension plans) and typically include life insurance and health care benefits. Under the accrual method of accounting, OPEB cost is recognized in the same period as the compensated services are performed. The potential liability is related to the implicit rate subsidy of the employee health insurance plan offered to retirees, however there has historically been minimal use of this benefit. The impact of this statement has been evaluated and the potential liability is considered immaterial to the Hospital's financial statements.

**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.

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2010 AND 2009**

**NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)**

**Medicaid**

Inpatient services rendered to Medicaid program beneficiaries are reimbursed according to a prospective DRG payment system. Outpatient Medicaid services are reimbursed on reasonable cost.

Revenue from the Medicare program accounted for approximately 37% and 38% for the years ended 2010 and 2009, respectively, and revenue from the Medicaid program accounted for approximately 1% and 3% of the Hospital's net patient revenue for the years ended April 30, 2010 and 2009, respectively. 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.

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

	2010	2009
Gross Patient Service Revenue	\$ 19,062,136	\$ 19,012,125
Adjustments and Discounts:		
Medicare	(2,534,700)	(2,971,304)
Medicaid	(429,168)	(354,393)
Other	(2,288,464)	(2,045,317)
Provision for Bad Debt	(381,523)	(407,034)
Total Adjustments and Discounts	<u>(5,633,855)</u>	<u>(5,778,048)</u>
Net Patient Service Revenue	<u>\$ 13,428,281</u>	<u>\$ 13,234,077</u>

**NOTE 3 ACCOUNTS RECEIVABLE**

Patient accounts receivable reported as current assets by Windom Area Hospital at April 30, 2010 and 2009 consist of these amounts:

	2010	2009
Receivable from Patients and Their Insurance Carriers	\$ 1,777,775	\$ 1,602,810
Receivable from Medicare	429,066	462,935
Receivable from Medicaid	137,219	147,618
Total Patient Accounts Receivable	<u>2,344,060</u>	<u>2,213,363</u>
Less: Allowance for Uncollectible Amounts	(476,000)	(420,000)
Net Patient Accounts Receivable	<u>\$ 1,868,060</u>	<u>\$ 1,793,363</u>

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2010 AND 2009**

**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 did not have adequate collateral to meet the 110% test as of April 30, 2010 at one of their financial institutions. The financial institution did obtain adequate collateral subsequent to year-end. At April 30, 2009, the Hospital's deposits at were fully covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

**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, 2010 and 2009, the carrying amounts of deposits and investments are included in the Hospital's balance sheets as follows:

	<u>2010</u>	<u>2009</u>
Carrying Amount:		
Deposits	<u>\$ 9,425,876</u>	<u>\$ 8,037,038</u>
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 2,342,343	\$ 1,706,351
Debt Service Account Under Bond Indenture	205,655	204,318
Board Designated for Debt Service	(205,655)	(204,318)
Board Designated for Capital Improvements	6,965,637	6,230,193
Restricted By Donor	117,896	100,494
	<u>\$ 9,425,876</u>	<u>\$ 8,037,038</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, 2010 AND 2009**

**NOTE 5 CAPITAL ASSETS**

Capital assets (in thousands) for the years ended April 30, 2010 and 2009 consist of the following:

	Balance April 30, 2009	Additions and Transfers	Retirements	Balance April 30, 2010
Land	\$ 24	\$ -	\$ -	\$ 24
Land Improvements	265	-	-	265
Buildings	7,750	-	-	7,750
Fixed Equipment	2,311	23	(1)	2,333
Moveable Equipment	3,519	109	(44)	3,584
Construction in Progress	47	5	(5)	47
Total at Historical Cost	<u>13,916</u>	<u>137</u>	<u>(50)</u>	<u>14,003</u>
Less Accumulated Depreciation for:				
Land Improvements	(242)	(5)	-	(247)
Buildings	(2,409)	(337)	-	(2,746)
Fixed Equipment	(1,616)	(75)	1	(1,690)
Moveable Equipment	(2,191)	(405)	44	(2,552)
Total Accumulated Depreciation	<u>(6,458)</u>	<u>(822)</u>	<u>45</u>	<u>(7,235)</u>
Capital Assets, Net	<u>\$ 7,458</u>	<u>\$ (685)</u>	<u>\$ (5)</u>	<u>\$ 6,768</u>
	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>

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2010 AND 2009**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

Construction in progress at April 30, 2010 and 2009 consists of some planning costs for a future hospital expansion and renovation project.

**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. In June 2008, the Hospital made an additional investment of \$100,000 to obtain a 14% partnership interest in Southwest Minnesota Radiation Center, LLC. The Hospital received no distributions during the years ended April 30, 2010 and 2009. The Hospital's portion of the equity loss was \$98,060 and \$16,745 for the years ended April 30, 2010 and 2009, respectively. The Hospital's ending investment balance was \$37,559 and \$135,619 at April 30, 2010 and 2009, respectively.

**NOTE 7 LONG-TERM DEBT**

A summary of long-term debt at April 30, 2010 and 2009 consists of the following:

	Balance April 30, 2009	Additions	Reductions	Balance April 30, 2010
2003 Gross Revenue Hospital Bonds	\$ 2,130,000	\$ -	\$ (100,000)	\$ 2,030,000
Less: Current Portion				(105,000)
Less: Unamortized Bond Discount				(33,636)
Total Long-Term Debt, Net of Current Maturities				<u>\$ 1,891,364</u>

	Balance April 30, 2008	Additions	Reductions	Balance April 30, 2009
2003 Gross Revenue Hospital Bonds	\$ 2,130,000	\$ -	\$ -	\$ 2,130,000
Less: Current Portion				(100,000)
Less: Unamortized Bond Discount				(36,082)
Total Long-Term Debt, Net of Current Maturities				<u>\$ 1,993,918</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, 2010 AND 2009**

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

The aggregate maturities on long-term debt as of April 30, 2010 are as follows:

<u>Year Ending April 30,</u>	<u>Long-Term Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 105,000	\$ 101,424	\$ 206,424
2012	110,000	96,718	206,718
2013	115,000	91,569	206,569
2014	120,000	86,015	206,015
2015	125,000	80,073	205,073
2015-2019	725,000	296,201	1,021,201
2020-2024	730,000	81,871	811,871
Total	<u>\$ 2,030,000</u>	<u>\$ 833,871</u>	<u>\$ 2,863,871</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.

Subsequent to year-end, in fiscal year 2011, the Hospital paid off the outstanding balance of the 2003 Gross Revenue Hospital Bonds.

**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 7% 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, 2010 and 2009 was \$351,118 and \$319,351, 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, 2010 AND 2009**

**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.

**Compliance**

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity had increased with respect to investigations and allegations concerning possible violations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues for patient services. Management believes the Hospital is in substantial compliance with current laws and regulations.

**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.

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2010 AND 2009**

**NOTE 11 MANAGEMENT CONTRACT**

The Hospital had a management agreement with Sanford Health Services. Effective November 2, 2009, Sanford Health Services became Sanford Health & MeritCare (Sanford), there were no other changes to the management agreement. 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 \$200,744 and \$200,120 for the years ended April 30, 2010 and 2009, respectively.

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## INDEPENDENT AUDITORS' REPORT ON MINNESOTA 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, 2010, and have issued our report thereon dated July 8, 2010.

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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, Windom Area Hospital complied with the material terms and conditions of applicable legal provisions, except as described in Part I of the accompanying Schedule of Findings.

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*  
LarsonAllen LLP

Minneapolis, Minnesota  
July 8, 2010



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF COMBINED 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, 2010, and have issued our report thereon dated July 8, 2010. 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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiencies described in Part II of the accompanying Schedule of Findings to be material weaknesses.

Board of Directors  
Windom Area Hospital

**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.

*Larson Allen LLP*  
LarsonAllen LLP

Minneapolis, Minnesota  
July 8, 2010

**WINDOM AREA HOSPITAL  
SCHEDULE OF FINDINGS  
APRIL 30, 2010**

**PART I: MINNESOTA LEGAL COMPLIANCE**

**10-I-1 Collateral of Deposits**

Minnesota Statute 118A.003, Subdivision 3 requires Windom Area Hospital to have deposits in excess of FDIC or FSLIC insurance protected by bond or collateral of which market value should be at least ten percent more than the amount of excess deposits. Windom Area Hospital did not have adequate collateral to meet the 110% test at April 30, 2010. We recommend obtaining adequate collateral from depositories as required by Minnesota Statute 118A.003, Subdivision 3.

Response

Management has obtained adequate collateral subsequent to year-end.

**PART II: MATERIAL WEAKNESSES**

**10-II-1 Control over the Financial Reporting Process**

As part of the audit, management requested us to prepare a draft of the 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.

**10-II-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 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.

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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.

**WINDOM AREA HOSPITAL  
SCHEDULE OF FINDINGS (CONTINUED)  
APRIL 30, 2010**

**PART II: MATERIAL WEAKNESSES (CONTINUED)**

**10-II-2 Segregation of Duties -- Accounts Payable, Payroll and Accounts Receivable (Continued)**

Response

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

**10-II-3 Misstatements Detected by the Audit**

During the course of the audit, 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.