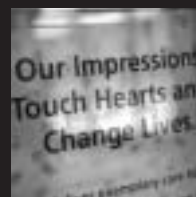
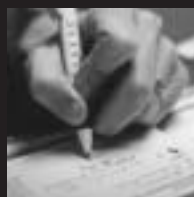
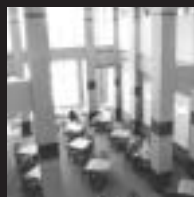


2001 Annual Report



Fairview Stories: A LOOK INSIDE





“Happiness is not
an individual matter.

When you are able to bring relief, or
bring back the smile to one person,
not only that person profits,
but you also profit.

The deepest happiness you can have
comes from that capacity to help
relieve the suffering of others.”

Thich Nhat Hanh
Vietnamese Buddhist teacher

dignity

Our Values: Fairview's values are *Dignity, Integrity, Service* and *Compassion*.

service

Our Mission: Fairview's mission is to improve the health of the communities we serve. We commit our skills and resources to the benefit of the whole person by providing the finest in health care, while addressing the physical, emotional and spiritual needs of individuals and their families. We further pledge to support the research and education efforts of our partner, the University of Minnesota, and its tradition of excellence.

compassion

Our Vision: You will know us for our continuum of healing care, our responsiveness and for setting national standards for clinical excellence, innovation and safety.

integrity

IT WAS A YEAR OF GROWTH.

We added thousands of square feet of physical space. A new medical center in Red Wing, and large-scale expansions at Fairview Southdale Hospital, Fairview Ridges Hospital and Fairview Lakes Regional Medical Center have allowed Fairview to better meet the health needs of those communities. Enormous amounts of energy and resources were devoted to those projects.

Fairview grew through challenges as well, negotiating three major labor contracts. A work stoppage at Fairview-University Medical Center, Riverside campus, and at Fairview Southdale Hospital placed great stress on everyone on both sides of the picket line. Also, greater expenses and lower revenues than expected for the first four months of 2001 prompted a budget freeze on some spending and a hiring freeze on non-patient care positions.

Thoughtful planning and preparation will help manage our growth in the future. In 2001, we introduced a strategy called Performance Excellence, aimed at focusing and aligning the whole company around the goal of meeting and exceeding customer expectations — or what we like to call “delighting the customer.”

Through all the growth — and the challenges that sparked or resulted from that growth — we continued to serve our patients and their families, thanks to the tremendous team efforts of Fairview employees and physicians. I think our communities are better off because of Fairview. Our mission comes through in the pages that follow, as you look inside a day at Fairview. I think you'll like what you see.



David R. Page
Fairview president and
chief executive officer

A handwritten signature in black ink that reads "D. R. Page".

Highlights



honor

HONORING CLINICAL ACHIEVEMENTS

Fairview Southdale Hospital was named among the best-performing hospitals for treating heart attacks and cardiovascular disease in the study, "Solucient 100 top hospitals: cardiovascular benchmarks of success."

In partnership with our physicians, Fairview-University Medical Center once again ranked in *U.S. News and World Report's* top 50 teaching hospitals in the country for the following medical specialties: cancer (40th), ear, nose and throat (33rd), geriatrics (27th), kidney disease (24th) and neurology/neurosurgery (36th).

Fairview Lakes Regional Health Service started using a new formula for scheduling clinic patients called "Advanced Access." The system allows patients to see their personal physicians quickly, often the same day they call.

Fairview-University Medical Center expanded its neonatal intensive care unit (NICU) to include private rooms (the first of their kind for a NICU in the Twin Cities), a new four-bed nursery and a NICU

Lactation Clinic, the only such clinic in the state.

The Central Minnesota SANE Program, a collaboration of Fairview Northland Regional Hospital and other regional health care partners, received the Innovation of the Year in Patient Care Enhancement award from the Minnesota Hospital and Healthcare Partnership (MHHP). The SANE program provides nurse examiner services to sexual assault victims in Wright and Sherburne counties.

An arts program was created for deaf and hard-of-hearing residents at Ebenezer Luther Hall.

Fairview received national recognition with the June 24 front-page *New York Times* article featuring a double-lung, living donor transplant at Fairview-University Medical Center.

strength

STRENGTHENING THE ORGANIZATION

Fairview embarked upon a new, systemwide strategy aimed at focusing and aligning the whole company around the goal of meeting and exceeding customer expectations: In short, delighting the customer.

A road map of strategic direction and performance measurement call the "balanced scorecard" lists key goals in such areas as customer service, clinical excellence, employee and physician engagement and financial and operational performance. Through Performance Excellence, Fairview is implementing breakthrough improvements in key performance areas, measuring progress and finding ways to align individual jobs closely with system goals.

Fairview was named 2001 Best Minnesota Hospital Workplace by the Minnesota Hospital and Healthcare Partnership (MHHP). Fairview received the award for the creation of the Fairview Workforce Development and Placement Center (the former Career Resource Center).

Fairview employees gave more to the United Way giving campaign than the year before and gave far beyond targeted goals. Amazingly, that giving was in addition to a special fundraiser for Sept. 11 victims and a record-breaking Fairview employee giving campaign in the spring.



expansion EXPANDING OUR FACILITIES

Fairview Alive, a total health management initiative, rolled out to all Fairview employees. The program is charged with furthering Fairview's commitment to employees, decreasing health-related expenses and boosting employee satisfaction.

Kevin Shores, quality consultant, Fairview Ridges Hospital, won the 2002 Fairview Cares Award, recognizing his volunteer work. In 2001, he undertook a two-week medical mission to South Africa to support several community nutrition programs and visit residents with HIV/AIDS, created a community nutrition field experience for Fairview dietetic interns, and developed the only food safety initiative in the United States for people with HIV/AIDS.

Fairview Cares Award 2002 finalists were Geraldine Coryell, R.N., from Fairview-University Medical Center, Shirley Graf, R.N., from Fairview Lakes Regional Health Care, Nancy Holladay from Ebenezer, and Peter Olesabay from Fairview Southdale Hospital.

The 175,000-square-foot Fairview Red Wing Medical Center opened in early December, replacing the former Fairview Red Wing Hospital and the Fairview Red Wing Clinic.

Fairview Southdale Hospital completed a major building project in November to expand heart and vascular services for the Southwest Metro area. The western expansion added 37 private, pre- and post-procedure care suites, a larger endoscopy area, heart and vascular catheter labs and more.

Fairview Lakes Regional Medical Center added 22,760 square feet and 21 inpatient beds to the 38-bed facility. The addition doubled the size of the emergency department by relocating the Urgent Care Clinic into the newly constructed space.

Fairview Ridges Hospital made considerable progress on a large expansion to add, among many things, inpatient beds and emergency room space.

Fairview-University Medical Center embarked on the first year of a three-year project to grow programs

and services called Model for Growth. Work includes remodeling and moving services to address space and staffing needs.

Fairview Pharmacy Services added retail pharmacies in Minnetonka and Chanhassen as part of Fairview's relationship with Lunds/Byerlys. The Institute for Athletic Medicine clinics at Bandana Square, St. Paul, and in Elk River moved to larger locations.

Ebenezer Ridges campus in Burnsville added a 45-unit assisted-living facility and an intergenerational day care facility for children and older adults. Both facilities are physically linked to Ebenezer Ridge Point Apartments and Ebenezer Ridges Care Center, providing a continuum of care for older adults in the Minnesota Valley.

Photos (from left):

A collection of test tubes in a Fairview lab

Lori Pugh, laboratory technician, checks slides samples

Sally Casper, organ donor, waits patiently while tests are performed


Kevin Shores during a recent visit to South Africa

Fairview Southdale Hospital's skyway

Fairview Ridges Hospital expansion groundbreaking



Sally Casper

— — — — —  — — — — —

Even at 7:25 on a Monday morning, the Transplant Center lobby is buzzing. In the middle row of chairs, next to the counter, Sally and Anthony Casper try to wait patiently, casually. Sally, 58, is at Fairview-University Medical Center for a day of meetings, tests and procedures to determine if she's healthy enough to donate a kidney to her diabetic, dialysis-dependent brother, Mark.

Nerves come through loud and clear on Sally's first test of the morning: a sky-high blood pressure reading. "We'll try that again later," says Sally with a laugh. Waiting for her least favorite part of the day — a blood draw for routine testing — she strikes up a lively conversation with a man across the aisle. Details of transplants and complications, success and struggles easily flow back and forth. A sense of comfort yet caution pervades the room.



Sally sails through her blood test, thanks to the skilled hands and friendly chatter of Beth Molenaar, clinical lab scientist. Five vials of blood will be screened for basic measures of health. An EKG, an electronic read-out of the heart rate and pulse points, and a CT-angiogram follow.

Before today, Sally's only contact with the transplant program was Cathy Garvey, transplant nurse coordinator. At 8:30 a.m., Sally meets Garvey, who reviews the basics of the day and the transplant process. Garvey exudes a gentle calm, building Sally's knowledge of the process and her trust.

The history and depth of the program is reassuring in itself. In 2001, University of Minnesota surgeons transplanted 199 kidneys, of which 143 came from living donors. In all, more than 460 organ transplant procedures were conducted at Fairview-University Medical Center last year.

Garvey's information sets the stage for Sally's next meeting with Arthur Matas, M.D., transplant surgeon. He explains there are risks with the procedure, just like every surgery. "But know that, if this transplant happens, it is my job to take care of you that day. You and your health would be my priority."

Priorities are something Sally had to think about before deciding to take this next step. One of five siblings, Sally was the obvious choice within the family to serve as a donor. She had passed the initial blood screen proving her a match to her brother. But many questions arise from such a life-shaping decision.

On this day, Cheryl Jacobs, Fairview transplant social worker, helps Sally think through some of these questions. "Do you have family in the area to help take care of you after the surgery?" asks Jacobs. Tony, who's been to all the morning meetings with Sally, acknowledges they don't have other family in their hometown of Fontana, Wisconsin, but "we can get help if we need it."

Married 34 years, Tony and Sally are each other's support system. Recently, Sally helped Tony through some health problems. "Now it's his turn to be there for me," she jokes. The playful ribbing carries through the day.

By day's end, Sally is ready for another try at a blood pressure reading. It's down to 116 over 86, normal for Sally and in an acceptable range. Her 4 p.m. meeting includes a complete health check

by Rahul Koushik, M.D., nephrologist. His charge: to be certain Sally can withstand the operation and life afterwards with one kidney. Koushik covers everything from vision to knees to caffeine intake — "You seem like a coffee person," he says with a smile.

Everything looks good, but Sally doesn't have an answer to the big question: Can she donate? That will come in the days ahead, as will more waiting. "Surgery has never been a life goal," jokes Sally. "But it's my brother. Wouldn't you do it for your brother?"

Transplant surgeons later approved Sally to donate her kidney.

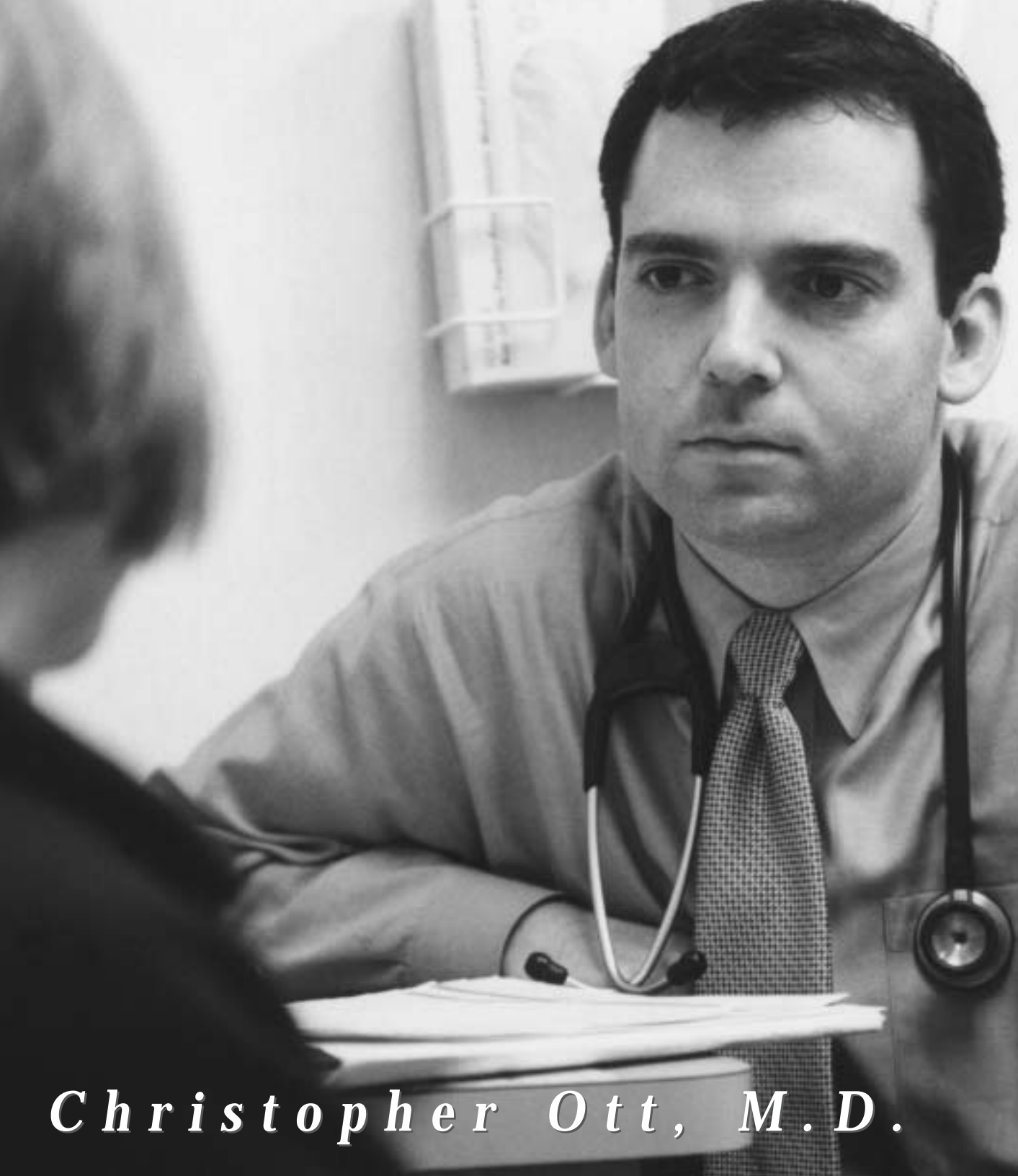
Photos (from left):

Sally and Tony Casper wait for an early appointment

Beth Molenaar draws blood while Sally looks away

Arthur Matas, M.D., meets with Tony and Sally

The Caspers head for their hotel after a long day of testing



Christopher Ott, M.D.



I “I never get sick like this,” says Dianne Haus in a whisper. A nasty late-winter cold has stolen her voice. She’s at Fairview Northeast Clinic to see Christopher Ott, M.D. for the first time.

There are usually a few new patients each day. Ott joined Fairview Northeast Clinic July 2001 after completing his family practice residency program at Smiley’s Clinic, Minneapolis. Currently, he sees patients two days a week, job-sharing with another physician from the Smiley’s program, Kim DeRoche, M.D. His days at the clinic are busy with patients, pages, phone calls and consults with colleagues. His days away from work are equally busy: he cares for his 6-month-old son and 9-month-old nephew.

At 10:25 a.m., Jennifer Davis brings her spirited, teenage daughter for an office visit with Jill Smith, physician assistant. “I thought while I was here I might as well get my hand checked out,” says Davis, who waits to see Ott. A strange lump on her right hand has bothered her for some time. Davis is in patient room 16; her daughter sits across the hall in 18.



An X-ray confirms Ott's initial diagnosis: a ganglion or fluid-filled cyst. Holding her hand and gently touching the lump, Ott begins to explain a treatment option. "If you want, we can numb the area, then use a needle to extract the fluid," he says. Davis' expression indicates she isn't very interested in the details.

Ott quickly jumps in, "Or would you like me to do the procedure and talk about something else?" he offers with a smile. "Oh, please," laughs Davis with a look of relief. Davis' daughter shouts across the hall that she doesn't want to see any needles.

Their visit gets at the heart of a family practice clinic: care for the entire family in one place. "I love the challenge of family practice — the variety, exploring an issue deeper, always learning," says Ott.

In room 15, Harvey Johnson, 74, and his wife, Jean, have arrived for Harvey's appointment. "How are you doing today, Harvey? What are your concerns?" asks Ott. Harvey reaches into the pocket of his red knit shirt, pulling out several small pieces of paper. One is a list of concerns, one is a list of medications he wants to know more about. Jean has a list of Harvey's symptoms, too.

Harvey is taking a large number of prescriptions — ordered by a variety of physicians — for a number of ailments. Back at the nurse's station, Ott uses a program on his Palm Pilot to check for drug interaction problems. "It's an incredible tool," he says of the technology.

In between patients, Ott spends his time in or near the office he shares with Smith. Today, Smith is trying to write interview questions, because later that day she'll help interview potential physician assistant students for Augsburg College's program. Jokingly, Ott offers suggestions. Smith keeps asking. "They should take down the partition between their desks," advises Claire Ingram, R.N., Smith's primary nurse. "They just talk through it."

Energy and collaboration form a theme throughout the day. In the morning, Ott requested ideas from Smith and Elisa Frost, M.D., for over-the-counter remedies to address Dianna Haus' laryngitis. Later, Smith asked Ott to look at a suspicious lump on one of her patients.

Ott's final patient of the day is Alyssa Kozlovski. Almost 3 years old, she stands shyly against the wall, balancing on the scale. She's going to get a shot of

antibiotics, since she refuses to take the oral medication a doctor prescribed the day before. "She knows it. She knows that's what will happen if she doesn't take the medicine," says Tina Winsor, Alyssa's mom.

Ott greets Alyssa by kneeling down and shaking her hand. "Can you climb up on the exam table so I can listen to you breathe?" he asks. "When I'm done, I'll go get you some stickers. Do you want stickers?" he asks. "Oh, yes," she exclaims, shaking her little arms and legs.

"Now that's a way to end the day," Ott says with a smile. One of his goals for 2002: build his pediatric and obstetrics practice.

After some paperwork, Ott is off for one final, important engagement of the day — picking up his son, Casey. When the bright-eyed boy spots his dad, a grin fill his little face. Dad's smile matches.

Photos (from left):

Jennifer Davis does her best to ignore the needle

An at-the-door consult with Harvey Johnson

A peek down Alyssa Kozlovski's throat

An end-of-day reunion with son, Casey



Fairview Red Wing Medical Center



A fine mist of steam rises off the espresso machine in the lobby of the new Fairview Red Wing Medical Center. A steady stream of patrons — employees, visitors, even Red Wing residents commuting past the building — keeps Mary Rose Benson busy at Bluff Brew coffee bar, a new feature for the medical center.

But then everything is new in the \$38 million, 175,000-square-foot medical center built atop a scenic bluff on the edge of Red Wing. Windows, natural light, soothing colors, earth tones, local artwork: the building that opened in December is designed as a healing environment to replace the former Fairview Red Wing Hospital and Fairview Red Wing Clinic. Even on a cloudy day in February, the two-story windows that flood the atrium and cafeteria below draw attention to the view of the Mississippi River valley and regional landmark, Barn Bluff.



On the second floor, primary family services offers family practice, obstetrics and gynecology, and pediatrics practitioners in one area. Little Ellie Bryant is here for an 18-month well-baby check. She stops to admire herself in a silly mirror, a clever distraction while her weight is measured by the scale built into the floor. She's one of 177 patients who'll visit the primary care center this day.

Upstairs, inpatient room 3212 is occupied by Dolores Reinhart. Lifelong resident of Red Wing, Dolores is recovering from a recent surgery. "This building is much bigger and arranged differently than the old hospital. It took a little getting used to," says Dolores, who had been a patient at the former Fairview Red Wing Hospital many times before. "The care is always excellent."

For husband, George, the facility is "very nice." The week before, when the nurse was helping Dolores get ready in the morning, George was able to visit four other patients on the floor — fellow classmates from his and Dolores' Red Wing High School class of '40.

Windows are everywhere: the family lounge, each patient room, even the physical therapy gym.

At 1:30 p.m., with the help of physical therapist Paul Irwin, Charles Paster tests and strengthens his knee following surgery. Large windows flood the room with light, an improvement over the former dank space.

But the medical center is far more than beautiful — it's technologically advanced. With more than \$4 million, planners equipped a new radiology area with state-of-the-art technology that eliminated film — a significant achievement for a regional community medical center, says Elona Franciskovich, radiology manager. By day's end, staff perform 144 X-rays, eight CT scans, six MRI scans, nine ultrasounds, 13 mammograms and more.

Radiology is just down the hall from the new combined emergency and urgent care department. The department brought together urgent care staff from the former clinic site and emergency department staff from the hospital. That physical arrangement is a bonus for staff and patients, says Angie Peterson, urgent care lead R.N., who triages ER/urgent care patients. "Patients get the right level of care," Peterson says. "And we can back each other

up during the busy times." Open 5-9 p.m., urgent care staff see about 50 patients a day.

And patients are able to fill prescriptions on site at a branch office of the community pharmacy. It's open until 9 p.m., the latest in town.

The benefit comes down to service. In primary family services, the open access scheduling system, introduced a year ago at the former clinic, allows patients same-day access to their physicians. "There is an attitude and commitment to service here," says Tina Ketel, pediatrics lead R.N. "We have a feeling of collaboration rather than competition."

Well, maybe some people are a little competitive today. Posted at the front entrance of the medical center, the two Red Wing area seniors serving as valet parking attendants work hard to see who can smile bigger, park more cars. Theirs is a healthy competition where everyone wins.

Photos (from left):

*Jean Diercks, nutrition services, in front of local children's artwork
George and Dolores Reinhart relax in a sitting area in Dolores' room
Elona Franciskovich, radiology manager, with William Wells, M.D.
The peaceful, third-floor family lounge with views of the river valley*

Fairview at a Glance

Care Systems

Care systems are a way of organizing health care by geographic regions or by defined communities. All Fairview services, from primary care to long-term care, will work together in local care systems to provide comprehensive services.



- (1) Range**
including Fairview University
Medical Center - Mesabi
- (2) Northland**
including Fairview Northland
Regional Hospital
- (3) Lakes**
including Fairview Lakes
Regional Medical Center
- (4) Central Metro**
including Fairview-University
Medical Center
- (5) Southwest Metro**
including Fairview Southdale Hospital
- (6) Minnesota Valley**
including Fairview Ridges Hospital
- (7) Red Wing**
including Fairview Red Wing
Medical Center

Fairview Facts

Employees	18,400
Hospitals	7
Primary care clinics	33
Specialty clinics	29
Urgent care	6
Occupational Health Resources	1 location
Institute for Athletic Medicine	23 locations
Hand centers	5 locations
Orthopedic laboratories	11 locations
Counseling centers	10
Adult day programs	3 locations
Intergenerational day program	1 location
Senior housing facilities	15
Long-term care facilities	4
Retail pharmacies	27
Fairview Home Medical Equipment	2 locations
Home care and hospice	4 agencies
Fairview Pain Management Center	
Mind Body Spirit Clinic partnership	
Fairview Press	
Community partnerships	73
Affiliated physician organizations:	
Behavioral Healthcare Providers	580 providers
Fairview Physician Associates	870 physicians
University of Minnesota Physicians	480 physicians
Fairview Partners	
Fairview Foundation	
Ebenezer Foundation	

Customers Served

	2001	2000	1999	1998	1997
Ambulatory Care					
Hospitals	1,048,291	943,637	889,663	787,656	745,047
Clinics	948,634	963,076	933,733	925,127	863,939
Institute for Athletic Medicine	189,442	176,204	168,801	174,993	166,505
Hospital Home Care	237,983	245,423	310,881	363,189	273,701
Orthopedics Laboratories (procedures)	20,464	19,510	18,863	19,500	17,123
Retail Pharmacy	1,269,410	1,210,014	1,074,621	975,295	618,118
FPA Care System					
Members Served	71,540	62,185	62,189	61,589	46,903
Inpatient Admissions					
Acute Care	68,558	68,891	68,774	68,003	69,367
Behavioral Services	9,148	8,766	8,285	8,821	9,071
<i>Total Inpatient Admissions</i>	<i>77,706</i>	<i>77,657</i>	<i>77,059</i>	<i>76,824</i>	<i>78,438</i>
Patient Days					
Acute Care	283,708	290,314	285,395	284,741	282,681
Behavioral Services	69,273	68,376	63,350	71,385	78,182
Long-Term Care	208,832	229,163	240,573	294,478	227,089
<i>Total Patient Days</i>	<i>561,813</i>	<i>587,853</i>	<i>589,318</i>	<i>650,604</i>	<i>587,952</i>
Average Length of Stay					
Acute Care	4.1	4.2	4.1	4.2	4.1
Behavioral Services	7.6	7.8	7.6	8.1	8.6

(Dollars in Thousands)

	2001	2000	1999
Cost of Providing Community Services	\$23,167	\$26,322	\$28,169
Cost of Providing Charity Care	1,116	1,244	1,415
Unpaid Costs of Public Programs:			
Medicare	57,011	61,270	40,657
Medicaid	3,653	10,802	7,353
Medicaid Surcharge	9,955	8,995	8,252
Minnesota Care Tax	11,637	10,398	9,751
Total	\$106,539	\$119,031	\$95,597

Executive Summary

Hard work to overcome challenges resulted in positive financial growth for Fairview in 2001. Fairview's 2001 operating income was \$28.7 million: an increase of 27 percent over 2000. Total unrestricted revenue and gains reached \$1.54 billion, an 8 percent increase from 2000. Three-year trend data shows positive movement on all these indicators.

Several of our building projects were completed and opened during 2001. This included major expansions at Fairview Southdale Hospital, Fairview Lakes Regional Medical Center and

Fairview Red Wing Medical Center. We look forward to completion of building projects at Fairview Ridges Hospital and Fairview-University Medical Center during 2002 and 2003.

Over the past five years, Fairview has invested more than \$500 million in physical assets. Clearly the expansion of buildings has little impact without Fairview employees providing the quality services that our patients need. Our investment in our people continues to be our primary focus with salaries and benefit costs reaching \$809 million, an increase of more than 20 percent in the last two

years. In addition, major investments have been made in retention, recruitment, employee health initiatives and information systems to help make Fairview the employer of choice.

This investment in people and physical growth will allow Fairview to better serve the community. Inpatient and ambulatory patient encounters in 2001 topped 2.8 million. Our recently opened facilities offer continued opportunity to meet the increasing demand.

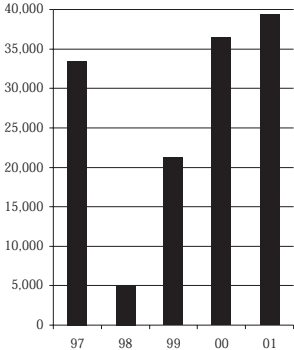
STATEMENTS OF FINANCIAL POSITION FOR THE YEARS ENDED DECEMBER 31

<i>(Dollars in Thousands)</i>	2001	2000	% Change
Total Revenue	\$1,537,544	\$1,421,984	8%
Operating Income	\$28,704	\$22,580	27%
Net Operating Margin	1.9%	1.6%	
Total Assets	\$1,292,918	\$1,298,273	0%
Liquidity Reserves*	\$263,456	\$242,740	9%

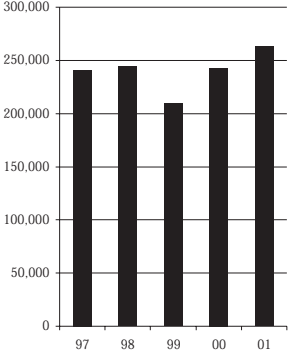
* Liquidity Reserves consist of cash, short term investments, and board designated fund investments

Executive Summary

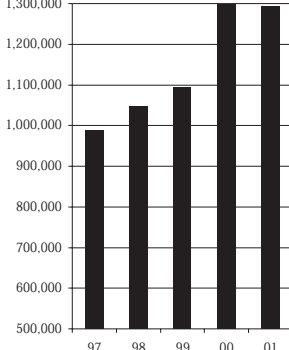
EXCESS OF REVENUE OVER EXPENSES
(in thousands of dollars)



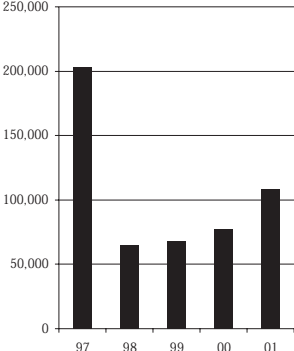
LIQUIDITY RESERVES
(in thousands of dollars)



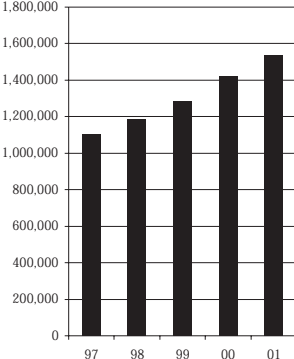
TOTAL ASSETS
(in thousands of dollars)



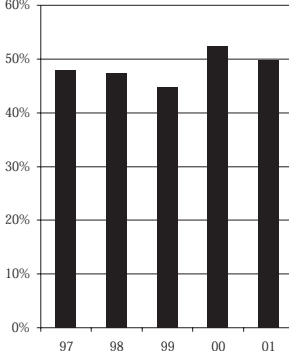
CAPITAL ADDITIONS
(in thousands of dollars)



TOTAL REVENUE
(in thousands of dollars)



DEBT TO CAPITALIZATION
(in percentages)



Consolidated Statements of Operations & Changes in Net Assets

(Dollars in Thousands)

	For the Years Ended December 31,		
	2001	2000	1999
Unrestricted Revenue and Gains			
Net Patient Revenue	\$1,301,680	\$1,198,375	\$1,077,299
Other Revenue	234,275	220,828	204,296
Net Assets Released from Restrictions	1,589	2,781	1,338
<i>Total Unrestricted Revenue and Gains</i>	1,537,544	1,421,984	1,282,933
Expenses			
Salaries and Benefits	809,149	747,096	673,159
Supplies	263,771	245,220	222,058
Purchased Services	168,252	154,618	166,608
Depreciation and Amortization	56,232	58,218	54,239
Interest	20,423	24,787	15,608
Other Operating Expenses	191,013	169,465	145,972
<i>Total Expenses</i>	1,508,840	1,399,404	1,277,644
Operating Income	28,704	22,580	5,289
Investment Income	10,656	13,826	15,965
<i>Excess of Revenue Over Expenses</i>	39,360	36,406	21,254
Other Changes in Unrestricted Net Assets			
(Decrease) Increase in Net Unrealized Gains	(8,903)	(3,892)	3,195
Cumulative Effect of Adopting New Accounting Principle	5,375	-	-
Contributions of Long-Lived Assets	1,231	-	-
Other Transfers	-	(817)	-
<i>Increase in Unrestricted Net Assets</i>	37,063	31,697	24,449
Temporarily Restricted Net Assets			
Contributions and Other Changes	2,895	3,498	3,735
Net Assets Released from Restrictions	(2,820)	(2,781)	(1,338)
Other Transfers	-	817	-
<i>Increase in Temporarily Restricted Net Assets</i>	75	1,534	2,397
Total Increase in Net Assets	37,138	33,231	26,846
Net Assets at Beginning of Year	472,443	439,212	412,366
<i>Net Assets at End of Year</i>	\$ 509,581	\$ 472,443	\$ 439,212

See accompanying notes.

Consolidated Balance Sheets

(Dollars in Thousands)

	For the Years Ended December 31,		
	2001	2000	1999
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 51,137	\$ 31,204	\$ 25,873
Short-term Investments	5,502	9,332	2,454
Patient Accounts Receivable, Less Allowance for Doubtful Accounts of \$55,958 in 2001, \$46,700 in 2000, \$42,198 in 1999	296,289	299,311	278,973
Inventories	32,785	29,686	26,440
Other Current Assets	64,049	62,577	53,497
Total Current Assets	449,762	432,110	387,237
Assets Whose Use Is Limited			
Board Designated Fund Investments	206,817	202,204	181,026
Debt Service Reserve Fund Investments	24,366	22,510	5,379
Construction Fund Investments	49,863	131,653	7,480
Investments held by Insurance Subsidiaries	39,616	37,293	65,772
Total Assets Whose Use Is Limited	320,662	393,660	259,657
Other Long-term Assets			
Investments	12,551	16,208	11,624
Deferred Debt Acquisition Costs	8,743	8,753	7,336
Other Assets	22,715	11,094	12,977
Total Long-term Assets	44,009	36,055	31,937
Property, Plant and Equipment, Net	478,485	436,448	416,483
	\$1,292,918	\$1,298,273	\$1,095,314
LIABILITIES & NET ASSETS			
Current Liabilities			
Notes and Accounts Payable	\$ 95,000	\$ 122,267	\$ 103,816
Accrued Liabilities	123,131	122,787	117,469
Payable Under Third-Party Reimbursement Contracts	11,635	14,416	32,747
Current Maturities of Long-term Debt	8,566	8,255	8,713
Total Current Liabilities	238,332	267,725	262,745
Other Liabilities			
Insurance Subsidiaries Claims Reserves	39,300	38,193	34,752
Other Long-term Liabilities	11,979	13,759	10,897
Total Other Liabilities	51,279	51,952	45,649
Long-term Debt, Less Current Maturities	493,726	506,153	347,708
Net Assets			
Unrestricted	497,392	460,329	428,632
Temporarily Restricted	12,189	12,114	10,580
Total Net Assets	509,581	472,443	439,212
	\$1,292,918	\$1,298,273	\$1,095,314

See accompanying notes.

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	For the Years Ended December 31,		
	2001	2000	1999
Cash Flows from Operating Activities			
Increase in Net Assets	\$ 37,138	\$ 33,231	\$ 26,846
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	56,232	58,218	54,239
Provision for Bad Debts	42,465	30,598	23,262
Decrease (Increase) in Net Unrealized Gains	8,903	3,892	(3,195)
Cumulative Effect of Adoption of New Accounting Principle	(5,375)	-	-
Loss on Interest Rate Swap	1,616	-	-
Changes in Assets and Liabilities:			
Patient Accounts Receivable	(39,443)	(50,936)	(100,012)
Inventories and Other Current Assets	(6,788)	(12,326)	(10,699)
Notes and Accounts Payable, Accrued and Other Current Liabilities	(29,160)	5,438	31,287
Other, Net	(673)	6,303	5,826
<i>Net Cash Provided by Operating Activities</i>	64,915	74,418	27,554
Cash Flows from Investing Activities			
Additions to Property, Plant and Equipment	(108,716)	(77,195)	(68,424)
Investment Purchases	(115,313)	(259,684)	(83,537)
Investment Sales	179,714	110,327	135,900
Other, Net	5,487	1,590	5,179
<i>Net Cash Used in Investing Activities</i>	(38,828)	(224,962)	(10,882)
Cash Flows from Financing Activities			
Proceeds from Long-term Debt	800	182,399	6,771
Payment for Defeasance of Long-term Debt	-	(15,500)	-
Payments on Long-term Debt	(6,954)	(8,912)	(23,170)
Deferred Debt Acquisition Costs	-	(2,112)	-
<i>Net Cash (Used in) Provided by Financing Activities</i>	(6,154)	155,875	(16,399)
Increase in Cash and Cash Equivalents	19,933	5,331	273
Cash and Cash Equivalents at Beginning of Year	31,204	25,873	25,600
<i>Cash and Cash Equivalents at End of Year</i>	\$ 51,137	\$ 31,204	\$ 25,873

See accompanying notes.

Notes to Consolidated Financial Statements - December 31, 2001, 2000 and 1999 (Dollars in Thousands)

Note 1. Organization And Basis Of Presentation

Fairview Health Services is a non-profit corporation incorporated and headquartered in Minnesota. Fairview Health Services and its subsidiaries (collectively referred to as Fairview) are a regionally integrated network of physicians, hospitals, ambulatory care services and health care management enterprises.

The consolidated financial statements include the accounts of Fairview and its wholly controlled affiliates or wholly owned subsidiaries, which include both tax-exempt and taxable entities. All significant intercompany balances and transactions have been eliminated in consolidation.

Note 2. Summary Of Significant Accounting Policies

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include currency on hand, demand deposits with banks or other financial institutions and short-term investments with maturities of 90 days or less from the date of purchase.

Fairview places its temporary cash investments with high-quality financial institutions, which have a bond rating of AA or higher and, by policy, limits the amount of credit exposure to any one financial institution. However, Fairview has cash balances at financial institutions that may exceed federal depository insurance limits.

Inventories – Inventories include drugs and supplies and are recorded at the lower of cost or market on a first-in, first-out (FIFO) basis.

Investments – Investments are recorded at fair value based on quoted market prices (Note 6). When quoted market prices are not available, Fairview uses pricing models for various types of financial instruments that take into account the present value of estimated future cash flows. Net realized gains and changes in net unrealized gains are included in the consolidated statements of operations and changes in net assets.

Assets Whose Use Is Limited – Assets whose use is limited include investments externally designated under bond indenture and self-insurance programs as well as assets internally designated by the Board of Directors for property, plant and equipment replacement and expansion and other purposes. The board, at its discretion, may subsequently authorize the use of internally designated assets for other purposes. At December 31, 2001, 2000 and 1999, \$13,591, \$12,019 and \$13,284, respectively, has been pledged to the State of Minnesota (State) as collateral required under its workers' compensation program.

Deferred Debt Acquisition Costs – Costs of bond issuance are deferred and amortized on a straight-line basis over the term of the related indebtedness.

Property, Plant and Equipment – Property, plant and equipment are recorded at cost and depreciated over estimated useful lives using the straight-line method. Non-cancelable financing leases are capitalized at the present value of future minimum lease payments and amortized on a straight-line basis over the estimated useful lives of the related assets. The following estimated useful lives are used in computing depreciation:

Land improvements	5 – 10 years
Buildings	30 – 40 years
Equipment	2 – 20 years

Unrestricted and Temporarily Restricted Net Assets – Unrestricted net assets are used to account for all transactions related to patient care and other operating activities. Unrestricted net assets include assets whose use is limited through designation by the Board of Directors and requirements of bond indentures. Temporarily restricted net assets are those assets whose use by Fairview has been limited by donors or grantors to a specific purpose or time period.

Net Patient Revenue – Fairview has agreements with third-party payors, which provide for payments to Fairview at amounts different from its established rates. Net patient revenue is reported at estimated net amounts due from patients and third-party payors for services rendered.

Contractual adjustments arising from various reimbursement arrangements with third-party payors are accrued on an estimated basis in the period in which the services are rendered. Certain reimbursement arrangements are subject to retroactive audit and adjustment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between amounts originally recorded and finally settled are included in operations in the year in which the differences become known.

Fairview utilizes a process to identify and appeal settlements by Medicare and other intermediaries. Additional reimbursement is recorded in the year the appeal is successful. During 2001, 2000 and 1999, successful appeals, cost report settlements and adjustments to estimated amounts due from patients for prior years' patient care amounted to approximately 1% of net patient service revenue for each year. As in prior years, management expects appeals will be settled successfully in future years relating to 2001 and prior years' patient care activities.

Charity Care – Fairview provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since collection of these amounts is not pursued, they are excluded from net patient revenue.

Excess of Revenue Over Expenses – The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets that are excluded from excess of revenue over expenses include changes in net unrealized gains on investments, cumulative effect of a change in accounting principle, contributions of long-lived assets and other transfers.

Interest Rate Swap – On January 1, 2001, Fairview adopted Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. SFAS Nos. 133 and 138 establish accounting and reporting standards for derivative instruments and for hedging activities. They require that all derivatives, including those embedded in other contracts, be recognized as either assets or liabilities and that those financial instruments are measured at fair value. Gains or losses resulting from changes in the fair values of derivatives are reflected in the consolidated statements of operations and changes in net assets.

Upon adoption of SFAS No. 133 at January 1, 2001, a cumulative effect of \$5,375 was recorded.

Reclassifications – Certain reclassifications were made to the 2000 and 1999 consolidated financial statements to conform to the 2001 presentation. The reclassifications had no effect on the increase in net assets or on net assets as previously reported.

Note 3. Affiliations

Effective January 1, 1997, certain assets and liabilities related to the clinical care operations at University of Minnesota Hospital and Clinic were transferred to Fairview. In addition, University of Minnesota (University) transferred to Fairview its membership rights in certain health-related affiliates, including Fairview Red Wing Clinic (formerly Interstate Medical Center) and Range Regional Health Services (formerly University Medical Center-Mesabi and Mesaba Clinic). Fairview and the University also entered into various other agreements, including an affiliation between Fairview and the Academic Health Center (AHC) of the University, a lease of space at the University campus to Fairview, and a purchased services agreement whereby each party purchases certain core infrastructure services from the other. Fairview's bylaws authorize a board of directors of up to 39 members. Seven members of Fairview's Board of Directors, which consisted of 37 members as of December 31, 2001, are either appointed by and/or hold positions at the University.

Under the terms of the academic affiliation agreement (Agreement) with the AHC, Fairview and the University have agreed to jointly support the research, education and patient care missions of Fairview and the AHC. The Agreement expires on December 31, 2026, and renews automatically for six additional terms of ten years unless terminated in accordance with its provisions. The Agreement provides for the sharing of certain revenue and expenses related to medical research and education at Fairview-University Medical Center, which was formed as a result of a merger of the former Fairview Riverside

Hospital and the former University of Minnesota Hospital and Clinic. Fairview has committed to supporting the AHC through an annual grant to the University equal to the greater of 25% of Fairview's net operating margin, as defined in the Agreement, in excess of 3.5% or \$1,000 through December 31, 2026, which can be fully offset against lease payments made by Fairview to the University over the same period.

Revenue and expenses recorded by Fairview under all of its agreements with the University were \$28,084 and \$33,232, respectively, for 2001, \$25,904 and \$32,189, respectively, for 2000, \$28,580 and \$30,743, respectively, for 1999. Amounts receivable from and payable to the University were \$37,080 and \$9,346, respectively at December 31, 2001, \$23,649 and \$18,019, respectively, at December 31, 2000, \$11,400 and \$19,249, respectively, at December 31, 1999.

Management is in ongoing discussions with the University to settle amounts due to Fairview. Although the outcome of these discussions cannot be predicted with certainty, management believes the ultimate disposition will not have a material effect on Fairview's financial condition or operations.

In 1997, Fairview affiliated with Board of Social Ministry (BSM). Pursuant to the terms of the affiliation agreement, either Fairview or BSM had the ability to terminate the affiliation agreement within a two-year period. Effective December 31, 1999, both Fairview and BSM agreed to terminate their affiliation agreement.

Note 4. Net Patient Revenue And Contractual Agreements With Third-Party Payors

Fairview provides care to patients under the Medicare and Medicaid programs and through contractual arrangements with other managed care payors, consisting primarily of various health maintenance organizations (HMOs) and preferred provider organizations (PPOs).

The revenue mix from patients and third-party payors, based on gross patient charges, is summarized below:

	2001	2000	1999
Medicare	26%	26%	27%
Medicaid	7	7	6
Managed Care	58	56	55
Commercial and Other	9	11	12
	100%	100%	100%

The Medicare program pays primarily all inpatient and most outpatient services at predetermined rates. Through July 31, 2000, certain outpatient services were reimbursed based on allowable costs, which are subject to retroactive audit and adjustment. Services provided to patients involved in managed care organizations and the Medicaid program are paid for on the basis of negotiated or contractual payment rates or, in some cases, on the basis of allowable cost of providing such services. Changes in the Medicare and Medicaid programs or certain managed care contracts could have a material adverse effect on Fairview.

Fairview grants credit without collateral to its patients, most of whom are residents in the communities that Fairview serves and are insured under third-party payor agreements. The mix of amounts receivable from third-party payors and patients at December 31 consisted of the following:

	2001	2000	1999
Medicare	21%	22%	24%
Medicaid	16	14	10
Managed Care	42	45	47
Commercial and Other	21	19	19
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Note 5. Charity Care And Community Benefits (Unaudited)

Fairview provides medical care without charge or at reduced cost to residents of the communities it serves by providing services to patients who are uninsured or underinsured and by absorbing the difference between public program payments (primarily Medicare and Medicaid) and the related costs of providing such services. In addition, Fairview pays a provider tax on certain revenue to help fund the Minnesota Care program for the State's uninsured patients.

In furtherance of its charitable purpose, Fairview also provides a wide variety of benefits to the community, including various community-based social service programs, such as subsidized clinics, health screenings, interpreter services, social service and support counseling for patients and families, transportation to and from the hospitals and the donation of space for use by community groups. Fairview donates cash, supplies and equipment to various organizations that support the underserved. Additionally, a large number of health-related educational programs and research projects are provided by Fairview for the benefit of the community, including health and wellness, classes on specific medical conditions, medical education, telephone information services and programs designed to improve the general health of the community.

The cost of providing charity care, including services and supplies furnished for community benefit programs, and deficits in public program payments are summarized below:

	2001	2000	1999
Cost of Providing Community Services	\$23,167	\$26,322	\$28,169
Cost of Providing Charity Care	1,116	1,244	1,415
Unpaid Costs of Public Programs:			
Medicare	57,011	61,270	40,657
Medicaid	3,653	10,802	7,353
Medicaid Surcharge	9,955	8,995	8,252
Minnesota Care Tax	11,637	10,398	9,751
Total	<u>\$106,539</u>	<u>\$119,031</u>	<u>\$95,597</u>

Note 6. Investments And Other Financial Instruments

The composition of Fairview's investments at December 31 is summarized as follows:

	2001	2000	1999
Cash and Cash Equivalents	\$93,496	\$191,183	\$ 27,480
Fixed Income Securities	164,527	160,149	163,878
Mutual Funds	60,414	60,936	71,854
Equity Securities	20,278	6,932	10,523
	<u>\$338,715</u>	<u>\$419,200</u>	<u>\$273,735</u>

Investment return is summarized as follows:

	2001	2000	1999
Dividends and Interest	\$7,532	\$12,993	\$10,738
Net Realized Gains	3,124	833	5,227
(Decrease) Increase in Net Unrealized Gains	(8,903)	(3,892)	3,195
	<u>\$1,753</u>	<u>\$9,934</u>	<u>\$19,160</u>

Investment return was reported in the consolidated statements of operations and changes in net assets as follows:

	2001	2000	1999
Investment Income	\$10,656	\$13,826	\$15,965
(Decrease) Increase in Net Unrealized Gains	(8,903)	(3,892)	3,195
	<u>\$1,753</u>	<u>\$9,934</u>	<u>\$19,160</u>

The carrying values of cash and cash equivalents, patient accounts receivable and accounts payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The estimated fair value of long-term debt, based on quoted market prices for the same or similar issues, was approximately \$33,455 and \$35,843 more than its carrying value at December 31, 2001 and 2000, respectively and approximated its carrying value at December 31, 1999.

Note 7. Property, Plant And Equipment

Property, plant and equipment at December 31 consists of the following:

	2001	2000	1999
Land and Improvements	\$ 27,744	\$ 18,116	\$ 17,146
Buildings and Improvements	520,319	466,665	452,604
Equipment	513,612	482,666	447,891
	<u>1,061,675</u>	<u>967,447</u>	<u>917,641</u>
Less: Accumulated Depreciation	622,647	582,260	538,978
	<u>439,028</u>	<u>385,187</u>	<u>378,663</u>
Construction in Progress	39,457	51,261	37,820
Total Property, Plant and Equipment	<u>\$ 478,485</u>	<u>\$ 436,448</u>	<u>\$416,483</u>

Depreciation expense was \$55,201, \$57,230 and \$52,994 for 2001, 2000 and 1999, respectively.

Note 8. Short-term Credit Arrangements

Fairview has various lines of credit totaling \$40,000, which are available for short-term borrowing at variable interest rates, as defined in the agreements. There were no outstanding borrowings under these agreements at December 31, 2001. Outstanding borrowings under these agreements were at \$15,194 and \$3,052 at December 31, 2000 and 1999, respectively.

Note 9. Long-term Debt

Fairview's long-term debt at December 31 is summarized as follows:

	2001	2000	1999
Minnesota Agriculture and Economic Development Board Healthcare System Revenue Bonds, Series 2000A, due in annual installments ranging from \$600 to \$34,005 maturing from 2003 through 2029, at interest rates from 5.625% to 6.375% (net of unaccreted discount of \$6,623 in 2001 and \$6,890 in 2000).	\$173,692	\$173,425	\$ -
Minnesota Agriculture and Economic Development Board Healthcare System Revenue Bonds, Series 1997A, due in semiannual installments ranging from \$1,140 to \$20,035 maturing from 2002 through 2026, at interest rates from 5.0% to 5.75% (net of unaccreted discount of \$5,661 in 2001, \$5,884 in 2000 and \$6,104 in 1999).	166,274	167,141	167,966
Fairview Hospital and Healthcare Services Taxable Variable Rate Notes, Series 1994A, due in annual installments ranging from \$900 to \$1,700 maturing from 2002 through 2015, at variable interest rates, secured by a standby bond purchase agreement.	17,500	18,400	19,200

	2001	2000	1999
City of Minneapolis Health Care System Revenue Bonds, Series 1993A, due in annual installments ranging from \$850 to \$3,690 maturing from 2002 through 2019, at interest rates from 4.8% to 5.3% (net of unaccreted discount of \$617 in 2001, \$651 in 2000 and \$687 in 1999).	\$37,333	\$38,314	\$39,243
Fairview Hospital and Healthcare Services Taxable Notes, Series 1993B, due in annual installments ranging from \$530 to \$5,335 maturing from 2002 through 2015, at interest rates from 6.15% to 7.0% (net of unaccreted bond discount of \$302 in 2001, \$324 in 2000 and \$347 in 1999).	30,053	30,531	30,978
City of Minneapolis Hospital System Revenue Refunding Bonds, Series 1991A, due in annual installments ranging from \$1,010 to \$1,785 maturing from 2002 through 2011, at interest rates from 6.5% (net of unaccreted discount of \$126 in 2001, \$132 in 2000 and \$9,140 in 1999).	13,519	14,468	15,360
City of Minneapolis Hospital System Revenue Bonds, Series 1991B, due in annual installments ranging from \$675 to \$1,750 maturing from 2002 through 2017, at interest rates from 6.5% to 6.7% (net of unaccreted discount of \$83 in 2001, \$87 in 2000 and \$93 in 1999).	18,027	18,658	19,252
City of Princeton Hospital System Revenue Bonds, Series 1991C, due in annual installments ranging from \$245 to \$945 maturing from 2002 through 2021, at an interest rate of 6.25% (net of unaccreted discount of \$352 in 2001, \$370 in 2000 and \$386 in 1999).	10,458	10,665	10,844

	2001	2000	1999
City of Minneapolis Revenue Bonds, Series 1993, due in annual installments ranging from \$275 to \$610 maturing from 2002 through 2023, at interest rates from 6.2% to 7.2%.	\$9,050	\$9,305	\$9,545
Other Revenue Bonds, at interest rates from 4.68% to 9.0%, due through 2008.	624	1,221	1,692
Notes Payable, at interest rates from 3.0% to 19.2%, due through 2042.	25,762	32,280	26,841
Subtotal	502,292	514,408	340,921
City of Red Wing Health Care Facilities Revenue Bonds, Series 1993, defeased prior to maturity in 2000.	-	-	15,500
	502,292	514,408	356,421
Less: Current maturities included in current liabilities (net of unaccreted discount of \$547 in 2001, \$578 in 2000 and \$311 in 1999).	8,566	8,255	8,713
	<u>\$493,726</u>	<u>\$506,153</u>	<u>\$347,708</u>

In April 2000, Minnesota Agricultural and Economic Development Board, on behalf of Fairview, issued fixed-rate revenue bonds in the aggregate principal amount of \$180,315. The proceeds of these bonds were used primarily to pay certain costs of constructing, renovating, and equipping certain of Fairview's health facilities, advance refund City of Red Wing Health Care Facilities Revenue Bonds, Series 1993, and make deposits into a debt service reserve fund.

In conjunction with the Series 2000A bond issue, Fairview entered into an interest rate swap agreement with a national investment banking firm, in order to take advantage of lower market interest rates. The interest rate swap has the effect of converting \$100,000 of debt from fixed to variable interest rates. Under the agreement, Fairview will pay interest at a variable rate, which averaged 2.67% for the year ended December 31, 2001, based on the Bond Market Association Municipal Swap Index, and will receive interest at a fixed rate of 5.67%. The interest rate swap has the effect of converting \$100,000 of debt from fixed to variable interest rate. Effective January 1, 2001, upon adoption of SFAS No. 133, the interest rate swap was included in other assets at its fair value of \$5,375. At December 31, 2001, the interest rate swap is included in other assets at its fair

value of \$3,759 and the decline in value during the year ended December 31, 2001 of \$1,616 has been recognized as a reduction in investment income.

In conjunction with the issuance of Fairview Hospital and Healthcare Services Taxable Variable Notes, Series 1994A, Fairview has entered into a standby bond purchase agreement with a bank that expires on December 31, 2002. Under the terms of the agreement, the bank will make a loan to Fairview payable over a five-year period, in the amount necessary to purchase the outstanding amount of the variable notes (\$17,500 at December 31, 2002) if not remarketed.

Fairview's revenue bonds were issued pursuant to two Master Trust Indentures. These indentures contain various restrictive covenants including limitations on incurring additional debt and the maintenance of certain debt coverage ratios.

Interest paid was \$21,024, \$24,472 and \$25,287 for 2001, 2000 and 1999, respectively.

Aggregate maturities and sinking fund requirements of long-term debt, including capital leases, for each of the next five years are as follows, assuming no early redemption:

2002	\$ 9,113
2003	8,590
2004	8,794
2005	9,228
2006	9,554

Note 10. Commitments and Contingencies

At December 31, 2001, Fairview had commitments of \$29,044 to complete projects relating to capital construction and software development.

Fairview has operating leases for computer, medical, communications and other equipment. Rental expense associated with the operating leases was \$25,892, \$23,356 and \$21,065 for 2001, 2000 and 1999, respectively.

Future minimum lease payments on operating leases in effect on December 31, 2001, for each of the five subsequent years and thereafter are as follows:

2002	\$17,649
2003	14,949
2004	12,515
2005	11,564
2006	9,643
Thereafter	17,517

Approximately 33% of Fairview's employees are represented by various collective bargaining arrangements. Labor agreements are generally negotiated with two- or three-year terms. During 2001, Fairview incurred an additional cost of \$9,052 during a nurses' work stoppage at two of its hospitals, which was successfully resolved.

Fairview insures a portion of its professional and general liability risk through its wholly owned captive insurance subsidiary. Premiums paid to its captive insurance subsidiary are based on the cost of comparable coverage with commercial insurance companies and are eliminated in consolidation. The provision for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Fairview also maintains coverage for losses in excess of certain limits with an unrelated insurance carrier under a risk-sharing program with certain other health care providers. Premiums are based on the experience of Fairview and the other health care providers.

Fairview is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material adverse effect on Fairview's financial condition or operations.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Fairview believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on its consolidated financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs.

Note 11. Employee Benefit Plans

Fairview sponsors a number of defined contribution pension plans. Pension expense was \$30,211, \$31,587 and \$26,500 for 2001, 2000 and 1999, respectively.

Fairview also sponsors several defined benefit pension plans covering certain groups of employees and provides other post-retirement benefits to certain contract employees. The impact of these plans on Fairview's consolidated financial statements is not significant.

Note 12. Functional Expenses

Fairview provides health-related services to people in the communities it serves. Expenses related to providing these services are as follows:

	2001	2000	1999
Health Services	\$1,216,184	\$1,153,972	\$1,048,226
General and Administrative	292,656	245,432	229,418
Total	<u>\$1,508,840</u>	<u>\$1,399,404</u>	<u>\$1,277,644</u>

Note 13. Income Taxes

Fairview has been determined to be exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the Code), as an organization described in Section 501(c)(3) of the Code, except for income relating to certain unrelated business activities. During 2001, 2000 and 1999, taxes payable on the operations of such unrelated activities were not significant. Fairview also has been determined to be exempt from state income tax under Minnesota Statute Section 290.05, Subdivision 2. Taxes currently due on operations of wholly owned subsidiaries that are subject to tax were not significant for 2001, 2000 and 1999.

Deferred tax assets of \$74,300, \$58,400 and \$46,900 at December 31, 2001, 2000 and 1999, respectively, result primarily from net operating loss carryforwards. Due to the uncertainty of the realization of the deferred tax assets, a valuation allowance equal to the net deferred tax asset has been established. At December 31, 2001, Fairview had net operating loss carryforwards of approximately \$185,700 for federal income tax purposes, which expire through 2020.

Independent Auditors' Report

THE BOARD OF DIRECTORS

Fairview Health Services

We have audited the accompanying consolidated balance sheets of Fairview Health Services (Fairview) as of December 31, 2001, 2000 and 1999, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Fairview's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Associated Medical Assurance, Ltd., a wholly owned subsidiary of Fairview, which statements reflect total assets constituting 6.2% in 1999, and total revenue constituting .7%

In 1999 of the related consolidated totals. In addition, we did not audit the 1999 financial statements of Range Regional Health Services, whose sole corporate member is Fairview, which statements reflect total assets constituting 3.1%

and total revenue constituting 3.6% of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to 1999 data included for Associated Medical Assurance, Ltd. and 1999 data included for Range Regional Health Services, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fairview Health Services as of December 31, 2001, 2000 and 1999, and the consolidated results of its operations and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As described in Note 2 to the financial statements, in 2001, Fairview implemented Statement of Financial Accounting Standards Nos. 133 and 138, recording an interest rate swap at its fair value.

As described in Note 3 to the financial statements, effective December 31, 1999, Board of Social Ministry (BSM) and Fairview terminated their affiliation agreement.

Ernst & Young LLP

March 8, 2002

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 FAIRVIEW

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