

WINDOM AREA HOSPITAL
Windom, Minnesota

**COMBINED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED APRIL 30, 2017 AND 2016

WINDOM AREA HOSPITAL
Windom, Minnesota
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Windom Area Hospital and Affiliate
Windom, Minnesota

Report on the Financial Statements

We have audited the accompanying combined financial statements of Windom Area Hospital, an enterprise fund of the City of Windom, Minnesota, and its discretely presented component unit, which comprise the combined statements of net position as of April 30, 2017 and 2016, and the related combined statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Windom Area Hospital and its discretely presented component unit as of April 30, 2017 and 2016, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, schedule of the Hospital's proportionate share of the net pension liability, and the schedule of the Hospital's contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2017, on our consideration of Windom Area Hospital's internal control over financial reporting and on 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Windom Area Hospital's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
July 12, 2017

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
April 30, 2017

Introduction

The Windom Area Hospital (Hospital) offers readers of our combined financial statements this narrative overview and analysis of the financial activities of Windom Area Hospital for the fiscal years ended April 30, 2017 and 2016. 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 statement of net position, combined statement of revenues, expenses and changes in net position, 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 Hospital Foundation is to provide charitable support for medical and educational programs of Windom Area Hospital. Total Foundation net position was \$351,320 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 statements of net position include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The combined statements of net position also provide 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 statements of revenues, expenses, and changes in net position. 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 statements 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 and deferred outflows of resources increased by \$2,476,251 to \$33,609,070 in FY 2017 and decreased by \$880,999 to \$31,132,819 in FY 2016. Capital assets decreased by \$680,107 in FY 2017 and increased by \$6,398,050 in FY 2016. Total liabilities and deferred inflows of resources increased by \$4,184,157 in FY 2017 and decreased by \$1,648,784 in FY 2016. The total margin was 2.5%, 4.8% and 5.6% for the years ended April 30, 2017, 2016 and 2015, respectively.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
April 30, 2017

Financial Analysis of the Hospital

The combined statements of net position and the combined statements of revenues, expenses, and changes in net position report the net position of the Hospital and the changes in net position. The Hospital's net position - 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 position is 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 Position

A summary of the Hospital's combined statements of net position at April 30, 2017, 2016, and 2015 is presented below:

Table 1
Condensed Combined Statements of Net Position (in Thousands)

	April 30,		
	2017	2016	2015
Current Assets	\$ 10,532	\$ 8,943	\$ 8,754
Noncurrent Cash and Investments	4,927	5,453	12,788
Capital Assets	15,216	15,896	9,498
Deferred Outflows of Resources	2,934	841	974
Total Assets and Deferred Outflows of Resources	<u>\$ 33,609</u>	<u>\$ 31,133</u>	<u>\$ 32,014</u>
Current Liabilities	\$ 1,682	\$ 2,010	\$ 3,255
Long-Term Debt	4,903	5,120	5,332
Other Noncurrent Liabilities	7,738	5,240	5,158
Deferred Inflows of Resources	1,112	1,120	1,394
Total Liabilities and Deferred Inflows of Resources	<u>15,434</u>	<u>13,490</u>	<u>15,139</u>
Net Position	<u>18,175</u>	<u>17,643</u>	<u>16,875</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 33,609</u>	<u>\$ 31,133</u>	<u>\$ 32,014</u>

As can be seen by Table 1, net position increased by approximately \$532,000 to \$18.17 million in fiscal year 2017. In fiscal year 2016, net position increased by approximately \$800,000 to \$17.64 million. The change in net position results primarily from operating results, and the income impact of GASB 68.

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
April 30, 2017

Revenues, Expenses, and Changes in Net Position

The following table presents a summary of the Hospital's historical revenues and expenses for the fiscal years ended April 30, 2017, 2016, and 2015.

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

	Year Ended April 30,		
	2017	2016	2015
Operating Revenues	\$ 18,051	\$ 16,287	\$ 15,770
Operating Expenses	17,657	15,592	14,975
Operating Income	395	695	795
Non-Operating Income	64	99	92
Excess of Revenues over Expenses	459	794	887
Capital Grants, Contributions, Other	73	(26)	(24)
Changes in Net Position	532	768	863
Total Net Position, Beginning of Year	17,643	16,875	21,553
Prior Period Adjustment	-	-	(5,541)
Total Net Position, End of Year	<u>\$ 18,175</u>	<u>\$ 17,643</u>	<u>\$ 16,875</u>

Operating and Financial Performance

Volume: Inpatient admissions (excluding newborns) for fiscal year 2017 were 289 compared to 304 in fiscal year 2016 and 367 in fiscal year 2015. This is a decrease of 15 or 5% between 2017 and 2016 and a decrease of 63 or 17% between 2016 and 2015. Patient days (excluding newborns) for fiscal year 2017 were 845 compared to 843 in fiscal year 2016 and 1,086 in fiscal year 2015. This is an increase of 2 or .2% from 2016 and a decrease of 243 or 22% between 2016 and 2015. The length of stay decreased from 3.0 days in 2015 to 2.8 days in 2016 and increased to 3.0 days in 2017. Emergency department visits increased to 3,698 in fiscal year 2017 from 3,602 in fiscal year 2016. This is an increase of 96 visits or 3%. They decreased from 3,671 in 2015, which is a decrease of 69 visits or 2% between 2015 and 2016. All other outpatient visits for 2017 were 18,272 compared to 17,836 in 2016 and 16,327 in 2015. This is an increase of 436 visits from 2016 to 2017 and an increase of 1,509 visits from 2015 to 2016. Total surgeries decreased to 983 in fiscal year 2017 from 990 in fiscal year 2016. This is a decrease of 7 surgeries or 1%. In fiscal year 2016, surgeries increased from 932 which is an increase of 58 surgeries or 6% compared to fiscal year 2015.

Net Patient Service Revenue: As a result of increased outpatient volume during the year, net patient service revenue increased \$1,726,050 or approximately 10.7% compared to fiscal year 2016. Revenue deductions, the amount of patient service revenue uncollectible due to contractual agreements, government reimbursement policies, and bad debts increased to \$10,392,499 from \$9,037,853, an approximately 15% increase.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
April 30, 2017

Other Operating Revenue: Other operating revenue increased \$38,333 and \$571,908 in fiscal years 2017 and 2016, respectively, from the previous year. The increase in fiscal year 2016 is mostly due to overpaid electronic health record incentives being due back to the State of Minnesota in 2015.

Nursing Services: Nursing service expenses increased \$384,963 and \$334,805 in fiscal years 2017 and 2016, respectively, from the previous year. The increase in 2017 is mostly due to increased small equipment and supplies in the surgery department for the orthopedics program.

Other Professional Services: Other professional services increased \$317,963 and \$84,095 in fiscal years 2017 and 2016, respectively, from the previous year. The increases are mostly due to higher volume in lab, radiology, rehabilitation and pharmacy related supplies and services.

General Services: General services increased \$206,063 and \$6,336 in fiscal years 2017 and 2016, respectively, when compared to the previous year. The increase in 2017 is due to increased maintenance and repair expenses.

Administrative and Fiscal Services: Expenses in this category increased by \$671,700 and decreased \$167,753 in fiscal years 2017 and 2016, respectively, when compared to the previous year. Salaries and related employee benefit costs, primarily health insurance, continue to rise.

Depreciation: Depreciation increased \$380,127 and \$279,153 in fiscal years 2016 and 2015, respectively, when compared to the previous year. The increase in the current year is the result of capitalizing the surgery and outreach addition during fiscal year 2016.

Non-Operating Revenue and Expenses: The total in this category decreased \$34,631 and increased \$6,668 in fiscal years 2017 and 2016, respectively, when compared to the previous year. This decrease is mostly related to a decrease in noncapital grants and contributions.

Capital Grants and Contributions

For the years ended 2017, 2016, and 2015, the Hospital had a total of \$139,112, \$16,000 and \$2,500, respectively, in capital grants and contributions.

Capital Assets

At the end of fiscal years 2017, 2016, and 2015, the Hospital had invested \$15,216,402, \$15,896,509 and \$9,498,459, respectively, in net capital assets. The \$680,107 decrease in capital assets in fiscal year 2017 is primarily due to depreciation of assets.

Long-Term Debt

During fiscal year 2015, the Hospital issued long-term debt for the purpose of funding a portion of the surgery and outreach construction project. As of year-end the Hospital had a total of \$5,123,007 of short- and long-term debt, net of unamortized issue discount.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
April 30, 2017

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 2018 budget. Of primary importance in setting the 2018 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 and drug shortages
- Aging equipment and building
- Healthcare reform and changes in other commercial contracts

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, Minnesota 56101.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF NET POSITION
APRIL 30, 2017

	<u>Primary Enterprise</u>	<u>Component Unit (Foundation)</u>	<u>Total Reporting Entity</u>
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 4,586,217	\$ 228,987	\$ 4,815,204
Short-Term Investments	2,917,500	-	2,917,500
Patient Accounts Receivable, Net	2,153,754	-	2,153,754
Accrued Interest Receivable	20,747	-	20,747
Other Receivables	94,485	-	94,485
Supplies	167,445	-	167,445
Prepaid Expenses	51,671	-	51,671
Estimated Third-Party Payor Settlements	310,790	-	310,790
Total Current Assets	<u>10,302,609</u>	<u>228,987</u>	<u>10,531,596</u>
NONCURRENT CASH AND INVESTMENTS			
Board Designated for Capital Improvements	4,406,097	-	4,406,097
Debt Service Reserve Funds Held by Trustee	398,331	-	398,331
Restricted by Donor	<u>-</u>	<u>122,243</u>	<u>122,243</u>
Total Noncurrent Cash and Investments	<u>4,804,428</u>	<u>122,243</u>	<u>4,926,671</u>
CAPITAL ASSETS			
Capital Assets	26,416,049	-	26,416,049
Less: Accumulated Depreciation	<u>(11,199,647)</u>	<u>-</u>	<u>(11,199,647)</u>
Net Capital Assets	<u>15,216,402</u>	<u>-</u>	<u>15,216,402</u>
Total Assets	30,323,439	351,230	30,674,669
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	<u>2,934,401</u>	<u>-</u>	<u>2,934,401</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 33,257,840</u>	<u>\$ 351,230</u>	<u>\$ 33,609,070</u>

See accompanying Notes to Combined Financial Statements.

LIABILITIES AND NET POSITION	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity
CURRENT LIABILITIES			
Current Maturities of Long-Term Debt	\$ 220,000	\$ -	\$ 220,000
Accounts Payable:			
Trade	528,868	-	528,868
Accrued Expenses	932,796	-	932,796
Total Current Liabilities	<u>1,681,664</u>	-	<u>1,681,664</u>
LONG-TERM DEBT, Net of Current Maturities	<u>4,903,007</u>	-	<u>4,903,007</u>
NONCURRENT LIABILITIES			
Net Pension Liability	<u>7,737,887</u>	-	<u>7,737,887</u>
Total Liabilities	14,322,558	-	14,322,558
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows	1,111,594	-	1,111,594
COMMITMENTS AND CONTINGENCIES			
NET POSITION			
Net Investment in Capital Assets	10,093,395	-	10,093,395
Restricted:			
Expendable for Specific Donor Restrictions	-	122,243	122,243
Expendable for Debt Service	398,331	-	398,331
Unrestricted	<u>7,331,962</u>	<u>228,987</u>	<u>7,560,949</u>
Total Net Position	<u>17,823,688</u>	<u>351,230</u>	<u>18,174,918</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 33,257,840</u>	<u>\$ 351,230</u>	<u>\$ 33,609,070</u>

WINDOM AREA HOSPITAL
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COMBINED STATEMENT OF NET POSITION
APRIL 30, 2016

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 3,314,106	\$ 226,385	\$ 3,540,491
Short-Term Investments	2,900,586	-	2,900,586
Patient Accounts Receivable, Net	2,152,432	-	2,152,432
Accrued Interest Receivable	19,122	-	19,122
Other Receivables	85,324	-	85,324
Supplies	192,969	-	192,969
Prepaid Expenses	51,834	-	51,834
Total Current Assets	<u>8,716,373</u>	<u>226,385</u>	<u>8,942,758</u>
NONCURRENT CASH AND INVESTMENTS			
Board Designated for Capital Improvements	3,862,509	-	3,862,509
Debt Service Reserve Funds Held by Trustee	400,678	-	400,678
Construction Funds Held by Trustee	1,064,847	-	1,064,847
Restricted by Donor	-	124,613	124,613
Total Noncurrent Cash and Investments	<u>5,328,034</u>	<u>124,613</u>	<u>5,452,647</u>
CAPITAL ASSETS			
Capital Assets	25,857,905	-	25,857,905
Less: Accumulated Depreciation	<u>(9,961,396)</u>	<u>-</u>	<u>(9,961,396)</u>
Net Capital Assets	<u>15,896,509</u>	<u>-</u>	<u>15,896,509</u>
 Total Assets	 <u>29,940,916</u>	 <u>350,998</u>	 <u>30,291,914</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	<u>840,905</u>	<u>-</u>	<u>840,905</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 30,781,821</u>	 <u>\$ 350,998</u>	 <u>\$ 31,132,819</u>

See accompanying Notes to Combined Financial Statements.

LIABILITIES AND NET POSITION	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity
CURRENT LIABILITIES			
Current Maturities of Long-Term Debt	\$ 215,000	\$ -	\$ 215,000
Accounts Payable:			
Trade	504,390	-	504,390
Construction	309,956	-	309,956
Accrued Expenses	863,684	-	863,684
Estimated Third-Party Payor Settlements	117,000	-	117,000
Total Current Liabilities	<u>2,010,030</u>	-	<u>2,010,030</u>
LONG-TERM DEBT, Net of Current Maturities	<u>5,120,347</u>	-	<u>5,120,347</u>
NONCURRENT LIABILITIES			
Net Pension Liability	<u>5,239,526</u>	-	<u>5,239,526</u>
Total Liabilities	12,369,903	-	12,369,903
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows	1,119,908	-	1,119,908
COMMITMENTS AND CONTINGENCIES			
NET POSITION			
Net Investment in Capital Assets	10,561,162	-	10,561,162
Restricted:			
Expendable for Specific Donor Restrictions	-	124,613	124,613
Expendable for Construction	1,064,847	-	1,064,847
Expendable for Debt Service	400,678	-	400,678
Unrestricted	<u>5,265,323</u>	<u>226,385</u>	<u>5,491,708</u>
Total Net Position	<u>17,292,010</u>	<u>350,998</u>	<u>17,643,008</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 30,781,821</u>	<u>\$ 350,998</u>	<u>\$ 31,132,819</u>

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED APRIL 30, 2017

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity
REVENUE			
Net Patient Service Revenue	\$ 17,797,084	\$ -	\$ 17,797,084
Other Revenue, Net	222,393	32,014	254,407
Total Revenue	<u>18,019,477</u>	<u>32,014</u>	<u>18,051,491</u>
EXPENSES			
Nursing Services	4,922,485	-	4,922,485
Other Professional Services	4,994,713	-	4,994,713
General Services	1,295,047	-	1,295,047
Administrative and Fiscal Services	4,857,563	25	4,857,588
Interest	185,241	-	185,241
Depreciation	1,401,765	-	1,401,765
Total Expenses	<u>17,656,814</u>	<u>25</u>	<u>17,656,839</u>
INCOME FROM OPERATIONS	362,663	31,989	394,652
NONOPERATING REVENUE AND EXPENSES			
Interest Income	52,039	-	52,039
Noncapital Grants and Contributions	-	34,257	34,257
Loss on Disposal of Assets	(22,136)	-	(22,136)
Total Nonoperating Revenue and Expenses	<u>29,903</u>	<u>34,257</u>	<u>64,160</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	392,566	66,246	458,812
Capital Grants and Contributions	139,112	-	139,112
Expenses Paid on Behalf of Related Party	(33,873)	-	(33,873)
Related Party Transfers	33,873	(66,014)	(32,141)
INCREASE IN NET POSITION	531,678	232	531,910
NET POSITION			
Beginning of Year	<u>17,292,010</u>	<u>350,998</u>	<u>17,643,008</u>
End of Year	<u>\$ 17,823,688</u>	<u>\$ 351,230</u>	<u>\$ 18,174,918</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED APRIL 30, 2016

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity
REVENUE			
Net Patient Service Revenue	\$ 16,071,034	\$ -	\$ 16,071,034
Other Revenue	185,998	30,076	216,074
Total Revenue	<u>16,257,032</u>	<u>30,076</u>	<u>16,287,108</u>
EXPENSES			
Nursing Services	4,537,522	-	4,537,522
Other Professional Services	4,677,645	-	4,677,645
General Services	1,088,984	-	1,088,984
Administrative and Fiscal Services	4,185,083	805	4,185,888
Interest	80,415	-	80,415
Depreciation	1,021,638	-	1,021,638
Total Expenses	<u>15,591,287</u>	<u>805</u>	<u>15,592,092</u>
INCOME FROM OPERATIONS	665,745	29,271	695,016
NONOPERATING REVENUE AND EXPENSES			
Interest Income	32,614	-	32,614
Noncapital Grants and Contributions	-	57,397	57,397
Gain on Disposal of Assets	8,780	-	8,780
Total Nonoperating Revenue and Expenses	<u>41,394</u>	<u>57,397</u>	<u>98,791</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	707,139	86,668	793,807
Capital Grants and Contributions	16,000	-	16,000
Expenses Paid on Behalf of Related Party	(18,679)	-	(18,679)
Related Party Transfers	18,679	(42,022)	(23,343)
INCREASE IN NET POSITION	723,139	44,646	767,785
NET POSITION			
Beginning of Year	<u>16,568,871</u>	<u>306,352</u>	<u>16,875,223</u>
End of Year	<u>\$ 17,292,010</u>	<u>\$ 350,998</u>	<u>\$ 17,643,008</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2017

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on Behalf of Patients	\$ 17,357,186	\$ -	\$ 17,357,186
Payments to Suppliers and Contractors	(9,497,798)	(25)	(9,497,823)
Payments to Employees	(6,241,423)	-	(6,241,423)
Other Receipts and Payments, Net	222,393	32,014	254,407
Net Cash Provided by Operating Activities	<u>1,840,358</u>	<u>31,989</u>	<u>1,872,347</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Noncapital Grants and Contributions	-	34,257	34,257
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Expenditures	(865,849)	-	(865,849)
Principal Payments on Long-Term Debt	(215,000)	-	(215,000)
Interest Paid on Long-Term Debt	(185,241)	-	(185,241)
Capital Grants and Contributions	139,112	-	139,112
Net Cash Used by Capital and Related Financing Activities	<u>(1,126,978)</u>	<u>-</u>	<u>(1,126,978)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Investments	(7,323,597)	(34,257)	(7,357,854)
Sale of Investments	7,830,289	36,627	7,866,916
Expenses Paid on Behalf of Related Party	(33,873)	-	(33,873)
Transfer from (to) Related Party	33,873	(66,014)	(32,141)
Interest Income	52,039	-	52,039
Net Cash Provided (Used) by Investing Activities	<u>558,731</u>	<u>(63,644)</u>	<u>495,087</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,272,111	2,602	1,274,713
Cash and Cash Equivalents - Beginning	<u>3,314,106</u>	<u>226,385</u>	<u>3,540,491</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 4,586,217</u>	<u>\$ 228,987</u>	<u>\$ 4,815,204</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED APRIL 30, 2017

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from Operations	\$ 362,663	\$ 31,989	\$ 394,652
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:			
Depreciation Expense	1,401,765	-	1,401,765
Provision for Bad Debts	200,436	-	200,436
(Increase) Decrease in:			
Patient Accounts Receivable	(201,758)	-	(201,758)
Deferred Outflows of Resources	(2,093,496)	-	(2,093,496)
Accrued Interest Receivable	(1,625)	-	(1,625)
Other Receivables	(9,161)	-	(9,161)
Supplies and Prepaid Expenses	25,687	-	25,687
Increase (Decrease) in:			
Accounts Payable	24,478	-	24,478
Net Pension Liability	2,498,361	-	2,498,361
Deferred Inflows of Resources	(8,314)	-	(8,314)
Due to Third-Party Payors	(427,790)	-	(427,790)
Accrued Expenses	69,112	-	69,112
Net Cash Provided by Operating Activities	<u>\$ 1,840,358</u>	<u>\$ 31,989</u>	<u>\$ 1,872,347</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2016

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on Behalf of Patients	\$ 16,165,964	\$ -	\$ 16,165,964
Payments to Suppliers and Contractors	(9,576,745)	(805)	(9,577,550)
Payments to Employees	(5,810,037)	-	(5,810,037)
Other Receipts and Payments, Net	185,998	30,076	216,074
Net Cash Provided by Operating Activities	<u>965,180</u>	<u>29,271</u>	<u>994,451</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Noncapital Grants and Contributions	-	57,397	57,397
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Expenditures	(7,655,848)	-	(7,655,848)
Principal Payments on Long-Term Debt	(215,000)	-	(215,000)
Interest Paid on Long-Term Debt	(185,603)	-	(185,603)
Capital Grants and Contributions	16,000	-	16,000
Net Cash Used by Capital and Related Financing Activities	<u>(8,040,451)</u>	<u>-</u>	<u>(8,040,451)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Investments	(6,763,095)	(57,397)	(6,820,492)
Sale of Investments	14,106,467	39,459	14,145,926
Expenses Paid on Behalf of Related Party	(18,679)	-	(18,679)
Transfer from (to) Related Party	18,679	(42,022)	(23,343)
Interest Income	32,614	-	32,614
Net Cash Provided (Used) by Investing Activities	<u>7,375,986</u>	<u>(59,960)</u>	<u>7,316,026</u>
INCREASE IN CASH AND CASH EQUIVALENTS	300,715	26,708	327,423
Cash and Cash Equivalents - Beginning	<u>3,013,391</u>	<u>199,677</u>	<u>3,213,068</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 3,314,106</u>	<u>\$ 226,385</u>	<u>\$ 3,540,491</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED APRIL 30, 2016

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income from Operations	\$ 665,745	\$ 29,271	\$ 695,016
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:			
Depreciation Expense	1,021,638	-	1,021,638
Provision for Bad Debts	289,756	-	289,756
(Increase) Decrease in:			
Patient Accounts Receivable	(147,233)	-	(147,233)
Deferred Outflows of Resources	132,681	-	132,681
Accrued Interest Receivable	(7,645)	-	(7,645)
Other Receivables	(1,948)	-	(1,948)
Supplies and Prepaid Expenses	15,427	-	15,427
Increase (Decrease) in:			
Accounts Payable	(834,144)	-	(834,144)
Net Pension Liability	81,673	-	81,673
Deferred Inflows of Resources	(273,739)	-	(273,739)
Due to Third-Party Payors	(38,000)	-	(38,000)
Accrued Expenses	60,969	-	60,969
Net Cash Provided by Operating Activities	\$ 965,180	\$ 29,271	\$ 994,451
SUPPLEMENTAL DISCLOSURES OF CASH FLOW			
Nonmonetary Transactions:			
Additions to Property and Equipment included in Accounts Payable - Construction Payable	\$ 309,956	\$ -	\$ 309,956

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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 Total Reporting Entity 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.

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.

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.

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 combined statements of cash flows, cash and cash equivalents are considered to be highly liquid investments with an original maturity of 90 days or less, and exclude assets limited as to use.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 collectability 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, 2017 and 2016, the allowance for uncollectible accounts was approximately \$436,000 and \$421,000, 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.

Noncurrent Cash and Investments

Noncurrent cash and investments include assets restricted by donors, assets restricted under debt agreements as reserve funds, and assets set aside 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. Noncurrent cash and investments are made up of cash, cash equivalents, money market accounts and certificates of deposit which are carried at amortized cost, which approximates fair value.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Charges forgone for charity care were approximately \$138,000 and \$127,000 for the years ended April 30, 2017 and 2016, respectively.

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 combined statement of revenues, expenses and changes in net position 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, benefit payments (including refunds or employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consist of pension related deferred inflows.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

The net position of the Hospital is classified in three components. *Net investment in capital assets* 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 position* is non-capital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net position* is remaining net position that does 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 Accounting Pronouncements

For the year ended April 30, 2017, the Hospital adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which is effective for financial statement periods beginning after June 15, 2015. GASB Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and the valuation techniques. The Hospital currently does not have any investments that require fair value measurement disclosures as all investments are considered deposits.

Fair Value Measurements

To the extent available, the Hospital's investments are recorded at fair value. GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take in to account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources.

In contrast, unobservable inputs reflect an entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Hospital has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

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 bed services for Medicare patients on a reasonable cost basis. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid

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

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

Revenue from the Medicare programs accounted for approximately 40% and 37% for the years ended 2017 and 2016, respectively, and revenue from the Medicaid programs accounted for approximately 10% for the year ended 2017 and approximately 11% for the year ended 2016, of the Hospital's net patient revenue. 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. The 2017 net patient service revenue increased approximately \$241,000 and the 2016 net patient service revenue increased approximately \$102,000 due to removal of allowance previously estimated that are no longer considered necessary as a result of changes in estimates and years that are no longer subject to audits, reviews, and investigations.

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:

	<u>2017</u>	<u>2016</u>
Gross Patient Service Revenue	\$ 28,189,583	\$ 25,108,887
Adjustments and Discounts:		
Medicare	(6,146,417)	(4,652,737)
Medicaid	(2,165,430)	(2,095,524)
Other	(1,880,216)	(1,999,836)
Provision for Bad Debt	(200,436)	(289,756)
Total Adjustments and Discounts	<u>(10,392,499)</u>	<u>(9,037,853)</u>
Net Patient Service Revenue	<u>\$ 17,797,084</u>	<u>\$ 16,071,034</u>

NOTE 3 ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets by Windom Area Hospital at April 30, 2017 and 2016 consist of these amounts:

	<u>2017</u>	<u>2016</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,542,630	\$ 1,731,908
Receivable from Medicare	813,451	512,217
Receivable from Medicaid	233,673	329,307
Total Patient Accounts Receivable	<u>2,589,754</u>	<u>2,573,432</u>
Less: Allowance for Uncollectible Amounts	(436,000)	(421,000)
Net Patient Accounts Receivable	<u>\$ 2,153,754</u>	<u>\$ 2,152,432</u>

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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.

At April 30, 2017, the Hospital's deposits in banks were covered by FDIC or FSLIC insurance protected by bond or 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, 2017 and 2016, the carrying amounts of deposits and investments are included in the Hospital's combined statements of net position as follows:

	2017	2016
Carrying Amount:		
Deposits	\$ 12,659,375	\$ 11,893,724
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 4,815,204	\$ 3,540,491
Short-Term Investments	2,917,500	2,900,586
Board Designated for Capital Improvements	4,406,097	3,862,509
Debt Service Reserve Funds Held by Trustee	398,331	400,678
Construction Funds Held by Trustee	-	1,064,847
Restricted by Donor	122,243	124,613
Total	\$ 12,659,375	\$ 11,893,724

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, 2017 AND 2016

NOTE 5 CAPITAL ASSETS

Capital assets (in thousands) for the years ended April 30, 2017 and 2016 consist of the following:

	Balance April 30, 2016	Additions and Transfers	Retirements	Balance April 30, 2017
Land	\$ 271	\$ -	\$ -	\$ 271
Land Improvements	2,849	-	(33)	2,816
Buildings	12,175	5	-	12,180
Fixed Equipment	6,334	77	(77)	6,334
Moveable Equipment	4,224	672	(81)	4,815
Construction in Progress	5	-	(5)	-
Total at Historical Cost	<u>25,858</u>	<u>754</u>	<u>(196)</u>	<u>26,416</u>
Less Accumulated Depreciation for:				
Land Improvements	(315)	(141)	33	(423)
Buildings	(4,832)	(543)	-	(5,375)
Fixed Equipment	(1,915)	(280)	75	(2,120)
Moveable Equipment	(2,899)	(438)	55	(3,282)
Total Accumulated Depreciation	<u>(9,961)</u>	<u>(1,402)</u>	<u>163</u>	<u>(11,200)</u>
Capital Assets, Net	<u>\$ 15,897</u>	<u>\$ (648)</u>	<u>\$ (33)</u>	<u>\$ 15,216</u>
	Balance April 30, 2015	Additions and Transfers	Retirements	Balance April 30, 2016
Land	\$ 271	\$ -	\$ -	\$ 271
Land Improvements	265	2,584	-	2,849
Buildings	7,816	4,359	-	12,175
Fixed Equipment	2,454	4,066	(186)	6,334
Moveable Equipment	4,131	569	(476)	4,224
Construction in Progress	4,150	(4,145)	-	5
Total at Historical Cost	<u>19,087</u>	<u>7,433</u>	<u>(662)</u>	<u>25,858</u>
Less Accumulated Depreciation for:				
Land Improvements	(255)	(60)	-	(315)
Buildings	(4,419)	(413)	-	(4,832)
Fixed Equipment	(1,939)	(153)	177	(1,915)
Moveable Equipment	(2,976)	(395)	472	(2,899)
Total Accumulated Depreciation	<u>(9,589)</u>	<u>(1,021)</u>	<u>649</u>	<u>(9,961)</u>
Capital Assets, Net	<u>\$ 9,498</u>	<u>\$ 6,412</u>	<u>\$ (13)</u>	<u>\$ 15,897</u>

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following for the years ended April 30, 2017 and 2016:

	<u>Balance April 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance April 30, 2017</u>
Gross Revenue Hospital Bonds, Series 2014A	\$ 5,385,000	\$ -	\$ (215,000)	\$ 5,170,000
Bond Discount	(49,653)	-	2,660	(46,993)
Total Long-Term Debt	<u>\$ 5,335,347</u>	<u>\$ -</u>	<u>\$ (212,340)</u>	5,123,007
Less: Current Maturities				<u>(220,000)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 4,903,007</u>
	<u>Balance April 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance April 30, 2016</u>
Gross Revenue Hospital Bonds, Series 2014A	\$ 5,600,000	\$ -	\$ (215,000)	\$ 5,385,000
Bond Discount	(53,200)	-	3,547	(49,653)
Total Long-Term Debt	<u>\$ 5,546,800</u>	<u>\$ -</u>	<u>\$ (211,453)</u>	5,335,347
Less: Current Maturities				<u>(215,000)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 5,120,347</u>

- Gross Revenue Hospital Bonds, Series 2014A in the original amount of \$5,600,000 with interest ranging from 1.00% to 4.15%. Principal payments are due annually commencing September 2015 to September 2034 with interest paid semi-annually. The bonds can be optionally redeemed beginning September 1, 2021, with a 1% premium through August 31, 2022, and thereafter no redemption premium. The bonds were issued for partial financing of a hospital expansion and renovation project. The bonds are payable from the "Gross Revenues" of the Hospital including patient service revenues (net of allowances and uncollectible accounts), other operating revenues, and nonoperating revenues, other than contributions restricted as to use so as not to be available for operating expenses or debt service.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

NOTE 6 LONG-TERM DEBT (CONTINUED)

Under the Series 2014A bonds the Hospital must meet certain operational and performance covenants and is limited in the amount of additional debt which can be incurred. Management believes the Hospital was in compliance with all debt covenants as of April 30, 2017.

Scheduled principal and interest repayments on long-term debt are as follows:

<u>Year Ending April 30,</u>	<u>Long-Term Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 220,000	\$ 180,190	\$ 400,190
2019	220,000	176,615	396,615
2020	225,000	172,159	397,159
2021	230,000	166,580	396,580
2022	240,000	159,933	399,933
2021-2025	1,320,000	673,549	1,993,549
2026-2030	1,590,000	400,746	1,990,746
2031-2035	1,125,000	71,276	1,196,276
Total	<u>\$ 5,170,000</u>	<u>\$ 2,001,048</u>	<u>\$ 7,171,048</u>

NOTE 7 INVESTMENT IN PARTNERSHIP

The Hospital had a 14% partnership interest in Sanford Cancer Center. During the year ended April 30, 2014, the Hospital determined it would exit the partnership. The Hospital was required to pay in its share of accumulated losses. A liability of approximately \$430,000 was recorded in accounts payable on the combined statement of net position for the hospitals share of accumulated losses as of April 30, 2014 as an estimate of its share of accumulated losses. During the year ended April 30, 2015 a Membership Interest Purchase Agreement was signed, and the final share of accumulated losses attributed to the Hospital determined as \$471,739. This amount was paid by the hospital in twenty four equal monthly installments, starting on February 1, 2015. The Hospital made the final payment in fiscal year 2017. There was no investment loss incurred for the year ended April 30, 2017. The Hospital received no distributions during the years ended April 30, 2017 and 2016.

NOTE 8 DEFINED BENEFIT PENSION PLAN

Plan Description

The Hospital participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Description (Continued)

All full-time and certain part-time employees of the Hospital are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Contributions (Continued)

Basic Plan members were required to contribute 6.5% of their annual covered salary in calendar years 2016 and 2017 and the Hospital was required to contribute 7.5% of pay for Basic Plan members. The Hospital's contributions to the GERP for the plan's fiscal year ended April 30, 2017, 2016, and 2015 were \$452,945, \$431,594, and \$422,799, respectively. The Hospital's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs

At April 30, 2017 and 2016, the Hospital reported a liability of \$7,737,887 and \$5,239,526, respectively, for its proportionate share of the GERP's net pension liability. The Hospital's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Hospital totaled \$30,120. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Hospital's proportion of the net pension liability was based on the Hospital's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016 and July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Hospital's proportion share was .0953%, which was a decrease of .0145% from its proportion measured as of June 30, 2015.

There were no benefit provision changes during the measurement period.

For the years ended April 30, 2017 and 2016, the Hospital recognized pension expense of \$849,497 and \$372,207, respectively. These amounts consisted of the Hospital's proportionate share of the GERP's pension expense, plus additional amortized net expenses associated with differences between estimated and actual experience of various actuarial assumptions associated with the plan.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

At April 30, 2017 and 2016, the Hospital reported its proportionate share of the GERP's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

April 30, 2017	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 22,901	\$ 628,589
Changes of Assumptions	1,668,877	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	863,883	-
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	-	483,005
Hospital Contributions Subsequent to the Measurement Date	<u>378,740</u>	<u>-</u>
	<u>\$ 2,934,401</u>	<u>\$ 1,111,594</u>
April 30, 2016	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 52,772	\$ 264,161
Changes of Assumptions	354,379	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	549,234
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	-	306,513
Hospital Contributions Subsequent to the Measurement Date	<u>433,754</u>	<u>-</u>
	<u>\$ 840,905</u>	<u>\$ 1,119,908</u>

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

\$378,740 reported as deferred outflows of resources related to pensions resulting from the Hospital's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended April 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending April 30,</u>	
2018	\$ 343,456
2019	166,765
2020	654,339
2021	<u>279,506</u>
Total	<u><u>\$ 1,444,066</u></u>

Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% for all future years.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Investments	20%	6.40%
Cash	2%	0.50%

Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the Hospital's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's Proportionate Share of the Net Pension Liability	\$ 10,990,093	\$ 7,737,887	\$ 5,058,955

Detailed information about the pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

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 payer agreements. The Hospital also grants credit, without collateral, for other miscellaneous receivables.

NOTE 10 COMMITMENTS AND 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.

Operating Leases

The Hospital has various equipment leases and rental agreements that are accounted for as operating leases. Future minimum lease payments for the operating leases by year are as follows:

<u>Year Ending April 30,</u>	<u>Amount</u>
2018	\$ 330,732
2019	293,580
2020	122,325
Total Minimum Lease Payments	<u><u>\$ 746,637</u></u>

Total rent expense associated with the operating leases for the years ended April 30, 2017 and 2016 was approximately \$444,000 and \$381,000, respectively.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2017 AND 2016

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other

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

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

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

NOTE 11 MANAGEMENT CONTRACT

The Hospital has a management agreement with Sanford Health Services (Sanford). This agreement gives Sanford, through the Hospital's administrator, full authority to implement and fulfill the policy decisions of the Hospital's Board of Directors. Either party may terminate this agreement with proper notice. Total management fees, including the administrator's salary and benefits, were \$275,652 and \$301,503 for the years ended April 30, 2017 and 2016, respectively.

The Hospital also purchases certain services, supplies and other items through Sanford's network. Amounts due to Sanford at April 30, 2017 and 2016 were approximately \$72,000 and \$88,000, respectively.

WINDOM AREA HOSPITAL
Windom, Minnesota
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (UNAUDITED)
APRIL 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Hospital's Proportion of the Net Pension Liability	0.0953%	0.1098%
Hospital's Proportionate Share of the Net Pension Liability	\$ 7,737,887	\$ 5,239,526
Hospital's Covered-Employee Payroll	\$ 6,325,817	\$ 6,015,138
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	122.32%	87.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.90%	78.20%

WINDOM AREA HOSPITAL
Windom, Minnesota
SCHEDULE OF THE HOSPITAL'S CONTRIBUTIONS (UNAUDITED)
APRIL 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily Required Contribution	\$ 452,945	\$ 431,594	\$ 422,799	\$ 404,469	\$ 401,876
Contributions in Relation to the Statutorily Required Contribution	<u>452,945</u>	<u>431,594</u>	<u>422,799</u>	<u>404,469</u>	<u>401,876</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
Hospital Covered-Employee Payroll	\$ 6,325,817	\$ 6,015,138	\$ 6,000,044	\$ 5,782,659	\$ 5,755,189
Contributions as a Percentage of Covered-Employee Payroll	7.16%	7.18%	7.05%	6.99%	6.98%

Note: GASB 68 requires ten years of information to be presented in this table. However, until a full ten years is compiled, the Hospital will present information for those years for which information is available.



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**INDEPENDENT AUDITORS' REPORT ON
MINNESOTA LEGAL COMPLIANCE**

Board of Directors
Windom Area Hospital
Windom, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the business-type activities of Windom Area Hospital and its discretely presented component unit (the Hospital) as of and for the year ended April 30, 2017 and the related notes to the combined financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated July 12, 2017.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, identifies seven categories of compliance to be tested in connection with the audit of Windom Area Hospital's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous provisions. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Hospital's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
July 12, 2017



**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the business-type activities of Windom Area Hospital and its discretely presented component unit, as of and for the year ended April 30, 2017, and the related notes to the combined financial statements, which collectively comprise Windom Area Hospital's basic financial statements, and have issued our report thereon dated July 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Windom Area Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Windom Area Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of Windom Area Hospital's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control 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 combined financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings listed as 2017-001 and 2017-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Windom Area Hospital's combined financial statements are free from 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 combined 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.

Windom Area Hospital's Response to Findings

Windom Area Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings. Windom Area Hospital's response was not subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Windom Area Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
July 12, 2017

WINDOM AREA HOSPITAL
Windom, Minnesota
SCHEDULE OF FINDINGS
APRIL 30, 2017

FINANCIAL STATEMENT FINDINGS

2017 – 001

Type of Finding: Material Weakness in Internal Control Over Financial Reporting

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

Criteria: The board of directors and management share the ultimate responsibility for the Hospital's internal control system. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced.

The Hospital engages auditors to assist in preparing its combined financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the Hospital's internal control system. As part of its internal control over the preparation of its combined financial statements, including disclosures, the Hospital has implemented a comprehensive review procedure to ensure that the combined financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the Hospital's activities and operations.

The Hospital's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the Hospital's combined financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

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

Cause: The Hospital has not adopted a policy over the annual financial reporting under GAAP; however, they have reviewed and approved the annual combined financial statements as prepared by the audit firm.

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

Management's Response: Management will continue to allow the audit firm to create the draft financial statements and related footnote disclosures, and will review and approve these prior to the issuance of the annual financial statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
SCHEDULE OF FINDINGS (CONTINUED)
APRIL 30, 2017

FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017 – 002

Type of Finding: Misstatement Detected by Audit

Condition: A properly designed system of internal control over financial reporting includes the prevention, or detection and correction of misstatements on a timely basis. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

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

Effect: The effect of this condition is that the year-end combined financial statements would be materially misstated had the correcting entries not been made.

Cause: The entries were the result of the implementation of GASB 68 as well as the correction of errors.

Recommendation: We recommend that management continue reviewing operating procedures in order to prevent, detect and correct misstatements on a timely basis.

Management's 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 undertake the necessary steps in order to ensure the general ledger accounts are accurately maintained throughout the year.