

WINDOM AREA HOSPITAL
Windom, Minnesota

COMBINED FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2013 AND 2012

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, 2013 and 2012, 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 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 financial statements.

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

Opinions

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, 2013 and 2012, 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 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audit of the basic 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 9, 2013, 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 9, 2013

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2013 AND 2012

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, 2013 and 2012. 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 Foundation is to provide charitable support for medical and educational programs of Windom Area Hospital. Total Foundation net assets were \$231,630 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 provides 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 increased by \$2,929,177 to \$22,116,262 in FY 2013 and by \$1,505,047 to \$19,187,085 in FY 2012. Net property, plant and equipment increased by \$237,818 in FY 2013 and decreased by \$377,367 in FY 2012. Total liabilities increased by \$208,696 in FY 2013 and by \$198,965 in FY 2012. The total margin was 15.3%, 8.8% and 7.8% for the years ended April 30, 2013, 2012 and 2011, respectively. The large increase in margin during FY 2013 mainly related to electronic health record incentives received.

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2013 AND 2012

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, 2013, 2012 and 2011 is presented below:

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

	April 30,		
	2013	2012	2011
Current Assets	\$ 8,223	\$ 6,737	\$ 5,516
Assets Limited as to Use	7,690	6,485	5,823
Capital Assets	6,203	5,965	6,343
Total Assets	\$ 22,116	\$ 19,187	\$ 17,682
Current Liabilities	\$ 1,255	\$ 1,046	\$ 847
Total Liabilities	1,255	1,046	847
Invested in Capital Assets, Net of Related Debt	6,203	5,965	6,343
Restricted	70	125	106
Unrestricted	14,588	12,050	10,386
Total Net Position	20,861	18,141	16,835
Total Liabilities and Net Position	\$ 22,116	\$ 19,187	\$ 17,682

As can be seen by Table 1, net position increased by approximately \$2,720,000 to \$20.9 million in fiscal year 2013. In fiscal year 2012, net position increased by approximately \$1,306,000 to \$18.1 million. The change in net position results primarily from operating income.

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2013 AND 2012

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, 2013, 2012 and 2011.

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

	Year Ended April 30,		
	2013	2012	2011
Operating Revenues	\$ 16,869	\$ 14,905	\$ 13,880
Operating Expenses	14,340	13,680	12,886
Operating Income	2,528	1,226	994
Non-Operating Income	61	87	85
Excess of Revenues over Expenses	2,589	1,313	1,079
Capital Grants, Contributions, Other	131	(7)	(10)
Changes in Net Position	2,720	1,306	1,069
Total Net Position, Beginning of Year	18,141	16,835	15,766
Total Net Position, End of Year	<u>\$ 20,861</u>	<u>\$ 18,141</u>	<u>\$ 16,835</u>

Operating and Financial Performance

Volume: Inpatient admissions (excluding newborns) for fiscal year 2013 were 388 compared to 400 in fiscal year 2012 and 436 in fiscal year 2011. This is a decrease of 12 or 3% between 2013 and 2012 and a decrease of 36 or 8% between 2012 and 2011. Patient days (excluding newborns) for fiscal year 2013 were 1,158 compared to 1,134 in fiscal year 2012 and 1,161 in fiscal year 2011. This is an increase of 24 or 2% from 2012 and a decrease of 27 or 2% between 2012 and 2011. The length of stay increased from 2.7 days in 2011 to 2.8 days in 2012 and increased to 3.0 days in 2013. Emergency department visits decreased to 3,526 in fiscal year 2013 from 3,677 in fiscal year 2012. This is a decrease of 151 visits or 4%. They increased from 3,544 in 2011, which is an increase of 133 visits or 4% between 2011 and 2012. All other outpatient visits for 2013 were 14,984 compared to 15,821 in 2012 and 16,578 in 2011. This is a decrease of 837 visits from 2012 to 2013 and a decrease of 757 visits from 2011 to 2012. Total surgeries decreased to 1,046 in fiscal year 2013 from 1,137 in fiscal year 2012. This is a decrease of 91 surgeries or 8%. In fiscal year 2012, surgeries decreased from 1,161 which is a decrease of 34 surgeries or 3% compared to fiscal year 2011.

Net Patient Service Revenue: As a result of the rate increases during the year, net patient service revenue increased \$898,029 or approximately 6% compared to fiscal year 2012. Revenue deductions, the amount of patient service revenue uncollectible due to contractual agreements, government reimbursement policies, and bad debts increased to \$6,187,755 from \$6,131,554, an approximately 1% increase.

Other Operating Revenue: Other operating revenue increased \$1,065,385 and \$47,907 in fiscal years 2013 and 2012, respectively, from the previous year. The increase in fiscal year 2013 is due to electronic health record incentive payments received.

WINDOM AREA HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2013 AND 2012

Nursing Services: Nursing service expenses increased \$33,367 and \$350,839 in fiscal years 2013 and 2012, respectively, from the previous year. The increase in 2013 is due to new workflows related to a computer conversion and additional documentation requirements for the electronic health record.

Other Professional Services: Other professional services increased \$41,766 and \$210,219 in fiscal years 2013 and 2012, respectively, from the previous year. The increase in 2013 is due to a price increase for emergency room physicians and increased pharmacy drug expenses from higher utilization and drug shortages.

General Services: General services decreased \$54,601 and increased \$110,048 in fiscal years 2013 and 2012, respectively, when compared to the previous year. The decrease in these expenses in 2013 is due to efficiencies achieved in staffing and monitoring expenses.

Administrative and Fiscal Services: Expenses in this category increased by \$516,236 and \$469,705 in fiscal years 2013 and 2012, respectively, when compared to the previous year. Salaries and related employee benefit costs, primarily health insurance, continue to rise.

Depreciation: Depreciation increased \$124,214 and \$12,478 in fiscal years 2013 and 2012, respectively, when compared to the previous year. The increase in the current year is a result of the first year of depreciation on the new electronic health record system, as well as various other equipment additions in 2013.

Non-Operating Revenue and Expenses: The total in this category decreased \$26,298 and increased \$2,523 in fiscal years 2013 and 2012, respectively, when compared to the previous year. The decrease is due to less grants and contributions received at the foundation in 2013, and lower interest income due to declining rates.

Capital Assets

At the end of fiscal years 2013, 2012 and 2011, the Hospital had invested \$6,203,273, \$5,965,455 and \$6,342,822, respectively, in net capital assets. The \$237,818 increase in capital assets in fiscal year 2013 is primarily a result of equipment additions, including a digital mammography machine and electronic health record equipment and software, offset by the annual depreciation.

Capital Grants and Contributions

For the years ended 2013, 2012 and 2011, the Hospital had a total of \$234,775, \$12,983 and \$9,000, respectively, in capital grants and contributions. The large increase in the current year is due to significant contributions received for the purchase of a digital mammography machine.

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2013 AND 2012

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 2014 budget. Of primary importance in setting the 2014 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, MN 56101.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF NET POSITION
APRIL 30, 2013

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 3,445,809	\$ 161,561	\$ 3,607,370
Short-Term Investments	2,160,053	-	2,160,053
Patient Accounts Receivable, Net	2,205,677	-	2,205,677
Accrued Interest Receivable	9,187	-	9,187
Other Receivables	16,583	-	16,583
Supplies	148,653	-	148,653
Prepaid Expenses	75,922	-	75,922
Total Current Assets	8,061,884	161,561	8,223,445
ASSETS LIMITED AS TO USE			
Board Designated for Capital Improvements	7,619,475	-	7,619,475
Restricted by Donor	-	70,069	70,069
Total Assets Limited as to Use	7,619,475	70,069	7,689,544
CAPITAL ASSETS			
Capital Assets	14,949,665	-	14,949,665
Less: Accumulated Depreciation	(8,746,392)	-	(8,746,392)
Net Capital Assets	6,203,273	-	6,203,273
Total Assets	\$ 21,884,632	\$ 231,630	\$ 22,116,262

See accompanying Notes to Combined Financial Statements.

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Due to Third-Party Payors	\$ 238,000	\$ -	\$ 238,000
Accounts Payable	283,370	-	283,370
Accrued Expenses	733,467	-	733,467
Total Current Liabilities	<u>1,254,837</u>	<u>-</u>	<u>1,254,837</u>
 Total Liabilities	 1,254,837	 -	 1,254,837
 COMMITMENTS AND CONTINGENCIES			
 NET POSITION			
Net Investment in Capital Assets	6,203,273	-	6,203,273
Restricted:			
Expendable for Specific Donor Restrictions	-	70,069	70,069
Unrestricted	14,426,522	161,561	14,588,083
Total Net Position	<u>20,629,795</u>	<u>231,630</u>	<u>20,861,425</u>
 Total Liabilities and Net Position	 <u>\$ 21,884,632</u>	 <u>\$ 231,630</u>	 <u>\$ 22,116,262</u>

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF NET POSITION
APRIL 30, 2012

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 3,631,318	\$ 103,819	\$ 3,735,137
Patient Accounts Receivable, Net	2,713,716	-	2,713,716
Accrued Interest Receivable	9,511	-	9,511
Supplies	187,762	-	187,762
Prepaid Expenses	90,790	-	90,790
Total Current Assets	6,633,097	103,819	6,736,916
ASSETS LIMITED AS TO USE			
Board Designated for Capital Improvements	6,359,216	-	6,359,216
Restricted by Donor	46,226	79,272	125,498
Total Assets Limited as to Use	6,405,442	79,272	6,484,714
CAPITAL ASSETS			
Capital Assets	14,372,386	-	14,372,386
Less: Accumulated Depreciation	(8,406,931)	-	(8,406,931)
Net Capital Assets	5,965,455	-	5,965,455
Total Assets	\$ 19,003,994	\$ 183,091	\$ 19,187,085

See accompanying Notes to Combined Financial Statements.

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Due to Third-Party Payors	\$ 152,000	\$ -	\$ 152,000
Accounts Payable	187,904	-	187,904
Accrued Expenses	706,237	-	706,237
Total Current Liabilities	<u>1,046,141</u>	<u>-</u>	<u>1,046,141</u>
 Total Liabilities	 1,046,141	 -	 1,046,141
COMMITMENTS AND CONTINGENCIES			
NET POSITION			
Net Investment in Capital Assets	5,965,455	-	5,965,455
Restricted:			
Expendable for Specific Donor Restrictions	46,226	79,272	125,498
Unrestricted	11,946,172	103,819	12,049,991
Total Net Position	<u>17,957,853</u>	<u>183,091</u>	<u>18,140,944</u>
 Total Liabilities and Net Position	 <u>\$ 19,003,994</u>	 <u>\$ 183,091</u>	 <u>\$ 19,187,085</u>

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED APRIL 30, 2013

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
REVENUE			
Net Patient Service Revenue	\$ 15,586,490	\$ -	\$ 15,586,490
Other Revenue	1,220,929	61,148	1,282,077
Total Revenue	<u>16,807,419</u>	<u>61,148</u>	<u>16,868,567</u>
EXPENSES			
Nursing Services	4,003,832	-	4,003,832
Other Professional Services	4,443,930	-	4,443,930
General Services	1,041,770	-	1,041,770
Administrative and Fiscal Services	3,976,866	2,252	3,979,118
Depreciation	871,804	-	871,804
Total Expenses	<u>14,338,202</u>	<u>2,252</u>	<u>14,340,454</u>
INCOME FROM OPERATIONS	2,469,217	58,896	2,528,113
NONOPERATING REVENUE AND EXPENSES			
Interest Income	30,012	-	30,012
Noncapital Grants and Contributions	-	42,992	42,992
Loss on Disposal of Assets	(12,062)	-	(12,062)
Total Nonoperating Revenue and Expenses	<u>17,950</u>	<u>42,992</u>	<u>60,942</u>
EXCESS OF REVENUE OVER EXPENSES	2,487,167	101,888	2,589,055
Capital Grants and Contributions	184,775	50,000	234,775
Expenses Paid on Behalf of Related Party	(14,284)	-	(14,284)
Related Party Transfers	14,284	(103,349)	(89,065)
INCREASE IN NET POSITION	2,671,942	48,539	2,720,481
NET POSITION			
Beginning of Year	<u>17,957,853</u>	<u>183,091</u>	<u>18,140,944</u>
End of Year	<u>\$ 20,629,795</u>	<u>\$ 231,630</u>	<u>\$ 20,861,425</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, 2012

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
REVENUE			
Net Patient Service Revenue	\$ 14,688,461	\$ -	\$ 14,688,461
Other Revenue	196,579	20,113	216,692
Total Revenue	<u>14,885,040</u>	<u>20,113</u>	<u>14,905,153</u>
EXPENSES			
Nursing Services	3,970,465	-	3,970,465
Other Professional Services	4,402,164	-	4,402,164
General Services	1,096,371	-	1,096,371
Administrative and Fiscal Services	3,461,337	1,545	3,462,882
Depreciation	747,590	-	747,590
Total Expenses	<u>13,677,927</u>	<u>1,545</u>	<u>13,679,472</u>
INCOME FROM OPERATIONS	1,207,113	18,568	1,225,681
NONOPERATING REVENUE AND EXPENSES			
Interest Income	44,437	-	44,437
Noncapital Grants and Contributions	-	51,150	51,150
Loss on Disposal of Assets	(8,347)	-	(8,347)
Total Nonoperating Revenue and Expenses	<u>36,090</u>	<u>51,150</u>	<u>87,240</u>
EXCESS OF REVENUE OVER EXPENSES	1,243,203	69,718	1,312,921
Capital Grants and Contributions	12,983	-	12,983
Expenses Paid on Behalf of Related Party	(19,822)	-	(19,822)
Related Party Transfers	19,822	(19,822)	-
INCREASE IN NET POSITION	1,256,186	49,896	1,306,082
NET POSITION			
Beginning of Year	<u>16,701,667</u>	<u>133,195</u>	<u>16,834,862</u>
End of Year	<u>\$ 17,957,853</u>	<u>\$ 183,091</u>	<u>\$ 18,140,944</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2013

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on Behalf of Patients	\$ 16,164,270	\$ -	\$ 16,164,270
Payments to Suppliers and Contractors	(7,577,446)	(2,252)	(7,579,698)
Payments to Employees	(5,712,279)	-	(5,712,279)
Other Receipts and Payments, Net	1,220,929	61,148	1,282,077
Net Cash Provided by Operating Activities	<u>4,095,474</u>	<u>58,896</u>	<u>4,154,370</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Noncapital Grants and Contributions	-	42,992	42,992
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Expenditures	(1,121,684)	-	(1,121,684)
Capital Grants and Contributions	184,775	50,000	234,775
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(936,909)</u>	<u>50,000</u>	<u>(886,909)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Investments	(4,552,272)	(92,992)	(4,645,264)
Sale of Investments	1,178,186	102,195	1,280,381
Expenses Paid on Behalf of Related Party	(14,284)	-	(14,284)
Transfer from (to) Related Party	14,284	(103,349)	(89,065)
Interest Income	30,012	-	30,012
Net Cash Used by Investing Activities	<u>(3,344,074)</u>	<u>(94,146)</u>	<u>(3,438,220)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	(185,509)	57,742	(127,767)
Cash and Cash Equivalents - Beginning	<u>3,631,318</u>	<u>103,819</u>	<u>3,735,137</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 3,445,809</u></u>	<u><u>\$ 161,561</u></u>	<u><u>\$ 3,607,370</u></u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED APRIL 30, 2013

	<u>Primary Enterprise</u>	<u>Component Unit (Foundation)</u>	<u>Total Reporting Entity (Memorandum Only)</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from Operations	\$ 2,469,217	\$ 58,896	\$ 2,528,113
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:			
Depreciation Expense	871,804	-	871,804
Provision for Bad Debts	197,360	-	197,360
(Increase) Decrease in:			
Patient Accounts Receivable	310,679	-	310,679
Accrued Interest Receivable	324	-	324
Other Receivables	(16,583)	-	(16,583)
Supplies and Prepaid Expenses	53,977	-	53,977
Increase (Decrease) in:			
Accounts Payable	95,466	-	95,466
Due to Third-Party Payors	86,000	-	86,000
Accrued Expenses	27,230	-	27,230
Net Cash Provided by Operating Activities	<u>\$ 4,095,474</u>	<u>\$ 58,896</u>	<u>\$ 4,154,370</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2012

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on Behalf of Patients	\$ 14,199,675	\$ -	\$ 14,199,675
Payments to Suppliers and Contractors	(7,318,665)	(1,545)	(7,320,210)
Payments to Employees	(5,462,794)	-	(5,462,794)
Other Receipts and Payments, Net	167,981	20,113	188,094
Net Cash Provided by Operating Activities	<u>1,586,197</u>	<u>18,568</u>	<u>1,604,765</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Noncapital Grants and Contributions	-	51,150	51,150
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Expenditures	(370,223)	-	(370,223)
Capital Grants and Contributions	12,983	-	12,983
Net Cash Used by Capital and Related Financing Activities	<u>(357,240)</u>	<u>-</u>	<u>(357,240)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Investments	(1,644,055)	(51,150)	(1,695,205)
Sale of Investments	1,015,772	17,879	1,033,651
Expenses Paid on Behalf of Related Party	(19,822)	-	(19,822)
Transfer from (to) Related Party	19,822	(19,822)	-
Interest Income	44,437	-	44,437
Net Cash Used by Investing Activities	<u>(583,846)</u>	<u>(53,093)</u>	<u>(636,939)</u>
INCREASE IN CASH AND CASH EQUIVALENTS			
	645,111	16,625	661,736
Cash and Cash Equivalents - Beginning	<u>2,986,207</u>	<u>87,194</u>	<u>3,073,401</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 3,631,318</u>	<u>\$ 103,819</u>	<u>\$ 3,735,137</u>

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED APRIL 30, 2012

	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	\$ 1,207,113	\$ 18,568	\$ 1,225,681
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:			
Depreciation Expense	747,590	-	747,590
Loss on Disposal of Assets	(8,347)	-	(8,347)
Provision for Bad Debts	326,253	-	326,253
(Increase) Decrease in:			
Patient Accounts Receivable	(1,048,564)	-	(1,048,564)
Other Accounts Receivable	1,194	-	1,194
Supplies and Prepaid Expenses	101,993	-	101,993
Increase (Decrease) in:			
Accounts Payable	(103,587)	-	(103,587)
Due to Third-Party Payors	212,000	-	212,000
Accrued Expenses	150,552	-	150,552
Net Cash Provided by Operating Activities	\$ 1,586,197	\$ 18,568	\$ 1,604,765

See accompanying Notes to Combined Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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

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

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

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

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.

Change in Accounting Standards

The Hospital adopted GASBS 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which renames the residual amounts from "net assets" to "net position". These financial statements include the statement of net position, which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

Use of Estimates

The preparation of combined financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Uncollectible Accounts

The Hospital provides an allowance for uncollectible self-pay and miscellaneous commercial insurance accounts. Patients are not required to provide collateral for services rendered. Payment for services is required upon receipt of an invoice, after payment by insurance, if any. Self-pay accounts are analyzed for collectibility based on the months past due and payment history. An allowance is estimated for these accounts based on the historical experience of the Hospital. Accounts that are determined to be uncollectible are sent to a collection agency and written off at that time. At April 30, 2013 and 2012, the allowance for uncollectible accounts was approximately \$565,000 and \$523,000, respectively.

Supplies

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

Assets Limited as to Use

Assets limited as to use include assets restricted by donors 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. Assets limited as to use are made up of cash, cash equivalents, money market accounts and certificates of deposit which are carried at amortized cost, which approximates fair value.

Investment in Partnership

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

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are stated at cost, if purchased, or at fair market value on the date received, if donated, less accumulated depreciation. All capital assets other than land and construction in progress are depreciated on a straight-line basis over the estimated useful lives of the property:

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

Policy for Care of the Underserved

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

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Operating Revenues and Expenses

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

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*.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management

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

Reclassifications

Certain items in the prior year combined financial statements have been reclassified to conform with the current year basis of presentation. These reclassifications had no effect on the overall net position of the Hospital.

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.

Revenue from the Medicare program accounted for approximately 39% and 34% for the years ended 2013 and 2012, respectively, and revenue from the Medicaid program accounted for approximately 1% for both the years ended 2013 and 2012, 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 2013 net patient service revenue increased approximately \$91,000 and the 2012 net patient service revenue decreased approximately \$20,000 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.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2013 AND 2012

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

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:

	2013	2012
Gross Patient Service Revenue	\$ 21,774,245	\$ 20,820,015
Adjustments and Discounts:		
Medicare	(2,681,422)	(2,985,653)
Medicaid	(495,719)	(473,995)
Other	(2,813,254)	(2,384,090)
Provision for Bad Debt	(197,360)	(287,816)
Total Adjustments and Discounts	<u>(6,187,755)</u>	<u>(6,131,554)</u>
Net Patient Service Revenue	<u>\$ 15,586,490</u>	<u>\$ 14,688,461</u>

NOTE 3 ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets by Windom Area Hospital at April 30, 2013 and 2012 consist of these amounts:

	2013	2012
Receivable from Patients and Their Insurance Carriers	1,686,054	\$ 2,406,122
Receivable from Medicare	913,368	603,665
Receivable from Medicaid	171,255	226,929
Total Patient Accounts Receivable	<u>2,770,677</u>	<u>3,236,716</u>
Less: Allowance for Uncollectible Amounts	(565,000)	(523,000)
Net Patient Accounts Receivable	<u>\$ 2,205,677</u>	<u>\$ 2,713,716</u>

NOTE 4 DEPOSITS AND INVESTMENTS

Deposits

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

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2013 AND 2012

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

At April 30, 2013 and 2012, the Hospital's deposits were fully covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

Investments

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

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

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

At April 30, 2013 and 2012, the carrying amounts of deposits and investments are included in the Hospital's balance sheets as follows:

	<u>2013</u>	<u>2012</u>
Carrying Amount:		
Deposits	<u>\$ 13,456,967</u>	<u>\$ 10,219,851</u>
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 3,607,370	\$ 3,735,137
Short-Term Investments	2,160,053	-
Board Designated for Capital Improvements	7,619,475	6,359,216
Restricted By Donor	70,069	125,498
	<u>\$ 13,456,967</u>	<u>\$ 10,219,851</u>

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, 2013 AND 2012

NOTE 5 CAPITAL ASSETS

Capital assets (in thousands) for the years ended April 30, 2013 and 2012 consist of the following:

	Balance April 30, 2012	Additions and Transfers	Retirements	Balance April 30, 2013
Land	\$ 24	\$ -	\$ -	\$ 24
Land Improvements	265	-	-	265
Buildings	7,780	-	-	7,780
Fixed Equipment	2,333	44	-	2,377
Moveable Equipment	3,771	1,227	(544)	4,454
Construction in Progress	199	(149)	-	50
Total at Historical Cost	<u>14,372</u>	<u>1,122</u>	<u>(544)</u>	<u>14,950</u>
Less Accumulated Depreciation for:				
Land Improvements	(255)	(4)	-	(259)
Buildings	(3,419)	(337)	-	(3,756)
Fixed Equipment	(1,824)	(67)	-	(1,891)
Moveable Equipment	(2,909)	(464)	532	(2,841)
Total Accumulated Depreciation	<u>(8,407)</u>	<u>(871)</u>	<u>532</u>	<u>(8,746)</u>
Capital Assets, Net	<u>\$ 5,965</u>	<u>\$ 251</u>	<u>\$ (12)</u>	<u>\$ 6,204</u>
	Balance April 30, 2011	Additions and Transfers	Retirements	Balance April 30, 2012
Land	\$ 24	\$ -	\$ -	\$ 24
Land Improvements	265	-	-	265
Buildings	7,750	30	-	7,780
Fixed Equipment	2,333	-	-	2,333
Moveable Equipment	3,704	199	(132)	3,771
Construction in Progress	49	150	-	199
Total at Historical Cost	<u>14,125</u>	<u>379</u>	<u>(132)</u>	<u>14,372</u>
Less Accumulated Depreciation for:				
Land Improvements	(251)	(4)	-	(255)
Buildings	(3,083)	(336)	-	(3,419)
Fixed Equipment	(1,758)	(66)	-	(1,824)
Moveable Equipment	(2,690)	(342)	123	(2,909)
Total Accumulated Depreciation	<u>(7,782)</u>	<u>(748)</u>	<u>123</u>	<u>(8,407)</u>
Capital Assets, Net	<u>\$ 6,343</u>	<u>\$ (369)</u>	<u>\$ (9)</u>	<u>\$ 5,965</u>

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2013 AND 2012

NOTE 5 CAPITAL ASSETS (CONTINUED)

Construction in progress at April 30, 2013 consists of planning costs for a future hospital expansion and renovation project.

NOTE 6 INVESTMENT IN PARTNERSHIP

In April 2007, the Hospital obtained a 7% partnership interest in Southwest Minnesota Radiation Center, LLC. The Hospital's initial investment in Southwest Minnesota Radiation Center, LLC was \$100,000. In June 2008, the Hospital made an additional investment of \$100,000 to obtain a 14% partnership interest in Southwest Minnesota Radiation Center, LLC. During the year ended April 30, 2012, Southwest Minnesota Radiation Center, LLC changed its name to Sanford Cancer Center. The Hospital received no distributions during the years ended April 30, 2013 and 2012. The Hospital's portion of the equity loss was zero for both the years ended April 30, 2013 and 2012. The Hospital's ending investment balance was zero at April 30, 2013 and 2012.

NOTE 7 DEFINED BENEFIT PENSION PLAN - STATEWIDE

Plan Description

The Hospital contributes to the Public Employees Retirement Fund (PERF), a cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERF provides retirement, disability, and death benefits to plan members and beneficiaries. The plan is established and administered in accordance with Minnesota State Statutes, Chapters 353 and 356.

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

Funding Policy

Plan members are required to contribute 6% of the annual covered salary through December 31, 2010 and 6.25% effective January 1, 2011 and the Hospital is required to contribute at an actuarially determined rate. The current rate is 7.25% of annual covered payroll. The contribution requirements of plan members and the Hospital are established and may be amended by State Statute. The Hospital's contributions, equal to the required contributions, to PERF for the years ended April 30, 2013, 2012 and 2011 were \$391,689, \$392,035 and \$369,759, respectively. The Hospital's contributions were equal to the contractually required contributions for each year as set by state statute.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2013 AND 2012

NOTE 8 CONCENTRATIONS OF CREDIT RISK

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

NOTE 9 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>
2014	\$ 330,732
2015	330,732
2016	330,732
2017	330,732
2018	293,580
Thereafter	122,325
Total Minimum Lease Payments	<u>\$ 1,738,833</u>

Total rent expense associated with the operating leases for the years ended April 30, 2013 and 2012 was approximately \$330,000 and \$302,000, respectively.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2013 AND 2012

NOTE 9 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 10 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 \$267,625 and \$246,637 for the years ended April 30, 2013 and 2012, respectively.

The Hospital also purchases certain services, supplies and other items through Sanford's network. Amounts due to Sanford at April 30, 2013 and 2012 were approximately \$79,000 and \$45,000, respectively.



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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, 2013 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 9, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, identifies six categories of compliance to be tested in connection with the audit of the Hospital's combined financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, 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

Minneapolis, Minnesota
July 9, 2013



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**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, 2013, 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 9, 2013.

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 and significant deficiencies.

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. We consider deficiencies described in the accompanying schedule of findings listed as 13-1 and 13-2 to be material weaknesses.

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 deficiency described in the accompanying schedule of findings listed as 13-3 to be a significant deficiency.

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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
July 9, 2013

**WINDOM AREA HOSPITAL
SCHEDULE OF FINDINGS
APRIL 30, 2013**

13-1 Control over the Financial Reporting Process

As part of the audit, management requested us to prepare a draft of the combined financial statements, including the related notes to the combined financial statements. Management reviewed, approved, and accepted responsibility for those combined financial statements prior to their issuance; however, management did not perform a detailed review of the completeness of the footnote disclosures. Without this assistance, there is a risk the combined financial statements would not provide complete and adequate disclosure.

Response

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

13-2 Misstatements Detected by the Audit

During the course of the audit, adjusting journal entries were proposed to properly state the balances of the general ledger accounts at year-end. Without these adjustments, the combined financial statements would be materially misstated.

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.

13-3 Segregation of Duties -- Payroll and Accounts Receivable

The Hospital's payroll clerk has the ability to set up employees for payment, enter hours, changes wage rates, and process the payroll. This creates an elevated risk of misappropriation of assets wherein one individual could create fictitious employees, modify wage rates, or hours prior to and after payroll generation and other potential acts which could go undetected. We recommend limiting the ability to create a new employee and printing checks to an individual who does not have additional access to other areas of the payroll cycle. The Hospital does have a mitigating control where a report showing all new employees is printed and reviewed monthly by another employee. An additional mitigating control that could be implemented would be a formal review of any wage or hour changes made for each payroll.

The business office manager at the Hospital is able to write-off patient balances from the Hospital's records, post payments, and has access to cash receipts. This creates an elevated risk of misappropriation of assets wherein an individual could retain funds meant for the Hospital and adjust patient account balances to cover up the misappropriation. We suggest that the ability to post write-offs be limited to an individual who does not have the access to cash receipts, or that a mitigating review process be implemented where a system generated report of all write-offs is reviewed regularly by an individual outside the AR/cash receipt process.

Response

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