

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

**COMBINED FINANCIAL STATEMENTS**

**YEARS ENDED APRIL 30, 2015 AND 2014**

**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, 2015 and 2014, 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, 2015 and 2014, 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.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the financial information of Windom Area Hospital and do not purport to, and do not, present fairly the financial position of the City of Windom as of April 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**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 combined 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 August 12, 2015, 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  
August 12, 2015

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**APRIL 30, 2015 AND 2014**

**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, 2015 and 2014. 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 position was \$306,352 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 increased by \$7,956,363 to \$31,040,232 in FY 2015 and by \$967,607 to \$23,083,869 in FY 2014. Capital assets increased by \$3,614,437 in FY 2015 and decreased by \$319,251 in FY 2014. Total liabilities increased by \$7,056,370 in FY 2015 and by \$275,888 in FY 2014. The total margin was 5.8%, 4.7% and 15.3% for the years ended April 30, 2015, 2014 and 2013, respectively. The larger margin during FY 2013 mainly related to electronic health record incentives received.

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**APRIL 30, 2015 AND 2014**

**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, 2015, 2014 and 2013 is presented below:

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

	April 30,		
	2015	2014	2013
Current Assets	\$ 8,754	\$ 8,232	\$ 8,223
Noncurrent Cash and Investments	12,788	8,968	7,690
Capital Assets	9,498	5,884	6,203
<b>Total Assets</b>	<b>\$ 31,040</b>	<b>\$ 23,084</b>	<b>\$ 22,116</b>
Current Liabilities	\$ 3,255	\$ 1,531	\$ 1,255
Long-Term Debt	5,332	-	-
<b>Total Liabilities</b>	<b>8,587</b>	<b>1,531</b>	<b>1,255</b>
<b>Net Position</b>	<b>22,453</b>	<b>21,553</b>	<b>20,861</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 31,040</b>	<b>\$ 23,084</b>	<b>\$ 22,116</b>

As can be seen by Table 1, net position increased by approximately \$900,000 to \$22.5 million in fiscal year 2015. In fiscal year 2014, net position increased by approximately \$692,000 to \$21.6 million. The change in net position results primarily from operating income.

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**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, 2015, 2014 and 2013.

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

	Year Ended April 30,		
	2015	2014	2013
Operating Revenues	\$ 15,770	\$ 15,030	\$ 16,884
Operating Expenses	14,938	14,363	14,356
Operating Income	832	667	2,528
Non-Operating Income	92	38	61
Excess of Revenues over Expenses	924	705	2,589
Capital Grants, Contributions, Other	(24)	(13)	131
Changes in Net Position	900	692	2,720
Total Net Position, Beginning of Year	21,553	20,861	18,141
Total Net Position, End of Year	<u>\$ 22,453</u>	<u>\$ 21,553</u>	<u>\$ 20,861</u>

**Operating and Financial Performance**

**Volume:** Inpatient admissions (excluding newborns) for fiscal year 2015 were 367 compared to 306 in fiscal year 2014 and 388 in fiscal year 2013. This is an increase of 61 or 20% between 2015 and 2014 and a decrease of 82 or 21% between 2014 and 2013. Patient days (excluding newborns) for fiscal year 2015 were 1,086 compared to 871 in fiscal year 2014 and 1,158 in fiscal year 2013. This is an increase of 215 or 25% from 2014 and a decrease of 287 or 25% between 2014 and 2013. The length of stay decreased from 3.0 days in 2013 to 2.9 days in 2014 and increased to 3.0 days in 2015. Emergency department visits increased to 3,671 in fiscal year 2015 from 3,401 in fiscal year 2014. This is an increase of 270 visits or 8%. They decreased from 3,526 in 2013, which is a decrease of 125 visits or 4% between 2013 and 2014. All other outpatient visits for 2015 were 16,327 compared to 16,368 in 2014 and 16,111 in 2013. This is a decrease of 41 visits from 2014 to 2015 and an increase of 257 visits from 2013 to 2014. Total surgeries decreased to 932 in fiscal year 2015 from 968 in fiscal year 2014. This is a decrease of 36 surgeries or 4%. In fiscal year 2014, surgeries decreased from 1,046 which is a decrease of 78 surgeries or 7% compared to fiscal year 2013.

**Net Patient Service Revenue:** As a result of increased volume during the year, net patient service revenue increased \$1,447,528 or approximately 10% compared to fiscal year 2014. Revenue deductions, the amount of patient service revenue uncollectible due to contractual agreements, government reimbursement policies, and bad debts increased to \$8,801,142 from \$6,843,384, an approximately 29% increase.

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**Other Operating Revenue:** Other operating revenue decreased \$707,752 and \$945,839 in fiscal years 2015 and 2014, respectively, from the previous year. The decrease in fiscal year 2015 is mostly due to overpaid electronic health record incentives being due back to the State of Minnesota.

**Nursing Services:** Nursing service expenses increased \$88,695 and \$94,510 in fiscal years 2015 and 2014, respectively, from the previous year. The increase in 2015 is mostly due to increased wages.

**Other Professional Services:** Other professional services increased \$275,599 and decreased \$125,979 in fiscal years 2015 and 2014, respectively, from the previous year. The increase in 2015 is due to increased wages and higher volume in radiology and pharmacy related supplies and services.

**General Services:** General services decreased \$24,824 and increased \$65,702 in fiscal years 2015 and 2014, respectively, when compared to the previous year. The decrease in 2015 is due to decreased maintenance and repair expenses.

**Administrative and Fiscal Services:** Expenses in this category increased by \$311,610 and \$25,899 in fiscal years 2015 and 2014, respectively, when compared to the previous year. Salaries and related employee benefit costs, primarily health insurance, continue to rise. There were also increases in Minnesota Care taxes in 2015 due to increased patient revenue.

**Depreciation:** Depreciation decreased \$76,300 and \$53,019 in fiscal years 2015 and 2014, respectively, when compared to the previous year. The decrease in the current year is a result of assets becoming fully depreciated, and minimal capitalized additions in fiscal year 2015. There is a large construction project in process in 2015, but it has not yet been capitalized as of year-end.

**Non-Operating Revenue and Expenses:** The total in this category increased \$54,300 and decreased \$23,119 in fiscal years 2015 and 2014, respectively, when compared to the previous year. The increase in 2015 is mostly related to one-time losses on disposal of property and equipment in the prior year.

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

For the years ended 2015, 2014 and 2013, the Hospital had a total of \$2,500, \$12,251 and \$234,775, respectively, in capital grants and contributions. The large amount in 2013 was due to significant contributions received for the purchase of a digital mammography machine.

#### **Capital Assets**

At the end of fiscal years 2015, 2014 and 2013, the Hospital had invested \$9,498,459, \$5,884,022 and \$6,203,273, respectively, in net capital assets. The \$3,614,437 increase in capital assets in fiscal year 2015 is primarily a result of the large surgery and outreach construction project in process at year-end.

#### **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 \$5,546,800 of short and long-term debt, net of unamortized issue discount.

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**Economic and Other Factors and Next Year's Budget**

The Windom Area Hospital's Board of Directors and management considered many factors when setting the fiscal year 2016 budget. Of primary importance in setting the 2016 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, 2015**

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 3,013,391	\$ 199,677	\$ 3,213,068
Short-Term Investments	2,890,513	-	2,890,513
Patient Accounts Receivable, Net	2,294,955	-	2,294,955
Accrued Interest Receivable	11,477	-	11,477
Other Receivables	83,376	-	83,376
Supplies	186,760	-	186,760
Prepaid Expenses	73,470	-	73,470
Total Current Assets	<u>8,553,942</u>	<u>199,677</u>	<u>8,753,619</u>
<b>NONCURRENT CASH AND INVESTMENTS</b>			
Board Designated for Capital Improvements	3,861,772	-	3,861,772
Debt Service Reserve Funds Held by Trustee	400,678	-	400,678
Construction Funds Held by Trustee	8,419,029	-	8,419,029
Restricted by Donor	-	106,675	106,675
Total Noncurrent Cash and Investments	<u>12,681,479</u>	<u>106,675</u>	<u>12,788,154</u>
<b>CAPITAL ASSETS</b>			
Capital Assets	19,087,760	-	19,087,760
Less: Accumulated Depreciation	<u>(9,589,301)</u>	<u>-</u>	<u>(9,589,301)</u>
Net Capital Assets	<u>9,498,459</u>	<u>-</u>	<u>9,498,459</u>
Total Assets	<u>\$ 30,733,880</u>	<u>\$ 306,352</u>	<u>\$ 31,040,232</u>

See accompanying Notes to Combined Financial Statements.

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Current Maturities of Long-Term Debt	\$ 215,000	\$ -	\$ 215,000
Accounts Payable:			
Trade	1,338,534	-	1,338,534
Construction	744,046	-	744,046
Accrued Expenses	802,715	-	802,715
Estimated Third-Party Payor Settlements	155,000	-	155,000
Total Current Liabilities	<u>3,255,295</u>	<u>-</u>	<u>3,255,295</u>
<b>LONG-TERM DEBT, Net of Current Maturities</b>	<u>5,331,800</u>	<u>-</u>	<u>5,331,800</u>
Total Liabilities	8,587,095	-	8,587,095
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>NET POSITION</b>			
Net Investment in Capital Assets	3,951,659	-	3,951,659
Restricted:			
Expendable for Specific Donor Restrictions	-	106,675	106,675
Expendable for Construction	8,419,029	-	8,419,029
Expendable for Debt Service	400,678	-	400,678
Unrestricted	9,375,419	199,677	9,575,096
Total Net Position	<u>22,146,785</u>	<u>306,352</u>	<u>22,453,137</u>
Total Liabilities and Net Position	<u>\$ 30,733,880</u>	<u>\$ 306,352</u>	<u>\$ 31,040,232</u>

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**COMBINED STATEMENT OF NET POSITION**  
**APRIL 30, 2014**

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 2,234,948	\$ 182,678	\$ 2,417,626
Short-Term Investments	2,883,371	-	2,883,371
Patient Accounts Receivable, Net	2,178,703	-	2,178,703
Accrued Interest Receivable	16,983	-	16,983
Other Receivables	22,479	-	22,479
Due from Third-Party Payors	488,000	-	488,000
Supplies	180,572	-	180,572
Prepaid Expenses	43,820	-	43,820
Total Current Assets	<u>8,048,876</u>	<u>182,678</u>	<u>8,231,554</u>
<b>NONCURRENT CASH AND INVESTMENTS</b>			
Board Designated for Capital Improvements	8,881,394	-	8,881,394
Restricted by Donor	-	86,899	86,899
Total Noncurrent Cash and Investments	<u>8,881,394</u>	<u>86,899</u>	<u>8,968,293</u>
<b>CAPITAL ASSETS</b>			
Capital Assets	15,076,721	-	15,076,721
Less: Accumulated Depreciation	<u>(9,192,699)</u>	<u>-</u>	<u>(9,192,699)</u>
Net Capital Assets	<u>5,884,022</u>	<u>-</u>	<u>5,884,022</u>
Total Assets	<u>\$ 22,814,292</u>	<u>\$ 269,577</u>	<u>\$ 23,083,869</u>

See accompanying Notes to Combined Financial Statements.

	<u>Primary Enterprise</u>	<u>Component Unit (Foundation)</u>	<u>Total Reporting Entity (Memorandum Only)</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 770,195	\$ -	\$ 770,195
Accrued Expenses	760,530	-	760,530
Total Current Liabilities	<u>1,530,725</u>	<u>-</u>	<u>1,530,725</u>
Total Liabilities	1,530,725	-	1,530,725
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>NET POSITION</b>			
Net Investment in Capital Assets	5,884,022	-	5,884,022
Restricted:			
Expendable for Specific Donor Restrictions	-	86,899	86,899
Unrestricted	15,399,545	182,678	15,582,223
Total Net Position	<u>21,283,567</u>	<u>269,577</u>	<u>21,553,144</u>
Total Liabilities and Net Position	<u>\$ 22,814,292</u>	<u>\$ 269,577</u>	<u>\$ 23,083,869</u>

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**COMBINED STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**YEAR ENDED APRIL 30, 2015**

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>REVENUE</b>			
Net Patient Service Revenue	\$ 16,125,776	\$ -	\$ 16,125,776
Other Revenue, Net	(357,508)	1,674	(355,834)
Total Revenue	<u>15,768,268</u>	<u>1,674</u>	<u>15,769,942</u>
<b>EXPENSES</b>			
Nursing Services	4,202,717	-	4,202,717
Other Professional Services	4,593,550	-	4,593,550
General Services	1,082,648	-	1,082,648
Administrative and Fiscal Services	4,314,650	1,977	4,316,627
Depreciation	742,485	-	742,485
Total Expenses	<u>14,936,050</u>	<u>1,977</u>	<u>14,938,027</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	832,218	(303)	831,915
<b>NONOPERATING REVENUE AND EXPENSES</b>			
Interest Income	28,301	-	28,301
Noncapital Grants and Contributions	-	63,623	63,623
Gain on Disposal of Assets	199	-	199
Total Nonoperating Revenue and Expenses	<u>28,500</u>	<u>63,623</u>	<u>92,123</u>
<b>EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	860,718	63,320	924,038
Capital Grants and Contributions	2,500	-	2,500
Expenses Paid on Behalf of Related Party	(15,697)	-	(15,697)
Related Party Transfers	15,697	(26,545)	(10,848)
<b>INCREASE IN NET POSITION</b>	863,218	36,775	899,993
<b>NET POSITION</b>			
Beginning of Year	<u>21,283,567</u>	<u>269,577</u>	<u>21,553,144</u>
End of Year	<u>\$ 22,146,785</u>	<u>\$ 306,352</u>	<u>\$ 22,453,137</u>

See accompanying Notes to Combined Financial Statements.

**WINDOM AREA HOSPITAL**  
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**COMBINED STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**YEAR ENDED APRIL 30, 2014**

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>REVENUE</b>			
Net Patient Service Revenue	\$ 14,678,248	\$ -	\$ 14,678,248
Other Revenue	329,385	22,533	351,918
Total Revenue	<u>15,007,633</u>	<u>22,533</u>	<u>15,030,166</u>
<b>EXPENSES</b>			
Nursing Services	4,114,022	-	4,114,022
Other Professional Services	4,317,951	-	4,317,951
General Services	1,107,472	-	1,107,472
Administrative and Fiscal Services	4,002,766	2,251	4,005,017
Depreciation	818,785	-	818,785
Total Expenses	<u>14,360,996</u>	<u>2,251</u>	<u>14,363,247</u>
<b>INCOME FROM OPERATIONS</b>	646,637	20,282	666,919
<b>NONOPERATING REVENUE AND EXPENSES</b>			
Interest Income	33,061	-	33,061
Noncapital Grants and Contributions	-	42,939	42,939
Loss on Disposal of Assets	(38,177)	-	(38,177)
Total Nonoperating Revenue and Expenses	<u>(5,116)</u>	<u>42,939</u>	<u>37,823</u>
<b>EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	641,521	63,221	704,742
Capital Grants and Contributions	12,251	-	12,251
Expenses Paid on Behalf of Related Party	(16,697)	-	(16,697)
Related Party Transfers	16,697	(25,274)	(8,577)
<b>INCREASE IN NET POSITION</b>	653,772	37,947	691,719
<b>NET POSITION</b>			
Beginning of Year	<u>20,629,795</u>	<u>231,630</u>	<u>20,861,425</u>
End of Year	<u>\$ 21,283,567</u>	<u>\$ 269,577</u>	<u>\$ 21,553,144</u>

See accompanying Notes to Combined Financial Statements.

**WINDOM AREA HOSPITAL**  
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**COMBINED STATEMENT OF CASH FLOWS**  
**YEAR ENDED APRIL 30, 2015**

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from and on Behalf of Patients	\$ 16,597,133	\$ -	\$ 16,597,133
Payments to Suppliers and Contractors	(7,661,020)	(1,977)	(7,662,997)
Payments to Employees	(5,988,296)	-	(5,988,296)
Other Receipts and Payments, Net	(357,508)	1,674	(355,834)
Net Cash Provided (Used) by Operating Activities	<u>2,590,309</u>	<u>(303)</u>	<u>2,590,006</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Noncapital Grants and Contributions	-	63,623	63,623
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Expenditures	(3,550,609)	-	(3,550,609)
Proceeds from Issuance of Long-Term Debt	5,546,800	-	5,546,800
Interest Paid on Long-Term Debt	(31,631)	-	(31,631)
Capital Grants and Contributions	2,500	-	2,500
Net Cash Provided by Capital and Related Financing Activities	<u>1,967,060</u>	<u>-</u>	<u>1,967,060</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of Investments	(17,122,065)	(63,623)	(17,185,688)
Sale of Investments	13,314,838	43,847	13,358,685
Expenses Paid on Behalf of Related Party	(15,697)	-	(15,697)
Transfer from (to) Related Party	15,697	(26,545)	(10,848)
Interest Income	28,301	-	28,301
Net Cash Used by Investing Activities	<u>(3,778,926)</u>	<u>(46,321)</u>	<u>(3,825,247)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>778,443</b>	<b>16,999</b>	<b>795,442</b>
Cash and Cash Equivalents - Beginning	<u>2,234,948</u>	<u>182,678</u>	<u>2,417,626</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b><u>\$ 3,013,391</u></b>	<b><u>\$ 199,677</u></b>	<b><u>\$ 3,213,068</u></b>

See accompanying Notes to Combined Financial Statements.

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**COMBINED STATEMENT OF CASH FLOWS (CONTINUED)**  
**YEAR ENDED APRIL 30, 2015**

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Income (Loss) from Operations	\$ 832,218	\$ (303)	\$ 831,915
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	742,485	-	742,485
Provision for Bad Debts	232,605	-	232,605
(Increase) Decrease in:			
Patient Accounts Receivable	(348,857)	-	(348,857)
Accrued Interest Receivable	5,506	-	5,506
Other Receivables	(60,897)	-	(60,897)
Supplies and Prepaid Expenses	(35,838)	-	(35,838)
Increase in:			
Accounts Payable	568,339	-	568,339
Due to Third-Party Payors	643,000	-	643,000
Accrued Expenses	11,748	-	11,748
Net Cash Provided (Used) by Operating Activities	\$ 2,590,309	\$ (303)	\$ 2,590,006

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW**

Nonmonetary Transactions:

Additions to Property and Equipment included in Accounts Payable - Construction Payable	\$ 744,046	\$ -	\$ 744,046
Additions to Property and Equipment included in Accrued Expenses - Capitalized Accrued Interest	\$ 30,437	\$ -	\$ 30,437

See accompanying Notes to Combined Financial Statements.

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**COMBINED STATEMENT OF CASH FLOWS**  
**YEAR ENDED APRIL 30, 2014**

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from and on Behalf of Patients	\$ 13,965,530	\$ -	\$ 13,965,530
Payments to Suppliers and Contractors	(7,272,544)	(2,251)	(7,274,795)
Payments to Employees	(5,755,596)	-	(5,755,596)
Other Receipts and Payments, Net	329,385	22,533	351,918
Net Cash Provided by Operating Activities	<u>1,266,775</u>	<u>20,282</u>	<u>1,287,057</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Noncapital Grants and Contributions	-	42,939	42,939
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Expenditures	(537,711)	-	(537,711)
Capital Grants and Contributions	12,251	-	12,251
Net Cash Used by Capital and Related Financing Activities	<u>(525,460)</u>	<u>-</u>	<u>(525,460)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of Investments	(10,435,710)	(42,939)	(10,478,649)
Sale of Investments	8,450,473	26,109	8,476,582
Expenses Paid on Behalf of Related Party	(16,697)	-	(16,697)
Transfer from (to) Related Party	16,697	(25,274)	(8,577)
Interest Income	33,061	-	33,061
Net Cash Used by Investing Activities	<u>(1,952,176)</u>	<u>(42,104)</u>	<u>(1,994,280)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	(1,210,861)	21,117	(1,189,744)
Cash and Cash Equivalents - Beginning	<u>3,445,809</u>	<u>161,561</u>	<u>3,607,370</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 2,234,948</u>	<u>\$ 182,678</u>	<u>\$ 2,417,626</u>

See accompanying Notes to Combined Financial Statements.

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**COMBINED STATEMENT OF CASH FLOWS (CONTINUED)**  
**YEAR ENDED APRIL 30, 2014**

	Primary Enterprise	Component Unit (Foundation)	Total Reporting Entity (Memorandum Only)
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO</b>			
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Income from Operations	\$ 646,637	\$ 20,282	\$ 666,919
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:			
Depreciation Expense	818,785	-	818,785
Provision for Bad Debts	229,001	-	229,001
(Increase) Decrease in:			
Patient Accounts Receivable	(202,027)	-	(202,027)
Accrued Interest Receivable	(7,796)	-	(7,796)
Other Receivables	(5,896)	-	(5,896)
Supplies and Prepaid Expenses	183	-	183
Increase (Decrease) in:			
Accounts Payable	486,825	-	486,825
Due to Third-Party Payors	(726,000)	-	(726,000)
Accrued Expenses	27,063	-	27,063
Net Cash Provided by Operating Activities	<u>\$ 1,266,775</u>	<u>\$ 20,282</u>	<u>\$ 1,287,057</u>

See accompanying Notes to Combined Financial Statements.

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2015 AND 2014**

**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.

**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, 2015 AND 2014**

**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 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, 2015 and 2014, the allowance for uncollectible accounts was approximately \$392,000 and \$405,000, 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.

**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, 2015 AND 2014**

**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.

**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.

**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.

**Reclassifications**

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

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2015 AND 2014**

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

**Significant Future Accounting Pronouncement**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this statement is to establish new accounting and financial reporting requirements for governments that provide their employees with pensions. The requirements in this statement will change how governments calculate and report the costs and obligations associated with pensions and improve the decision-usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information across governments. This statement will be effective for the Hospital's fiscal year ending April 30, 2016. Management is evaluating the impact of adopting this statement and its impact is expected to be significant.

**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 programs accounted for approximately 39% and 37% for the years ended 2015 and 2014, respectively, and revenue from the Medicaid programs accounted for approximately 10% for both the years ended 2015 and 2014, 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 2015 net patient service revenue increased approximately \$82,000 and the 2014 net patient service revenue decreased approximately \$57,000 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, 2015 AND 2014**

**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:

	2015	2014
Gross Patient Service Revenue	\$ 24,926,918	\$ 21,521,632
Adjustments and Discounts:		
Medicare	(4,495,757)	(3,348,924)
Medicaid	(2,063,623)	(1,466,499)
Other	(2,009,157)	(1,798,960)
Provision for Bad Debt	(232,605)	(229,001)
Total Adjustments and Discounts	<u>(8,801,142)</u>	<u>(6,843,384)</u>
Net Patient Service Revenue	<u>\$ 16,125,776</u>	<u>\$ 14,678,248</u>

**NOTE 3 ACCOUNTS RECEIVABLE**

Patient accounts receivable reported as current assets by Windom Area Hospital at April 30, 2015 and 2014 consist of these amounts:

	2015	2014
Receivable from Patients and Their Insurance Carriers	\$ 1,501,068	\$ 1,548,397
Receivable from Medicare	953,605	710,280
Receivable from Medicaid	232,282	325,026
Total Patient Accounts Receivable	<u>2,686,955</u>	<u>2,583,703</u>
Less: Allowance for Uncollectible Amounts	(392,000)	(405,000)
Net Patient Accounts Receivable	<u>\$ 2,294,955</u>	<u>\$ 2,178,703</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.

At April 30, 2015 and 2014, 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.

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2015 AND 2014**

**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments**

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

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

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

At April 30, 2015 and 2014, the carrying amounts of deposits and investments are included in the Hospital's combined statements of net position as follows:

	2015	2014
Carrying Amount:		
Deposits	\$ 18,891,735	\$ 14,269,290
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 3,213,068	\$ 2,417,626
Short-Term Investments	2,890,513	2,883,371
Board Designated for Capital Improvements	3,861,772	8,881,394
Debt Service Reserve Funds Held by Trustee	400,678	-
Construction Funds Held by Trustee	8,419,029	-
Restricted By Donor	106,675	86,899
	\$ 18,891,735	\$ 14,269,290

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, 2015 AND 2014**

**NOTE 5 CAPITAL ASSETS**

Capital assets (in thousands) for the years ended April 30, 2015 and 2014 consist of the following:

	Balance April 30, 2014	Additions and Transfers	Retirements	Balance April 30, 2015
Land	\$ 271	\$ -	\$ -	\$ 271
Land Improvements	265	11	(11)	265
Buildings	7,791	27	(2)	7,816
Fixed Equipment	2,424	62	(32)	2,454
Moveable Equipment	4,154	278	(301)	4,131
Construction in Progress	172	3,978	-	4,150
Total at Historical Cost	<u>15,077</u>	<u>4,356</u>	<u>(346)</u>	<u>19,087</u>
Less Accumulated				
Depreciation for:				
Land Improvements	(263)	(3)	11	(255)
Buildings	(4,091)	(330)	2	(4,419)
Fixed Equipment	(1,911)	(60)	32	(1,939)
Moveable Equipment	(2,928)	(349)	301	(2,976)
Total Accumulated				
Depreciation	<u>(9,193)</u>	<u>(742)</u>	<u>346</u>	<u>(9,589)</u>
Capital Assets, Net	<u>\$ 5,884</u>	<u>\$ 3,614</u>	<u>\$ -</u>	<u>\$ 9,498</u>
	Balance April 30, 2013	Additions and Transfers	Retirements	Balance April 30, 2014
Land	\$ 24	\$ 247	\$ -	\$ 271
Land Improvements	265	-	-	265
Buildings	7,780	11	-	7,791
Fixed Equipment	2,377	95	(48)	2,424
Moveable Equipment	4,454	63	(363)	4,154
Construction in Progress	50	122	-	172
Total at Historical Cost	<u>14,950</u>	<u>538</u>	<u>(411)</u>	<u>15,077</u>
Less Accumulated				
Depreciation for:				
Land Improvements	(259)	(4)	-	(263)
Buildings	(3,755)	(336)	-	(4,091)
Fixed Equipment	(1,891)	(69)	49	(1,911)
Moveable Equipment	(2,841)	(410)	323	(2,928)
Total Accumulated				
Depreciation	<u>(8,746)</u>	<u>(819)</u>	<u>372</u>	<u>(9,193)</u>
Capital Assets, Net	<u>\$ 6,204</u>	<u>\$ (281)</u>	<u>\$ (39)</u>	<u>\$ 5,884</u>

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2015 AND 2014**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

Construction in progress at April 30, 2015 consists of planning and construction costs related to a hospital expansion project adding surgical and outreach space, as well as other smaller renovations and additions. Construction is expected to be completed in October 2015, with an estimated total cost of approximately \$11,000,000. The Hospital is financing approximately half of the project with internal funds, and the other half with the Series 2014A Hospital Revenue Bonds (see Note 6). Approximately \$62,000 of interest from the new bonds has been capitalized with the project as of April 30, 2015.

**NOTE 6 LONG-TERM DEBT**

Long-term debt consists of the following for the year ended April 30, 2015:

	Balance April 30, 2014	Additions	Reductions	Balance April 30, 2015
Gross Revenue Hospital Bonds, Series 2014A	\$ -	\$ 5,600,000	\$ -	\$ 5,600,000
Bond Discount	-	(53,200)	-	(53,200)
Total Long-Term Debt	<u>\$ -</u>	<u>\$ 5,546,800</u>	<u>\$ -</u>	<u>5,546,800</u>
Less: Current Maturities				<u>(215,000)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 5,331,800</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.

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, 2015.

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2015 AND 2014**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

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

Year Ending April 30,	Long-Term Debt		
	Principal	Interest	Total
2016	\$ 215,000	\$ 185,603	\$ 400,603
2017	215,000	183,184	398,184
2018	220,000	180,190	400,190
2019	220,000	176,615	396,615
2020	225,000	172,159	397,159
2021-2025	1,235,000	758,574	1,993,574
2026-2030	1,470,000	520,535	1,990,535
2031-2035	1,800,000	192,975	1,992,975
Total	<u>\$ 5,600,000</u>	<u>\$ 2,369,835</u>	<u>\$ 7,969,835</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 hospital's 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 is being paid by the hospital in twenty four equal monthly installments, starting on February 1, 2015. As of April 30, 2015, the balance due is \$412,772, which is included in accounts payable on the combined statement of net position. The related investment loss is included with other revenue in the combined statements of revenues, expenses and changes in net position for the years ended April 30, 2015 and 2014. The Hospital received no distributions during the years ended April 30, 2015 and 2014.

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2015 AND 2014**

**NOTE 8    DEFINED BENEFIT PENSION PLAN - STATEWIDE**

**Plan Description**

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

Benefits are established by state statute and are based upon the 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 6.25% through December 31, 2015, and 6.5% beginning January 1, 2015 of the annual covered salary and the Hospital is required to contribute at an actuarially determined rate. The current rate is 7.5% 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 for the years ended April 30, 2015, 2014 and 2013 were \$422,799, \$404,469 and \$401,876, respectively. The Hospital's contributions were equal to the contractually required contributions for each year as set by state statute.

**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.

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2015 AND 2014**

**NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**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>
2016	\$ 330,732
2017	330,732
2018	293,580
2019	122,325
Total Minimum Lease Payments	<u>\$ 1,077,369</u>

Total rent expense associated with the operating leases for the years ended April 30, 2015 and 2014 was approximately \$380,000 and \$339,000, respectively.

**Other**

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

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

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

**WINDOM AREA HOSPITAL**  
**Windom, Minnesota**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**APRIL 30, 2015 AND 2014**

**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 \$290,559 and \$273,076 for the years ended April 30, 2015 and 2014, respectively.

The Hospital also purchases certain services, supplies and other items through Sanford's network. Amounts due to Sanford at April 30, 2015 and 2014 were approximately \$92,000 and \$87,000, 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, 2015 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 August 12, 2015.

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*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
August 12, 2015



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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, 2015, 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 August 12, 2015.

**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. We consider the deficiencies described in the accompanying schedule of findings listed as 15-1 and 15-2 to be material weaknesses.

Board of Directors  
Windom Area Hospital

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Windom Area Hospital's 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  
August 12, 2015

**WINDOM AREA HOSPITAL  
SCHEDULE OF FINDINGS  
APRIL 30, 2015**

**15-1** Control over the Financial Reporting Process

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 us to assist in preparing its combined financial statements and accompanying disclosures. However, as independent auditors, we 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 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.

Response

Management determined committing the resources necessary to fully prepare the financial statements including the related disclosures and monitor recent accounting developments would be too costly and time consuming and has relied on us to assist them.

**15-2** 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.