

**WINDOM AREA HOSPITAL
Windom, Minnesota**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED APRIL 30, 2018 AND 2017

**WINDOM AREA HOSPITAL
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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 financial statements of Windom Area Hospital, an enterprise fund of the City of Windom, Minnesota, and its discretely presented component unit, which comprise the statements of net position as of April 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 opinion.

Opinion

In our opinion, the 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, 2018 and 2017, 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, schedule of the Hospital's proportionate share of the net pension liability, and the schedule of the Hospital's contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 August 17, 2018, 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 17, 2018

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2018

Introduction

The Windom Area Hospital (Hospital) offers readers of our financial statements this narrative overview and analysis of the financial activities of Windom Area Hospital for the fiscal years ended April 30, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with the Hospital's 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 financial statements. The financial statements are composed of the statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's finances.

The financial statements include the Hospital and Foundation finances. The mission of the Windom Area Hospital Foundation is to provide charitable support for medical and educational programs of Windom Area Hospital. Total Foundation net position was \$369,712 at year-end.

Required Financial Statements

The Hospital's 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 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 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 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 statements of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Highlights

Hospital total assets and deferred outflows of resources increased by \$81,362 to \$33,690,432 in FY 2018 and increased by \$2,476,251 to \$33,609,070 in FY 2017. Capital assets increased by \$151,510 in FY 2018 and decreased by \$680,107 in FY 2017. Total liabilities and deferred inflows of resources decreased by \$583,641 in FY 2018 and increased by \$1,944,341 in FY 2017. The total margin was 2.5%, 2.5% and 4.8% for the years ended April 30, 2018, 2017 and 2016, respectively.

WINDOM AREA HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2018

Financial Analysis of the Hospital

The statements of net position and the 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 nonfinancial 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 statements of net position at April 30, 2018, 2017, and 2016 is presented below:

Table 1
Condensed Statements of Net Position (in Thousands)

	April 30,		
	2018	2017	2016
Current Assets	\$ 11,408	\$ 10,532	\$ 8,943
Noncurrent Cash and Investments	4,964	4,927	5,453
Capital Assets	15,368	15,216	15,896
Deferred Outflows of Resources	1,950	2,934	841
Total Assets and Deferred Outflows of Resources	<u>\$ 33,690</u>	<u>\$ 33,609</u>	<u>\$ 31,133</u>
Current Liabilities	\$ 2,106	\$ 1,682	\$ 2,010
Long-Term Debt	4,686	4,903	5,120
Other Noncurrent Liabilities	6,448	7,738	5,240
Deferred Inflows of Resources	1,628	1,111	1,120
Total Liabilities and Deferred Inflows of Resources	<u>14,867</u>	<u>15,434</u>	<u>13,490</u>
Net Position	<u>18,823</u>	<u>18,175</u>	<u>17,643</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 33,690</u>	<u>\$ 33,609</u>	<u>\$ 31,133</u>

As can be seen by Table 1, net position increased by approximately \$648,000 to \$18.82 million in fiscal year 2018. In fiscal year 2017, net position increased by approximately \$532,000 to \$18.17 million. The change in net position results primarily from operating results, and the income impact of Government Accounting Standards Board (GASB) Statement 68.

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2018

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, 2018, 2017, and 2016.

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

	Year Ended April 30,		
	2018	2017	2016
Operating Revenues	\$ 18,253	\$ 18,051	\$ 16,287
Operating Expenses	17,910	17,656	15,592
Operating Income	343	395	695
Nonoperating Income	123	64	99
Excess of Revenues over Expenses	466	459	794
Capital Grants, Contributions, Other	182	73	(26)
Changes in Net Position	649	532	768
Total Net Position, Beginning of Year	18,175	17,643	16,875
Total Net Position, End of Year	<u>\$ 18,823</u>	<u>\$ 18,175</u>	<u>\$ 17,643</u>

Operating and Financial Performance

Volume: Inpatient admissions (excluding newborns) for fiscal year 2018 were 354 compared to 289 in fiscal year 2017 and 304 in fiscal year 2016. This is an increase of 65 or 22% between 2018 and 2017 and a decrease of 15 or 5% between 2017 and 2016. Patient days (excluding newborns) for fiscal year 2018 were 939 compared to 845 in fiscal year 2017 and 843 in fiscal year 2016. This is an increase of 94 or 11% from 2017 and an increase of 2 or .2% between 2017 and 2016. The length of stay increased from 2.8 days in 2016 to 3.0 days in 2017 and decreased to 2.7 days in 2018. Emergency department visits increased to 3,840 in fiscal year 2018 from 3,698 in fiscal year 2017. This is an increase of 142 visits or 4%. They increased from 3,602 in 2016, which is an increase of 96 visits or 3% between 2016 and 2017. All other outpatient visits for 2018 were 18,832 compared to 18,272 in 2017 and 17,836 in 2016. This is an increase of 560 visits from 2017 to 2018 and an increase of 436 visits from 2016 to 2017. Total surgeries decreased to 850 in fiscal year 2018 from 983 in fiscal year 2017. This is a decrease of 133 surgeries or 14%. In fiscal year 2017, surgeries decreased from 990 which is a decrease of 7 surgeries or 1% compared to fiscal year 2016.

Net Patient Service Revenue: As a result of increased outpatient volume during the year, net patient service revenue increased \$196,345 or approximately 1.1% compared to fiscal year 2017. Revenue deductions, the amount of patient service revenue uncollectible due to contractual agreements, government reimbursement policies, and bad debts increased to \$12,964,300 from \$10,392,499, an approximately 25% increase.

WINDOM AREA HOSPITAL
Windom, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2018

Other Operating Revenue: Other operating revenue increased \$5,456 and \$38,333 in fiscal years 2018 and 2017, respectively, from the previous year.

Nursing Services: Nursing service expenses increased \$378,066 and \$384,963 in fiscal years 2018 and 2017, respectively, from the previous year. The increase in 2018 is mostly due to converting to an FTE staffing model in nursing departments. The 2018 increase is mostly due to increased small equipment and supplies in the surgery department for the orthopedics program.

Other Professional Services: Other professional services decreased \$114,106 and \$317,963 in fiscal years 2018 and 2017, respectively, from the previous year. The decreases are mostly due to higher volume in lab, radiology, rehabilitation and pharmacy related supplies and services.

General Services: General services increased \$40,248 and \$206,063 in fiscal years 2018 and 2017, respectively, when compared to the previous year. The increase in 2018 is due to increased maintenance and repair expenses.

Administrative and Fiscal Services: Expenses in this category increased by \$301 and increased \$671,700 in fiscal years 2018 and 2017, respectively, when compared to the previous year.

Depreciation: Depreciation decreased \$68,047 and increased \$380,127 in fiscal years 2018 and 2017, respectively, when compared to the previous year.

Nonoperating Revenue and Expenses: The total in this category increased \$58,771 and decreased \$34,631 in fiscal years 2018 and 2017, respectively, when compared to the previous year. This increase is mostly related to increase in interest income.

Capital Grants and Contributions

For the years ended 2018, 2017, and 2016, the Hospital had a total of \$240,318, \$139,112, and \$16,000, respectively, in capital grants and contributions.

Capital Assets

At the end of fiscal years 2018, 2017, and 2016, the Hospital had invested \$15,367,912, \$15,216,402, and \$15,896,509, respectively, in net capital assets. The \$151,510 increase in capital assets in fiscal year 2018 is primarily due to wound care project.

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 \$4,905,667 of short- and long-term debt, net of unamortized issue discount.

WINDOM AREA HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2018

Economic and Other Factors and Next Year's Budget

The Windom Area Hospital's board of directors and management considered many factors when setting the fiscal year 2018 budget. Of primary importance in setting the 2019 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 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
STATEMENT OF NET POSITION
APRIL 30, 2018

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 5,461,649	\$ 242,203	\$ 5,703,852
Short-Term Investments	2,941,339	-	2,941,339
Patient Accounts Receivable, Net	2,422,735	-	2,422,735
Accrued Interest Receivable	48,842	-	48,842
Other Receivables	70,657	-	70,657
Supplies	183,790	-	183,790
Prepaid Expenses	37,200	-	37,200
Total Current Assets	11,166,212	242,203	11,408,415
NONCURRENT CASH AND INVESTMENTS			
Board Designated for Capital Improvements	4,438,352	-	4,438,352
Debt Service Reserve Funds Held by Trustee Restricted by Donor	398,331	-	398,331
	-	127,509	127,509
Total Noncurrent Cash and Investments	4,836,683	127,509	4,964,192
CAPITAL ASSETS			
Capital Assets	27,835,470	-	27,835,470
Less: Accumulated Depreciation	(12,467,558)	-	(12,467,558)
Net Capital Assets	15,367,912	-	15,367,912
Total Assets	31,370,807	369,712	31,740,519
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	1,949,913	-	1,949,913
Total Assets and Deferred Outflows of Resources	\$ 33,320,720	\$ 369,712	\$ 33,690,432

See accompanying Notes to Financial Statements.

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
CURRENT LIABILITIES			
Current Maturities of Long-Term Debt	\$ 220,000	\$ -	\$ 220,000
Accounts Payable:			
Trade	692,625	-	692,625
Accrued Expenses	993,148	-	993,148
Estimated Third-Party Payor Settlements	199,782	-	199,782
Total Current Liabilities	<u>2,105,555</u>	<u>-</u>	<u>2,105,555</u>
LONG-TERM DEBT, Net of Current Maturities	4,685,667	-	4,685,667
NONCURRENT LIABILITIES			
Net Pension Liability	<u>6,447,773</u>	<u>-</u>	<u>6,447,773</u>
Total Liabilities	13,238,995	-	13,238,995
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows	1,627,981	-	1,627,981
COMMITMENTS AND CONTINGENCIES			
NET POSITION			
Net Investment in Capital Assets	10,462,245	-	10,462,245
Restricted:			
Expendable for Specific Donor Restrictions	-	127,509	127,509
Expendable for Debt Service	398,331	-	398,331
Unrestricted	<u>7,593,168</u>	<u>242,203</u>	<u>7,835,371</u>
Total Net Position	<u>18,453,744</u>	<u>369,712</u>	<u>18,823,456</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 33,320,720</u>	<u>\$ 369,712</u>	<u>\$ 33,690,432</u>

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

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

See accompanying Notes to Financial Statements.

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

WINDOM AREA HOSPITAL
Windom, Minnesota
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
YEAR ENDED APRIL 30, 2018

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
REVENUE			
Net Patient Service Revenue	\$ 17,993,429	\$ -	\$ 17,993,429
Other Revenue, Net	210,786	49,077	259,863
Total Revenue	<u>18,204,215</u>	<u>49,077</u>	<u>18,253,292</u>
EXPENSES			
Nursing Services	5,300,551	-	5,300,551
Other Professional Services	4,880,607	-	4,880,607
General Services	1,335,295	-	1,335,295
Administrative and Fiscal Services	4,857,839	50	4,857,889
Interest	202,051	-	202,051
Depreciation	1,333,718	-	1,333,718
Total Expenses	<u>17,910,061</u>	<u>50</u>	<u>17,910,111</u>
INCOME FROM OPERATIONS	294,154	49,027	343,181
NONOPERATING REVENUE AND EXPENSES			
Interest Income	95,616	-	95,616
Noncapital Grants and Contributions	-	27,347	27,347
Loss on Disposal of Assets	(32)	-	(32)
Total Nonoperating Revenue and Expenses	<u>95,584</u>	<u>27,347</u>	<u>122,931</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS			
	389,738	76,374	466,112
Capital Grants and Contributions	240,318	-	240,318
Expenses Paid on Behalf of Related Party	(24,356)	-	(24,356)
Related Party Transfers	24,356	(57,892)	(33,536)
INCREASE IN NET POSITION	630,056	18,482	648,538
NET POSITION			
Beginning of Year	<u>17,823,688</u>	<u>351,230</u>	<u>18,174,918</u>
End of Year	<u>\$ 18,453,744</u>	<u>\$ 369,712</u>	<u>\$ 18,823,456</u>

See accompanying Notes to Financial Statements.

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

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

See accompanying Notes to Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2018

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on Behalf of Patients	\$ 18,230,753	\$ -	\$ 18,230,753
Payments to Suppliers and Contractors	(9,409,443)	(50)	(9,409,493)
Payments to Employees	(6,733,904)	-	(6,733,904)
Other Receipts and Payments, Net	210,786	49,077	259,863
Net Cash Provided by Operating Activities	<u>2,298,192</u>	<u>49,027</u>	<u>2,347,219</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Noncapital Grants and Contributions	-	27,347	27,347
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Expenditures	(1,302,410)	-	(1,302,410)
Principal Payments on Long-Term Debt	(220,000)	-	(220,000)
Interest Paid on Long-Term Debt	(180,190)	-	(180,190)
Capital Grants and Contributions	240,318	-	240,318
Net Cash Used by Capital and Related Financing Activities	<u>(1,462,282)</u>	<u>-</u>	<u>(1,462,282)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Investments	(7,379,691)	(27,347)	(7,407,038)
Sale of Investments	7,323,597	22,081	7,345,678
Expenses Paid on Behalf of Related Party	(24,356)	-	(24,356)
Transfer from (to) Related Party	24,356	(57,892)	(33,536)
Interest Income	95,616	-	95,616
Net Cash Provided (Used) by Investing Activities	<u>39,522</u>	<u>(63,158)</u>	<u>(23,636)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	875,432	13,216	888,648
Cash and Cash Equivalents - Beginning	<u>4,586,217</u>	<u>228,987</u>	<u>4,815,204</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 5,461,649</u>	<u>\$ 242,203</u>	<u>\$ 5,703,852</u>

See accompanying Notes to Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED APRIL 30, 2018

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
	<u> </u>	<u> </u>	<u> </u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from Operations	\$ 294,154	\$ 49,027	\$ 343,181
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:			
Depreciation Expense	1,333,718	-	1,333,718
Provision for Bad Debts	58,570	-	58,570
(Increase) Decrease in:			
Patient Accounts Receivable	(327,551)	-	(327,551)
Deferred Outflows of Resources	984,488	-	984,488
Accrued Interest Receivable	(28,095)	-	(28,095)
Other Receivables	23,828	-	23,828
Supplies and Prepaid Expenses	(1,874)	-	(1,874)
Increase (Decrease) in:			
Accounts Payable	163,757	-	163,757
Net Pension Liability	(1,290,114)	-	(1,290,114)
Deferred Inflows of Resources	516,387	-	516,387
Due to Third-Party Payors	510,572	-	510,572
Accrued Expenses	60,352	-	60,352
Net Cash Provided by Operating Activities	<u>\$ 2,298,192</u>	<u>\$ 49,027</u>	<u>\$ 2,347,219</u>

See accompanying Notes to Financial Statements.

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

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

See accompanying Notes to Financial Statements.

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

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

See accompanying Notes to Financial Statements.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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

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

Proprietary Fund Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenue and expenses are subject to accrual.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating 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 90 days or less, and exclude assets limited as to use.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Allowance for Uncollectible Accounts

The Hospital provides an allowance for uncollectible self-pay and miscellaneous commercial insurance accounts. Patients are not required to provide collateral for services rendered. Payment for services is required upon receipt of an invoice, after payment by insurance, if any. Self-pay accounts are analyzed for collectability based on the months past due and payment history. An allowance is estimated for these accounts based on the historical experience of the Hospital. Accounts that are determined to be uncollectible are sent to a collection agency and written off at that time. At April 30, 2018 and 2017, the allowance for uncollectible accounts was approximately \$336,000 and \$436,000, respectively.

Supplies

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

Noncurrent Cash and Investments

Noncurrent cash and investments include assets restricted by donors, assets restricted under debt agreements as reserve funds, and assets set aside by the board of directors for future capital improvements, over which the board retains control and may, at its discretion, subsequently use for other purposes. Noncurrent cash and investments are made up of cash, cash equivalents, money market accounts, and certificates of deposit which are carried at amortized cost, which approximates fair value.

Deferred Outflows of Resources

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

Capital Assets

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

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

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Policy for Care of the Underserved

The Hospital provides care to patients who meet certain criteria under their charity care policy without charge or at amounts less than their established rates. The Hospital believes the underserved are those persons who are unable through private resources, employer support, or public aid to provide payment for health care services or those unable to gain access to health related care because of limited resources, inadequate education, or discrimination. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges forgone for charity care were approximately \$151,000 and \$138,000 for the years ended April 30, 2018 and 2017, respectively.

Net Patient Service Revenue

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

Operating Revenues and Expenses

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

Pensions

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

Deferred Inflows of Resources

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

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

The net position of the Hospital is classified in three components. "Net Investment in Capital Assets" consists 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 noncapital 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 "Net Investment 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.

Fair Value Measurements

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

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

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

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

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

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

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

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 41% and 40% for the years ended 2018 and 2017, respectively, and revenue from the Medicaid programs accounted for approximately 12% for the year ended 2018 and approximately 10% for the year ended 2017, 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 2018 net patient service revenue increased approximately \$41,000 and the 2017 net patient service revenue increased approximately \$241,000 due to removal of allowance previously estimated that are no longer considered necessary as a result of changes in estimates and years that are no longer subject to audits, reviews, and investigations.

Other

The Hospital has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

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

	<u>2018</u>	<u>2017</u>
Gross Patient Service Revenue	\$ 30,957,729	\$ 28,189,583
Adjustments and Discounts:		
Medicare	(7,660,832)	(6,146,417)
Medicaid	(2,822,063)	(2,165,430)
Other	(2,422,835)	(1,880,216)
Provision for Bad Debt	(58,570)	(200,436)
Total Adjustments and Discounts	<u>(12,964,300)</u>	<u>(10,392,499)</u>
Net Patient Service Revenue	<u>\$ 17,993,429</u>	<u>\$ 17,797,084</u>

NOTE 3 ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets by Windom Area Hospital at April 30, 2018 and 2017 consist of these amounts:

	<u>2018</u>	<u>2017</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,711,611	\$ 1,542,630
Receivable from Medicare	813,451	813,451
Receivable from Medicaid	233,673	233,673
Total Patient Accounts Receivable	<u>2,758,735</u>	<u>2,589,754</u>
Less: Allowance for Uncollectible Amounts	(336,000)	(436,000)
Net Patient Accounts Receivable	<u>\$ 2,422,735</u>	<u>\$ 2,153,754</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. 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, 2018, the Hospital's deposits in banks were covered by FDIC or FSLIC insurance protected by bond or collateral held by the Hospital's custodial bank in the Hospital's name.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

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, 2018 and 2017, the carrying amounts of deposits and investments are included in the Hospital's statements of net position as follows:

	<u>2018</u>	<u>2017</u>
Carrying Amount:		
Deposits	<u>\$ 13,609,383</u>	<u>\$ 12,659,375</u>
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 5,703,852	\$ 4,815,204
Short-Term Investments	2,941,339	2,917,500
Board Designated for Capital Improvements	4,438,352	4,406,097
Debt Service Reserve Funds Held by Trustee	398,331	398,331
Restricted by Donor	<u>127,509</u>	<u>122,243</u>
Total	<u>\$ 13,609,383</u>	<u>\$ 12,659,375</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 FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

NOTE 5 CAPITAL ASSETS

Capital assets (in thousands) for the years ended April 30, 2018 and 2017 consist of the following:

	Balance April 30, 2017	Additions and Transfers	Retirements	Balance April 30, 2018
Land	\$ 271	\$ -	\$ -	\$ 271
Land Improvements	2,816	181	-	2,997
Buildings	12,180	-	-	12,180
Fixed Equipment	6,334	816	-	7,150
Moveable Equipment	4,815	127	(67)	4,875
Construction in Progress	-	363	-	363
Total at Historical Cost	<u>26,416</u>	<u>1,487</u>	<u>(67)</u>	<u>27,836</u>
Less Accumulated Depreciation for:				
Land Improvements	(423)	(146)	-	(569)
Buildings	(5,375)	(531)	-	(5,906)
Fixed Equipment	(2,120)	(296)	-	(2,416)
Moveable Equipment	<u>(3,282)</u>	<u>(362)</u>	<u>67</u>	<u>(3,577)</u>
Total Accumulated Depreciation	<u>(11,200)</u>	<u>(1,335)</u>	<u>67</u>	<u>(12,468)</u>
Capital Assets, Net	<u>\$ 15,216</u>	<u>\$ 152</u>	<u>\$ -</u>	<u>\$ 15,368</u>
	Balance April 30, 2016	Additions and Transfers	Retirements	Balance April 30, 2017
Land	\$ 271	\$ -	\$ -	\$ 271
Land Improvements	2,849	-	(33)	2,816
Buildings	12,175	5	-	12,180
Fixed Equipment	6,334	77	(77)	6,334
Moveable Equipment	4,224	672	(81)	4,815
Construction in Progress	5	-	(5)	-
Total at Historical Cost	<u>25,858</u>	<u>754</u>	<u>(196)</u>	<u>26,416</u>
Less Accumulated Depreciation for:				
Land Improvements	(315)	(141)	33	(423)
Buildings	(4,832)	(543)	-	(5,375)
Fixed Equipment	(1,915)	(280)	75	(2,120)
Moveable Equipment	<u>(2,899)</u>	<u>(438)</u>	<u>55</u>	<u>(3,282)</u>
Total Accumulated Depreciation	<u>(9,961)</u>	<u>(1,402)</u>	<u>163</u>	<u>(11,200)</u>
Capital Assets, Net	<u>\$ 15,897</u>	<u>\$ (648)</u>	<u>\$ (33)</u>	<u>\$ 15,216</u>

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following for the years ended April 30, 2018 and 2017:

	Balance April 30, 2017	Additions	Reductions	Balance April 30, 2018
Gross Revenue Hospital Bonds, Series 2014A	\$ 5,170,000	\$ -	\$ (220,000)	\$ 4,950,000
Bond Discount	(46,993)	-	2,660	(44,333)
Total Long-Term Debt	<u>\$ 5,123,007</u>	<u>\$ -</u>	<u>\$ (217,340)</u>	4,905,667
Less: Current Maturities				<u>(220,000)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 4,685,667</u>
	Balance April 30, 2016	Additions	Reductions	Balance April 30, 2017
Gross Revenue Hospital Bonds, Series 2014A	\$ 5,385,000	\$ -	\$ (215,000)	\$ 5,170,000
Bond Discount	(49,653)	-	2,660	(46,993)
Total Long-Term Debt	<u>\$ 5,335,347</u>	<u>\$ -</u>	<u>\$ (212,340)</u>	5,123,007
Less: Current Maturities				<u>(220,000)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 4,903,007</u>

- 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 that can be incurred. Management believes the Hospital was in compliance with all debt covenants as of April 30, 2018.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

NOTE 6 LONG-TERM DEBT (CONTINUED)

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

<u>Year Ending April 30.</u>	Long-Term Debt		
	Principal	Interest	Total
2019	\$ 220,000	\$ 176,615	\$ 396,615
2020	225,000	172,159	397,159
2021	230,000	166,580	396,580
2022	240,000	159,933	399,933
2023	245,000	152,474	397,474
2022-2026	1,370,000	625,875	1,995,875
2027-2031	1,655,000	335,164	1,990,164
2032-2036	765,000	32,059	797,059
Total	<u>\$ 4,950,000</u>	<u>\$ 1,820,859</u>	<u>\$ 6,770,859</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 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 was paid by the hospital in twenty-four equal monthly installments, starting on February 1, 2015. The Hospital made the final payment in fiscal year 2017. There was no investment loss incurred for the year ended April 30, 2017. The Hospital received no distributions during the year ended April 30, 2017.

NOTE 8 DEFINED BENEFIT PENSION PLAN

Plan Description

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

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefits Provided

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

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

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

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

Contributions

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

Basic Plan members were required to contribute 6.5% of their annual covered salary in calendar years 2017 and 2018 and the Hospital was required to contribute 7.5% of pay for Basic Plan members. The Hospital's contributions to the General Employment Plan for the plan's fiscal years ended April 30, 2018, 2017, and 2016 were \$487,568, \$452,945, and \$431,594, respectively. The Hospital's contributions were equal to the required contributions for each year as set by state statute.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Costs

At April 30, 2018 and 2017, the Hospital reported a liability of \$6,447,773 and \$7,737,887, respectively, for its proportionate share of the GEP's net pension liability. The Hospital's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$6 million to the fund in 2017. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the Hospital totaled \$81,070. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Hospital's proportion of the net pension liability was based on the Hospital's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017 and July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the Hospital's proportion share was .1010%, which was an increase of .0057% from its proportion measured as of June 30, 2016.

There were no benefit provision changes during the measurement period.

For the years ended April 30, 2018 and 2017, the Hospital recognized pension expense of \$698,329 and \$849,497, respectively. These amounts consisted of the Hospital's proportionate share of the GEP's pension expense, plus additional amortized net expenses associated with differences between estimated and actual experience of various actuarial assumptions associated with the plan.

At April 30, 2018 and 2017, the Hospital reported its proportionate share of the GEP's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 212,499	\$ 414,801
Changes of Assumptions	1,070,470	646,389
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	278,844
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	260,664	287,947
Hospital Contributions Subsequent to the Measurement Date	406,280	-
	<u>\$ 1,949,913</u>	<u>\$ 1,627,981</u>

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 22,901	\$ 628,589
Changes of Assumptions	1,668,877	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	863,883	-
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	-	483,005
Hospital Contributions Subsequent to the Measurement Date	378,740	-
	\$ 2,934,401	\$ 1,111,594

\$406,280 reported as deferred outflows of resources related to pensions resulting from the Hospital's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended April 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending April 30,	Amount
2019	\$ (143,023)
2020	367,594
2021	(35,214)
2022	(273,705)
Total	\$ (84,348)

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1% per year for the General Employees Plan through 2044.

**WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017**

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

The long-term expected rate of return on pension plan investments is 7.5%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39 %	5.10 %
International Stocks	19 %	5.30 %
Bonds	20 %	0.75 %
Alternative Investments	20 %	5.90 %
Cash	2 %	0.00%

Discount Rate

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

**WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017**

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Liability Sensitivity

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

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's Proportionate Share of the Net Pension Liability	\$ 10,000,976	\$ 6,447,773	\$ 3,538,832

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088, or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 9 CONCENTRATIONS OF CREDIT RISK

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

NOTE 10 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.

WINDOM AREA HOSPITAL
Windom, Minnesota
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018 AND 2017

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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>
2019	\$ 293,580
2020	293,580
2021	293,580
2022	293,580
2023	293,580
Thereafter	122,325
Total Minimum Lease Payments	<u>\$ 1,590,225</u>

Total rent expense associated with the operating leases for the years ended April 30, 2018 and 2017 was approximately \$492,000 and \$444,000, 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 financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

NOTE 11 MANAGEMENT AGREEMENTS

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 \$269,718 and \$275,652 for the years ended April 30, 2018 and 2017, respectively.

The Hospital also purchases certain services, supplies and other items through Sanford's network. Amount due to Sanford was \$72,000 at April 30, 2018 and 2017.

The Hospital entered into a management agreement with Healogics in fiscal year 2018 to begin providing wound care services. The Hospital provides space and employee staffing, and Healogics provides the necessary equipment. The Hospital pays management fees to Healogics in the amount of \$15,000 per month for five years from the commencement of the agreement.

WINDOM AREA HOSPITAL
Windom, Minnesota
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)
APRIL 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Hospital's Proportion of the Net Pension Liability	0.1010%	0.0953%	0.1098%	0.1011%
Hospital's Proportionate Share of the Net Pension Liability	\$ 6,447,773	\$ 7,737,887	\$ 5,239,526	\$ 5,157,853
Hospital's Covered Payroll	\$ 6,825,836	\$ 6,325,817	\$ 6,015,138	\$ 6,000,044
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	94.46%	122.32%	87.11%	85.96%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	68.90%	78.20%	78.70%

WINDOM AREA HOSPITAL
Windom, Minnesota
SCHEDULE OF THE HOSPITAL'S CONTRIBUTIONS (UNAUDITED)
APRIL 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily Required Contribution	\$ 487,568	\$ 452,945	\$ 431,594	\$ 422,799	\$ 404,469	\$ 401,876
Contributions in Relation to the Statutorily Required Contribution	<u>487,568</u>	<u>452,945</u>	<u>431,594</u>	<u>422,799</u>	<u>404,469</u>	<u>401,876</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital Covered Payroll	\$ 6,825,836	\$ 6,325,817	\$ 6,015,138	\$ 6,000,044	\$ 5,782,659	\$ 5,755,189
Contributions as a Percentage of Covered Payroll	7.14%	7.16%	7.18%	7.05%	6.99%	6.98%

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



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

Board of Directors
Windom Area Hospital
Windom, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2018 and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated August 17, 2018.

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

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

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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 17, 2018

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF 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 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, 2018, and the related notes to the financial statements, which collectively comprise Windom Area Hospital's basic financial statements, and have issued our report thereon dated August 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings listed as 2018-001, 2018-002, and 2018-003 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Windom Area Hospital's 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 response 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 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 17, 2018

WINDOM AREA HOSPITAL
Windom, Minnesota
SCHEDULE OF FINDINGS
APRIL 30, 2018

FINANCIAL STATEMENT FINDINGS

2018 – 001

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

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

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

The Hospital engages auditors to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the Hospital's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the Hospital has implemented a comprehensive review procedure to ensure that the 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.

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

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

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

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

WINDOM AREA HOSPITAL
Windom, Minnesota
SCHEDULE OF FINDINGS (CONTINUED)
APRIL 30, 2018

FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018 – 002

Type of Finding: Misstatements Detected by Audit

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

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

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

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

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

Management's Response: Management feels that the proposed adjustments were necessary to properly state the balances of the general ledger accounts at year-end. In addition, management will undertake the necessary steps in order to ensure the general ledger accounts are accurately maintained throughout the year.

WINDOM AREA HOSPITAL
Windom, Minnesota
SCHEDULE OF FINDINGS (CONTINUED)
APRIL 30, 2018

FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018 – 003

Type of Finding: Cash Reconciliation

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

Criteria: During the course of the audit, we noted cash was not fully reconciled at the time of fieldwork.

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

Cause: The entries were the result of the cash accounts not being fully reconciled at the time of fieldwork.

Recommendation: We recommend that management continue to place an emphasis and provide the necessary resources needed to reconcile accounts on a monthly basis.

Management's Response: Management feels that the proposed adjustments were necessary to properly state the balances of cash accounts at year-end. In addition, management will undertake the necessary steps in order to ensure the cash accounts are accurately maintained throughout the year.