



DESTINATION MEDICAL CENTER CORPORATION (DMCC)

EXECUTIVE COMMITTEE MEETING

1:45 P.M. WEDNESDAY, May 24, 2017

MAYO CIVIC CENTER - ROCHESTER



DESTINATION MEDICAL CENTER CORPORATION

EXECUTIVE COMMITTEE

May 24, 2017

1:45 p.m.

AGENDA

- I. Call to Order
- II. Roll Call
- III. Approval of Agenda
- IV. Approval of Minutes: March 23, 2017
- V. DMCC Audit for Year Ending December 31, 2016 (Presenter: Craig Popenhagen, CliftonLarsonAllen)
- VI. EDA: Request for Trademark Authorization
- VII. Other
- VIII. Adjournment

DESTINATION MEDICAL CENTER CORPORATION

EXECUTIVE COMMITTEE

MINUTES

March 23, 2017

- I. Call to Order. Chair Tina Smith called the meeting to order at 9:00 a.m. at the Mayo Civic Center, Riverview Suite, located at 30 Civic Center Drive SE, Rochester, MN 55904.
- II. Roll Call. In attendance were Chair Smith, Commissioner Jim Bier, and R.T. Rybak. Mayor Ardell Brede was also present.
- III. Approval of Agenda. Commissioner Bier moved approval of the agenda. Chair Smith seconded.

Ayes (3), Nays (0), Motion carried.

- IV. April 1 Report to DEED. Lisa Clarke, Executive Director of the Destination Medical Center Economic Development Agency (“EDA”), presented the draft 2016 DEED private investment report. Ms. Clarke noted the increase in private development since the accounting of DMC-qualified investment began: \$10.3 million in 2013, \$54.5 million in 2014, \$87.6 million in 2015, and \$145.3 million in 2016, totaling \$297.7 million.

Brent Svenby, City of Rochester Senior Administrative Analyst, described the \$38 million of non-Mayo Clinic private investment that occurred within the DMC development district in 2016, including the Lofts at Mayo Park, the Conley-Maass building, Flats on Fourth, First Avenue Flats, Pasquale’s Pizzeria, and The Parker affordable housing complex.

Doug Holtan, Mayo Clinic Chair of Facilities and Support Services, stated that Mayo Clinic invested approximately \$240 million in its Rochester facilities in 2016 and has submitted \$107 million for DEED certification. Upgrades to Mayo Clinic Hospital, Saint Marys Campus—including a bed tower expansion and Radiology and PACU renovations—contributed greatly towards Mayo Clinic’s 2016 investment total, a trend that will continue in coming years as Mayo Clinic invests an additional \$230 million in the Saint Marys campus. Other major investments include facilities for the NIH-supported Precision Medicine Initiative, and the addition to the Jacobson building’s proton beam therapy facility.

Mr. Rybak commended all parties, stating that this was a good example of public-private investment. Mayor Brede noted that it is not always apparent how much work is going on inside buildings. Commissioner Bier noted that \$300 million in investment in Rochester was amazing. Chair Smith then thanked Mayo Clinic, the City of Rochester and Olmsted County and stated the strategy of attracting private investment first, followed by public funding, is working.

Resolution A: Authorizing April 1 Report to DEED Pursuant to Statute. Chair Smith moved approval of the resolution. Commissioner Bier seconded.

Ayes (3), Nays (0), Motion carried.

- V. Alatus Project (2nd Street SW): Update. Chair Smith thanked Board members Jim Campbell and Michael Dougherty, as well as the EDA, for reviewing the available information on Alatus financing and recommending that the project move forward. Chris Osmundson, development director for Alatus, stated that Alatus has issued requests for proposal to local construction companies and worked diligently to obtain proof of financing. He stated that a nationally-capitalized, publicly traded entity has provided preliminary approval for financing. Chair Smith announced that the update would be received and filed.

- VI. Risk Management Resources, Inc.: Approval of Contract Extension. General counsel Kathleen Lamb reported that Risk Management Resources, Inc. has worked as a risk consultant for the DMCC for more than two years, managing several insurance agreements between the DMCC and the City of Rochester and the EDA.

Resolution B: Authorizing an Extension to the Risk Management Resources, Inc. Professional Services Agreement. Commissioner Bier moved approval of the resolution. Mr. Rybak seconded.

Ayes (3), Nays (0), Motion carried.

- VII. CliftonLarsonAllen: Approval of Contract Extension. CliftonLarsonAllen was selected as the DMCC and EDA auditor following the issuance of a request for proposal in 2015. DMCC and EDA staff have recommended the negotiation of a two-year contract extension, subject to final approval by the chair or treasurer.

Resolution C: Authorizing an Extension to the CliftonLarsonAllen Professional Services Agreement. Chair Smith moved approval. Mr. Rybak seconded.

Ayes (3), Nays (0), Motion carried.

- VIII. Other. Chair Smith announced the tentative date of Tuesday, April 18, for a transportation work session in Rochester, organized to examine the details of the integrated transit studies and findings.

The next regular meeting of the DMCC is Thursday, April 27, at 9:30 AM

- IX. Adjournment. Commissioner Bier moved to adjourn the meeting. Chair Smith seconded.

Ayes (3), Nays (0), Motion carried.

Destination Medical Center Corporation

Audit Results for Year Ended December 31, 2016



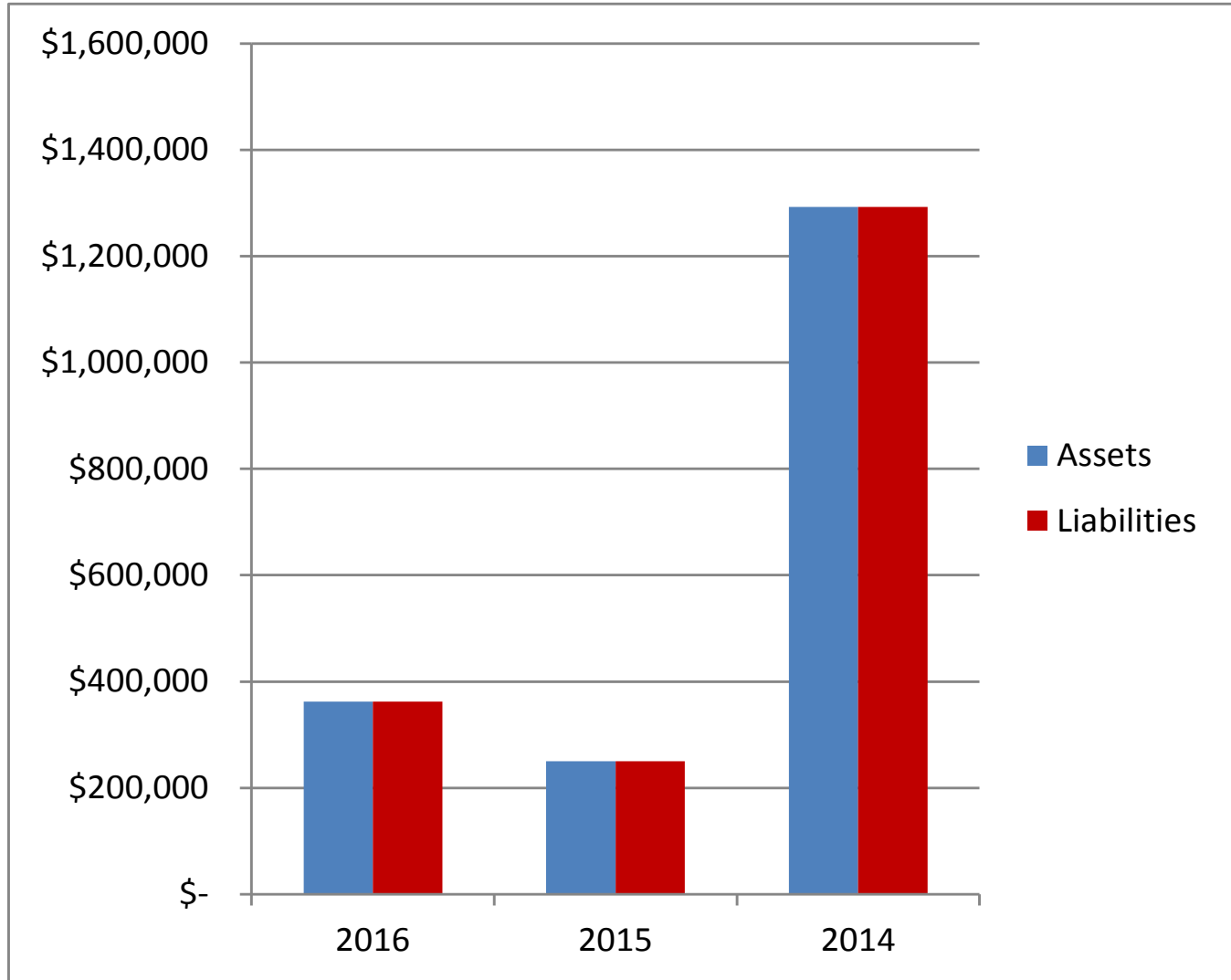
Agenda

- Financial Statements
- Audit Results
- Required Communications

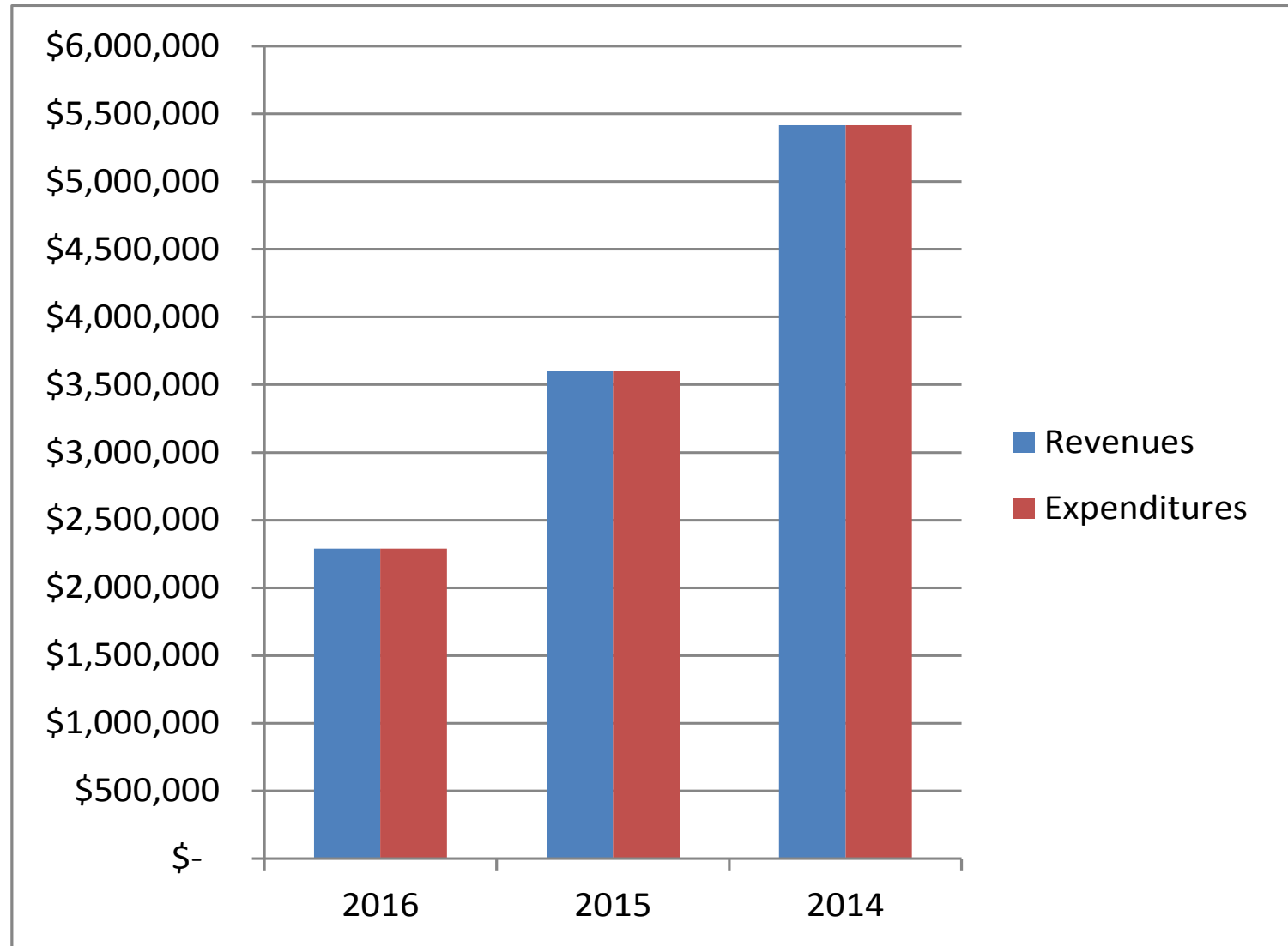
Financial Statements

- Prepared based on Governmental Accounting Standards Board pronouncements
- Single program entity—present expenditures by type (natural classification)
- Component unit
 - DMCC is a component unit of (included in) City of Rochester’s financial statements
 - DMCEDA is *not* a component unit of DMCC
 - Will evaluate component unit reporting annually

Financial Statements : Assets & Liabilities



Financial Statements : Revenues & Expenditures



Audit Results

- Financial statements
- Internal controls – no findings
- Minnesota legal compliance – no findings

Required Communications

- Audit provides reasonable, but not *absolute* assurance
- Accounting policies – described in Note 1 to the financial statements
- Audit adjustments – none
- No disagreement or difficulties with management

Items to Complete

- Federal and state tax returns – due date extensions have been filed

Thank you for allowing us to serve you!

Contact Information:

Craig Popenhagen, Principal

507-434-7041

Craig.popenhagen@claconnect.com

**DESTINATION MEDICAL CENTER CORPORATION
(A COMPONENT UNIT OF THE CITY OF
ROCHESTER, MINNESOTA)**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

**DESTINATION MEDICAL CENTER CORPORATION
ROCHESTER, MINNESOTA
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2016**

INTRODUCTORY SECTION

BOARD OF DIRECTORS

SECTION I – FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET	3
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE	4
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	5
NOTES TO FINANCIAL STATEMENTS	6

SECTION II – COMPLIANCE LETTERS

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 <i>GOVERNMENT AUDITING STANDARDS</i>	12
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	14

**DESTINATION MEDICAL CENTER CORPORATION
ROCHESTER, MINNESOTA
BOARD OF DIRECTORS
AS OF DECEMBER 31, 2016**

BOARD OF DIRECTORS

Tina Flint Smith	Chair
R.T. Rybak	Vice Chair
Jim Bier	Treasurer
Ardell F. Brede	Director
James Campbell	Director
Michael Dougherty	Director
Mark Hickey	Director
Susan Park Rani	Director

SECTION I – FINANCIAL SECTION

(This page intentionally left blank)

INDEPENDENT AUDITORS' REPORT

Board of Directors
Destination Medical Center Corporation
Rochester, Minnesota

We have audited the accompanying financial statements of the governmental activities and the general fund of the Destination Medical Center Corporation (Corporation), a component unit of the City of Rochester, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. We conducted our audit 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 Corporation'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 Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Destination Medical Center Corporation as of December 31, 2016, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2017, on our consideration of the Destination Medical Center Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of the 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 results of that testing, and not to provide an opinion on the 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 Destination Medical Center Corporation's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
May 12, 2017

**DESTINATION MEDICAL CENTER CORPORATION
 ROCHESTER, MINNESOTA
 STATEMENT OF NET POSITION AND
 GOVERNMENTAL FUND BALANCE SHEET
 DECEMBER 31, 2016**

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash and Cash Equivalents	\$ 905	\$ -	\$ 905
Advances to DMC EDA	50,000	-	50,000
Due from Other Governments	298,507	-	298,507
Prepays	12,998	-	12,998
Total Assets	\$ 362,410	-	362,410
LIABILITIES			
Accounts Payable	298,412	-	298,412
Due to Other Governments	51,000	-	51,000
Unearned Revenue	12,998	-	12,998
Total Liabilities	362,410	-	362,410
FUND BALANCE/NET POSITION			
Fund Balance:			
Unassigned	-	-	-
Total Fund Balance	-	-	-
Total Liabilities and Fund Balance	\$ 362,410		
Net Position:			
Unrestricted		-	-
Total Net Position		\$ -	\$ -

See accompanying Notes to Financial Statements.

**DESTINATION MEDICAL CENTER CORPORATION
ROCHESTER, MINNESOTA
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2016**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES			
Economic Development:			
Building Rent	\$ 18,907	\$ -	\$ 18,907
Legal Consultants	217,195	-	217,195
Other Professional Services	21,333	-	21,333
Travel and Training	573	-	573
Insurance	15,303	-	15,303
Program Costs	2,015,029	-	2,015,029
Total Expenditures/Expenses	<u>2,288,340</u>	<u>-</u>	<u>2,288,340</u>
PROGRAM REVENUES			
Intergovernmental:			
Local Government	2,288,339	-	2,288,339
Total Program Revenues	<u>2,288,339</u>	<u>-</u>	<u>2,288,339</u>
Net Program Revenues	(1)	-	(1)
GENERAL REVENUES			
Investment Earnings	1	-	1
Total General Revenues	<u>1</u>	<u>-</u>	<u>1</u>
Change in Fund Balance	-	-	-
Change in Net Position	-	-	-
FUND BALANCE/NET POSITION			
Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

**DESTINATION MEDICAL CENTER CORPORATION
ROCHESTER, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental:				
Local Government	\$ 3,985,812	\$ 3,985,812	\$ 2,288,339	\$ (1,697,473)
Investment Earnings	-	-	1	1
Total Revenues	<u>3,985,812</u>	<u>3,985,812</u>	<u>2,288,340</u>	<u>(1,697,472)</u>
EXPENDITURES				
Current:				
Building Rent	25,000	25,000	18,907	(6,093)
Legal Consultants	400,000	400,000	217,195	(182,805)
Other Professional Services	542,812	542,812	21,333	(521,479)
Travel and Training	10,000	10,000	573	(9,427)
Insurance	20,000	20,000	15,303	(4,697)
Program Costs	2,988,000	2,988,000	2,015,029	(972,971)
Total Expenditures	<u>3,985,812</u>	<u>3,985,812</u>	<u>2,288,340</u>	<u>(1,697,472)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE				
Beginning of Year			<u>-</u>	
End of Year			<u>\$ -</u>	

See accompanying Notes to Financial Statements.

(This page intentionally left blank)

**DESTINATION MEDICAL CENTER CORPORATION
ROCHESTER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Destination Medical Center Corporation (the Corporation) is a component unit of the City of Rochester, Minnesota, and was incorporated on July 23, 2013. The Corporation was established by the City of Rochester, Minnesota pursuant to Minnesota Statutes Section 469.41 as a Minnesota nonprofit corporation. The Corporation was established to benefit the City, and more broadly, Olmsted County and the state of Minnesota by researching, preparing and implementing a master development plan, including facilitating public infrastructure projects and a variety of development and redevelopment projects, all to promote and provide for the establishment of the City, the County, and the State as a world destination medical center.

The Corporation is governed by a board of directors consisting of eight directors. The composition of the board of directors include the Mayor of the City of Rochester or the Mayor's designee, the City of Rochester Council President or the President's designee, the Chair or another member of the County Board of Olmsted County, a representative of Mayo Clinic, and four directors appointed by the Governor of Minnesota.

Basis of Presentation

The financial statements of the Destination Medical Center Corporation have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America. (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as generally accepted accounting principles in the United States of America for state and local governments.

Financial Reporting Entity

The Corporation was established to oversee the planning and implementation of the Destination Medical Center initiative. The Corporation works with the City of Rochester, Minnesota and the Destination Medical Center Economic Development Agency to prepare and adopt a development plan.

Component units are legally separate entities for which the Corporation (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the Corporation.

**DESTINATION MEDICAL CENTER CORPORATION
ROCHESTER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statement Presentation

The General Fund of the Destination Medical Center Corporation meets the definition of a Special-Purpose government and is involved in only one program, as specified in Minnesota Statutes, Sections 469.40 - 469.47. Accordingly, the Corporation is allowed to combine its government-wide statements with the fund statements. At December 31, 2016, and for the year then ended, there were no reconciling items between the two types of statements.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all financial activities of the Corporation.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles.
2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

**DESTINATION MEDICAL CENTER CORPORATION
ROCHESTER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting

The Corporation adopts an annual budget, which is adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP). Reported budget amounts represent the original adopted budget as amended by the board. For 2016, the amount budgeted for the purpose of paying the expenses of the Corporation was \$3,985,812. Actual expenditures of the Corporation were \$2,288,340 resulting in a favorable variance of \$1,697,472.

Assets, Liabilities, and Fund Balance/Net Position

Cash and Cash Equivalents

Cash and cash equivalents consist of deposits in a checking account and a repurchase agreement account for any available deposits at the end of the business day.

Advances

Advances consist of monies advanced to the Destination Medical Center Economic Development Agency to fund operational expenses.

Due from Other Governments

Due from other governments consists of program costs receivable from the City of Rochester, Minnesota.

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

Unearned Revenues

Unearned revenue is prepaid insurance and unspent dollars that were advanced to the Destination Medical Center Economic Development Agency.

Fund Balance

In the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned or unassigned. The Corporation currently only reports unassigned fund balance. Restricted fund balances are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balance represents constraints on spending that the Corporation imposes upon itself by high-level formal action prior to the close of the fiscal period. The board of directors authorizes all assigned fund balances and their intended uses. Unassigned fund balances are considered remaining amounts.

**DESTINATION MEDICAL CENTER CORPORATION
ROCHESTER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Expenditures

Fund Balance (Continued)

When an expenditure is incurred for which both restricted and unrestricted fund balance is available, it is the Corporation's policy to use restricted fund balance first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned cash fund balance is available, it is the Corporation's policy to use committed first, then assigned and finally unassigned cash fund balance.

Revenues

Intergovernmental revenues are reported under the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are incurred. The intergovernmental revenues are entirely provided by the City of Rochester, Minnesota.

Investment income is recognized when earned, since it is measurable and available.

Expenditures

Expenditure recognition in the General Fund includes only amounts represented by current liabilities. Noncurrent liabilities are not recognized as governmental fund type expenditures or fund liabilities.

Net Position

Net position represents the difference between assets and liabilities in the Government-wide financial statements. Net position is reported as restricted in the Government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with Minnesota Statutes, the Corporation maintains deposits at depository banks as authorized by the Corporation's board of directors.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned in full. The Corporation's deposit policy for custodial credit risk follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

**DESTINATION MEDICAL CENTER CORPORATION
ROCHESTER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

The Corporation's deposits in banks at December 31, 2016 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

B. Investments

The Corporation may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rated "A" or better
- BANKER'S acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The Corporation's investments consisted of a repurchase agreement with Wells Fargo Bank, N.A. having a balance of \$905 at December 31, 2016. The securities sold to the Corporation include US Agency Bonds with an AAA rating. The repurchase agreement bears interest at .01% and matures overnight. As such, the repurchase agreement is presented as a cash equivalent in the financial statements.

Interest Rate Risk – This is the risk that arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Corporation's investment policy limits investments to a maturity of one year, or lesser period that coincides with expected disbursements by the Corporation. Operating reserves may be invested in securities with a maximum maturity of up to three years.

**DESTINATION MEDICAL CENTER CORPORATION
ROCHESTER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Custodial Credit Risk – Investments – For an investment, this is the risk that, in the event of a failure by the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Corporation state statutes which require that investment balances be fully collateralized. As of December 31, 2016, the securities underlying the repurchase agreement are held by the counterparty in the Corporation's name.

At December 31, 2016, the Corporation had the following deposits and investments:

Deposits	\$	-
Repurchase Agreement - Wells Fargo Bank, N.A.		905
Total Cash and Investments	\$	<u>905</u>

NOTE 3 RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts, theft of assets, or errors and omissions. The Corporation purchases commercial insurance coverage for such risks.

NOTE 4 RELATED ORGANIZATION

The Destination Medical Center Economic Development Agency (DMC EDA), a related Minnesota nonprofit corporation, was established by the Mayo Clinic pursuant to Minnesota Statutes Section 469.43. The Corporation does not have a voting majority of the board of directors of DMC EDA, which is considered a stand-alone entity apart from the Corporation and thus, excluded from the Corporation's financial statements. Separate financial statements are issued for the DMC EDA.

NOTE 5 CONTINGENT LIABILITIES AND COMMITMENTS

The Corporation receives financial assistance from state and local governmental agencies. The disbursement of funds received under these programs generally require compliance with the terms and conditions specified in the agreements and are subject to audit by the funding agencies, regulators and other oversight agencies. Any disallowed claims resulting from such audits could become a liability of the Corporation. Management is not aware of any disallowed claims at this time.

SECTION II - COMPLIANCE LETTERS

(This page intentionally left blank)

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
Destination Medical Center Corporation
Rochester, 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 governmental activities and the general fund of the Destination Medical Center Corporation, a component unit of the City of Rochester, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Destination Medical Center Corporation's basic financial statements, and have issued our report thereon dated May 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Destination Medical Center Corporation'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 the Destination Medical Center Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Destination Medical Center Corporation's internal control.

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 Destination Medical Center Corporation'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Destination Medical Center Corporation'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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Destination Medical Center Corporation'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 Destination Medical Center Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
May 12, 2017

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

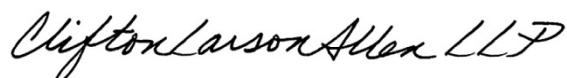
Board of Directors
Destination Medical Center Corporation
Rochester, Minnesota

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 governmental activities and the general fund of the Destination Medical Center Corporation, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Destination Medical Center Corporation's basic financial statements, and have issued our report thereon dated May 12, 2017.

The Minnesota Legal Compliance Audit Guide for Other Political Subdivisions, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. 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 Destination Medical Center Corporation failed to comply with the provisions of the Minnesota Legal Compliance Audit Guide for Other 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 Destination Medical Center Corporation'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 Other 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

Austin, Minnesota
May 12, 2017

Board of Directors
Destination Medical Center Corporation
Rochester, Minnesota

We have audited the financial statements of the governmental activities and the general fund of the Destination Medical Center Corporation (the Corporation) for the year ended December 31, 2016, and have issued our report thereon dated May 12, 2017. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in Note 1 to the financial statements.

We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

There were no accounting estimates affecting the financial statements which were particularly sensitive or required substantial judgments by management.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated May 12, 2017.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

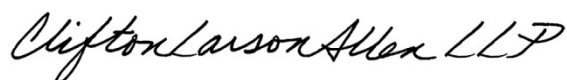
Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other information in documents containing audited financial statements

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

This communication is intended solely for the use of the board of directors and the management of the Corporation and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Austin, Minnesota
May 12, 2017