

**WINDOM AREA HEALTH**  
Windom, Minnesota

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED APRIL 30, 2021 AND 2020**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Windom Area Health and Affiliate  
Windom, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Windom Area Health, 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, 2021 and 2020, 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 Health and its discretely presented component unit as of April 30, 2021 and 2020, 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, the schedule of the Hospital's contributions and other postemployment benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2021, on our consideration of Windom Area Health'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 Health's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
July 26, 2021

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**APRIL 30, 2021**

## **Introduction**

The Windom Area Health (Hospital) offers readers of our financial statements this narrative overview and analysis of the financial activities of Windom Area Health for the fiscal years ended April 30, 2021 and 2020. 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 Health'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 Health. Total Foundation net position was \$392,291 at year-end.

## **Required Financial Statements**

The Hospital's financial statements report information of Windom Area Health 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 \$7,400,656 to \$41,044,687 in fiscal year (FY) 2021 and increased by \$133,177 to \$33,644,031 in FY 2020. Capital assets decreased by \$1,258,554 in FY 2021 and decreased by \$765,569 in FY 2020. Total liabilities and deferred inflows of resources increased by \$4,401,582 in FY 2021 and decreased by \$847,026 in FY 2020. The total margin was 12.4%, 4.0% and 4.0% for the years ended April 30, 2021, 2020 and 2019, respectively.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
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**APRIL 30, 2021**

**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, 2021, 2020, and 2019 is presented below:

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

	April 30,		
	2021	2020	2019
Current Assets	\$ 20,742	\$ 12,169	\$ 11,416
Noncurrent Cash and Investments	5,604	5,522	4,895
Capital Assets	13,864	15,123	15,888
Deferred Outflows of Resources	835	830	1,312
Total Assets and Deferred Outflows of Resources	<u>\$ 41,045</u>	<u>\$ 33,644</u>	<u>\$ 33,511</u>
Current Liabilities	\$ 7,192	\$ 2,328	\$ 2,668
Long-Term Debt	3,999	4,233	4,463
Other Noncurrent Liabilities	6,417	5,865	5,706
Deferred Inflows of Resources	330	1,050	1,486
Total Liabilities and Deferred Inflows of Resources	<u>17,938</u>	<u>13,476</u>	<u>14,323</u>
Net Position	<u>23,107</u>	<u>20,168</u>	<u>19,188</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 41,045</u>	<u>\$ 33,644</u>	<u>\$ 33,511</u>

As can be seen by Table 1, net position increased by approximately \$2,939,000 to \$23.11 million in fiscal year 2021. In fiscal year 2020, net position increased by approximately \$980,000 to \$20.17 million. The change in net position results primarily from operating results, and the income impact of Government Accounting Standards Board (GASB) Statements 68 and 75.

**WINDOM AREA HEALTH**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**APRIL 30, 2021**

**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, 2021, 2020, and 2019.

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

	Year Ended April 30,		
	2021	2020	2019
Operating Revenues	\$ 21,904	\$ 20,136	\$ 19,925
Operating Expenses	20,256	19,967	19,303
Operating Income	1,648	169	622
Nonoperating Income	1,217	665	183
Excess of Revenues over Expenses	2,865	834	805
Capital Grants, Contributions, Other	74	146	53
Changes in Net Position	2,939	980	858
Total Net Position, Beginning of Year (as Previously Stated)	20,168	19,188	18,454
Prior Period Adjustment	-	-	(124)
Total Net Position, Beginning of Year (as Restated)	20,168	19,188	18,330
Total Net Position, End of Year	<u>\$ 23,107</u>	<u>\$ 20,168</u>	<u>\$ 19,188</u>

**Operating and Financial Performance**

**Volume:** Inpatient admissions (excluding newborns) for fiscal year 2021 were 302 compared to 331 in fiscal year 2020 and 352 in fiscal year 2019. This is a decrease of 29 or approximately 9% between 2021 and 2020 a decrease of 21 or 6% between 2020 and 2019. Patient days (excluding newborns) for fiscal year 2021 were 834 compared to 961 in fiscal year 2020 and 944 in fiscal year 2019. This is a decrease of 127 or approximately 13% from 2020 and an increase of 17 or 2% between 2020 and 2019. The length of stay increased from 2.7 days in 2019 to 2.9 days in 2020 and decreased to 2.7 days in 2021. Emergency department visits decreased to 3,332 in fiscal year 2021 from 3,735 in fiscal year 2020. This is a decrease of 403 visits or 11%. They increased from 3,710 in 2019, which is an increase of 25 visits or 1% between 2019 and 2020. All other outpatient visits for 2021 were 25,490 compared to 22,290 in 2020 and 20,624 in 2019. This is an increase of 3,200 visits from 2020 to 2021 and an increase of 1,666 visits from 2019 to 2020. Total surgeries increased to 850 in fiscal year 2021 from 808 in fiscal year 2020. This is a decrease of 42 surgeries or 5%. In fiscal year 2020, surgeries decreased from 911 which is a decrease of 103 surgeries or 11% compared to fiscal year 2019.

**Net Patient Service Revenue:** As a result of increased outpatient volume during the year, net patient service revenue increased \$1,666,809 or approximately 8.4% compared to fiscal year 2020. Revenue deductions, the amount of patient service revenue uncollectible due to contractual agreements, government reimbursement policies, and bad debts increased to \$18,605,411 from \$15,237,654, an approximate 22.1% increase.

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**Other Operating Revenue:** Other operating revenue increased \$100,808 and \$33,240 in fiscal years 2021 and 2020, respectively, from the previous year. The increase is the result of non-patient lab activities, including Coronavirus testing and direct lab testing.

**Nursing Services:** Nursing service expenses increased \$444,278 and \$61,198 in fiscal years 2021 and 2020, respectively, from the previous year. The increase in 2021 is related to Coronavirus pandemic activities. The increase 2020 is mostly due to converting to a FTE staffing model in nursing departments.

**Other Professional Services:** Other professional services increased \$146,575 and decreased \$335,155 in fiscal years 2021 and 2020, respectively, from the previous year. The changes are mostly due to an overall increase in outpatient activities. Most notably, radiology and laboratory.

**General Services:** General services increased \$24,282 and decreased \$4,307 in fiscal years 2021 and 2020, respectively, when compared to the previous year. The increase in 2021 is due to the Coronavirus pandemic activities reflected in the emergency preparedness department.

**Administrative and Fiscal Services:** Expenses in this category decreased by \$281,311 and increased \$848,147 in fiscal years 2021 and 2020, respectively, when compared to the previous year.

**Depreciation:** Depreciation decreased \$44,634 and increased \$100,116 in fiscal years 2021 and 2020, respectively, when compared to the previous year.

**Nonoperating Revenue and Expenses:** The total in this category increased \$552,114 and increased \$482,611 in fiscal years 2021 and 2020, respectively, when compared to the previous year. The increase is the result of receiving Federal and State funds related to the Coronavirus pandemic.

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

For the years ended 2021, 2020, and 2019, the Hospital had a total of \$73,673, \$146,210, and \$53,209, respectively, in capital grants and contributions.

#### **Capital Assets**

At the end of fiscal years 2021, 2020, and 2019, the Hospital had invested \$13,863,926, \$15,122,480, and \$15,888,049, respectively, in net capital assets. The \$1,258,554 decrease in capital assets in fiscal year 2021 is primarily due to depreciation of the Hospital's fixed assets with limited current year asset additions.

#### **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. During fiscal year 2021, the Hospital issued a note through the SBA Paycheck Protection Program. As of year-end the Hospital had a total of \$6,168,147 of short- and long-term debt, net of unamortized issue discount.

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**APRIL 30, 2021**

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

The Windom Area Health's board of directors and management considered many factors when setting the fiscal year 2021 budget. Of primary importance in setting the 2022 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
- Coronavirus Pandemic
- 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 Health's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Windom Area Health's accountability. If you have questions about the report or need additional financial information, please contact Administration at Windom Area Health, 2150 Hospital Drive, PO Box 339, Windom, Minnesota 56101.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF NET POSITION**  
**APRIL 30, 2021**

	<u>Primary Enterprise (Hospital)</u>	<u>Component Unit (Foundation)</u>	<u>Total Reporting Entity (Memo Only)</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 14,116,886	\$ 266,181	\$ 14,383,067
Short-Term Investments	2,850,505	-	2,850,505
Patient Accounts Receivable, Net	3,271,587	-	3,271,587
Accrued Interest Receivable	18,386	-	18,386
Other Receivables	186,285	-	186,285
Supplies	235,779	-	235,779
Prepaid Expenses	<u>62,285</u>	<u>-</u>	<u>62,285</u>
Total Current Assets	20,741,713	266,181	21,007,894
<b>NONCURRENT CASH AND INVESTMENTS</b>			
Board Designated for Capital Improvements	5,200,614	-	5,200,614
Debt Service Reserve Funds Held by Trustee	403,024	-	403,024
Restricted by Donor	<u>-</u>	<u>126,110</u>	<u>126,110</u>
Total Noncurrent Cash and Investments	5,603,638	126,110	5,729,748
<b>CAPITAL ASSETS</b>			
Capital Assets	30,329,036	-	30,329,036
Less: Accumulated Depreciation	<u>(16,465,110)</u>	<u>-</u>	<u>(16,465,110)</u>
Net Capital Assets	13,863,926	-	13,863,926
 Total Assets	 40,209,277	 392,291	 40,601,568
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related Deferred Outflows	832,236	-	832,236
Postemployment Related Deferred Outflows	<u>3,174</u>	<u>-</u>	<u>3,174</u>
Total Deferred Outflows of Resources	<u>835,410</u>	<u>-</u>	<u>835,410</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 41,044,687</u>	 <u>\$ 392,291</u>	 <u>\$ 41,436,978</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**APRIL 30, 2021**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Current Maturities of Long-Term Debt	\$ 2,169,500	\$ -	\$ 2,169,500
Accounts Payable:			
Trade	537,760	-	537,760
Accrued Expenses	1,012,397	-	1,012,397
Estimated Third-Party Payor Settlements	983,814	-	983,814
Unearned Revenue	2,488,784	-	2,488,784
Total Current Liabilities	7,192,255	-	7,192,255
<b>LONG-TERM DEBT, Net of Current Maturities</b>	3,998,647	-	3,998,647
<b>NONCURRENT LIABILITIES</b>			
Net Pension Liability	6,283,238	-	6,283,238
Net Other Postemployment Benefit Liability	133,669	-	133,669
Total Noncurrent Liabilities	6,416,907	-	6,416,907
 Total Liabilities	 17,607,809	 -	 17,607,809
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Related Deferred Inflows	269,593	-	269,593
Postemployment Related Deferred Inflows	60,116	-	60,116
Total Deferred Inflows of Resources	329,709	-	329,709
<b>NET POSITION</b>			
Net Investment in Capital Assets	9,625,279	-	9,625,279
Restricted:			
Expendable for Specific Donor Restrictions	58,133	126,110	184,243
Expendable for Debt Service	403,024	-	403,024
Unrestricted	13,020,733	266,181	13,286,914
Total Net Position	23,107,169	392,291	23,499,460
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 \$ 41,044,687	 \$ 392,291	 \$ 41,436,978

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF NET POSITION**  
**APRIL 30, 2020**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 6,780,202	\$ 269,284	\$ 7,049,486
Short-Term Investments	3,069,241	-	3,069,241
Patient Accounts Receivable, Net	1,832,513	-	1,832,513
Accrued Interest Receivable	55,358	-	55,358
Other Receivables	139,025	-	139,025
Supplies	234,605	-	234,605
Prepaid Expenses	58,137	-	58,137
Total Current Assets	12,169,081	269,284	12,438,365
<b>NONCURRENT CASH AND INVESTMENTS</b>			
Board Designated for Capital Improvements	5,123,856	-	5,123,856
Debt Service Reserve Funds Held by Trustee	398,331	-	398,331
Restricted by Donor	-	134,319	134,319
Total Noncurrent Cash and Investments	5,522,187	134,319	5,656,506
<b>CAPITAL ASSETS</b>			
Capital Assets	30,159,620	-	30,159,620
Less: Accumulated Depreciation	(15,037,140)	-	(15,037,140)
Net Capital Assets	15,122,480	-	15,122,480
Total Assets	32,813,748	403,603	33,217,351
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related Deferred Outflows	830,283	-	830,283
Total Assets and Deferred Outflows of Resources	\$ 33,644,031	\$ 403,603	\$ 34,047,634

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**APRIL 30, 2020**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>Primary Enterprise (Hospital)</u>	<u>Component Unit (Foundation)</u>	<u>Total Reporting Entity (Memo Only)</u>
<b>CURRENT LIABILITIES</b>			
Current Maturities of Long-Term Debt	\$ 230,000	\$ -	\$ 230,000
Accounts Payable:			
Trade	378,551	-	378,551
Accrued Expenses	1,046,731	-	1,046,731
Estimated Third-Party Payor Settlements	<u>672,537</u>	<u>-</u>	<u>672,537</u>
Total Current Liabilities	2,327,819	-	2,327,819
<b>LONG-TERM DEBT, Net of Current Maturities</b>	4,233,327	-	4,233,327
<b>NONCURRENT LIABILITIES</b>			
Net Pension Liability	5,689,110	-	5,689,110
Net Other Postemployment Benefit Liability	<u>175,979</u>	<u>-</u>	<u>175,979</u>
Total Noncurrent Liabilities	<u>5,865,089</u>	<u>-</u>	<u>5,865,089</u>
 Total Liabilities	 12,426,235	 -	 12,426,235
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Related Deferred Inflows	1,049,585	-	1,049,585
<b>NET POSITION</b>			
Net Investment in Capital Assets	10,659,153	-	10,659,153
Restricted:			
Expendable for Specific Donor Restrictions	-	134,319	134,319
Expendable for Debt Service	398,331	-	398,331
Unrestricted	<u>9,110,727</u>	<u>269,284</u>	<u>9,380,011</u>
Total Net Position	<u>20,168,211</u>	<u>403,603</u>	<u>20,571,814</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 33,644,031</u>	 <u>\$ 403,603</u>	 <u>\$ 34,047,634</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEAR ENDED APRIL 30, 2021**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>REVENUE</b>			
Net Patient Service Revenue	\$ 21,542,134	\$ -	\$ 21,542,134
Other Revenue, Net	361,574	25,292	386,866
Total Revenue	<u>21,903,708</u>	<u>25,292</u>	<u>21,929,000</u>
<b>EXPENSES</b>			
Nursing Services	6,024,088	-	6,024,088
Other Professional Services	6,000,314	-	6,000,314
General Services	1,425,690	-	1,425,690
Administrative and Fiscal Services	5,206,816	25	5,206,841
Interest	170,884	-	170,884
Depreciation	1,427,969	-	1,427,969
Total Expenses	<u>20,255,761</u>	<u>25</u>	<u>20,255,786</u>
<b>INCOME FROM OPERATIONS</b>	1,647,947	25,267	1,673,214
<b>NONOPERATING REVENUE AND EXPENSES</b>			
Interest Income	120,780	-	120,780
Noncapital Grants and Contributions	1,096,558	32,080	1,128,638
Total Nonoperating Revenue and Expenses	<u>1,217,338</u>	<u>32,080</u>	<u>1,249,418</u>
<b>EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	2,865,285	57,347	2,922,632
Capital Grants and Contributions	73,673	-	73,673
Expenses Paid on Behalf of Related Party	(60,659)	-	(60,659)
Related Party Transfers	60,659	(68,659)	(8,000)
<b>INCREASE IN NET POSITION</b>	2,938,958	(11,312)	2,927,646
<b>NET POSITION</b>			
Beginning of Year	<u>20,168,211</u>	<u>403,603</u>	<u>20,571,814</u>
End of Year	<u>\$ 23,107,169</u>	<u>\$ 392,291</u>	<u>\$ 23,499,460</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEAR ENDED APRIL 30, 2020**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>REVENUE</b>			
Net Patient Service Revenue	\$ 19,875,325	\$ -	\$ 19,875,325
Other Revenue	260,766	30,742	291,508
Total Revenue	<u>20,136,091</u>	<u>30,742</u>	<u>20,166,833</u>
<b>EXPENSES</b>			
Nursing Services	5,579,810	-	5,579,810
Other Professional Services	5,853,739	-	5,853,739
General Services	1,401,408	-	1,401,408
Administrative and Fiscal Services	5,488,127	25	5,488,152
Interest	171,635	-	171,635
Depreciation	1,472,603	-	1,472,603
Total Expenses	<u>19,967,322</u>	<u>25</u>	<u>19,967,347</u>
<b>INCOME FROM OPERATIONS</b>	168,769	30,717	199,486
<b>NONOPERATING REVENUE AND EXPENSES</b>			
Interest Income	196,484	-	196,484
Noncapital Grants and Contributions	468,740	26,442	495,182
Total Nonoperating Revenue and Expenses	<u>665,224</u>	<u>26,442</u>	<u>691,666</u>
<b>EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	833,993	57,159	891,152
Capital Grants and Contributions	146,210	-	146,210
Expenses Paid on Behalf of Related Party	(40,087)	-	(40,087)
Related Party Transfers	40,087	(47,087)	(7,000)
<b>INCREASE IN NET POSITION</b>	980,203	10,072	990,275
<b>NET POSITION</b>			
Beginning of Year	<u>19,188,008</u>	<u>393,531</u>	<u>19,581,539</u>
End of Year	<u>\$ 20,168,211</u>	<u>\$ 403,603</u>	<u>\$ 20,571,814</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED APRIL 30, 2021**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from and on Behalf of Patients	\$ 20,404,049	\$ -	\$ 20,404,049
Payments to Suppliers and Contractors	(11,006,531)	(25)	(11,006,556)
Payments to Employees	(7,874,893)	-	(7,874,893)
Other Receipts and Payments, Net	2,850,358	25,292	2,875,650
Net Cash Provided by Operating Activities	<u>4,372,983</u>	<u>25,267</u>	<u>4,398,250</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Noncapital Grants and Contributions	1,096,558	32,080	1,128,638
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Expenditures	(169,415)	-	(169,415)
Proceeds from Issuance of Long-Term Debt	1,929,500	-	1,929,500
Principal Payments on Long-Term Debt	(224,680)	-	(224,680)
Capital Grants and Contributions	73,673	-	73,673
Net Cash Provided by Capital and Related Financing Activities	<u>1,609,078</u>	<u>-</u>	<u>1,609,078</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of Investments	(8,051,119)	(32,080)	(8,083,199)
Sale of Investments	8,188,404	40,289	8,228,693
Expenses Paid on Behalf of Related Party	(60,659)	-	(60,659)
Transfer from (to) Related Party	60,659	(68,659)	(8,000)
Interest Income	120,780	-	120,780
Net Cash Provided (Used) by Investing Activities	<u>258,065</u>	<u>(60,450)</u>	<u>197,615</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	7,336,684	(3,103)	7,333,581
Cash and Cash Equivalents - Beginning	<u>6,780,202</u>	<u>269,284</u>	<u>7,049,486</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 14,116,886</u>	<u>\$ 266,181</u>	<u>\$ 14,383,067</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**YEAR ENDED APRIL 30, 2021**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Income from Operations	\$ 1,647,947	\$ 25,267	\$ 1,673,214
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:			
Depreciation Expense	1,427,969	-	1,427,969
Provision for Bad Debts	528,152	-	528,152
(Increase) Decrease in:			
Patient Accounts Receivable	(1,967,226)	-	(1,967,226)
Deferred Outflows of Resources	(5,127)	-	(5,127)
Accrued Interest Receivable	36,972	-	36,972
Other Receivables	(47,260)	-	(47,260)
Supplies and Prepaid Expenses	(5,322)	-	(5,322)
Increase (Decrease) in:			
Accounts Payable	159,209	-	159,209
Net Pension Liability	551,818	-	551,818
Deferred Inflows of Resources	(719,876)	-	(719,876)
Due to Third-Party Payors	311,277	-	311,277
Accrued Expenses	(34,334)	-	(34,334)
Unearned Revenue	2,488,784	-	2,488,784
Net Cash Provided by Operating Activities	\$ 4,372,983	\$ 25,267	\$ 4,398,250

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED APRIL 30, 2020**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from and on Behalf of Patients	\$ 21,233,482	\$ -	\$ 21,233,482
Payments to Suppliers and Contractors	(11,614,016)	(25)	(11,614,041)
Payments to Employees	(7,334,026)	-	(7,334,026)
Other Receipts and Payments, Net	260,766	30,742	291,508
Net Cash Provided by Operating Activities	<u>2,546,206</u>	<u>30,717</u>	<u>2,576,923</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Noncapital Grants and Contributions	468,740	26,442	495,182
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Expenditures	(707,034)	-	(707,034)
Principal Payments on Long-Term Debt	(225,000)	-	(225,000)
Capital Grants and Contributions	146,210	-	146,210
Net Cash Used by Capital and Related Financing Activities	<u>(785,824)</u>	<u>-</u>	<u>(785,824)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of Investments	(8,341,729)	(26,442)	(8,368,171)
Sale of Investments	7,631,965	27,847	7,659,812
Expenses Paid on Behalf of Related Party	(40,087)	-	(40,087)
Transfer from (to) Related Party	40,087	(47,087)	(7,000)
Interest Income	196,484	-	196,484
Net Cash Used by Investing Activities	<u>(513,280)</u>	<u>(45,682)</u>	<u>(558,962)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,715,842	11,477	1,727,319
Cash and Cash Equivalents - Beginning	<u>5,064,360</u>	<u>257,807</u>	<u>5,322,167</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 6,780,202</u>	<u>\$ 269,284</u>	<u>\$ 7,049,486</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**YEAR ENDED APRIL 30, 2020**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Income from Operations	\$ 168,769	\$ 30,717	\$ 668,226
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:			
Depreciation Expense	1,472,603	-	1,472,603
Provision for Bad Debts	422,280	-	422,280
(Increase) Decrease in:			
Patient Accounts Receivable	615,975	-	615,975
Deferred Outflows of Resources	481,896	-	481,896
Accrued Interest Receivable	35,361	-	35,361
Other Receivables	(3,816)	-	(3,816)
Supplies and Prepaid Expenses	(24,836)	-	(24,836)
Increase (Decrease) in:			
Accounts Payable	(540,724)	-	(540,724)
Net Pension Liability	159,894	-	159,894
Deferred Inflows of Resources	(436,651)	-	(436,651)
Due to Third-Party Payors	288,357	-	288,357
Accrued Expenses	(92,902)	-	(92,902)
Net Cash Provided by Operating Activities	\$ 2,546,206	\$ 30,717	\$ 3,045,663

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Organization**

Windom Area Health (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 Health Foundation, Inc. (the Foundation) is a 501(c)(3) organization whose sole purpose is to support the Windom Area Health. The Foundation conducts fundraising campaigns on behalf of the Windom Area Health. 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 HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2021 AND 2020**

**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, 2021 and 2020, the allowance for uncollectible accounts was approximately \$441,000 and \$379,000, 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 and postemployment benefit 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 to 20 Years
Buildings	10 to 40 Years
Fixed Equipment	5 to 20 Years
Moveable Equipment	3 to 20 Years

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2021 AND 2020**

**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 \$81,000 and \$152,000 for the years ended April 30, 2021 and 2020, 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. Operating revenues also include grants or contributions to replace lost revenues and added expense associated with providing health care services. 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.

**Postemployment Benefits**

Under the terms of collectively bargained employment contracts, the Hospital is required to pay the health insurance premiums for certain retired employees until they reach age 62. The amount is limited as specified by contract. All premiums are funded on a pay-as-you-go basis. The estimated liability is based on an actuary report at April 30, 2021 (Note 8).

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2021 AND 2020**

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

**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 and postemployment benefit related deferred inflows.

**Unearned Revenue**

Due to the Coronavirus pandemic, the U.S. Department of Health and Human Services (HHS) made available emergency relief grant funds to health care providers through the CARES Act Provider Relief Fund (PRF). Additionally, the Minnesota Department of Health (MDH) made available multiple preparedness response grants. Total grant funds approved and received by the Hospital was \$3,585,342 during the year ended April 30, 2021. The grant funds are subject to certain restrictions on eligible expenses or uses, reporting requirements, and will be subject to audit. At April 30, 2021, the Hospital recognized \$1,096,558 as nonoperating revenue in the statement of revenues, expenses and changes in net position, and \$2,488,784 as unearned revenue in the statement of net position. Management believes the amounts have been recorded appropriately as of April 30, 2021.

Specific to the Hospital, COVID-19 may impact various parts of its 2022 operations and financial results including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of health care personnel, or loss of revenue due to reductions in certain revenue streams. Management believes the Hospital is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of April 30, 2021.

**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.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2021 AND 2020**

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

**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.

**Reclassifications**

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

**Subsequent Events**

In preparing these financial statements, the Hospital has considered events and transactions that have occurred through July 26, 2021, the date in which the financial statements were available to be issued.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2021 AND 2020**

**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 51% and 49% for the years ended 2021 and 2020, and revenue from the Medicaid programs accounted for approximately 8% and 9% for the years ended 2021 and 2020, 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 2021 net patient service revenue increased approximately \$83,000 and the 2020 net patient service revenue increased approximately \$296,000 due to removal of allowance previously estimated that are no longer considered necessary as a result of changes in estimates and years that are no longer subject to audits, reviews, and investigations.

Other

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

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

	<u>2021</u>	<u>2020</u>
Gross Patient Service Revenue	\$ 40,147,545	\$ 35,112,979
Adjustments and Discounts:		
Medicare	(11,575,824)	(8,272,353)
Medicaid	(3,037,971)	(3,256,018)
Other	(3,463,464)	(3,287,003)
Provision for Bad Debt	(528,152)	(422,280)
Total Adjustments and Discounts	<u>(18,605,411)</u>	<u>(15,237,654)</u>
Net Patient Service Revenue	<u>\$ 21,542,134</u>	<u>\$ 19,875,325</u>

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2021 AND 2020**

**NOTE 3 ACCOUNTS RECEIVABLE**

Patient accounts receivable reported as current assets by Windom Area Health at April 30, 2021 and 2020 consist of these amounts:

	2021	2020
Receivable from Patients and Their Insurance Carriers	\$ 1,844,918	\$ 1,702,428
Receivable from Medicare	1,471,671	381,239
Receivable from Medicaid	395,998	127,846
Total Patient Accounts Receivable	<u>3,712,587</u>	<u>2,211,513</u>
Less: Allowance for Uncollectible Amounts	(441,000)	(379,000)
Net Patient Accounts Receivable	<u>\$ 3,271,587</u>	<u>\$ 1,832,513</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, 2021, the Hospital's deposits in banks were covered by FDIC or FSLIC insurance protected by bond or collateral held by the Hospital's custodial bank in the Hospital's name.

**Investments**

Effective as of August 1, 2017, publicly owned hospitals are able to invest funds in a security recommended by an investment advisor, bank, or trust company, provided the funds are invested according to the hospital's written investment policies and procedures.

At April 30, 2021 and 2020, the carrying amounts of deposits and investments are included in the Hospital's statements of net position as follows:

	2021	2020
Carrying Amount:		
Deposits	<u>\$ 22,571,029</u>	<u>\$ 15,371,630</u>
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 14,116,886	\$ 6,780,202
Short-Term Investments	2,850,505	3,069,241
Board Designated for Capital Improvements	5,200,614	5,123,856
Debt Service Reserve Funds Held by Trustee	403,024	398,331
Total	<u>\$ 22,571,029</u>	<u>\$ 15,371,630</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 HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2021 AND 2020**

**NOTE 5 CAPITAL ASSETS**

Capital assets (in thousands) for the years ended April 30, 2021 and 2020 consist of the following:

	Balance April 30, 2020	Additions and Transfers	Retirements	Balance April 30, 2021
Land	\$ 271	\$ -	\$ -	\$ 271
Land Improvements	3,145	-	-	3,145
Buildings	13,164	-	-	13,164
Fixed Equipment	8,165	2	-	8,167
Moveable Equipment	5,414	157	-	5,571
Construction in Progress	-	11	-	11
Total at Historical Cost	<u>30,159</u>	<u>170</u>	<u>-</u>	<u>30,329</u>
Less Accumulated Depreciation for:				
Land Improvements	(882)	(164)	-	(1,046)
Buildings	(6,993)	(492)	-	(7,485)
Fixed Equipment	(3,143)	(391)	-	(3,534)
Moveable Equipment	(4,019)	(381)	-	(4,400)
Total Accumulated Depreciation	<u>(15,037)</u>	<u>(1,428)</u>	<u>-</u>	<u>(16,465)</u>
Capital Assets, Net	<u>\$ 15,122</u>	<u>\$ (1,258)</u>	<u>\$ -</u>	<u>\$ 13,864</u>
	Balance April 30, 2019	Additions and Transfers	Retirements	Balance April 30, 2020
Land	\$ 271	\$ -	\$ -	\$ 271
Land Improvements	2,997	148	-	3,145
Buildings	12,623	541	-	13,164
Fixed Equipment	7,622	543	-	8,165
Moveable Equipment	4,990	424	-	5,414
Construction in Progress	950	(950)	-	-
Total at Historical Cost	<u>29,453</u>	<u>706</u>	<u>-</u>	<u>30,159</u>
Less Accumulated Depreciation for:				
Land Improvements	(722)	(160)	-	(882)
Buildings	(6,440)	(553)	-	(6,993)
Fixed Equipment	(2,763)	(380)	-	(3,143)
Moveable Equipment	(3,640)	(379)	-	(4,019)
Total Accumulated Depreciation	<u>(13,565)</u>	<u>(1,472)</u>	<u>-</u>	<u>(15,037)</u>
Capital Assets, Net	<u>\$ 15,888</u>	<u>\$ (766)</u>	<u>\$ -</u>	<u>\$ 15,122</u>

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2021 AND 2020**

**NOTE 6 LONG-TERM DEBT**

Long-term debt consists of the following for the years ended April 30, 2021 and 2020:

	Balance April 30, 2020	Additions	Reductions	Balance April 30, 2021
Gross Revenue Hospital Bonds, Series 2014A	\$ 4,505,000	\$ -	\$ (230,000)	\$ 4,275,000
PPP Loan (direct borrowing)	-	1,929,500		1,929,500
Bond Discount	(41,673)	-	5,320	(36,353)
Total Long-Term Debt	<u>\$ 4,463,327</u>	<u>\$ 1,929,500</u>	<u>\$ (224,680)</u>	6,168,147
Less: Current Maturities				<u>(2,169,500)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 3,998,647</u>
	Balance April 30, 2019	Additions	Reductions	Balance April 30, 2020
Gross Revenue Hospital Bonds, Series 2014A	\$ 4,730,000	\$ -	\$ (225,000)	\$ 4,505,000
Bond Discount	(41,673)	-	-	(41,673)
Total Long-Term Debt	<u>\$ 4,688,327</u>	<u>\$ -</u>	<u>\$ (225,000)</u>	4,463,327
Less: Current Maturities				<u>(230,000)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 4,233,327</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.
- On May 4, 2020, the Hospital received a loan through the Small Business Administration (SBA) Paycheck Protection Program (PPP) for \$1,929,500. The loan accrues interest at 1% with principal and interest payments due monthly starting September 2021 for a period of eight months at which time the loan is due in full. There are provisions under the PPP loan program where all or a portion of the loan may be forgiven based on certain requirements being met. The entire amount is included in the current maturities of long-term debt in the statement of net position. As of April 30, 2021, the loan had not been forgiven.

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

Under the Series 2014A bonds, the Hospital must meet certain operational and performance covenants and is limited in the amount of additional debt that can be incurred. Management believes the Hospital was in compliance with all debt covenants as of April 30, 2021.

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

<u>Year Ending April 30,</u>	<u>Long-Term Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 2,169,500	\$ 159,933	\$ 2,329,433
2023	245,000	152,474	397,474
2024	255,000	144,280	399,280
2025	265,000	135,308	400,308
2026	270,000	125,810	395,810
2027-2031	1,530,000	462,578	1,992,578
2032-2036	1,470,000	125,122	1,595,122
Total	<u>\$ 6,204,500</u>	<u>\$ 1,305,505</u>	<u>\$ 7,510,005</u>

**NOTE 7 DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The Hospital participates in the following cost-sharing multiple-employer 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.

All full-time and certain part-time employees of the Hospital are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**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. 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.

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989.

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**NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Benefits Provided (Continued)**

Under Method 1, the accrual rate for coordinated members is 1.20% for each of the first 10 years of service and 1.70% for each additional year. Under Method 2, the accrual rate for coordinated members is 1.70% for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65.

For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**Contributions**

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

Coordinated plan members were required to contribute 6.5% of their annual covered salary in fiscal years 2020 and 2021 and the Hospital was required to contribute 7.5% of pay for coordinated plan members. The Hospital's contributions to the General Employment Plan for the plan's fiscal years ended April 30, 2021, 2020, and 2019 were \$576,285, \$553,863, and \$569,906, respectively. The Hospital's contributions were equal to the required contributions for each year as set by state statute.

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**NOTE 7    DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Pension Costs**

At April 30, 2021 and 2020, the Hospital reported a liability of \$6,283,238 and \$5,689,110, respectively, for its proportionate share of the General Employees Fund's net pension liability. The Hospital's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2020 and 2019. 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 \$193,696. The net pension liability was measured as of June 30, 2020 and 2019, 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, 2019 through June 30, 2020 and July 1, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the Hospital's proportion share was .1048%, which was an increase of .0019% from its proportion measured as of June 30, 2019. There were no benefit provision changes during the measurement period.

For the years ended April 30, 2021 and 2020, the Hospital recognized pension expense of \$388,468 and \$745,876, respectively. These amounts consisted of the Hospital's proportionate share of the General Employees Plan's pension expense, plus additional amortized net expenses associated with differences between estimated and actual experience of various actuarial assumptions associated with the plan. In addition, the Hospital recognized an additional \$16,857 during the year ended April 30, 2021, as pension expense (and other revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million the General Employees Fund.

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**NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

At April 30, 2021 and 2020, the Hospital reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 57,288	\$ 23,772
Changes of Assumptions	-	232,942
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	108,546	-
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	174,790	12,879
Hospital Contributions Subsequent to the Measurement Date	491,612	-
	\$ 832,236	\$ 269,593
	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 157,667	\$ -
Changes of Assumptions	-	447,169
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	576,658
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	212,900	25,758
Hospital Contributions Subsequent to the Measurement Date	459,716	-
	\$ 830,283	\$ 1,049,585

**WINDOM AREA HEALTH**  
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**NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

The \$491,612 and \$459,716 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 years ended April 30, 2021 and 2020, respectively. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending April 30,</u>	<u>2020</u>	<u>2019</u>
2020	\$ -	\$ (187,484)
2021	(296,888)	(428,817)
2022	66,393	(71,889)
2023	149,720	9,172
2024	151,806	-
Total	<u>\$ 71,031</u>	<u>\$ (679,018)</u>

**Actuarial Assumptions**

The total pension liability in the June 30, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and 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 for all plans 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 after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan.

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**NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

Actuarial assumptions used in the June 30, 2020 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 2019. The assumption changes were adopted by the board and become effect with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions occurred in 2020:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

The following changes in plan provisions occurred in 2020:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023, and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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**NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

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	36 %	5.10 %
International Stocks	17 %	5.30 %
Bonds	20 %	0.75 %
Alternative Investments	25 %	5.90 %
Cash	2 %	-
Total	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability in 2020 and 2019 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.

**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:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
April 30, 2020			
Hospital's Proportionate Share of the Net Pension Liability	\$ 10,069,853	\$ 6,283,238	\$ 3,159,587
April 30, 2019			
Hospital's Proportionate Share of the Net Pension Liability	\$ 9,352,591	\$ 5,689,110	\$ 2,664,179

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**NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Pension Plan Fiduciary Net Position**

Detailed information about each defined benefit 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](http://www.mnpera.org).

**NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**Plan Description and Funding Policy**

The Hospital administers a single-employer defined benefit health care plan. The plan provides health care insurance for eligible retirees and their spouses through the Hospital's group health insurance plan, which covers both active and retired members. The health care plan does not issue a publicly available financial report. The Hospital does not contribute to the cost of premiums for eligible retired plan members and their spouses. Because the actual cost for retirees is higher than the average per person premium for the entire group, the difference gives rise to an implicit rate subsidy. The Hospital pays the difference between the actual and apparent cost.

As of April 30, 2019, the Hospital implemented the requirements of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement replaced the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments to report a liability on the face of the financial statements for the OPEB they provide and outlines the reporting requirements by governments for defined benefit OPEB plans administered through a trust, cost sharing OPEB plans administered through a trust and OPEB not provided through a trust.

Qualified employees may choose to participate in the Hospital's insurance plan after retirement, with no contribution from the Hospital. The Hospital provides these benefits to retirees as required by Minnesota Statute 471.61 subdivision 2b. As of April 30, 2021 and 2020, there were no retirees receiving benefits from the Hospital's health plan.

**Net OPEB Liability (Asset)**

The components of the net OPEB liability (asset) of the Hospital at April 30, 2021 and 2020 are as follows:

	2021	2020
Total OPEB Liability	\$ 133,669	\$ 175,979
Plan Fiduciary Net Position	-	-
Medical Center's Net OPEB Liability (Asset)	<u>\$ 133,669</u>	<u>\$ 175,979</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	0%	0%



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**NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**Net OPEB Liability (Asset) (Continued)**

The following presents the net OPEB liability (asset) of the Hospital, as well as what the Hospital's net OPEB liability (asset) would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current health care discount rate:

	1% Decrease (1.84%)	Discount Rate (2.84%)	1% Increase (3.84%)
April 30, 2021			
<u>Net OPEB Liability (Asset)</u>	<u>\$ 145,827</u>	<u>\$ 133,669</u>	<u>\$ 122,279</u>
April 30, 2020			
<u>Net OPEB Liability (Asset)</u>	<u>\$ 189,003</u>	<u>\$ 175,979</u>	<u>\$ 163,463</u>

The following presents the net OPEB liability (asset) of the Hospital, as well as what the Hospital's net OPEB liability (asset) would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current trend rate:

	1% Decrease (5.7%)	Trend Rate (6.7%)	1% Increase (7.7%)
April 30, 2021			
<u>Net OPEB Liability (Asset)</u>	<u>\$ 115,404</u>	<u>\$ 133,669</u>	<u>\$ 155,868</u>
April 30, 2020			
<u>Net OPEB Liability (Asset)</u>	<u>\$ 151,981</u>	<u>\$ 175,979</u>	<u>\$ 205,309</u>

For the years ended April 30, 2021 and 2020, the Hospital recognized OPEB expenses of \$(42,310) and \$29,469, respectively.

**Actuarial Methods and Assumptions**

Based on the implementation of GASB 75, the actuarial cost method changed from using one of six different actuarial cost methods to the Entry Age Normal cost method on a level percentage of projected salary.

The total OPEB liability was determined by an actuarial valuation as of April 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	2.84%
20-Year Municipal Bond Yield	2.84%
Inflation Rate	2.25%
Health Care Trend Rates	6.7%
	Decreasing over several decades to 3.8% in FY2076

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**NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**Actuarial Methods and Assumptions (Continued)**

Mortality rates were based on assumptions for General Employees used in the July 1, 2020 PERA of Minnesota Retirement Plan actuarial valuations. Discount rate is used to reflect the time value of money. Discount rates are used in determining the present value as of the valuation date of future cash flows currently expected to be required to satisfy the postretirement benefit obligation.

Experience gains and losses are amortized over a closed period starting on May 1, 2020, equal to the average remaining service of active and inactive plan members.

**Funded Status and Funding Progress**

As of April 30, 2020, the most recent valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$133,669 and \$1475,979 at April 30, 2021 and 2020, and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$133,669 and \$175,979, respectively. The covered payroll was \$7,840,559 and \$7,521,193 and the ratio of the UAAL to the covered payroll was 1.7% and 2.34% at April 30, 2021 and 2020, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**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.

**WINDOM AREA HEALTH**  
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**APRIL 30, 2021 AND 2020**

**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 health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity had increased with respect to investigations and allegations concerning possible violations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues for patient services. Management believes the Hospital is in substantial compliance with current laws and regulations.

**Operating Leases**

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

<u>Year Ending April 30,</u>	<u>Amount</u>
2022	\$ 293,580
2023	293,580
2024	146,790
Total Minimum Lease Payments	<u>\$ 733,950</u>

Total rent expense associated with the operating leases for the years ended April 30, 2021 and 2020 was approximately \$584,000 and \$496,000, 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.

**WINDOM AREA HEALTH**  
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**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 \$310,758 and \$323,084 for the years ended April 30, 2021 and 2020, respectively.

The Hospital also purchases certain services, supplies and other items through Sanford's network. Amount due to Sanford was \$110,000 and \$114,000 at April 30, 2021 and 2020, respectively.

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 HEALTH**  
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**SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)**  
**APRIL 30, 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Hospital's Proportion of the Net Pension Liability	0.1048%	0.1029%	0.1002%	0.1010%	0.0953%
Hospital's Proportionate Share of the Net Pension Liability	\$ 6,283,238	\$ 5,689,110	\$ 5,558,685	\$ 6,447,773	\$ 7,737,887
Hospital's Covered Payroll	\$ 7,840,559	\$ 7,521,193	\$ 7,331,990	\$ 6,825,836	\$ 6,325,817
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	80.14%	75.64%	75.81%	94.46%	122.32%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.06%	80.23%	79.50%	75.90%	68.90%
	<u>2016</u>	<u>2015</u>			
Hospital's Proportion of the Net Pension Liability	0.1098%	0.1011%			
Hospital's Proportionate Share of the Net Pension Liability	\$ 5,239,526	\$ 5,157,853			
Hospital's Covered Payroll	\$ 6,015,138	\$ 6,000,044			
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	87.11%	85.96%			
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%	78.70%			

Note: GASB 68 requires 10 years of information to be presented in this table. However, until a full 10 years is compiled, the Hospital will present information for those years for which information is available.

**WINDOM AREA HEALTH**  
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**SCHEDULE OF THE HOSPITAL'S CONTRIBUTIONS (UNAUDITED)**  
**APRIL 30, 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily Required Contribution	\$ 576,285	\$ 553,863	\$ 569,906	\$ 487,568	\$ 431,594
Contributions in Relation to the Statutorily Required Contribution	<u>576,285</u>	<u>553,863</u>	<u>569,906</u>	<u>487,568</u>	<u>431,594</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
Hospital Covered Payroll	\$ 7,840,559	\$ 7,521,193	\$ 7,331,990	\$ 6,825,836	\$ 6,015,138
Contributions as a Percentage of Covered Payroll	7.35%	7.36%	7.77%	7.14%	7.18%
	<u>2016</u>	<u>2015</u>	<u>2014</u>		
Statutorily Required Contribution	\$ 431,594	\$ 422,799	\$ 404,469		
Contributions in Relation to the Statutorily Required Contribution	<u>431,594</u>	<u>422,799</u>	<u>404,469</u>		
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Hospital Covered Payroll	\$ 6,015,138	\$ 6,000,044	\$ 5,782,659		
Contributions as a Percentage of Covered Payroll	7.18%	7.05%	6.99%		

Note: GASB 68 requires 10 years of information to be presented in this table. However, until a full 10 years is compiled, the Hospital will present information for those years for which information is available.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**OTHER POSTEMPLOYMENT BENEFITS (UNAUDITED)**  
**APRIL 30, 2021 AND 2020**

	2021	2020
<b>Total OPEB Liability</b>		
Service Cost	\$ 20,796	\$ 18,761
Interest	6,592	6,132
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	(47,998)	-
Changes of Assumptions	(21,700)	4,576
Benefit Payments	-	-
<b>Net Change in Total OPEB Liability</b>	<u>(42,310)</u>	<u>29,469</u>
<b>Total OPEB Liability - Beginning</b>	175,979	146,510
<b>Total OPEB Liability - Ending (a)</b>	<u><u>\$ 133,669</u></u>	<u><u>\$ 175,979</u></u>
 <b>Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ -	\$ -
Net Investment Income	-	-
Benefit Payments	-	-
Administrative Expense	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	<u>-</u>	<u>-</u>
<b>Plan Fiduciary Net Position - Beginning</b>	-	-
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
 <b>Medical Center's Net OPEB Liability - Ending (a) - (b)</b>	 \$ 133,669	 \$ 175,979
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	 0.00%	 0.00%
 Covered-Employee Payroll	 \$ 7,840,559	 \$ 7,521,193
 Medical Center's Net OPEB Liability as a Percentage of Covered-Employee Payroll	 1.70%	 2.34%

Note: The Hospital implemented GASB Statement No. 75 in fiscal year 2019, and the above table will be expanded to 10 years of information as the information becomes available.



## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors  
Windom Area Health  
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 Health and its discretely presented component unit (the Hospital) as of and for the year ended April 30, 2021 and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated July 26, 2021.

In connection with our audit, nothing came to our attention that caused us to believe that Windom Area Health failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Hospital's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

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

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
July 26, 2021



**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 Health  
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 Health and its discretely presented component unit, as of and for the year ended April 30, 2021, and the related notes to the financial statements, which collectively comprise Windom Area Health's basic financial statements, and have issued our report thereon dated July 26, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Windom Area Health'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 Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Windom Area Health'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 deficiency described in the accompanying schedule of findings listed as items 2021-001 be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Windom Area Health’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 Health’s Response to Findings**

Windom Area Health’s response to the findings identified in our audit are described in the accompanying schedule of findings. Windom Area Health’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 Health’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
July 26, 2021

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED APRIL 30, 2021**

**FINANCIAL STATEMENT FINDINGS**

**2021 – 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.

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