

**WINDOM AREA HEALTH**  
**Windom, Minnesota**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED APRIL 30, 2019 AND 2018**

**WINDOM AREA HEALTH  
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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, 2019 and 2018, 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, 2019 and 2018, 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**

*Emphasis of Matter*

During fiscal year ended April 30, 2019, the Hospital adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of this standard, the Hospital reported a prior period adjustment for the change in accounting principle (see Note 12). Our opinion is not modified with respect to that matter.

*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 August 22, 2019, 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  
August 22, 2019

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**APRIL 30, 2019**

**Introduction**

The Windom Area Health (Hospital) offers readers of our financial statements this narrative overview and analysis of the financial activities of Windom Area Hospital for the fiscal years ended April 30, 2019 and 2018. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Windom Area Hospital's audited financial statements. The financial statements are composed of the statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's finances.

The financial statements include the Hospital and Foundation finances. The mission of the Windom Area Hospital Foundation is to provide charitable support for medical and educational programs of Windom Area Health. Total Foundation net position was \$393,531 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 \$190,134 to \$33,510,854 in FY 2019 and increased by \$62,880 to \$33,320,720 in FY 2018. Capital assets increased by \$520,137 in FY 2019 and increased by \$151,510 in FY 2018. Total liabilities and deferred inflows of resources decreased by \$544,130 in FY 2019 and decreased by \$567,176 in FY 2018. The total margin was 4.0%, 2.1% and 2.2% for the years ended April 30, 2019, 2018 and 2017, respectively.

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**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, 2019, 2018, and 2017 is presented below:

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

	April 30,		
	2019	2018	2017
Current Assets	\$ 11,416	\$ 11,166	\$ 10,303
Noncurrent Cash and Investments	4,895	4,837	4,804
Capital Assets	15,888	15,368	15,217
Deferred Outflows of Resources	1,312	1,950	2,934
Total Assets and Deferred Outflows of Resources	<u>\$ 33,511</u>	<u>\$ 33,321</u>	<u>\$ 33,258</u>
Current Liabilities	\$ 2,668	\$ 2,105	\$ 1,682
Long-Term Debt	4,463	4,686	4,903
Other Noncurrent Liabilities	5,705	6,448	7,738
Deferred Inflows of Resources	1,486	1,628	1,111
Total Liabilities and Deferred Inflows of Resources	14,323	14,867	15,434
Net Position	<u>19,188</u>	<u>18,454</u>	<u>17,824</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 33,511</u>	<u>\$ 33,321</u>	<u>\$ 33,258</u>

As can be seen by Table 1, net position increased by approximately \$734,000 to \$19.19 million in fiscal year 2019. In fiscal year 2018, net position increased by approximately \$630,000 to \$18.45 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.

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**APRIL 30, 2019**

**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, 2019, 2018, and 2017.

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

	Year Ended April 30,		
	2019	2018	2017
Operating Revenues	\$ 19,925	\$ 18,204	\$ 18,019
Operating Expenses	19,302	17,910	17,656
Operating Income	623	294	363
Nonoperating Income	183	96	30
Excess of Revenues over Expenses	805	390	393
Capital Grants, Contributions, Other	53	240	139
Changes in Net Position	859	630	532
Total Net Position, Beginning of Year (as Previously Stated)	18,454	17,824	17,292
Prior Period Adjustment	(124)	-	-
Total Net Position, Beginning of Year (as Restated)	18,330	17,824	17,292
Total Net Position, End of Year	<u>\$ 19,188</u>	<u>\$ 18,454</u>	<u>\$ 17,824</u>

**Operating and Financial Performance**

**Volume:** Inpatient admissions (excluding newborns) for fiscal year 2019 were 352 compared to 354 in fiscal year 2018 and 289 in fiscal year 2017. This is a decrease of 2 or approximately 1% between 2019 and 2018 and an increase of 65 or 22% between 2018 and 2017. Patient days (excluding newborns) for fiscal year 2019 were 944 compared to 939 in fiscal year 2018 and 845 in fiscal year 2017. This is an increase of 5 or 1% from 2018 and an increase of 94 or 11% between 2018 and 2017. The length of stay decreased from 3.0 days in 2017 to 2.7 days in 2018 and remained consistent at 2.7 days in 2019. Emergency department visits decreased to 3,710 in fiscal year 2019 from 3,840 in fiscal year 2018. This is a decrease of 130 visits or 3%. They increased from 3,698 in 2017, which is an increase of 142 visits or 4% between 2017 and 2018. All other outpatient visits for 2019 were 20,624 compared to 18,832 in 2018 and 18,272 in 2017. This is an increase of 1,792 visits from 2018 to 2019 and an increase of 560 visits from 2017 to 2018. Total surgeries increased to 911 in fiscal year 2019 from 850 in fiscal year 2018. This is an increase of 61 surgeries or 7%. In fiscal year 2018, surgeries decreased from 983 which is a decrease of 133 surgeries or 14% compared to fiscal year 2017.

**Net Patient Service Revenue:** As a result of increased outpatient volume during the year, net patient service revenue increased \$1,693,129 or approximately 9.4% compared to fiscal year 2018. Revenue deductions, the amount of patient service revenue uncollectible due to contractual agreements, government reimbursement policies, and bad debts increased to \$14,939,212 from \$12,964,300, an approximately 15% increase.

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**Other Operating Revenue:** Other operating revenue increased \$27,341 and decreased \$11,607 in fiscal years 2019 and 2018, respectively, from the previous year.

**Nursing Services:** Nursing service expenses increased \$218,061 and \$378,066 in fiscal years 2019 and 2018, respectively, from the previous year. The increase in 2019 and 2018 is mostly due to converting to a FTE staffing model in nursing departments.

**Other Professional Services:** Other professional services increased \$1,305,287 and \$114,106 in fiscal years 2019 and 2018, respectively, from the previous year. The increases are mostly due to wound care.

**General Services:** General services increased \$70,420 and \$10,248 in fiscal years 2019 and 2018, respectively, when compared to the previous year. The increase in 2019 is due to increased maintenance and repair expenses.

**Administrative and Fiscal Services:** Expenses in this category decreased by \$217,859 and increased \$276 in fiscal years 2019 and 2018, respectively, when compared to the previous year.

**Depreciation:** Depreciation increased \$38,769 and decreased \$68,047 in fiscal years 2019 and 2018, respectively, when compared to the previous year.

**Nonoperating Revenue and Expenses:** The total in this category increased \$87,029 and increased \$65,681 in fiscal years 2019 and 2018, respectively, when compared to the previous year. This increase is mostly related to increase in interest income.

**Capital Grants and Contributions**

For the years ended 2019, 2018, and 2017, the Hospital had a total of \$53,209, \$240,318, and \$139,112, respectively, in capital grants and contributions.

**Capital Assets**

At the end of fiscal years 2019, 2018, and 2017, the Hospital had invested \$15,888,049, \$15,367,912, and \$15,216,402, respectively, in net capital assets. The \$520,137 increase in capital assets in fiscal year 2019 is primarily due to the physical therapy and conference room remodel projects.

**Long-Term Debt**

During fiscal year 2015, the Hospital issued long-term debt for the purpose of funding a portion of the surgery and outreach construction project. As of year-end the Hospital had a total of \$4,688,327 of short- and long-term debt, net of unamortized issue discount.

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

The Windom Area Health's board of directors and management considered many factors when setting the fiscal year 2019 budget. Of primary importance in setting the 2020 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare and Medicaid reimbursement rates continued decline
- Recovery Audit Contractors
- Government pressure to computerize health records
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies
- Increasing drug costs and drug shortages
- Aging equipment and building
- Healthcare reform and changes in other commercial contracts

**Contacting the Hospital's Finance Department**

Windom Area 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, 2019**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 5,064,360	\$ 257,807	\$ 5,322,167
Short-Term Investments	2,987,084	-	2,987,084
Patient Accounts Receivable, Net	2,870,768	-	2,870,768
Accrued Interest Receivable	90,719	-	90,719
Other Receivables	135,209	-	135,209
Supplies	226,042	-	226,042
Prepaid Expenses	41,864	-	41,864
Total Current Assets	11,416,046	257,807	11,673,853
<b>NONCURRENT CASH AND INVESTMENTS</b>			
Board Designated for Capital Improvements	4,496,249	-	4,496,249
Debt Service Reserve Funds Held by Trustee Restricted by Donor	398,331	-	398,331
	-	135,724	135,724
Total Noncurrent Cash and Investments	4,894,580	135,724	5,030,304
<b>CAPITAL ASSETS</b>			
Capital Assets	29,452,585	-	29,452,585
Less: Accumulated Depreciation	(13,564,536)	-	(13,564,536)
Net Capital Assets	15,888,049	-	15,888,049
Total Assets	32,198,675	393,531	32,592,206
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related Deferred Outflows	1,312,179	-	1,312,179
Total Assets and Deferred Outflows of Resources	\$ 33,510,854	\$ 393,531	\$ 33,904,385

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**APRIL 30, 2019**

	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	\$ 225,000	\$ -	\$ 225,000
Accounts Payable:			
Trade	919,275	-	919,275
Accrued Expenses	1,139,633	-	1,139,633
Estimated Third-Party Payor Settlements	384,180	-	384,180
Total Current Liabilities	2,668,088	-	2,668,088
<b>LONG-TERM DEBT, Net of Current Maturities</b>	4,463,327	-	4,463,327
<b>NONCURRENT LIABILITIES</b>			
Net Pension Liability	5,558,685	-	5,558,685
Net Other Postemployment Benefit Liability	146,510	-	146,510
Total Noncurrent Liabilities	5,705,195	-	5,705,195
Total Liabilities	12,836,610	-	12,836,610
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Related Deferred Inflows	1,486,236	-	1,486,236
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>NET POSITION</b>			
Net Investment in Capital Assets	11,199,722	-	11,199,722
Restricted:			
Expendable for Specific Donor Restrictions	-	135,724	135,724
Expendable for Debt Service	398,331	-	398,331
Unrestricted	7,589,955	257,807	7,847,762
Total Net Position	19,188,008	393,531	19,581,539
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 33,510,854	\$ 393,531	\$ 33,904,385

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF NET POSITION**  
**APRIL 30, 2018**

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

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**APRIL 30, 2018**

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

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**YEAR ENDED APRIL 30, 2019**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
<b>REVENUE</b>			
Net Patient Service Revenue	\$ 19,686,558	\$ -	\$ 19,686,558
Other Revenue, Net	238,127	20,141	258,268
Total Revenue	<u>19,924,685</u>	<u>20,141</u>	<u>19,944,826</u>
<b>EXPENSES</b>			
Nursing Services	5,518,612	-	5,518,612
Other Professional Services	6,185,894	-	6,185,894
General Services	1,405,715	-	1,405,715
Administrative and Fiscal Services	4,639,980	25	4,640,005
Interest	179,275	-	179,275
Depreciation	1,372,487	-	1,372,487
Total Expenses	<u>19,301,963</u>	<u>25</u>	<u>19,301,988</u>
<b>INCOME FROM OPERATIONS</b>	622,722	20,116	642,838
<b>NONOPERATING REVENUE AND EXPENSES</b>			
Interest Income	166,681	-	166,681
Noncapital Grants and Contributions	-	36,286	36,286
Gain on Disposal of Assets	15,932	-	15,932
Total Nonoperating Revenue and Expenses	<u>182,613</u>	<u>36,286</u>	<u>218,899</u>
<b>EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	805,335	56,402	861,737
Capital Grants and Contributions	53,209	-	53,209
Expenses Paid on Behalf of Related Party	(26,583)	-	(26,583)
Related Party Transfers	26,583	(32,583)	(6,000)
<b>INCREASE IN NET POSITION</b>	858,544	23,819	882,363
<b>NET POSITION</b>			
Beginning of Year - Beginning of Year (as Previously Stated)	<u>18,453,744</u>	<u>369,712</u>	<u>18,823,456</u>
Prior Period Adjustment (See Note 12)	<u>(124,280)</u>	<u>-</u>	<u>(124,280)</u>
Net Position - Beginning of Year (as Restated)	<u>18,329,464</u>	<u>369,712</u>	<u>18,699,176</u>
End of Year	<u>\$ 19,188,008</u>	<u>\$ 393,531</u>	<u>\$ 19,581,539</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION (CONTINUED)**  
**YEAR ENDED APRIL 30, 2018**

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

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED APRIL 30, 2019**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from and on Behalf of Patients	\$ 19,316,494	\$ -	\$ 19,316,494
Payments to Suppliers and Contractors	(11,141,296)	(25)	(11,141,321)
Payments to Employees	(6,832,830)	-	(6,832,830)
Other Receipts and Payments, Net	238,127	20,141	258,268
Net Cash Provided by Operating Activities	<u>1,580,495</u>	<u>20,116</u>	<u>1,600,611</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Noncapital Grants and Contributions	-	36,286	36,286
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Expenditures	(1,697,417)	-	(1,697,417)
Principal Payments on Long-Term Debt	(220,000)	-	(220,000)
Interest Paid on Long-Term Debt	(176,615)	-	(176,615)
Capital Grants and Contributions	53,209	-	53,209
Net Cash Used by Capital and Related Financing Activities	<u>(2,040,823)</u>	<u>-</u>	<u>(2,040,823)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of Investments	(7,235,334)	(36,286)	(7,271,620)
Sale of Investments	7,131,692	28,071	7,159,763
Expenses Paid on Behalf of Related Party	(26,583)	-	(26,583)
Transfer from (to) Related Party	26,583	(32,583)	(6,000)
Interest Income	166,681	-	166,681
Net Cash Provided (Used) by Investing Activities	<u>63,039</u>	<u>(40,798)</u>	<u>22,241</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(397,289)	15,604	(381,685)
Cash and Cash Equivalents - Beginning	<u>5,461,649</u>	<u>242,203</u>	<u>5,703,852</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 5,064,360</u>	<u>\$ 257,807</u>	<u>\$ 5,322,167</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**YEAR ENDED APRIL 30, 2019**

	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	\$ 622,722	\$ 20,116	\$ 642,838
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:			
Depreciation Expense	1,372,487	-	1,372,487
Provision for Bad Debts	365,727	-	365,727
(Increase) Decrease in:			
Patient Accounts Receivable	(813,760)	-	(813,760)
Deferred Outflows of Resources	637,734	-	637,734
Accrued Interest Receivable	(41,877)	-	(41,877)
Other Receivables	(64,552)	-	(64,552)
Supplies and Prepaid Expenses	(46,916)	-	(46,916)
Increase (Decrease) in:			
Accounts Payable	226,650	-	226,650
Net Pension Liability	(866,858)	-	(866,858)
Deferred Inflows of Resources	(141,745)	-	(141,745)
Due to Third-Party Payors	184,398	-	184,398
Accrued Expenses	146,485	-	146,485
Net Cash Provided by Operating Activities	\$ 1,580,495	\$ 20,116	\$ 1,600,611

See accompanying Notes to Financial Statements.

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

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

See accompanying Notes to Financial Statements.

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

	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	\$ 294,154	\$ 49,027	\$ 343,181
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:			
Depreciation Expense	1,333,718	-	1,333,718
Provision for Bad Debts	58,570	-	58,570
(Increase) Decrease in:			
Patient Accounts Receivable	(327,551)	-	(327,551)
Deferred Outflows of Resources	984,488	-	984,488
Accrued Interest Receivable	(28,095)	-	(28,095)
Other Receivables	23,828	-	23,828
Supplies and Prepaid Expenses	(1,874)	-	(1,874)
Increase (Decrease) in:			
Accounts Payable	163,757	-	163,757
Net Pension Liability	(1,290,114)	-	(1,290,114)
Deferred Inflows of Resources	516,387	-	516,387
Due to Third-Party Payors	510,572	-	510,572
Accrued Expenses	60,352	-	60,352
Net Cash Provided by Operating Activities	<u>\$ 2,298,192</u>	<u>\$ 49,027</u>	<u>\$ 2,347,219</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

**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, 2019 AND 2018**

**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, 2019 and 2018, the allowance for uncollectible accounts was approximately \$366,000 and \$336,000, respectively.

**Supplies**

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

**Noncurrent Cash and Investments**

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

**Deferred Outflows of Resources**

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

**Capital Assets**

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

Land Improvements	8 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, 2019 AND 2018**

**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 \$117,000 and \$151,000 for the years ended April 30, 2019 and 2018, respectively.

**Net Patient Service Revenue**

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

**Operating Revenues and Expenses**

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

**Pensions**

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

**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 May, 1 2018 (Note 8).

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

**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 related deferred inflows.

**Net Position**

The net position of the Hospital is classified in three components. "Net Investment in Capital Assets" consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted Expendable Net Position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. "Unrestricted Net Position" is remaining net position that does not meet the definition of "Net Investment in Capital Assets," net of related debt, or "Restricted."

**Risk Management**

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

**Fair Value Measurements**

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

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

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

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

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

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

*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.

**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 49% and 41% for the years ended 2019 and 2018, respectively, and revenue from the Medicaid programs accounted for approximately 9% for the year ended 2019 and approximately 12% for the year ended 2018, 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 2019 net patient service revenue increased approximately \$100,000 and the 2018 net patient service revenue increased approximately \$51,000 due to removal of allowance previously estimated that are no longer considered necessary as a result of changes in estimates and years that are no longer subject to audits, reviews, and investigations.

Other

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

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

**NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)**

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

	<u>2019</u>	<u>2018</u>
Gross Patient Service Revenue	\$ 34,625,770	\$ 30,957,729
Adjustments and Discounts:		
Medicare	(8,734,854)	(7,660,832)
Medicaid	(3,067,108)	(2,822,063)
Other	(2,771,523)	(2,422,835)
Provision for Bad Debt	(365,727)	(58,570)
Total Adjustments and Discounts	<u>(14,939,212)</u>	<u>(12,964,300)</u>
Net Patient Service Revenue	<u>\$ 19,686,558</u>	<u>\$ 17,993,429</u>

**NOTE 3 ACCOUNTS RECEIVABLE**

Patient accounts receivable reported as current assets by Windom Area Health at April 30, 2019 and 2018 consist of these amounts:

	<u>2019</u>	<u>2018</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,917,768	\$ 1,711,611
Receivable from Medicare	1,112,895	813,451
Receivable from Medicaid	205,605	233,673
Total Patient Accounts Receivable	<u>3,236,268</u>	<u>2,758,735</u>
Less: Allowance for Uncollectible Amounts	<u>(365,500)</u>	<u>(336,000)</u>
Net Patient Accounts Receivable	<u>\$ 2,870,768</u>	<u>\$ 2,422,735</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, 2019, the Hospital's deposits in banks were covered by FDIC or FSLIC insurance protected by bond or collateral held by the Hospital's custodial bank in the Hospital's name.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

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

**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, 2019 and 2018, the carrying amounts of deposits and investments are included in the Hospital's statements of net position as follows:

	<u>2019</u>	<u>2018</u>
Carrying Amount:		
Deposits	<u>\$ 13,339,555</u>	<u>\$ 13,609,383</u>
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 5,322,167	\$ 5,703,852
Short-Term Investments	2,987,084	2,941,339
Board Designated for Capital Improvements	4,496,249	4,438,352
Debt Service Reserve Funds Held by Trustee	398,331	398,331
Restricted by Donor	<u>135,724</u>	<u>127,509</u>
Total	<u>\$ 13,339,555</u>	<u>\$ 13,609,383</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, 2019 AND 2018**

**NOTE 5 CAPITAL ASSETS**

Capital assets (in thousands) for the years ended April 30, 2019 and 2018 consist of the following:

	Balance April 30, 2018	Additions and Transfers	Retirements	Balance April 30, 2019
Land	\$ 271	\$ -	\$ -	\$ 271
Land Improvements	2,997	-	-	2,997
Buildings	12,180	443	-	12,623
Fixed Equipment	7,150	472	-	7,622
Moveable Equipment	4,875	400	(285)	4,990
Construction in Progress	363	587	-	950
Total at Historical Cost	<u>27,836</u>	<u>1,902</u>	<u>(285)</u>	<u>29,453</u>
Less Accumulated Depreciation for:				
Land Improvements	(569)	(153)	-	(722)
Buildings	(5,906)	(534)	-	(6,440)
Fixed Equipment	(2,416)	(347)	-	(2,763)
Moveable Equipment	<u>(3,577)</u>	<u>(337)</u>	<u>274</u>	<u>(3,640)</u>
Total Accumulated Depreciation	<u>(12,468)</u>	<u>(1,371)</u>	<u>274</u>	<u>(13,565)</u>
Capital Assets, Net	<u>\$ 15,368</u>	<u>\$ 531</u>	<u>\$ (11)</u>	<u>\$ 15,888</u>
	Balance April 30, 2017	Additions and Transfers	Retirements	Balance April 30, 2018
Land	\$ 271	\$ -	\$ -	\$ 271
Land Improvements	2,816	181	-	2,997
Buildings	12,180	-	-	12,180
Fixed Equipment	6,334	816	-	7,150
Moveable Equipment	4,815	127	(67)	4,875
Construction in Progress	-	363	-	363
Total at Historical Cost	<u>26,416</u>	<u>1,487</u>	<u>(67)</u>	<u>27,836</u>
Less Accumulated Depreciation for:				
Land Improvements	(423)	(146)	-	(569)
Buildings	(5,375)	(531)	-	(5,906)
Fixed Equipment	(2,120)	(296)	-	(2,416)
Moveable Equipment	<u>(3,282)</u>	<u>(362)</u>	<u>67</u>	<u>(3,577)</u>
Total Accumulated Depreciation	<u>(11,200)</u>	<u>(1,335)</u>	<u>67</u>	<u>(12,468)</u>
Capital Assets, Net	<u>\$ 15,216</u>	<u>\$ 152</u>	<u>\$ -</u>	<u>\$ 15,368</u>

Construction in progress as of April 30, 2019 consists of costs associated with a physical therapy and conference room remodel project. The total project cost was approximately \$1,030,000 and was completed in May 2019. The project was funded internally.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

**NOTE 6 LONG-TERM DEBT**

Long-term debt consists of the following for the years ended April 30, 2019 and 2018:

	Balance April 30, 2018	Additions	Reductions	Balance April 30, 2019
Gross Revenue Hospital Bonds, Series 2014A	\$ 4,950,000	\$ -	\$ (220,000)	\$ 4,730,000
Bond Discount	(44,333)	-	2,660	(41,673)
Total Long-Term Debt	<u>\$ 4,905,667</u>	<u>\$ -</u>	<u>\$ (217,340)</u>	4,688,327
Less: Current Maturities				<u>(225,000)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 4,463,327</u>
	Balance April 30, 2017	Additions	Reductions	Balance April 30, 2018
Gross Revenue Hospital Bonds, Series 2014A	\$ 5,170,000	\$ -	\$ (220,000)	\$ 4,950,000
Bond Discount	(46,993)	-	2,660	(44,333)
Total Long-Term Debt	<u>\$ 5,123,007</u>	<u>\$ -</u>	<u>\$ (217,340)</u>	4,905,667
Less: Current Maturities				<u>(220,000)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 4,685,667</u>

- Gross Revenue Hospital Bonds, Series 2014A in the original amount of \$5,600,000 with interest ranging from 1.00% to 4.15%. Principal payments are due annually commencing September 2015 to September 2034 with interest paid semi-annually. The bonds can be optionally redeemed beginning September 1, 2021, with a 1% premium through August 31, 2022, and thereafter no redemption premium. The bonds were issued for partial financing of a hospital expansion and renovation project. The bonds are payable from the "Gross Revenues" of the Hospital including patient service revenues (net of allowances and uncollectible accounts), other operating revenues, and nonoperating revenues, other than contributions restricted as to use so as not to be available for operating expenses or debt service.

Under the Series 2014A bonds, the Hospital must meet certain operational and performance covenants and is limited in the amount of additional debt that can be incurred. Management believes the Hospital was in compliance with all debt covenants as of April 30, 2019.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

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

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>
2020	\$ 225,000	\$ 172,159	\$ 397,159
2021	230,000	166,580	396,580
2022	240,000	159,933	399,933
2023	245,000	152,474	397,474
2024	255,000	144,280	399,280
2025-2029	1,420,000	574,843	1,994,843
2030-2034	1,725,000	265,883	1,990,883
2035-2039	390,000	8,093	398,093
Total	<u>\$ 4,730,000</u>	<u>\$ 1,644,245</u>	<u>\$ 6,374,245</u>

**NOTE 7 DEFINED BENEFIT PENSION PLAN**

**Plan Description**

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

All full-time and certain part-time employees of the Hospital are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**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.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

**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. The rates are 2.20% and 2.70%, respectively, for Basic members. Under Method 2, the accrual rate for coordinated members is 1.70% for all years of service, and 2.70% for Basic members. The accrual rate for former MERF members is 2.00% for each of the first 10 years of service and 2.5% for each additional year. 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. Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

**Contributions**

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. Basic Plan members were required to contribute 6.5% of their annual covered salary in calendar years 2018 and 2019 and the Hospital was required to contribute 7.5% of pay for Basic Plan members. The Hospital's contributions to the General Employment Plan for the plan's fiscal years ended April 30, 2019, 2018, and 2017 were \$569,906, \$487,568, and \$452,945, respectively. The Hospital's contributions were equal to the required contributions for each year as set by state statute.

**Pension Costs**

At April 30, 2019 and 2018, the Hospital reported a liability of \$5,558,685 and \$6,447,773, respectively, for its proportionate share of the GERP'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 2018 and 2017. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the Hospital totaled \$182,358. The net pension liability was measured as of June 30, 2018 and 2017, 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, 2017, through June 30, 2018 and July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the Hospital's proportion share was .1002%, which was a decrease of .0008% from its proportion measured as of June 30, 2017. There were no benefit provision changes during the measurement period.

**WINDOM AREA HEALTH  
Windom, Minnesota  
NOTES TO FINANCIAL STATEMENTS  
APRIL 30, 2019 AND 2018**

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

**Pension Costs (Continued)**

For the years ended April 30, 2019 and 2018, the Hospital recognized pension expense of \$176,807 and \$698,329, respectively. These amounts consisted of the Hospital's proportionate share of the GERP'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 \$42,526 during the year ended April 30, 2019, as pension expense (and other revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million the General Employees Fund.

At April 30, 2019 and 2018, the Hospital reported its proportionate share of the GEP's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 147,129	\$ 162,123
Changes of Assumptions	530,995	624,578
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	568,009
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	173,775	131,526
Hospital Contributions Subsequent to the Measurement Date	460,280	-
	<u>\$ 1,312,179</u>	<u>\$ 1,486,236</u>

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

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

**Pension Costs (Continued)**

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

\$460,280 and \$406,280 reported as deferred outflows of resources related to pensions resulting from the Hospital's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended April 30, 2019 and 2018, respectively. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending April 30,	2019	2018
2019	\$ -	\$ (143,023)
2020	172,241	367,594
2021	(226,640)	(35,214)
2022	(463,920)	(273,705)
2023	(116,018)	-
Total	\$ (634,337)	\$ (84,348)

**Actuarial Assumptions**

The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% Per Year
Active Member Payroll Growth	3.25% After 26 Years of Service
Investment Rate of Return	7.50%

The total pension liability for the defined benefit cost-sharing plan was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50% for the General Employees Plan. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25% after one year of service, to 3.25% after 26 years of service.

**WINDOM AREA HEALTH  
Windom, Minnesota  
NOTES TO FINANCIAL STATEMENTS  
APRIL 30, 2019 AND 2018**

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

**Actuarial Assumptions (Continued)**

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA's experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015. Economic assumptions were updated in 2014 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

- The mortality projection scale was changed from MP-2015 to MP-2017
- The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year

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	33 %	5.10 %
International Stocks	16 %	5.30 %
Bonds	25 %	0.75 %
Alternative Investments	24 %	5.90 %
Cash	2 %	0.00%

**Discount Rate**

The discount rate used to measure the total pension liability in 2018 and 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**WINDOM AREA HEALTH  
Windom, Minnesota  
NOTES TO FINANCIAL STATEMENTS  
APRIL 30, 2019 AND 2018**

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

**Pension Liability Sensitivity**

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

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Hospital's Proportionate Share of the Net Pension Liability	\$ 9,033,575	\$ 5,558,685	\$ 2,690,263

**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 report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**NOTE 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, 2019 and 2018, there were no retirees receiving benefits from the Hospital's health plan.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

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

**Net OPEB Liability (Asset)**

The components of the net OPEB liability (asset) of the Hospital at April 30, 2019 are as follows:

Total OPEB Liability	\$ 146,510
Plan Fiduciary Net Position	-
Medical Center's Net OPEB Liability (Asset)	<u>\$ 146,510</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	0%

The changes in net OPEB liability (asset) are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at April 30, 2018	\$ 124,283	\$ -	\$ 124,283
Changes for the Year:			
Service Cost	17,854	-	17,854
Interest Cost	5,174	-	5,174
Differences Between Expected and Actual Experience	-	-	-
Changes in Assumptions or Other Inputs	(801)	-	(801)
Contributions-Employer	-	-	-
Net Investment Income	-	-	-
Benefit Payments	-	-	-
Administrative Expense	-	-	-
Net Changes	<u>22,227</u>	<u>-</u>	<u>22,227</u>
Balances at April 30, 2019	<u>\$ 146,510</u>	<u>\$ -</u>	<u>\$ 146,510</u>

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

**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 discount rate:

	1% Decrease (2.71%)	Discount Rate (3.71%)	1% Increase (4.71%)
April 30, 2019			
<u>Net OPEB Liability (Asset)</u>	<u>\$ 158,169</u>	<u>\$ 146,510</u>	<u>\$ 135,386</u>

For the year ended April 30, 2019, the Hospital recognized OPEB expenses of \$22,227. At April 30, 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB.

	Deferred Outflows of Resources	Deferred Inflows of Resources
April 30, 2019		
<u>Difference Between Expected and Actual Liability</u>	<u>\$ -</u>	<u>\$ -</u>
Change of Assumptions	-	-
Net Difference Between Projected and Actual Investment Earnings	-	-
Employer Contributions	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

**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, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.71%
20-Year Municipal Bond Yield	3.71%
Inflation Rate	2.50%
Health Care Trend Rates	6.9%
	Decreasing over several decades to 4% in FY2076

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

**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, 2018 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, 2019 equal to the average remaining service of active and inactive plan members.

**Funded Status and Funding Progress**

As of April 30, 2019, the most recent valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$146,510 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$146,510. The covered payroll was \$7,331,990 and the ratio of the UAAL to the covered payroll was 2.00%.

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.

**NOTE 10 COMMITMENTS AND CONTINGENCIES**

**Malpractice Claims**

The Hospital's malpractice insurance is a claims made policy. Should this policy lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

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

**Compliance**

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

**Operating Leases**

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

<u>Year Ending April 30,</u>	<u>Amount</u>
2020	\$ 293,580
2021	293,580
2022	293,580
2023	293,580
2024	122,325
Thereafter	-
Total Minimum Lease Payments	<u><u>\$ 1,296,645</u></u>

Total rent expense associated with the operating leases for the years ended April 30, 2019 and 2018 was approximately \$460,000 and \$492,000, 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**  
**Windom, Minnesota**  
**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2019 AND 2018**

**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 \$283,614 and \$269,718 for the years ended April 30, 2019 and 2018, respectively.

The Hospital also purchases certain services, supplies and other items through Sanford's network. Amount due to Sanford was \$62,000 and \$72,000 at April 30, 2019 and 2018, 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.

**NOTE 12 PRIOR PERIOD ADJUSTMENT**

Beginning net position has been adjusted to reflect the changes due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The effect of the adjustment was to decrease net position and other postemployment benefits by \$124,280 as of April 30, 2018.

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)**  
**APRIL 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Hospital's Proportion of the Net Pension Liability	0.1002%	0.1010%	0.0953%	0.1098%	0.1011%
Hospital's Proportionate Share of the Net Pension Liability	\$ 5,558,685	\$ 6,447,773	\$ 7,737,887	\$ 5,239,526	\$ 5,157,853
Hospital's Covered Payroll	\$ 7,331,990	\$ 6,825,836	\$ 6,325,817	\$ 6,015,138	\$ 6,000,044
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	75.81%	94.46%	122.32%	87.11%	85.96%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	75.90%	68.90%	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**  
**Windom, Minnesota**  
**SCHEDULE OF THE HOSPITAL'S CONTRIBUTIONS (UNAUDITED)**  
**APRIL 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily Required Contribution	\$ 569,906	\$ 487,568	\$ 452,945	\$ 431,594	\$ 422,799	\$ 404,469
Contributions in Relation to the Statutorily Required Contribution	<u>569,906</u>	<u>487,568</u>	<u>452,945</u>	<u>431,594</u>	<u>422,799</u>	<u>404,469</u>
Contribution Deficiency (Excess)	<u>\$ -</u>					
Hospital Covered Payroll	\$ 7,331,990	\$ 6,825,836	\$ 6,325,817	\$ 6,015,138	\$ 6,000,044	\$ 5,782,659
Contributions as a Percentage of Covered Payroll	7.77%	7.14%	7.16%	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, 2019**

<b>Total OPEB Liability</b>	
Service Cost	\$ 17,854
Interest	5,174
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	(801)
Benefit Payments	-
<b>Net Change in Total OPEB Liability</b>	<u>22,227</u>
<b>Total OPEB Liability - Beginning</b>	124,283
<b>Total OPEB Liability - Ending (a)</b>	<u><u>\$ 146,510</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>
<b>Plan Fiduciary Net Position - Beginning</b>	-
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ -</u></u>
<b>Medical Center's Net OPEB Liability - Ending (a) - (b)</b>	\$ 146,510
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%
Covered-Employee Payroll	\$ 7,331,990
Medical Center's Net OPEB Liability as a Percentage of Covered-Employee Payroll	2.00%

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, 2019 and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated August 22, 2019.

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

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

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

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
August 22, 2019



**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, 2019, 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 August 22, 2019.

**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 deficiencies described in the accompanying schedule of findings listed as 2019-001, 2019-002, and 2019-003 to be material weaknesses.

**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  
August 22, 2019

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**SCHEDULE OF FINDINGS**  
**APRIL 30, 2019**

**FINANCIAL STATEMENT FINDINGS**

**2019 – 001**

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

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

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

The Hospital engages auditors to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the Hospital's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the Hospital has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the Hospital's activities and operations.

The Hospital's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the Hospital's financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

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

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

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

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

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**SCHEDULE OF FINDINGS (CONTINUED)**  
**APRIL 30, 2019**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2019 – 002**

**Type of Finding:** Misstatements Detected by Audit

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

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

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

**Cause:** The entries were the result of the correction of errors.

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

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

**WINDOM AREA HEALTH**  
**Windom, Minnesota**  
**SCHEDULE OF FINDINGS (CONTINUED)**  
**APRIL 30, 2019**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2019 – 003**

**Type of Finding:** Cash Reconciliation

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

**Criteria:** During the course of the audit, we noted cash was not reconciled to the general ledger.

**Effect:** The effect of this condition is that the year-end financial statements would be materially misstated had the correcting entries not been made. After the entries were made, there remains an unreconciled difference in cash that management has passed on and will correct in fiscal year 2020.

**Cause:** The journal entries and passed audit adjustment were the result of the cash account not being fully reconciled at the time of fieldwork.

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

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