

**WINDOM AREA HEALTH
WINDOM, MINNESOTA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED APRIL 30, 2023 AND 2022



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Windom Area Health and Affiliate
Windom, Minnesota

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Windom Area Health (the Hospital), an enterprise fund of the City of Windom, Minnesota, and its discretely presented component unit, which comprise the statements of net position as of April 30, 2023 and 2022, 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.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with the auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Windom Area Health and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Windom Area Health's ability to continue as a going concern for one year after the date of the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Windom Area Health's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Windom Area Health's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, effective May 1, 2021, the Hospital adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use lease asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2023, 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
December 4, 2023

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2023**

Introduction

Windom Area Health (Hospital) offers readers of our financial statements this narrative overview and analysis of the financial activities of Windom Area Health for the fiscal years ended April 30, 2023 and 2022. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto.

Overview of the Financial Statements

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

The financial statements include the Hospital and Foundation finances. The mission of the Windom Area Hospital Foundation is to provide charitable support for medical and educational programs of Windom Area Health. Total Foundation net position was \$464,638 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 \$1,017,639 to \$47,998,906 in fiscal year (FY) 2023 and increased by \$5,936,580 to \$46,981,267 in FY 2022. Capital assets decreased by \$451,033 in FY 2023 and increased by \$2,100,028 in FY 2022. Total liabilities and deferred inflows of resources decreased by \$233,984 in FY 2023 and decreased by \$2,0144,518 in FY 2022. The total margin was 4.6%, 26.6% and 12.4% for the years ended April 30, 2023, 2022 and 2021, respectively.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2023**

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, 2023, 2022, and 2021 is presented below:

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

	April 30,		
	(As Restated)		
	2023	2022	2021
Current Assets	\$ 14,435	\$ 25,829	\$ 20,742
Noncurrent Cash and Investments	14,385	921	5,604
Capital and Right to Use Assets	15,513	15,964	13,864
Other Noncurrent Assets	505	569	-
Deferred Outflows of Resources	3,161	3,698	835
Total Assets and Deferred Outflows of Resources	<u>\$ 47,999</u>	<u>\$ 46,981</u>	<u>\$ 41,045</u>
Current Liabilities	\$ 6,028	\$ 2,563	\$ 7,192
Long-Term Debt	-	3,756	3,999
Other Noncurrent Liabilities	9,356	5,259	6,417
Deferred Inflows of Resources	276	4,315	330
Total Liabilities and Deferred Inflows of Resources	<u>15,659</u>	<u>15,893</u>	<u>17,938</u>
Net Position	<u>32,340</u>	<u>31,088</u>	<u>23,107</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 47,999</u>	<u>\$ 46,981</u>	<u>\$ 41,045</u>

As can be seen by Table 1, net position increased by approximately \$1,252,000 to \$32.34 million in fiscal year 2023. In fiscal year 2022, net position increased by approximately \$7,981,000 to \$31.09 million. The change in net position results primarily from operating results, COVID-19 relief funds and the income impact of Government Accounting Standards Board (GASB) Statements 68 and 75.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2023**

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, 2023, 2022, and 2021.

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

	Year Ended April 30,		
	2023	(As Restated) 2022	2021
Operating Revenues	\$ 25,710	\$ 26,168	\$ 21,904
Operating Expenses	24,962	21,678	20,256
Operating Income	748	4,490	1,648
Nonoperating Income	455	3,360	1,217
Excess of Revenues over Expenses	1,204	7,850	2,865
Capital Grants, Contributions, Other	48	131	74
Changes in Net Position	1,252	7,981	2,939
Total Net Position, Beginning of Year	31,088	23,107	20,168
Total Net Position, End of Year	\$ 32,340	\$ 31,088	\$ 23,107

Operating and Financial Performance

Volume: Inpatient admissions (excluding newborns) for fiscal year 2023 were 321 compared to 323 in fiscal year 2022 and 302 in fiscal year 2021. This is a decrease of 2 or approximately 1% between 2023 and 2022 an increase of 21 or 7% between 2022 and 2021. Patient days (excluding newborns) for fiscal year 2023 were 799 compared to 803 in fiscal year 2022 and 834 in fiscal year 2021. This is a decrease of 4 or approximately .5% from 2022 and a decrease of 31 or 4% between 2022 and 2021. The length of stay decreased from 2.7 days in 2021 to 2.5 days in 2022 and 2023. Emergency department visits increased to 4,043 in fiscal year 2023 from 3,983 in fiscal year 2022. This is an increase of 60 visits or 2%. They increased from 3,332 in 2021, which is an increase of 651 visits or 19% between 2021 and 2022. All other outpatient visits for 2023 were 28,199 compared to 26,268 in 2022 and 25,490 in 2021. This is an increase of 1,931 visits from 2022 to 2023 and an increase of 778 visits from 2021 to 2022. Total surgeries decreased to 735 in fiscal year 2023 from 812 in fiscal year 2022. This is a decrease of 77 surgeries or 9%. In fiscal year 2022, surgeries decreased from 850 which is a decrease of 38 surgeries or 4% compared to fiscal year 2021.

Net Patient Service Revenue: As a result of decreased inpatient and surgical volume during the year, net patient service revenue decreased \$262,175 or approximately 1.0% compared to fiscal year 2022. Revenue deductions, the amount of patient service revenue uncollectible due to contractual agreements, government reimbursement policies, and bad debts increased to \$23,872,840 from \$20,181,128, an approximate 18.3% increase.

Other Operating Revenue: Other operating revenue decreased \$195,333 and increased \$9,096 in fiscal years 2023 and 2022, respectively, from the previous year.

**WINDOM AREA HEALTH
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MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2023**

Nursing Services: Nursing service expenses increased \$1,040,455 and \$485,622 in fiscal years 2023 and 2022, respectively, from the previous year. The increase in both 2023 and 2022 is related to staffing and wage increases.

Other Professional Services: Other professional services decreased \$9,853 and increased \$768,076 in fiscal years 2023 and 2022, respectively, from the previous year. The increase in 2022 was mostly due to an overall increase in outpatient activities. Most notably, radiology, pharmacy, and wound care.

General Services: General services decreased \$21,282 and increased \$171,062 in fiscal years 2023 and 2022, respectively, when compared to the previous year. The increase in 2022 is due to utility costs, miscellaneous building repairs, and overall volume increases causing salaries and supplies to increase. General services expense was consistent overall between fiscal years 2022 and 2023.

Administrative and Fiscal Services: Expenses in this category increased by \$2,067,060 and decreased \$85,479 in fiscal years 2023 and 2022, respectively, when compared to the previous year. The increase in fiscal year mainly relates to the income impact of GASB 68.

Depreciation and Amortization: Depreciation and amortization increased \$208,381 and increased \$83,597 in fiscal years 2023 and 2022, respectively, when compared to the previous year.

Nonoperating Revenue and Expenses: The total in this category decreased \$2,904,990 and increased \$2,111,011 in fiscal years 2023 and 2022, respectively, when compared to the previous year. The decrease is the result of receiving Federal and State funds related to the Coronavirus pandemic that was recorded as revenue in fiscal year 2022.

Capital Grants and Contributions

For the years ended 2023, 2022, and 2021, the Hospital had a total of \$47,696, \$131,200, and \$73,673, respectively, in capital grants and contributions.

Capital Assets

At the end of fiscal years 2023, 2022, and 2021, the Hospital had invested \$15,512,921, \$15,963,954, and \$13,863,926, respectively, in capital assets. The \$451,033 decrease in capital assets in fiscal year 2023 is due to depreciation expense outpacing current year asset additions.

Long-Term Debt

During fiscal year 2015, the Hospital issued long-term debt for the purpose of funding a portion of the surgery and outreach construction project. During fiscal year 2021, the Hospital issued a note through the SBA Paycheck Protection Program which was forgiven in full during fiscal year 2022. As of year-end the Hospital had a total of \$3,758,968 of short- and long-term debt, net of unamortized issue discount.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2023**

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 2023 budget. Of primary importance in setting the 2024 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, 2023**

ASSETS	<u>Primary Enterprise (Hospital)</u>	<u>Component Unit (Foundation)</u>	<u>Total Reporting Entity (Memo Only)</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 9,815,926	\$ 464,638	\$ 10,280,564
Patient Accounts Receivable, Net	3,809,435	-	3,809,435
Accrued Interest Receivable	102,077	-	102,077
Other Receivables	30,975	-	30,975
Estimated Third-Party Payor Settlements	295,617	-	295,617
Supplies	235,273	-	235,273
Prepaid Expenses	145,631	-	145,631
Total Current Assets	<u>14,434,934</u>	<u>464,638</u>	<u>14,899,572</u>
NONCURRENT CASH AND INVESTMENTS			
Board Designated for Capital Improvements	13,976,824	-	13,976,824
Debt Service Reserve Funds Held by Trustee	407,717	-	407,717
Total Noncurrent Cash and Investments	<u>14,384,541</u>	<u>-</u>	<u>14,384,541</u>
CAPITAL ASSETS			
Capital Assets	35,019,808	-	35,019,808
Less: Accumulated Depreciation	(19,506,887)	-	(19,506,887)
Net Capital Assets	<u>15,512,921</u>	<u>-</u>	<u>15,512,921</u>
OTHER ASSETS			
Right to Use Assets, Net	442,716	-	442,716
Investment in Joint Venture	62,667	-	62,667
Total Other Assets	<u>505,383</u>	<u>-</u>	<u>505,383</u>
Total Assets	44,837,779	464,638	45,302,417
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	3,150,982	-	3,150,982
Postemployment Related Deferred Outflows	10,145	-	10,145
Total Deferred Outflows of Resources	<u>3,161,127</u>	<u>-</u>	<u>3,161,127</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 47,998,906</u>	<u>\$ 464,638</u>	<u>\$ 48,463,544</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
APRIL 30, 2023**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
CURRENT LIABILITIES			
Current Maturities of Long-Term Debt	\$ 3,758,967	\$ -	\$ 3,758,967
Current Maturities of Finance Lease Obligations	124,498		124,498
Accounts Payable:			
Trade	711,610	-	711,610
Construction	221,971	-	221,971
Accrued Expenses	<u>1,210,611</u>	<u>-</u>	<u>1,210,611</u>
Total Current Liabilities	6,027,657	-	6,027,657
NONCURRENT LIABILITIES			
Finance Lease Obligations, Net of Current Maturities	328,064		328,064
Net Pension Liability	8,965,476	-	8,965,476
Net Other Postemployment Benefit Liability	<u>62,137</u>	<u>-</u>	<u>62,137</u>
Total Noncurrent Liabilities	<u>9,355,677</u>	<u>-</u>	<u>9,355,677</u>
 Total Liabilities	 15,383,334	 -	 15,383,334
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows	132,234	-	132,234
Postemployment Related Deferred Inflows	<u>143,448</u>	<u>-</u>	<u>143,448</u>
Total Deferred Inflows of Resources	<u>275,682</u>	<u>-</u>	<u>275,682</u>
NET POSITION			
Net Investment in Capital Assets	11,993,104	-	11,993,104
Restricted:			
Expendable for Specific Donor Restrictions	3,845	231,250	235,095
Expendable for Debt Service	407,717	-	407,717
Unrestricted	<u>19,935,224</u>	<u>233,388</u>	<u>20,168,612</u>
Total Net Position	<u>32,339,890</u>	<u>464,638</u>	<u>32,804,528</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 47,998,906</u>	 <u>\$ 464,638</u>	 <u>\$ 48,463,544</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
STATEMENT OF NET POSITION
AS RESTATED APRIL 30, 2022**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 21,667,961	\$ 361,079	\$ 22,029,040
Patient Accounts Receivable, Net	3,725,191	-	3,725,191
Accrued Interest Receivable	1,504	-	1,504
Other Receivables	62,099	-	62,099
Supplies	290,365	-	290,365
Prepaid Expenses	81,877	-	81,877
Total Current Assets	25,828,997	361,079	26,190,076
NONCURRENT CASH AND INVESTMENTS			
Board Designated for Capital Improvements	515,446	-	515,446
Debt Service Reserve Funds Held by Trustee	405,370	-	405,370
Total Noncurrent Cash and Investments	920,816	-	920,816
CAPITAL ASSETS			
Capital Assets	33,877,384	-	33,877,384
Less: Accumulated Depreciation	(17,913,430)	-	(17,913,430)
Net Capital Assets	15,963,954	-	15,963,954
RIGHT TO USE ASSETS, NET			
	569,207	-	569,207
Total Assets	43,282,974	361,079	43,644,053
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	3,685,759	-	3,685,759
Postemployment Related Deferred Outflows	12,534	-	12,534
Total Deferred Outflows of Resources	3,698,293	-	3,698,293
 Total Assets and Deferred Outflows of Resources	 \$ 46,981,267	 \$ 361,079	 \$ 47,342,346

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
AS RESTATED APRIL 30, 2022**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
CURRENT LIABILITIES			
Current Maturities of Long-Term Debt	\$ 245,000	\$ -	\$ 245,000
Current Maturities of Finance Lease Obligations	120,823	-	120,823
Accounts Payable, Trade	816,166	-	816,166
Accrued Expenses	1,018,030	-	1,018,030
Total Current Liabilities	<u>2,562,748</u>	-	<u>2,562,748</u>
LONG-TERM DEBT, Net of Current Maturities	3,756,307	-	3,756,307
NONCURRENT LIABILITIES			
Finance Lease Obligations, Net of Current Maturities	452,563	-	452,563
Net Pension Liability	4,641,976	-	4,641,976
Net Other Postemployment Benefit Liability	164,541	-	164,541
Total Noncurrent Liabilities	<u>5,259,080</u>	-	<u>5,259,080</u>
Total Liabilities	11,578,135	-	11,578,135
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows	4,264,886	-	4,264,886
Postemployment Related Deferred Inflows	49,979	-	49,979
Total Deferred Inflows of Resources	<u>4,314,865</u>	-	<u>4,314,865</u>
NET POSITION			
Net Investment in Capital Assets	11,958,468	-	11,958,468
Restricted:			
Expendable for Specific Donor Restrictions	2,200	-	2,200
Expendable for Debt Service	405,370	-	405,370
Unrestricted	18,722,229	361,079	19,083,308
Total Net Position	<u>31,088,267</u>	<u>361,079</u>	<u>31,449,346</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 46,981,267</u>	<u>\$ 361,079</u>	<u>\$ 47,342,346</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED APRIL 30, 2023**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
REVENUE			
Net Patient Service Revenue	\$ 25,534,724	\$ -	\$ 25,534,724
Other Revenue, Net	175,337	170,142	345,479
Total Revenue	<u>25,710,061</u>	<u>170,142</u>	<u>25,880,203</u>
EXPENSES			
Nursing Services	7,414,109	-	7,414,109
Other Professional Services	6,894,569	-	6,894,569
General Services	1,575,470	-	1,575,470
Administrative and Fiscal Services	7,188,421	25	7,188,446
Interest	169,057	-	169,057
Depreciation and Amortization	1,719,947	-	1,719,947
Total Expenses	<u>24,961,573</u>	<u>25</u>	<u>24,961,598</u>
INCOME FROM OPERATIONS	748,488	170,117	918,605
NONOPERATING REVENUE AND EXPENSES			
Interest Income	408,724	-	408,724
Noncapital Grants and Contributions	46,715	24,782	71,497
Total Nonoperating Revenue and Expenses	<u>455,439</u>	<u>24,782</u>	<u>480,221</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS			
	1,203,927	194,899	1,398,826
Capital Grants and Contributions	47,696	-	47,696
Expenses Paid on Behalf of Related Party	(91,340)	-	(91,340)
Related Party Transfers	91,340	(91,340)	-
INCREASE IN NET POSITION	1,251,623	103,559	1,355,182
NET POSITION			
Beginning of Year	<u>31,088,267</u>	<u>361,079</u>	<u>31,449,346</u>
End of Year	<u>\$ 32,339,890</u>	<u>\$ 464,638</u>	<u>\$ 32,804,528</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
AS RESTATED YEAR ENDED APRIL 30, 2022**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
REVENUE			
Net Patient Service Revenue	\$ 25,796,899	\$ -	\$ 25,796,899
Other Revenue, Net	370,670	22,432	393,102
Total Revenue	<u>26,167,569</u>	<u>22,432</u>	<u>26,190,001</u>
EXPENSES			
Nursing Services	6,509,686	-	6,509,686
Other Professional Services	6,768,390	-	6,768,390
General Services	1,596,752	-	1,596,752
Administrative and Fiscal Services	5,121,361	375	5,121,736
Interest	170,345	-	170,345
Depreciation and Amortization	1,511,566	-	1,511,566
Total Expenses	<u>21,678,100</u>	<u>375</u>	<u>21,678,475</u>
INCOME FROM OPERATIONS	4,489,469	22,057	4,511,526
NONOPERATING REVENUE AND EXPENSES			
Interest Income	93,986	-	93,986
Noncapital Grants and Contributions	3,266,443	7,578	3,274,021
Total Nonoperating Revenue and Expenses	<u>3,360,429</u>	<u>7,578</u>	<u>3,368,007</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS			
	7,849,898	29,635	7,879,533
Capital Grants and Contributions	131,200	-	131,200
Expenses Paid on Behalf of Related Party	(52,847)	-	(52,847)
Related Party Transfers	52,847	(60,847)	(8,000)
INCREASE (DECREASE) IN NET POSITION	7,981,098	(31,212)	7,949,886
NET POSITION			
Beginning of Year	<u>23,107,169</u>	<u>392,291</u>	<u>23,499,460</u>
End of Year	<u>\$ 31,088,267</u>	<u>\$ 361,079</u>	<u>\$ 31,449,346</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2023**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on Behalf of Patients	\$ 24,722,685	\$ -	\$ 24,722,685
Payments to Suppliers and Contractors	(13,570,219)	(25)	(13,570,244)
Payments to Employees	(8,713,661)	-	(8,713,661)
Other Receipts and Payments, Net	175,337	170,142	345,479
Net Cash Provided by Operating Activities	<u>2,614,142</u>	<u>170,117</u>	<u>2,784,259</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Noncapital Grants and Contributions	46,715	24,782	71,497
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Expenditures	(1,142,423)	-	(1,142,423)
Principal Payments on Finance Lease Obligations	(120,824)	-	(120,824)
Principal Payments on Long-Term Debt	(242,340)	-	(242,340)
Capital Grants and Contributions	47,696	-	47,696
Net Cash Used by Capital and Related Financing Activities	<u>(1,457,891)</u>	<u>-</u>	<u>(1,457,891)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Investments	(14,054,951)	(24,782)	(14,079,733)
Sale of Investments	591,226	24,782	616,008
Expenses Paid on Behalf of Related Party	(91,340)	-	(91,340)
Transfer from (to) Related Party	91,340	(91,340)	-
Interest Income	408,724	-	408,724
Net Cash Used by Investing Activities	<u>(13,055,001)</u>	<u>(91,340)</u>	<u>(13,146,341)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,852,035)	103,559	(11,748,476)
Cash and Cash Equivalents - Beginning	<u>21,667,961</u>	<u>361,079</u>	<u>22,029,040</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 9,815,926</u>	<u>\$ 464,638</u>	<u>\$ 10,280,564</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED APRIL 30, 2023**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from Operations	\$ 748,488	\$ 170,117	\$ 918,605
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:			
Depreciation and Amortization Expense	1,719,947	-	1,719,947
Provision for Bad Debts	637,761	-	637,761
Equity in Net Income of Joint Venture	(62,667)		
(Increase) Decrease in:			
Patient Accounts Receivable	(722,005)	-	(722,005)
Deferred Outflows of Resources	537,166	-	537,166
Accrued Interest Receivable	(100,573)	-	(100,573)
Right of Use Assets			
Other Receivables	31,124	-	31,124
Supplies and Prepaid Expenses	(8,662)	-	(8,662)
Increase (Decrease) in:			
Accounts Payable	117,415	-	117,415
Net Pension Liability	4,221,096	-	4,221,096
Deferred Inflows of Resources	(4,039,183)	-	(4,039,183)
Due to Third-Party Payors	(658,346)	-	(658,346)
Accrued Expenses	192,581	-	192,581
Net Cash Provided by Operating Activities	<u>\$ 2,614,142</u>	<u>\$ 170,117</u>	<u>\$ 2,846,926</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
STATEMENT OF CASH FLOWS
AS RESTATED YEAR ENDED APRIL 30, 2022**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on Behalf of Patients	\$ 24,863,278	\$ -	\$ 20,404,049
Payments to Suppliers and Contractors	(11,897,455)	(375)	(11,006,556)
Payments to Employees	(8,547,334)	-	(7,874,893)
Other Receipts and Payments, Net	(2,118,114)	22,432	2,875,650
Net Cash Provided by Operating Activities	<u>2,300,375</u>	<u>22,057</u>	<u>2,322,432</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Noncapital Grants and Contributions	3,266,443	7,578	3,274,021
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Expenditures	(3,548,349)	-	(3,548,349)
Forgiveness of Long-Term Debt	(1,929,500)	-	1,929,500
Principal Payments on Finance Lease Obligations	(59,067)	-	-
Principal Payments on Long-Term Debt	(237,340)	-	(237,340)
Capital Grants and Contributions	131,200	-	131,200
Net Cash Used by Capital and Related Financing Activities	<u>(5,643,056)</u>	<u>-</u>	<u>(5,643,056)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Investments	(515,446)	(7,578)	(523,024)
Sale of Investments	8,048,773	133,688	8,182,461
Expenses Paid on Behalf of Related Party	(52,847)	-	(52,847)
Transfer from (to) Related Party	52,847	(60,847)	(8,000)
Interest Income	93,986	-	93,986
Net Cash Provided by Investing Activities	<u>7,627,313</u>	<u>65,263</u>	<u>7,692,576</u>
INCREASE IN CASH AND CASH EQUIVALENTS	7,551,075	94,898	7,645,973
Cash and Cash Equivalents - Beginning	<u>14,116,886</u>	<u>266,181</u>	<u>14,383,067</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 21,667,961</u>	<u>\$ 361,079</u>	<u>\$ 22,029,040</u>

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED APRIL 30, 2022**

	Primary Enterprise (Hospital)	Component Unit (Foundation)	Total Reporting Entity (Memo Only)
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from Operations	\$ 4,489,469	\$ 22,057	\$ 4,511,526
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:			
Depreciation and Amortization Expense	1,511,566	-	1,511,566
Provision for Bad Debts	524,617	-	524,617
(Increase) Decrease in:			
Patient Accounts Receivable	(978,221)	-	(978,221)
Deferred Outflows of Resources	(2,862,883)	-	(2,862,883)
Accrued Interest Receivable	16,882	-	16,882
Other Receivables	124,186	-	124,186
Supplies and Prepaid Expenses	(74,177)	-	(74,177)
Increase (Decrease) in:			
Accounts Payable	278,406	-	278,406
Net Pension Liability	(1,610,390)	-	(1,610,390)
Deferred Inflows of Resources	3,985,156	-	3,985,156
Due to Third-Party Payors	(621,085)	-	(621,085)
Accrued Expenses	5,633	-	5,633
Unearned Revenue	(2,488,784)	-	(2,488,784)
Net Cash Provided by Operating Activities	\$ 2,300,375	\$ 22,057	\$ 2,322,432

See accompanying Notes to Financial Statements.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

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, 2023 AND 2022**

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, 2023 and 2022, the allowance for uncollectible accounts was approximately \$415,000 and \$388,000, respectively.

Supplies

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

Noncurrent Cash and Investments

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

Deferred Outflows of Resources

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

Capital Assets

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

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

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

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 \$86,000 and \$102,000 for the years ended April 30, 2023 and 2022, respectively.

Net Patient Service Revenue

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

Operating Revenues and Expenses

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

Pensions

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

Postemployment Benefits

Under the terms of collectively bargained employment contracts, the Hospital is required to pay the health insurance premiums for certain retired employees until they reach age 62. The amount is limited as specified by contract. All premiums are funded on a pay-as-you-go basis. The estimated liability is based on an actuary report at April 30, 2022 (Note 8).

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

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 as the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consist of pension and postemployment benefit related deferred inflows.

Coronavirus Relief Funds

Due to the Coronavirus pandemic, the U.S. Department of Health and Human Services (HHS) made available emergency relief grant funds to health care providers through the CARES Act Provider Relief Fund (PRF). Additionally, the Minnesota Department of Health (MDH) made available multiple preparedness response grants. Total grant funds approved and received by the Hospital at April 30, 2023 and 2022 were \$-0- and \$629,802, respectively. The grant funds are subject to certain restrictions on eligible expenses or uses, reporting requirements, and will be subject to audit. At April 30, 2023 and 2022, the Hospital recognized \$-0- and \$1,259,063, respectively, as nonoperating revenue in the statement of revenues, expenses and changes in net position. Additionally, \$1,859,523 was repaid during the year ended April 30, 2022. Management believes the amounts have been recorded appropriately as of April 30, 2023 and 2022.

Investment in Joint Venture

The Hospital reports its investment in Central Minnesota Diagnostic, Inc. (CMDI) on the equity method of accounting which approximates the Organization's equity in the underlying book value based on its most recent quarter ended March 31. The Hospital's share of net income from the investment, of \$62,667 for the year ended April 30, 2023, is recognized as equity earnings included in other revenue in the statement of revenue, expenses and changes in net position.

Net Position

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

Risk Management

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

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

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

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

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

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

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

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

Reclassifications

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

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflow of resources or outflows of resources recognized based on the payment provisions of the contracts. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The Hospital adopted the requirements of the guidance effective May 1, 2022, and has applied the provisions of this standard to the beginning of the earliest comparative period presented. The impact of adopting GASB Statement No. 87 on the statements of net position and statements of revenues, expenses, and changed in net position as of April 31, 2022 was as follows:

	<u>As Previously Stated</u>	<u>Adjustment</u>	<u>As Restated</u>
Combined Statement of Net Position			
Right to Use Assets, Net	\$ -	\$ 569,207	\$ 569,207
Current Liabilities			
Current Maturities of Finance Lease Obligations	-	120,823	120,823
Finance Lease Obligations, Net of Current Maturities	-	452,563	452,563
Net Position			
Net Investment in Capital Assets	11,962,647	(4,179)	11,958,468
Combined Statement of Revenues, Expenses and Changes in Net Position			
Expenses			
Other Professional Services	\$ 6,836,406	\$ (68,016)	\$ 6,768,390
Interest Expense	161,395	8,950	170,345
Depreciation and Amortization	1,448,321	63,245	1,511,566

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Hospital determines if an arrangement is a lease at inception. Leases are included in capital assets and long-term debt in the statements of net position.

Lease assets represent the Hospital's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Lease liabilities represent the Hospital's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or terminate the lease when it is reasonably certain that the Hospital will exercise that option.

The Hospital has elected to recognize payments for short-term leases with a lease term of 12 months or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use lease assets on the statements of net position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Hospital has elected to use their incremental borrowing rate to calculate the present value of expected lease payments.

The Hospital accounts for contracts containing both lease and nonlease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and nonlease components, and it is impractical to estimate the price of such components, the Hospital treats the components as a single lease unit.

Subsequent Events

On November 27, 2023, the Hospital issued the City of Windom, Minnesota Health Care Facilities Gross Revenue Bonds, Series 2023A. The issuance totaled \$20,138,646 and the proceeds will be used for construction of a medical office building as described in Note 5.

In preparing these financial statements, the Hospital has considered events and transactions that have occurred through December 4, 2023, the date in which the financial statements were available to be issued.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

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 46% and 47% for the years ended 2023 and 2022, and revenue from the Medicaid programs accounted for approximately 10% and 11% for the years ended 2023 and 2022, 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 2023 net patient service revenue increased approximately \$16,000 and the 2022 net patient service revenue increased approximately \$760,000 due to removal of allowance previously estimated that are no longer considered necessary as a result of changes in estimates and years that are no longer subject to audits, reviews, and investigations.

Other

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

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

	<u>2023</u>	<u>2022</u>
Gross Patient Service Revenue	\$ 49,407,564	\$ 45,978,027
Adjustments and Discounts:		
Medicare	(13,665,877)	(10,775,593)
Medicaid	(4,919,401)	(4,396,456)
Other	(4,649,801)	(4,484,462)
Provision for Bad Debt	(637,761)	(524,617)
Total Adjustments and Discounts	<u>(23,872,840)</u>	<u>(20,181,128)</u>
Net Patient Service Revenue	<u>\$ 25,534,724</u>	<u>\$ 25,796,899</u>

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

NOTE 3 ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets by Windom Area Health at April 30, 2023 and 2022 consist of these amounts:

	2023	2022
Receivable from Patients and Their Insurance Carriers	\$ 2,259,703	\$ 2,337,777
Receivable from Medicare	1,541,203	1,451,917
Receivable from Medicaid	423,529	323,497
Total Patient Accounts Receivable	4,224,435	4,113,191
Less: Allowance for Uncollectible Amounts	(415,000)	(388,000)
Net Patient Accounts Receivable	<u>\$ 3,809,435</u>	<u>\$ 3,725,191</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, 2023, the Hospital's deposits in banks were covered by FDIC or FSLIC insurance protected by bond or collateral held by the Hospital's custodial bank in the Hospital's name.

Investments

Effective as of August 1, 2017, publicly owned hospitals are able to invest funds in a security recommended by an investment advisor, bank, or trust company, provided the funds are invested according to the hospital's written investment policies and procedures. The Hospital has a policy that conforms to these requirements and had the following investments at December 31:

2023		Investment Maturity (in Years)			
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
Cash and Cash Equivalents	\$ 10,688,281	\$ 10,688,281	\$ -	\$ -	\$ -
Certificates of Deposit	4,136,825	4,136,825	-	-	-
U.S. Treasury Notes	9,839,999	9,839,999	-	-	-
Total	<u>\$ 24,665,105</u>	<u>\$ 24,665,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

2022		Investment Maturity (in Years)			
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
Cash and Cash Equivalents	\$ 22,434,410	\$ 22,434,410	\$ -	\$ -	\$ -
Certificates of Deposit	515,446	515,446	-	-	-
Total	<u>\$ 22,949,856</u>	<u>\$ 22,949,856</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

- **U.S. Treasury Notes:** Consists of discount notes with interest rates ranging from 1.63% to 2.75% maturing from 2023 to 2024 and have AAA ratings by Moodys.
- **Certificates of Deposits (CD):** Consists of deposits with interest rates ranging from 4.45% to 5.15% maturing from 2023 to 2024.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Measurements

The Hospital uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the hospital measures fair value refer to Note 1 – Summary of Significant Accounting Policies. Cash and cash equivalents are stated at cost but are included in the table for comparison purposes to the balance sheet. The following table presents the fair value hierarchy for the balances of the assets and liabilities of the Hospital measured at fair value on a recurring basis as of December 31:

2023				
Investment Type	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 10,688,281	\$ -	\$ -	\$ 10,688,281
Certificated of Deposit	4,136,825	-	-	4,136,825
U.S. Treasury Notes		9,839,999		9,839,999
Total	<u>\$ 14,825,106</u>	<u>\$ 9,839,999</u>	<u>\$ -</u>	<u>\$ 24,665,105</u>

2022				
Investment Type	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 22,434,410	\$ -	\$ -	\$ 22,434,410
Certificated of Deposit	515,446	-	-	515,446
Total	<u>\$ 22,949,856</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,949,856</u>

At April 30, 2023 and 2022, the carrying amounts of deposits and investments are included in the Hospital's statements of net position as follows:

	2023	2022
Carrying Amount:		
Deposits	\$ 10,688,281	\$ 22,434,410
Investments	13,976,824	515,446
Total	<u>\$ 24,665,105</u>	<u>\$ 22,949,856</u>
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents - Hospital	\$ 9,815,926	\$ 21,667,961
Cash and Cash Equivalents - Foundation	464,638	361,079
Board Designated for Capital Improvements	13,976,824	515,446
Debt Service Reserve Funds Held by Trustee	407,717	405,370
Total	<u>\$ 24,665,105</u>	<u>\$ 22,949,856</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
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APRIL 30, 2023 AND 2022**

NOTE 5 CAPITAL ASSETS

Capital assets (in thousands) for the years ended April 30, 2023 and 2022 consist of the following:

	Balance April 30, 2022	Additions and Transfers	Retirements	Balance April 30, 2023
Land	\$ 271	\$ -	\$ -	\$ 271
Land Improvements	3,308	27	-	3,335
Buildings	14,564	(177)	-	14,387
Fixed Equipment	9,782	339	-	10,121
Moveable Equipment	5,952	641	-	6,593
Construction in Progress	-	312	-	312
Total at Historical Cost	<u>33,877</u>	<u>1,142</u>	<u>-</u>	<u>35,019</u>
Less Accumulated				
Depreciation for:				
Land Improvements	(1,213)	(174)	-	(1,387)
Buildings	(7,962)	(520)	-	(8,482)
Fixed Equipment	(3,931)	(518)	-	(4,449)
Moveable Equipment	(4,807)	(381)	-	(5,188)
Total Accumulated				
Depreciation	<u>(17,913)</u>	<u>(1,593)</u>	<u>-</u>	<u>(19,506)</u>
Capital Assets, Net	<u>\$ 15,964</u>	<u>\$ (451)</u>	<u>\$ -</u>	<u>\$ 15,513</u>
	Balance April 30, 2021	Additions and Transfers	Retirements	Balance April 30, 2022
Land	\$ 271	\$ -	\$ -	\$ 271
Land Improvements	3,145	163	-	3,308
Buildings	13,164	1,400	-	14,564
Fixed Equipment	8,167	1,615	-	9,782
Moveable Equipment	5,571	381	-	5,952
Construction in Progress	11	(11)	-	-
Total at Historical Cost	<u>30,329</u>	<u>3,548</u>	<u>-</u>	<u>33,877</u>
Less Accumulated				
Depreciation for:				
Land Improvements	(1,046)	(167)	-	(1,213)
Buildings	(7,485)	(477)	-	(7,962)
Fixed Equipment	(3,534)	(397)	-	(3,931)
Moveable Equipment	(4,400)	(407)	-	(4,807)
Total Accumulated				
Depreciation	<u>(16,465)</u>	<u>(1,448)</u>	<u>-</u>	<u>(17,913)</u>
Capital Assets, Net	<u>\$ 13,864</u>	<u>\$ 2,100</u>	<u>\$ -</u>	<u>\$ 15,964</u>

Construction in progress as of April 30, 2023 mainly relates to planning costs associated with a Medical Office Building (MOB) project. The project is expected to cost approximately \$28,400,000 and will be completed by December 31, 2025. The project is being funded through issuance of the 2023A Health Care Facilities Gross Revenue Bonds and savings.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following for the years ended April 30, 2023 and 2022:

	Balance April 30, 2022	Additions	Reductions	Balance April 30, 2023
Gross Revenue Hospital Bonds, Series 2014A	\$ 4,035,000	\$ -	\$ (245,000)	\$ 3,790,000
Bond Discount	(33,693)	-	2,660	(31,033)
Total Long-Term Debt	<u>\$ 4,001,307</u>	<u>\$ -</u>	<u>\$ (242,340)</u>	<u>3,758,967</u>
Less: Current Maturities				<u>(3,758,967)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ -</u>
	Balance April 30, 2021	Additions	Reductions	Balance April 30, 2022
Gross Revenue Hospital Bonds, Series 2014A	\$ 4,275,000	\$ -	\$ (240,000)	\$ 4,035,000
PPP Loan (direct borrowing)	1,929,500	-	(1,929,500)	-
Bond Discount	(36,353)	-	2,660	(33,693)
Total Long-Term Debt	<u>\$ 6,168,147</u>	<u>\$ -</u>	<u>\$ (2,166,840)</u>	<u>4,001,307</u>
Less: Current Maturities				<u>(245,000)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 3,756,307</u>

- Gross Revenue Hospital Bonds, Series 2014A in the original amount of \$5,600,000 with interest ranging from 1.00% to 4.15%. Principal payments are due annually commencing September 2015 to September 2034 with interest paid semi-annually. The bonds can be optionally redeemed beginning September 1, 2021, with a 1% premium through August 31, 2022, and thereafter no redemption premium. The bonds were issued for partial financing of a hospital expansion and renovation project. The bonds are payable from the "Gross Revenues" of the Hospital including patient service revenues (net of allowances and uncollectible accounts), other operating revenues, and nonoperating revenues, other than contributions restricted as to use so as not to be available for operating expenses or debt service.
- On May 4, 2020, the Hospital received a loan through the Small Business Administration (SBA) Paycheck Protection Program (PPP) for \$1,929,500. The full amount of the PPP loan was included in the current maturities of long-term debt in the statement of net position as of April 30, 2021. On August 13, 2021, the PPP loan was forgiven in its entirety. The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Hospital's net position.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Under the Series 2014A bonds, the Hospital must meet certain operational and performance covenants and is limited in the amount of additional debt that can be incurred. With the exception of the provision of delivering financial statements and compliance certificate within 120 days of year-end, management believes the Hospital was in compliance with all debt covenants as of April 30, 2023. A waiver of rights for the covenant violations was not granted by the bondholders and as a result, the Gross Revenue Hospital Bonds are classified as current liabilities in the statement of net position as the bonds could be deemed due and payable at any point. If the bonds are not called, the schedule of maturities below illustrates the principal and interest payments that are due based on the agreements.

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

<u>Year Ending April 30,</u>	Long-Term Debt		
	Principal	Interest	Total
2024	\$ 255,000	\$ 144,280	\$ 399,280
2025	265,000	135,308	400,308
2026	270,000	125,810	395,810
2027	285,000	115,678	400,678
2028	295,000	104,800	399,800
2028-2032	1,295,000	295,946	1,590,946
2033-2036	1,125,000	71,276	1,196,276
Total	\$ 3,790,000	\$ 993,098	\$ 4,783,098

NOTE 7 LEASE OBLIGATIONS

The following is a summary of lease obligation transactions for the Hospital for the years ended April 30:

	Balance April 30, 2022	Additions	Reductions	Balance April 30, 2023
Lease Obligations	\$ 573,386	\$ -	\$ (120,824)	\$ 452,562
Less: Current Maturities				(124,498)
Total Lease Obligations, Net of Current Maturities				\$ 328,064

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

NOTE 7 LEASE OBLIGATIONS (CONTINUED)

	Balance April 30, 2021	Additions	Reductions	Balance April 30, 2022
Lease Obligations	\$ -	\$ 632,452	\$ (59,066)	\$ 573,386
Less: Current Maturities				(120,823)
Total Lease Obligations, Net of Current Maturities				\$ 452,563

Lease obligations consist of medical equipment. The lease has a monthly payment of \$10,541, with an interest rate of 3%, and maturity date in 2026. Capital assets include the following equipment under lease obligation:

	2023	2022
Equipment	\$ 632,452	\$ 632,452
Less: Accumulated Amortization	(189,736)	(63,245)
Total Right to Use Assets, Net	\$ 442,716	\$ 569,207

Scheduled principal and interest repayments on lease obligations are as follows:

Year Ending April 30,	Finance Lease Obligations		
	Principal	Interest	Total
2024	\$ 124,498	\$ 11,807	\$ 157,455
2025	128,285	8,470	155,137
2026	132,186	5,061	155,138
2027	67,593	1,774	114,759
Total	\$ 452,562	\$ 27,112	\$ 582,489

NOTE 8 DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

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NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefits Provided

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

Under Method 1, the accrual rate for coordinated members is 1.20% of average salary for any five successive years of allowable service, age, and years of credit at termination of service. Under Method 2, the accrual rate for coordinated members is 1.70% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.00% and a maximum of 1.50%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Contributions

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

Coordinated plan members were required to contribute 6.5% of their annual covered salary in fiscal years 2023 and 2022 and the Hospital was required to contribute 7.5% of pay for coordinated plan members. The Hospital's contributions to the General Employment Plan for the plan's fiscal years ended April 30, 2023, 2022, and 2021 were \$650,753, \$637,602, and \$576,285, respectively. The Hospital's contributions were equal to the required contributions for each year as set by state statute.

**WINDOM AREA HEALTH
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NOTES TO FINANCIAL STATEMENTS
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NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Costs

At April 30, 2023 and 2022, the Hospital reported a liability of \$8,965,476 and \$4,641,976, respectively, for its proportionate share of the General Employees Fund's net pension liability. The Hospital's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2022 and 2021. 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 \$263,024 and \$141,732 at April 30, 2023 and 2022, respectively. The net pension liability was measured as of June 30, 2022 and 2021, 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, 2021 through June 30, 2022 and July 1, 2020 through June 30, 2021 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2022 and 2021 the Hospital's proportion share was .1132% and .1087%, respectively. There were no benefit provision changes during the measurement period.

For the years ended April 30, 2023 and 2022, the Hospital recognized pension expense of \$1,376,378 and \$138,110, respectively. These amounts consisted of the Hospital's proportionate share of the General Employees Plan's pension expense, plus additional amortized net expenses associated with differences between estimated and actual experience of various actuarial assumptions associated with the plan. In addition, the Hospital recognized an additional \$39,302 and \$11,435 during the years ended April 30, April 30, 2023 and 2022, respectively, as pension expense (and other revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million the General Employees Fund.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Costs (Continued)

At April 30, 2023 and 2022, the Hospital reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2023</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 74,886	\$ 95,773
Changes of Assumptions	2,029,044	36,461
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	155,513	-
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	336,521	-
Hospital Contributions Subsequent to the Measurement Date	<u>555,018</u>	<u>-</u>
Total	<u>\$ 3,150,982</u>	<u>\$ 132,234</u>
	<u>2022</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 28,519	\$ 142,057
Changes of Assumptions	2,834,289	102,680
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	4,020,149
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	280,428	-
Hospital Contributions Subsequent to the Measurement Date	<u>542,523</u>	<u>-</u>
Total	<u>\$ 3,685,759</u>	<u>\$ 4,264,886</u>

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WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Costs (Continued)

The \$555,018 and \$542,523 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, 2023 and 2022, respectively. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending April 30,</u>	<u>2023</u>	<u>2022</u>
2022	\$ -	\$ (68,138)
2023	935,709	19,853
2024	940,387	23,142
2025	(223,157)	(1,096,507)
2026	810,791	-
Total	<u>\$ 2,463,730</u>	<u>\$ (1,121,650)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5% was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25% for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions used in the June 30, 2022 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the board and become effect with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions occurred in 2022:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

The following changes in plan provisions occurred in 2022:

- There were no changes in plan provisions since the previous valuation.

**WINDOM AREA HEALTH
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NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Long-Term Expected Return on Investments

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 %	5.10 %
International Stocks	16.5 %	5.30 %
Fixed Income	25.0 %	0.75 %
Private Markets	25.0 %	5.90 %
Total	<u>100.0 %</u>	

Discount Rate

The discount rate used to measure the total pension liability in 2023 and 2022 was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

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

	1% Decrease (5.5%)	Discount Rate (6.5%)	1% Increase (7.5%)
<u>April 30, 2023</u>			
Hospital's Proportionate Share of the Net Pension Liability	\$ 14,161,441	\$ 8,965,476	\$ 4,703,985
<u>April 30, 2022</u>			
Hospital's Proportionate Share of the Net Pension Liability	\$ 9,467,263	\$ 4,641,976	\$ 682,535

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NOTES TO FINANCIAL STATEMENTS
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NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 9 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.

Plan Description and Funding Policy (Continued)

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, 2023 and 2022, there were no retirees receiving benefits from the Hospital's health plan.

Net OPEB Liability (Asset)

The components of the net OPEB liability (asset) of the Hospital at April 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Total OPEB Liability	\$ 62,137	\$ 164,541
Plan Fiduciary Net Position	-	-
Medical Center's Net OPEB Liability (Asset)	<u>\$ 62,137</u>	<u>\$ 164,541</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	0%	0%

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NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Net OPEB Liability (Asset) (Continued)

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, 2022	\$ 164,541	\$ -	\$ 164,541
Changes for the Year:			
Service Cost	20,327	-	20,327
Interest Cost	3,589	-	3,589
Differences Between Expected and Actual Experience	(32,592)	-	(32,592)
Changes in Assumptions or Other Inputs	(88,398)	-	(88,398)
Contributions-Employer	-	5,330	(5,330)
Net Investment Income	-	-	-
Benefit Payments	(5,330)	(5,330)	-
Administrative Revenue	-	-	-
Net Changes	<u>(102,404)</u>	<u>-</u>	<u>(102,404)</u>
Balances at April 30, 2023	<u>\$ 62,137</u>	<u>\$ -</u>	<u>\$ 62,137</u>
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at April 30, 2021	\$ 133,669	\$ -	\$ 133,669
Changes for the Year:			
Service Cost	17,426	-	17,426
Interest Cost	4,255	-	4,255
Differences Between Expected and Actual Experience	-	-	-
Changes in Assumptions or Other Inputs	11,749	-	11,749
Contributions-Employer	-	2,558	(2,558)
Net Investment Income	-	-	-
Benefit Payments	(2,558)	(2,558)	-
Administrative Expense	-	-	-
Net Changes	<u>30,872</u>	<u>-</u>	<u>30,872</u>
Balances at April 30, 2022	<u>\$ 164,541</u>	<u>\$ -</u>	<u>\$ 164,541</u>

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Net OPEB Liability (Asset) (Continued)

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

	1% Decrease (2.42%)	Discount Rate (3.42%)	1% Increase (4.42%)
April 30, 2023			
Net OPEB Liability (Asset)	\$ 68,451	\$ 62,137	\$ 56,293
April 30, 2022			
Net OPEB Liability (Asset)	\$ 178,706	\$ 164,541	\$ 151,090

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

	1% Decrease (5.8%)	Trend Rate (6.8%)	1% Increase (7.8%)
April 30, 2023			
Net OPEB Liability (Asset)	\$ 53,166	\$ 62,137	\$ 73,073
April 30, 2022			
Net OPEB Liability (Asset)	\$ 140,798	\$ 164,541	\$ 193,663

For the years ended April 30, 2023 and 2022, the Hospital recognized OPEB expenses of \$6,546 and \$30,872, respectively. At April 30, 2023 and 2022, the Hospital report deferred outflows of resources and deferred inflows of resources related to OPEB. The full amount of deferred outflows is related to 2023 and 2022.

	Deferred Outflows of Resources	Deferred Inflows of Resources
April 30, 2023		
Difference Between Expected and Actual Liability	\$ -	\$ 55,219
Change of Assumptions	10,145	88,229
Net Difference Between Projected and Actual Investment Earnings	-	-
Employer Contributions	-	-
Total	\$ 10,145	\$ 143,448

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Net OPEB Liability (Asset) (Continued)

April 30, 2022	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Liability	\$ -	\$ 34,206
Change of Assumptions	12,534	15,773
Net Difference Between Projected and Actual Investment Earnings	-	-
Employer Contributions	-	-
Total	<u>\$ 12,534</u>	<u>\$ 49,979</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, 2023, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.42%
20-Year Municipal Bond Yield	3.42%
Inflation Rate	2.50%
Health Care Trend Rates	6.8%
	Decreasing over several decades to 3.9% in FY2076

Mortality rates were based on assumptions for General Employees used in the July 1, 2022 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 period equal to the average remaining service of active and inactive plan members.

Funded Status and Funding Progress

As of April 30, 2023, the most recent valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$62,137 and \$164,541 at April 30, 2023 and 2022, and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$62,137 and \$164,541, respectively. The covered payroll was \$8,906,242 and \$8,552,967 and the ratio of the UAAL to the covered payroll was 0.76% and 1.95% at April 30, 2023 and 2022, respectively.

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Funded Status and Funding Progress (Continued)

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 10 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 11 COMMITMENTS AND CONTINGENCIES

Malpractice Claims

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

Compliance

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

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2023 AND 2022**

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other

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

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

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

NOTE 12 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 \$334,863 and \$315,482 for the years ended April 30, 2023 and 2022, respectively.

The Hospital also purchases certain services, supplies and other items through Sanford's network. Amount due to Sanford was \$202,000 and \$112,000 at April 30, 2023 and 2022, respectively.

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

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)
APRIL 30, 2023**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Hospital's Proportion of the Net Pension Liability	0.1132%	0.1087%	0.1048%	0.1029%	0.1002%
Hospital's Proportionate Share of the Net Pension Liability	\$ 8,965,476	\$ 4,641,976	\$ 6,283,238	\$ 5,689,110	\$ 5,558,685
Hospital's Covered Payroll	\$ 8,906,242	\$ 8,552,967	\$ 7,840,559	\$ 7,521,193	\$ 7,331,990
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	100.67%	54.27%	80.14%	75.64%	75.81%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.70%	87.00%	79.06%	80.23%	79.50%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	
Hospital's Proportion of the Net Pension Liability	0.1010%	0.0953%	0.1098%	0.1011%	
Hospital's Proportionate Share of the Net Pension Liability	\$ 6,447,773	\$ 7,737,887	\$ 5,239,526	\$ 5,157,853	
Hospital's Covered Payroll	\$ 6,825,836	\$ 6,325,817	\$ 6,015,138	\$ 6,000,044	
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	94.46%	122.32%	87.11%	85.96%	
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	68.90%	78.20%	78.70%	

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, 2023**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Statutorily Required Contribution	\$ 650,753	\$ 637,602	\$ 576,285	\$ 553,863	\$ 569,906
Contributions in Relation to the Statutorily Required Contribution	<u>650,753</u>	<u>637,602</u>	<u>576,285</u>	<u>553,863</u>	<u>569,906</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital Covered Payroll	\$ 8,906,242	\$ 8,552,967	\$ 7,840,559	\$ 7,521,193	\$ 7,331,990
Contributions as a Percentage of Covered Payroll	7.31%	7.45%	7.35%	7.36%	7.77%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily Required Contribution	\$ 487,568	\$ 452,945	\$ 431,594	\$ 422,799	\$ 404,469
Contributions in Relation to the Statutorily Required Contribution	<u>487,568</u>	<u>452,945</u>	<u>431,594</u>	<u>422,799</u>	<u>404,469</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital Covered Payroll	\$ 6,825,836	\$ 6,325,817	\$ 6,015,138	\$ 6,000,044	\$ 5,782,659
Contributions as a Percentage of Covered Payroll	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, 2023**

	2023	2022	2021	2020	2019
Total OPEB Liability					
Service Cost	\$ 20,327	\$ 17,426	\$ 20,796	\$ 18,761	\$ 17,854
Interest	3,589	4,255	6,592	6,132	5,174
Changes of Benefit Terms	-	-	-	-	-
Differences Between Expected and Actual Experience	(32,592)	-	(47,998)	-	-
Changes of Assumptions	(88,398)	11,749	(21,700)	4,576	(801)
Benefit Payments	(5,330)	-	-	-	-
Net Change in Total OPEB Liability	<u>(102,404)</u>	<u>33,430</u>	<u>(42,310)</u>	<u>29,469</u>	<u>22,227</u>
Total OPEB Liability - Beginning	<u>164,541</u>	<u>133,669</u>	<u>175,979</u>	<u>146,510</u>	<u>124,283</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 62,137</u></u>	<u><u>\$ 167,099</u></u>	<u><u>\$ 133,669</u></u>	<u><u>\$ 175,979</u></u>	<u><u>\$ 146,510</u></u>
 Plan Fiduciary Net Position					
Contributions - Employer	\$ -	\$ -	\$ -	\$ -	\$ -
Net Investment Income	-	-	-	-	-
Benefit Payments	-	-	-	-	-
Administrative Expense	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
 Medical Center's Net OPEB Liability - Ending (a) - (b)	 \$ 62,137	 \$ 167,099	 \$ 133,669	 \$ 175,979	 \$ 146,510
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	 0.00%	 0.00%	 0.00%	 0.00%	 0.00%
 Covered-Employee Payroll	 \$ 8,906,242	 \$ 8,552,967	 \$ 7,840,559	 \$ 7,521,193	 \$ 7,331,990
 Medical Center's Net OPEB Liability as a Percentage of Covered-Employee Payroll	 0.70%	 1.95%	 1.70%	 2.34%	 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, 2023 and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated December 4, 2023.

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

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 4, 2023



**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, 2023, 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 December 4, 2023.

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) as a basis for designing 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.

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.

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. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Windom Area Health’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Windom Area Health’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Windom Area Health’s response to the findings identified in our audit and 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
December 4, 2023

**WINDOM AREA HEALTH
WINDOM, MINNESOTA
SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2023**

FINANCIAL STATEMENT FINDINGS

2023 – 001

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

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

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

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

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

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

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

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

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



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