

Windom Area Health

2019 Audit Results and Report to the Board of Directors

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor



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We promise to know you and help you.

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Executive Summary

Results of Professional Services

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Results of Professional Services

Significant Transactions

- No significant or unusual transactions in the current year

Audit Adjustments

- Proposed audit adjustments with an overall impact of a net decrease in net income of \$283,695 and a passed audit adjustment totaling \$32,854

Subsequent Events

- No subsequent events to report

Internal Control Results

- Material Weaknesses
 - Control Over Financial Reporting Process
 - Audit Adjustments and Passed Audit Adjustment
 - Unreconciled Cash Account





Understanding Your Industry

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Recent Articles



HEALTH CARE REFORM FOR PROVIDERS | BLOG

Health Care Innovation and Insight Blog (HI2): Your Source For Navigating the Future



NAVIGATING HEALTH REFORM | ARTICLE

Medicare Advantage Plans Now Offer More Benefits For Senior Living Providers



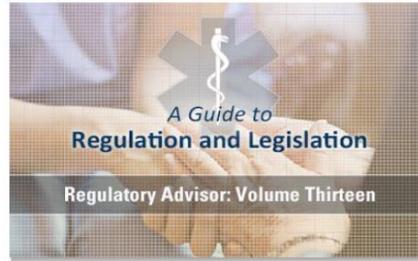
INDUSTRY TRENDS | WHITE PAPER

2018 CLA Senior Living Trends White Paper Finds Opportunities in Disruptors



NAVIGATING HEALTH REFORM | TOOL

2019 SNF Medicare RUG-IV PPS Rate Calculator Now Available



A Guide to
Regulation and Legislation

Regulatory Advisor: Volume Thirteen

NAVIGATING HEALTH REFORM | ARTICLE

Patient-Driven Payment Model Finalized in 2019 SNF Final Rule

<https://www.claconnect.com/industries/health-care>



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Health Care Innovation and Insight | HI²

Your Source for Navigating the Future

Novel joint ventures

Virtual care delivery

Regulatory impacts

Public policy changes

ACOs, Bundles

Emerging drug therapies

Interoperability

Technological advances

Disrupters

Value-based payments

Health care mergers/acquisitions

Do any of these changes concern you? Excite you? Grab your attention? They should! These topics and many others are what CLA's newest blog, HI², will be focusing on → the ongoing disruption and innovations in health care.

Subscribe to Blog 

blogs.claconnect.com



New Accounting Standards

Topic	Communication
Certain Debt Extinguishment Issues – GASB 86	<ol style="list-style-type: none">1. Provides guidance for governments to report in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the purpose of extinguishing2. Liability, cash and other monetary assets are removed from the government's statement of net position3. Effective for years beginning after June 15, 2018
Leases – GASB 87	<ol style="list-style-type: none">1. Addresses accounting and financial reporting for leases by state and local governments.2. The Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset3. Requires the recognition of certain right to use lease assets and related liabilities for leases that were previously classified as operating leases4. Effective for years beginning after December 15, 2019, with earlier application permitted





Your Business

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Financial Ratios – Comparative Data Used

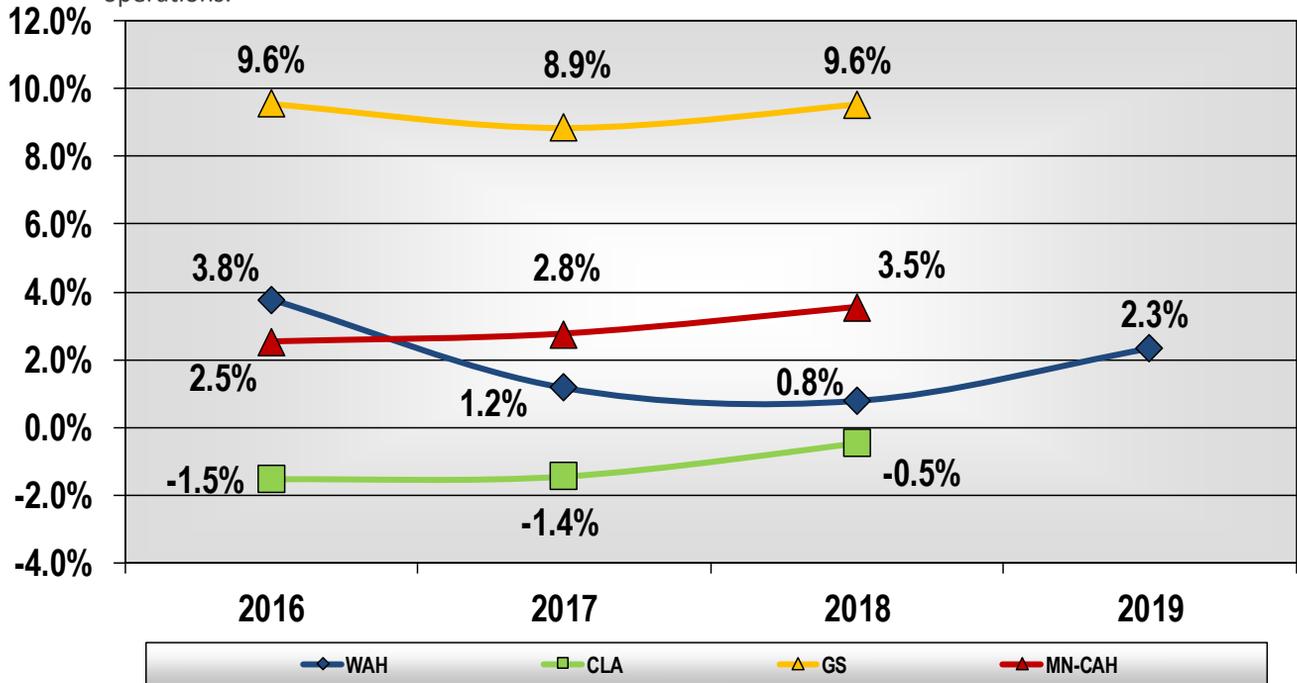
- Windom Area Health (WAH)
 - \$19.5 Million Net Patient Service Revenue
 - 2016-2019 Data, Based on Audited Financial Statements
- CLA CAH Clients (CLA)
 - Critical Access Hospitals with Net Patient Service Revenue less than \$25 Million
- CLA MN Clients (MN-CAH)
 - All MN CAH facilities from the Gold Standard Report
- CLA Gold Standard (GS)
 - Over 1,000 fiscal year reports analyzed in preparation of ratios and benchmarks
 - 35 Gold Standard Facilities



Operating Margin

Definition:

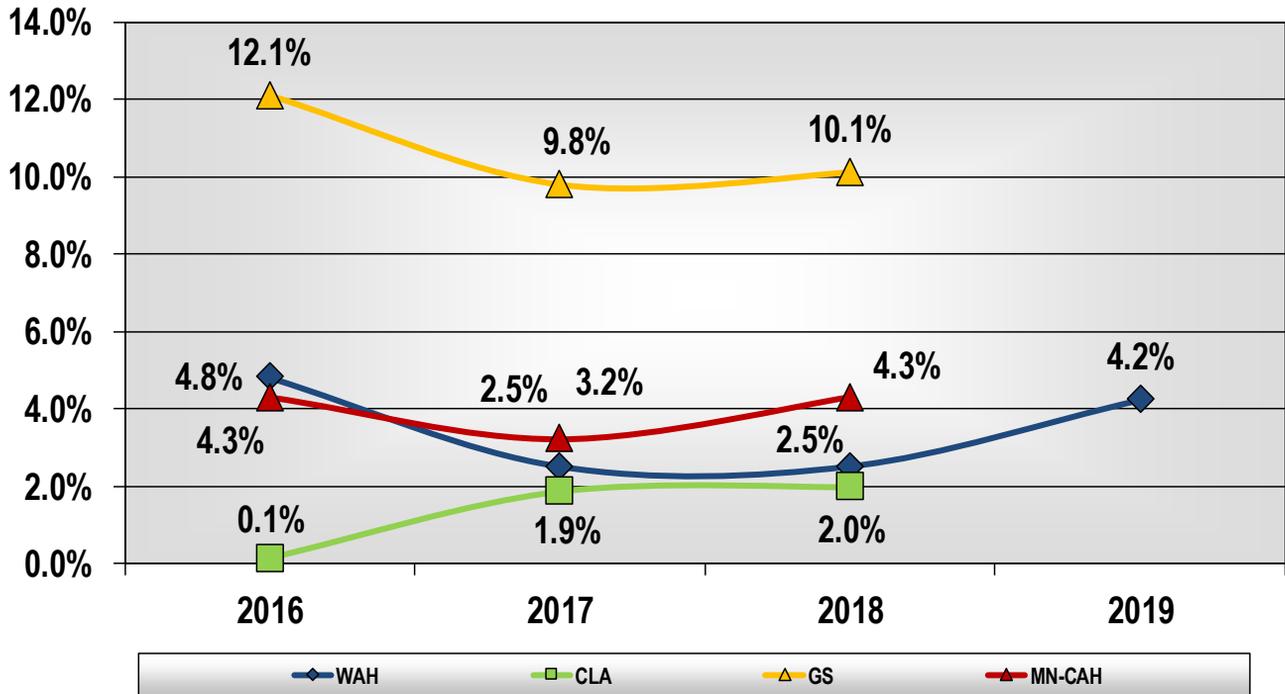
This ratio is operating income as a percentage of net patient service revenue plus other operating revenues. It is used to report the facility’s return on revenues which relate to the main purpose of operations.



Total Margin

Definition:

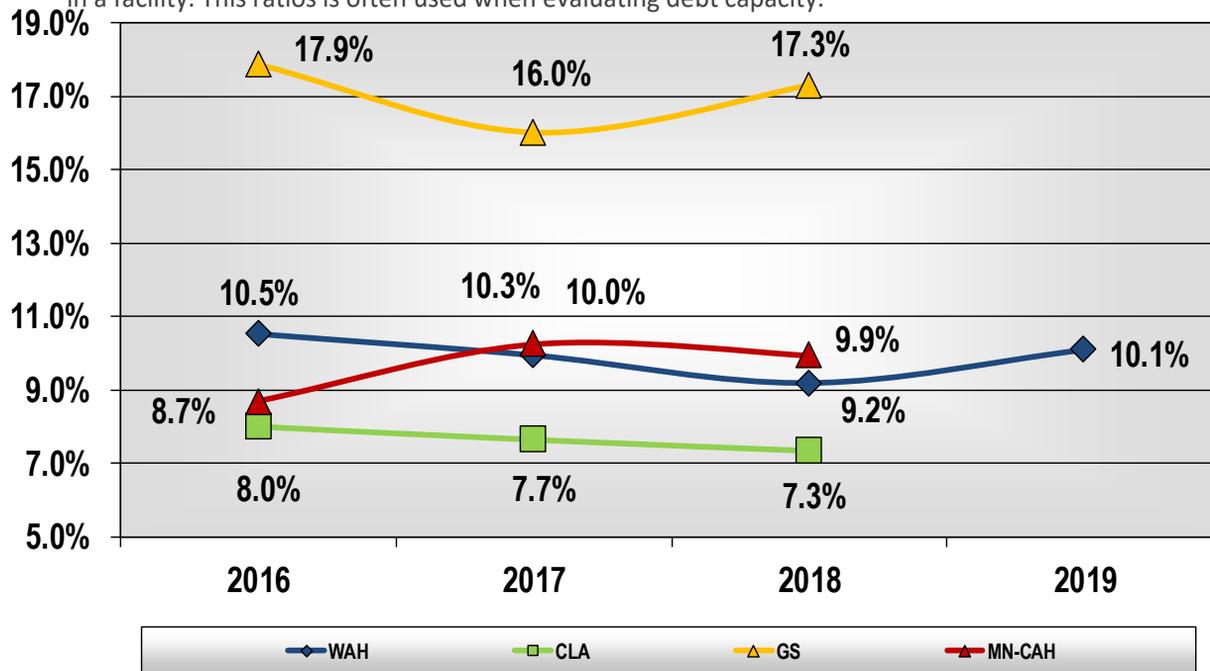
Total margin reflects excess of revenue over expenses as a percentage of total revenues, including nonoperating revenues.



Operating EBIDA

Definition:

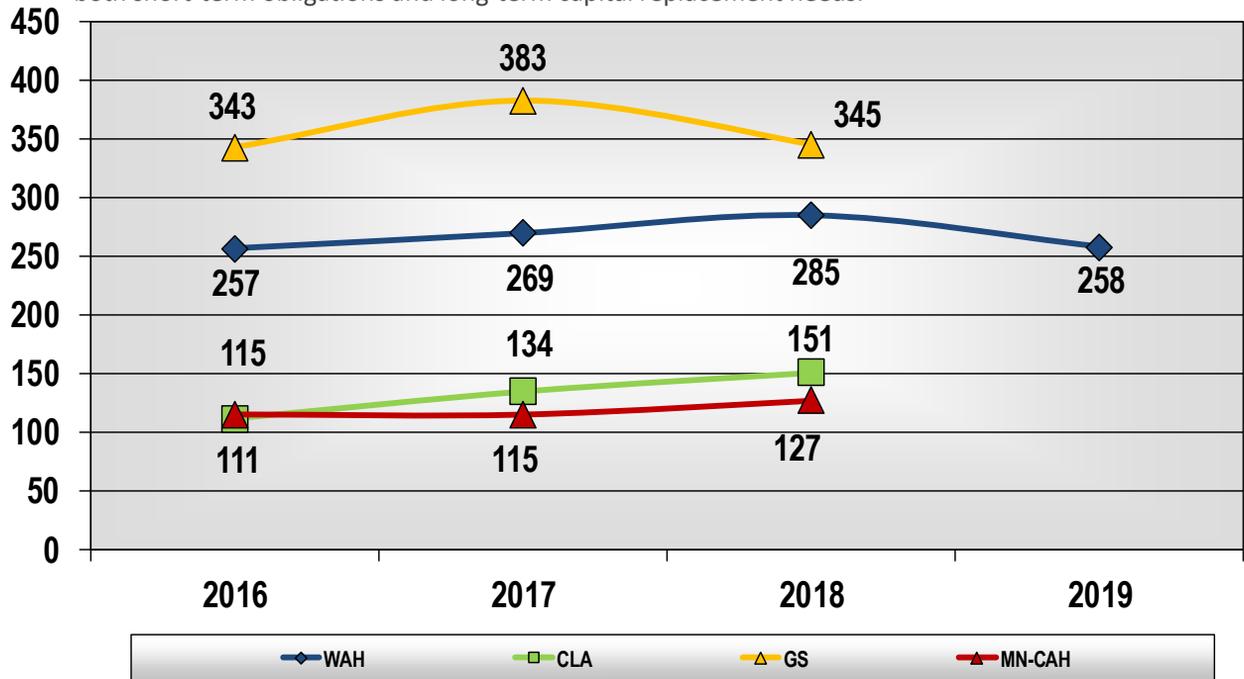
Operating EBIDA represents Earnings (operating income) Before Interest, Depreciation and Amortization divided by total operating revenues. It is used as a rough measure of operating cash flow in a facility. This ratio is often used when evaluating debt capacity.



Days Cash on Hand (All Sources)

Definition:

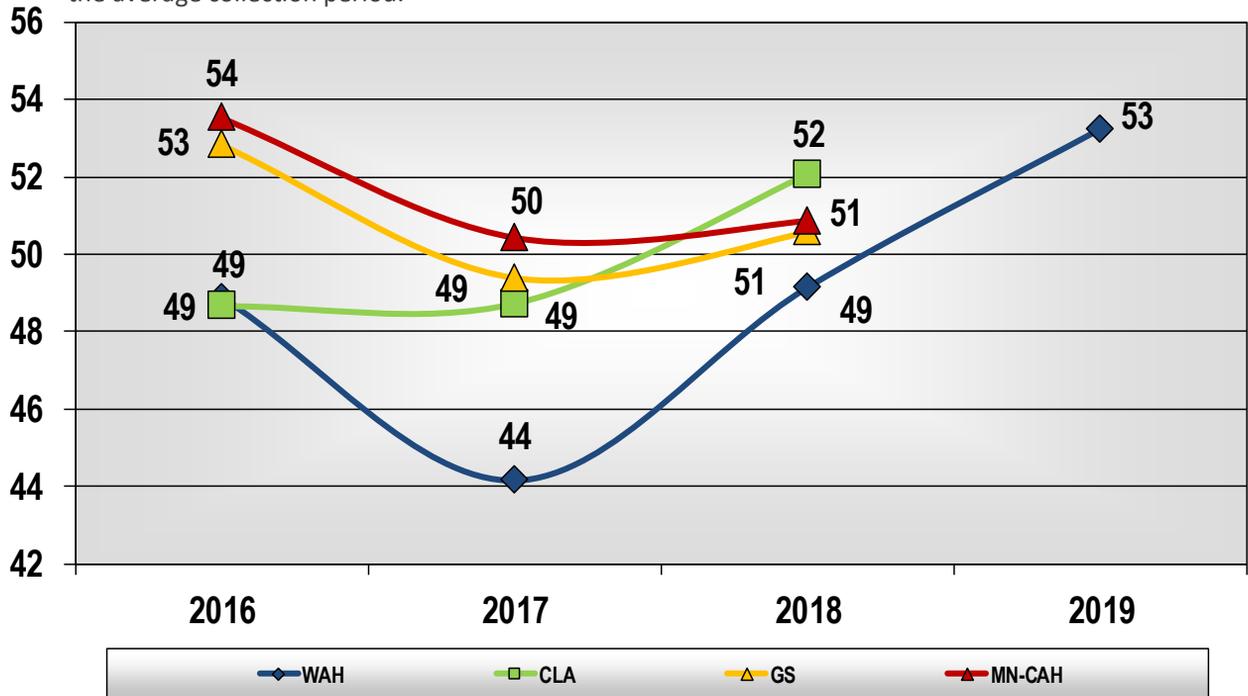
Days Cash on Hand measures the number of days of average cash expenses that the facility maintains in cash and amounts reserved for capital improvements. High values usually imply a greater ability to meet both short-term obligations and long-term capital replacement needs.



Net Days in Accounts Receivable

Definition:

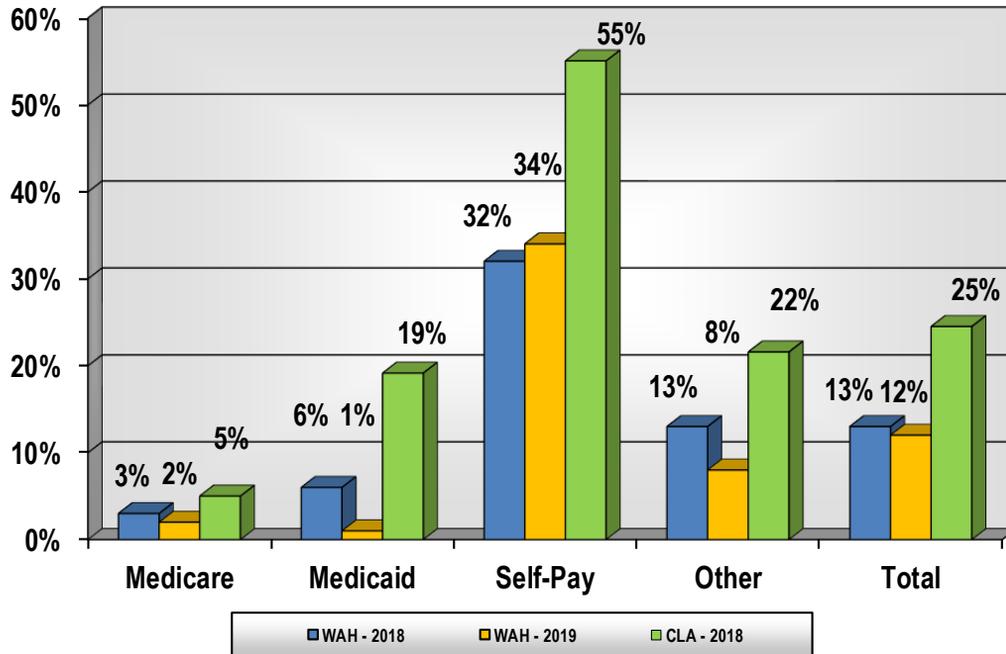
Days in patient accounts receivable is defined as the average time that receivables are outstanding, or the average collection period.



Percentage of A/R over 90 days old

Definition:

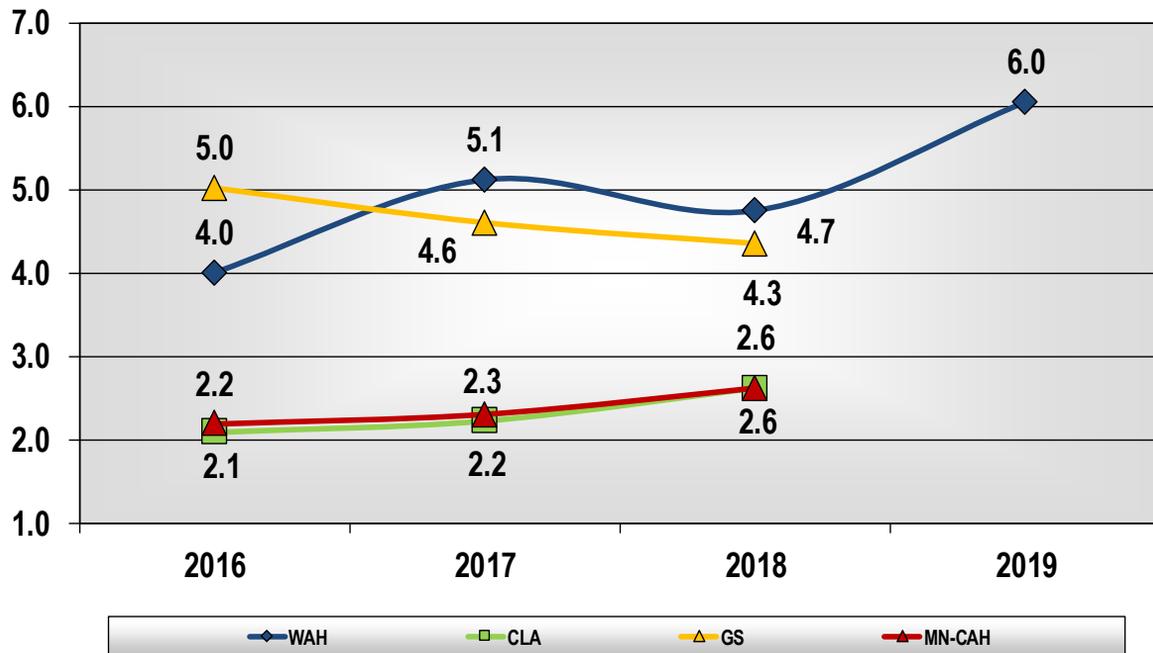
This is measured by dividing the amount of patient accounts receivable over 90 days by the total receivables in that payer category. Generally, the lower this percentage is the shorter turn around time the facility has for collecting receivables.



Debt Service Coverage

Definition:

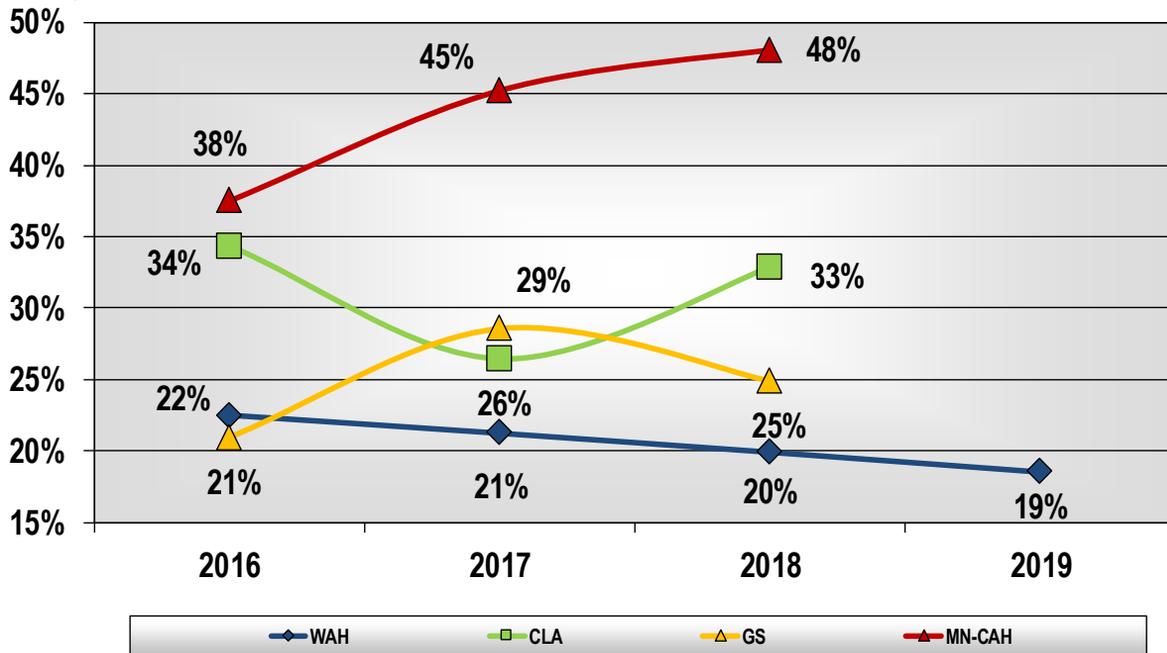
Debt service coverage is calculated as income available for debt service (net income + depreciation and amortization + interest expense) divided by the annual debt service requirements (principal payments made + interest expense).



Debt to Capitalization

Definition:

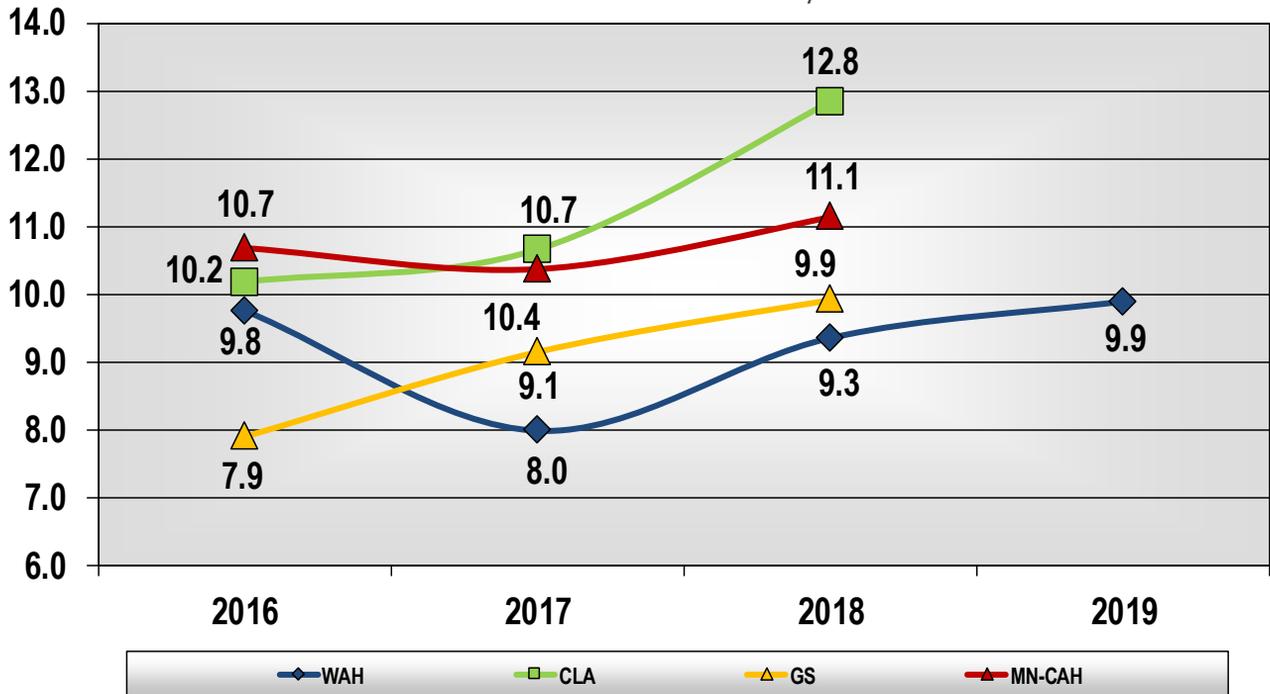
This ratio is defined as the proportion of long-term debt divided by long-term debt plus total net assets. Higher values for this ratio imply a greater reliance on debt financing and may imply reduced ability to carry additional debt.



Average Age of Plant

Definition:

Average age of plant attempts to approximate the average age of an organization's fixed assets. A low value is considered to be desirable as it indicates a newer facility.





Appendix

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Required Communications

Topic	Communication
Our responsibility under Generally Accepted Auditing Standards	<ul style="list-style-type: none"> • Express an opinion on the fair presentation of the combined financial statements in conformity with GAAP • Plan and perform the audit to obtain reasonable, nonabsolute assurance that the combined financial statements are free of material misstatement • Evaluate internal control over financial reporting • Utilize a risk-based audit approach • Communicate significant matters to appropriate parties
Planned Scope and Timing of the Audit	<ul style="list-style-type: none"> • Performed the audit according to the planned scope and timing previously discussed
Other Information in Documents Containing the Audited Financial Statements	<ul style="list-style-type: none"> • Financial statements may only be used in their entirety • Our approval is required to use our audit report in a client prepared document • We have no responsibility to perform procedures beyond those related to the financial statements



Required Communications

Topic	Communication
Significant Accounting Policies	<ul style="list-style-type: none"> • Management is responsible for the accounting policies of the organization • Accounting policies are outlined in Note 1 to the combined financial statements • No significant changes to the accounting policies in the current year • Accounting policies deemed appropriate • No unusual transactions occurred • GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was adopted for the year ended April 30, 2019. The effect of the adjustment was to decrease net position and other postemployment benefits by \$124,280 as of May 1, 2018.
Significant Accounting Estimates	<ul style="list-style-type: none"> • An area of focus under a risk-based audit approach • Significant estimates include: contractual allowances, allowance for bad-debts and third-party payor settlement estimates • Estimates determined by management based on their knowledge and experience • No management bias indicated • Estimates were deemed reasonable • Estimate uncertainty is disclosed in the financial statements
Significant Financial Statement Disclosures	<p>Net Patient Service Revenue – Note 2 Deposits and Investments – Note 4 Long-Term Debt – Note 6 Defined Benefit Pension Plan – Note 7 Other Postemployment Benefits – Note 8</p>



Required Communications

Topic	Communication
Required Supplemental Information	<ul style="list-style-type: none"> • Schedule of Employer’s Share of Net Pension Liability, Schedule of Employer’s Contributions, and Other Postemployment Benefit Plan. • Engaged to report in relation to the financial statements as a whole • Method of preparing has not changed from the prior year • Supplemental information is appropriate and complete in relation to our audit
Management Representation Letter	<ul style="list-style-type: none"> • Management provided a signed representation letter dated August 22, 2019
Other	<ul style="list-style-type: none"> • No difficulties encountered in performing the audit • No issues discussed prior to retention as independent auditors • No disagreements with management regarding accounting, reporting, or other matters • No Consultations with other independent auditors • No other findings or issues were discussed with, or communicated to, management



Internal Control Matters

Topic	Communication
Purpose	<ul style="list-style-type: none"> Express an opinion on the combined financial statements, not on the effectiveness of internal controls Our consideration of internal controls 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls.
Material Weakness	<ul style="list-style-type: none"> Reasonable possibility that a material misstatement would not be prevented, or detected and corrected on a timely basis
Significant Deficiencies	<ul style="list-style-type: none"> Less significant than a material weakness, yet important enough to merit the attention of governance
Restricted Use	<ul style="list-style-type: none"> This communication is intended solely for the information and use of management, the audit committee, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties
Results	<ul style="list-style-type: none"> Material Weaknesses – financial statement preparation, material audit adjustments and unreconciled cash



Deliverables

Report on the Financial
Statements

Report on Minnesota
Legal Compliance

Board Packet including
Required
Communications, Internal
Control Communications
and Financial Ratios





Board of Directors and Management
Windom Area Health
Windom, Minnesota

In planning and performing our audit of the combined financial statements of the business-type activities of Windom Area Health (the Hospital) as of and for the year ended April 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis.

Material Weaknesses

We consider the following deficiencies in the Hospital's internal control to be material weaknesses:

Control Over the Financial Reporting Process

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 us to assist in preparing its combined financial statements and accompanying disclosures. However, as independent auditors, we cannot be considered part of the Hospital's internal control system. As part of its internal control over the preparation of its combined financial statements, including disclosures, the Hospital has implemented a comprehensive review procedure to ensure that the combined 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 (U.S. GAAP) 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.

Misstatements Detected by the Audit

Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the combined financial statements of financial position, results of operations, and cash flows, including the notes to combined financial statements, in conformity with U.S. GAAP.

Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the combined financial statements to correct misstatements.

Management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger, initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the combined financial statements.

During the course of our audit, adjustments were proposed and recorded by management. These changes were material to the financial statements taken as a whole. Without these adjustments, the financial statements would be materially misstated. Overall impact of the adjustments on net income was a decrease of approximately \$284,000.

Without these adjustments, the combined financial statements would be materially misstated.

Account Reconciliation Process

During the performance of our audit engagement procedures we noted cash was unreconciled at year-end. Journal entries were recorded during the audit that reduced the variance, but there remains an unreconciled variance between the supporting documents and the general ledger balance of \$32,864 which management has passed on making an adjustment for in 2019 and will correct in 2020 as the account is further reconciled.

We recommend the Hospital implement a process to reconcile all balance sheet accounts monthly and to resolve any unreconciled variances in accounts including the cash issue noted above. Without proper reconciliation processes in place, there is greater risk of misappropriation of assets and financial statement misstatements.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 22, 2019



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