Windom Area Health

2020 Audit Results and Report to the Board of Directors

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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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 increase in net income of approximately $49,000

Subsequent Events

- COVID-19 pandemic and related market effects
- Disclosure of various relief funds received (PPP Loan, HHS Grants)

Internal Control Results

- Material Weaknesses
  - Control Over Financial Reporting Process
  - Audit Adjustments

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Understanding Your Industry

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Recent Articles Pertaining to COVID

REGULATIONS | ARTICLE

CARES Act Signed Into Law: Includes an Estimated $2 Trillion or More in Stimulus

CLA HAPPENINGS | NEWS RELEASE

CLA Helps Organizations Make Informed Financial Decisions Related to COVID-19

REGULATIONS | ARTICLE

How to Account for Unexpected Costs Related to COVID-19

https://www.claconnect.com/COVID19

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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.

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New Accounting Standards

Topic	Communication
Leases – GASB 87	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 asset 3. Requires the recognition of certain right to use lease assets and related liabilities for leases that were previously classified as operating leases 4. Effective for years **beginning after** December 15, 2019, with earlier application permitted

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Your Business

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Financial Ratios – Comparative Data Used

- Windom Area Health (WAH)
  - $19.9 Million Net Patient Service Revenue
  - 2017-2020 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

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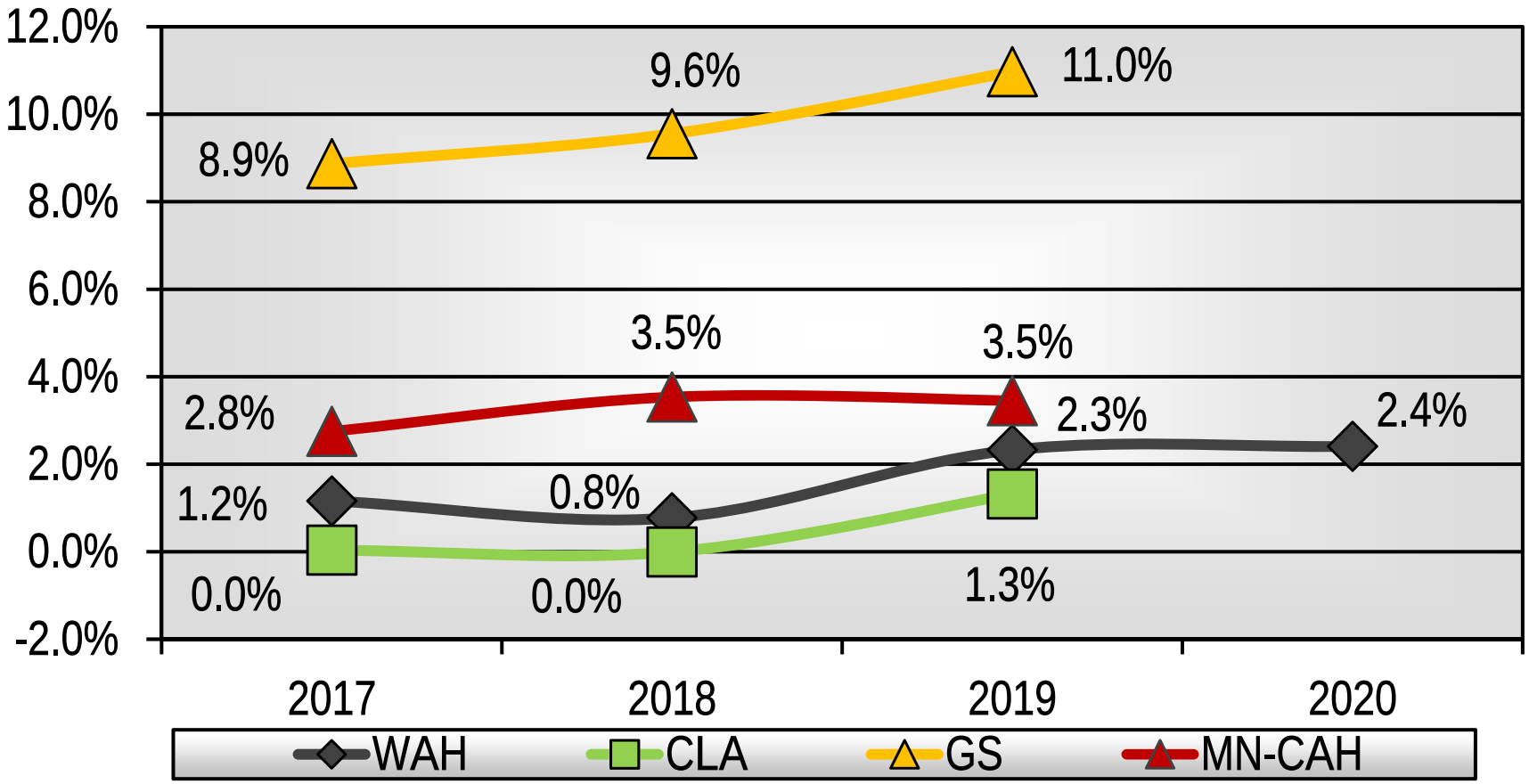
Operating Margin

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.



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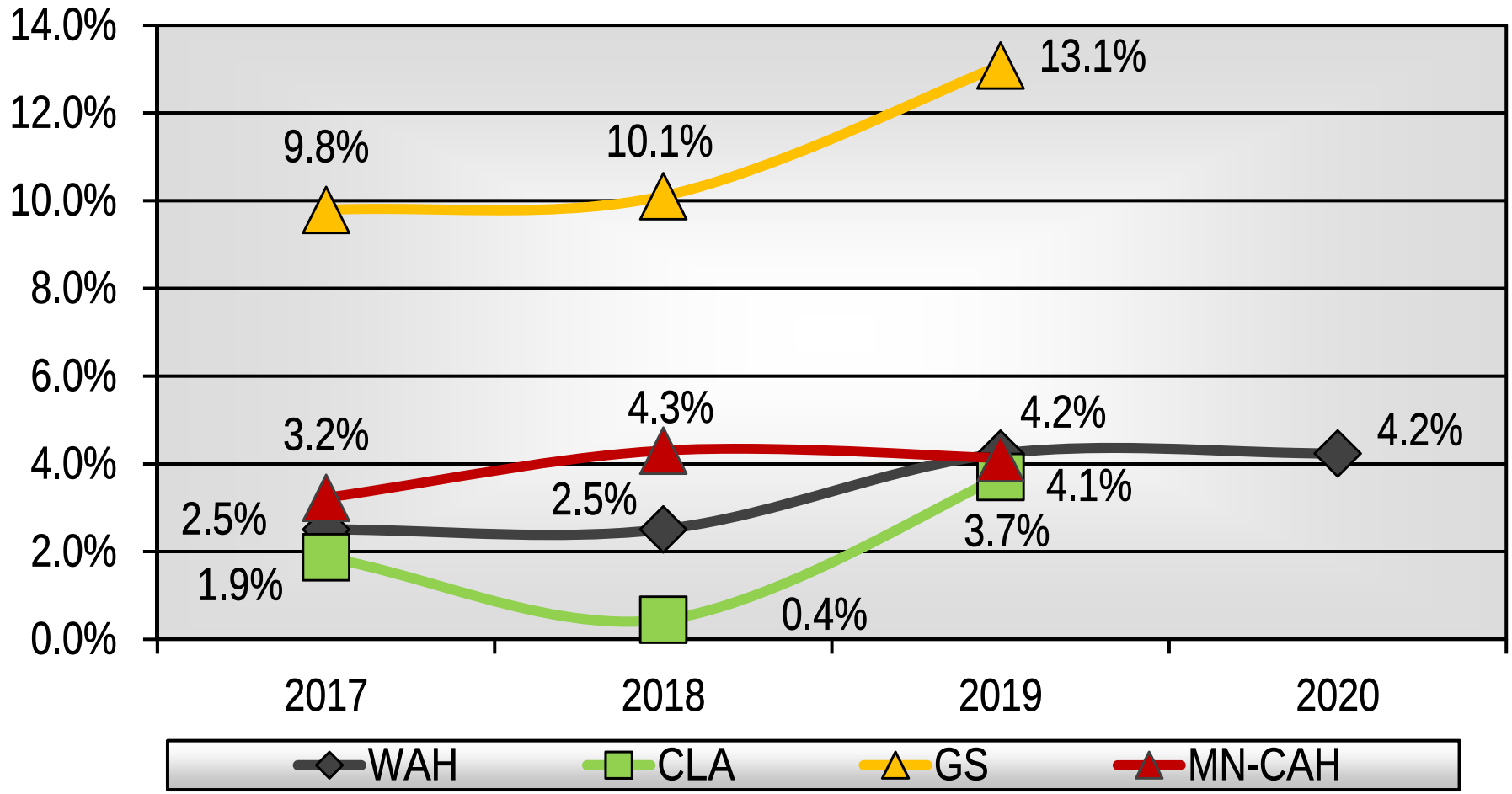
Total Margin

Definition:

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



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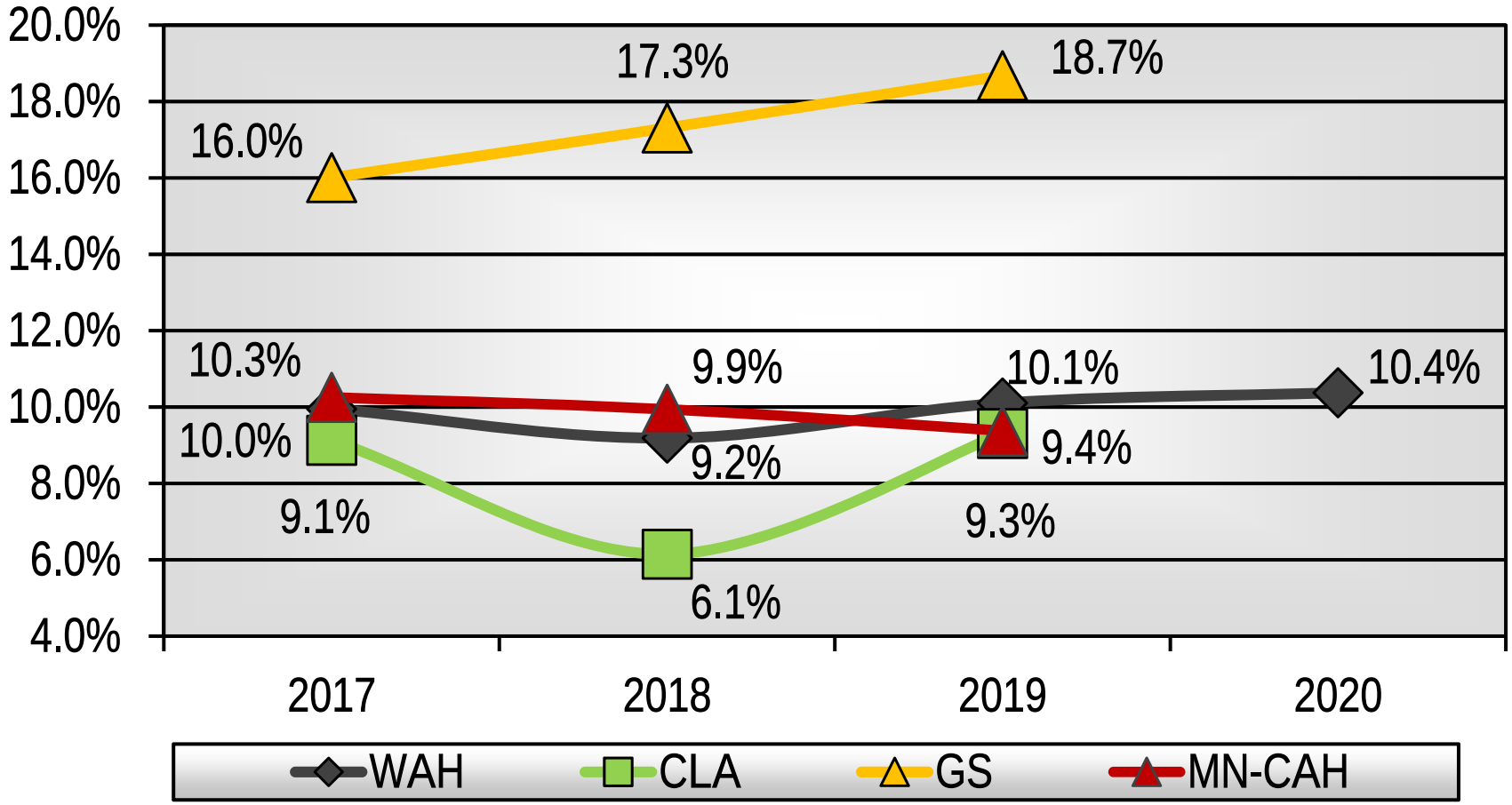
Operating EBIDA

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 ratios is often used when evaluating debt capacity.



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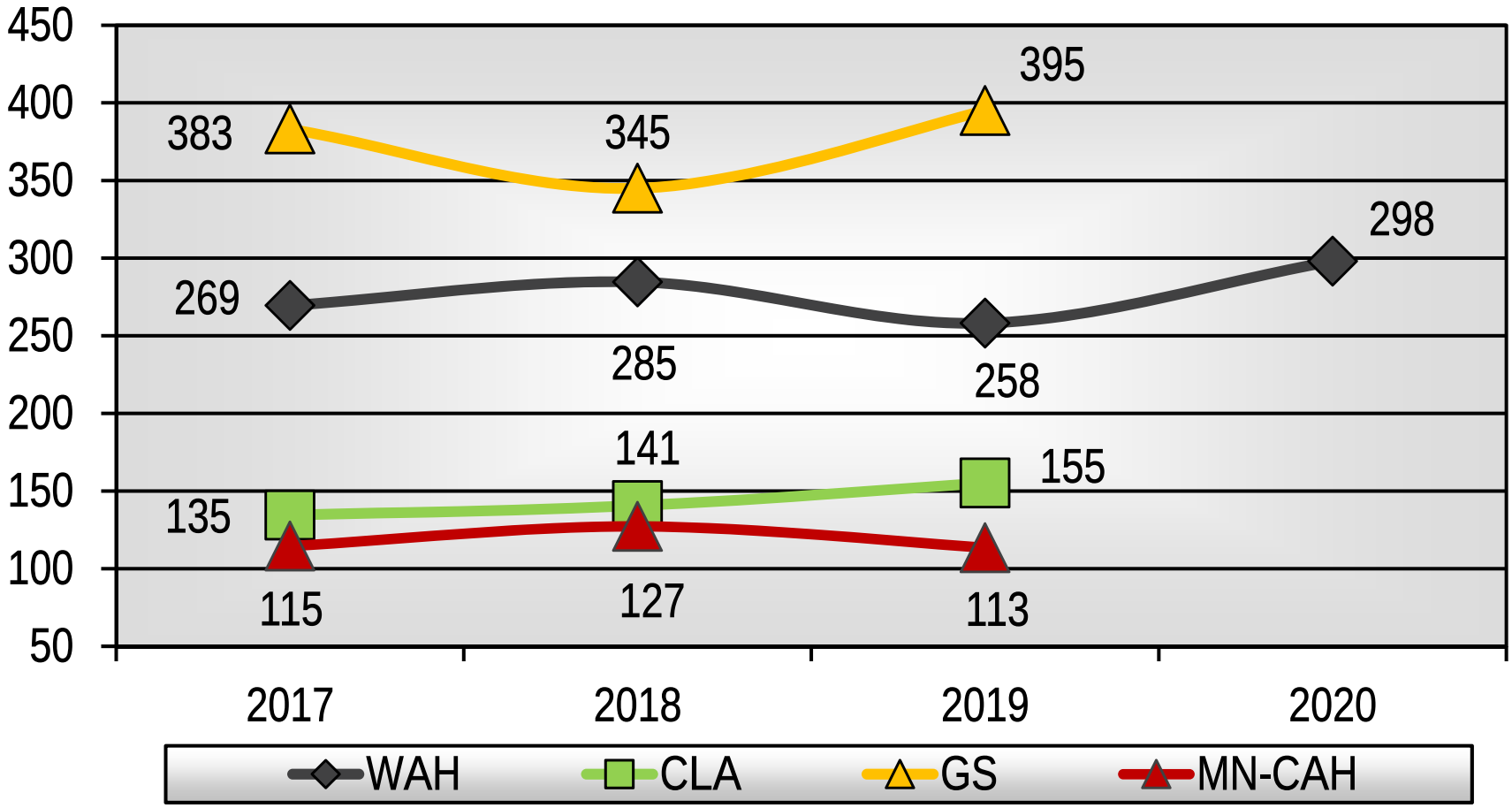
Days Cash on Hand (All Sources)

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.



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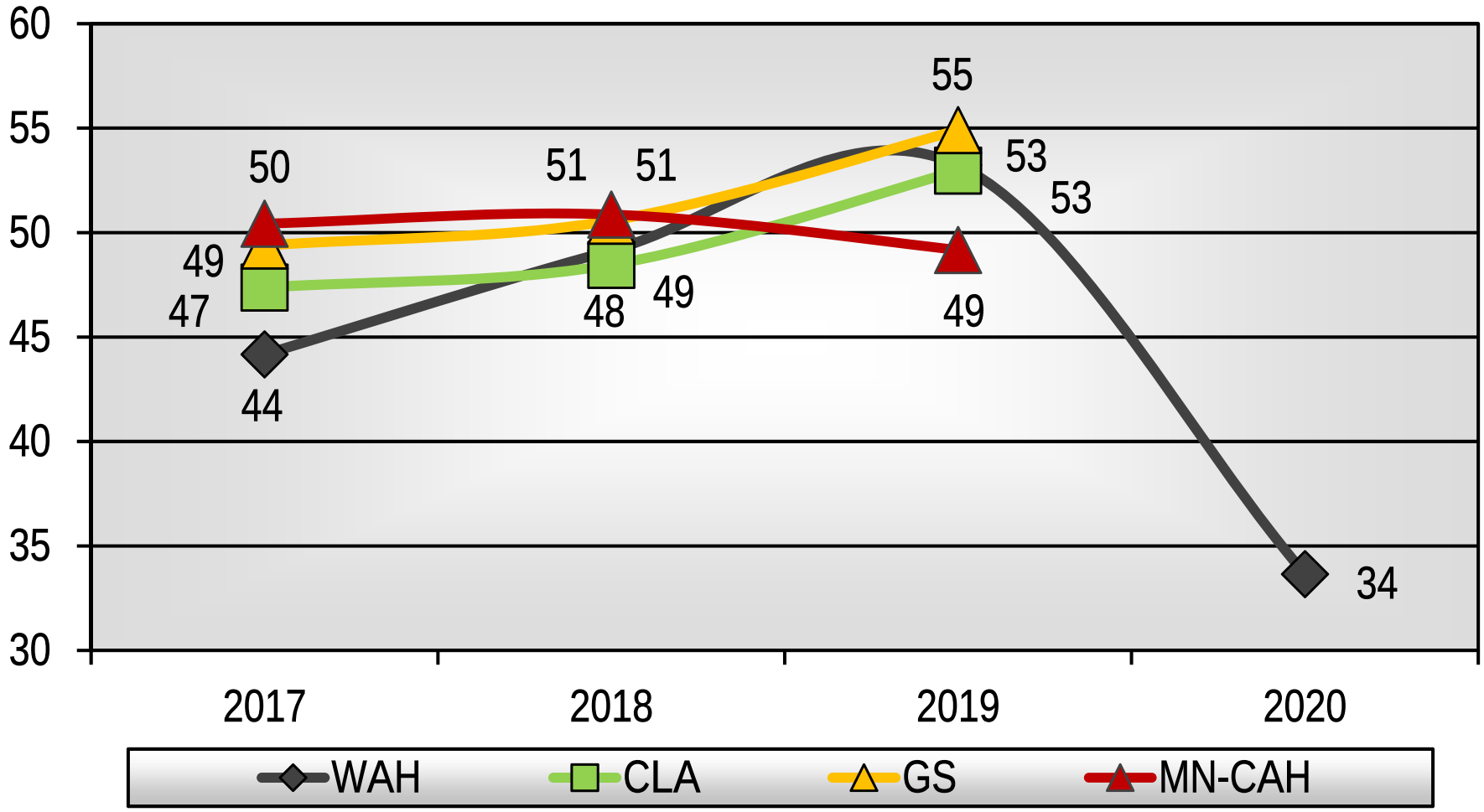
Net Days in Accounts Receivable

Definition:

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



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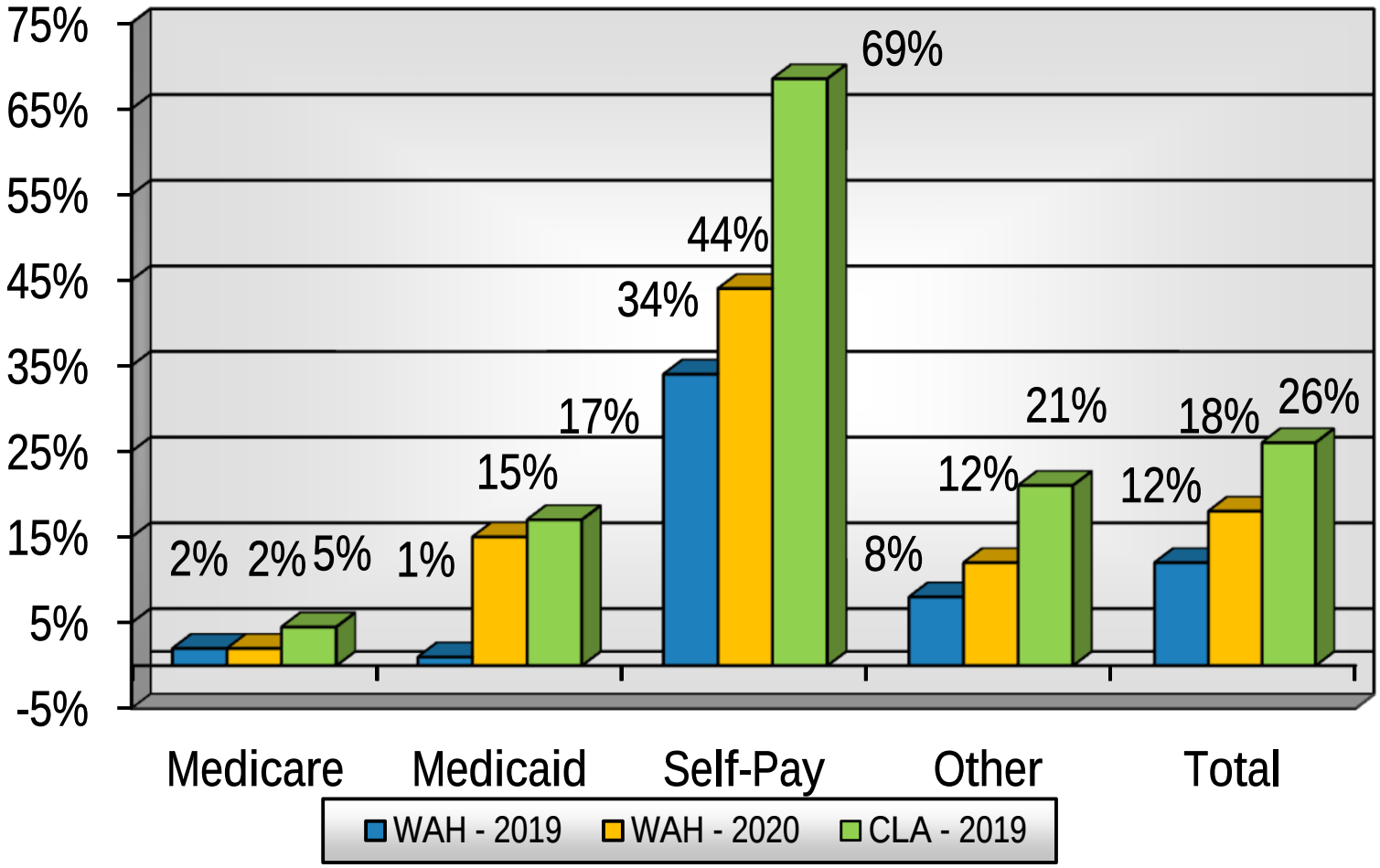
Percentage of A/R over 90 days old

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.



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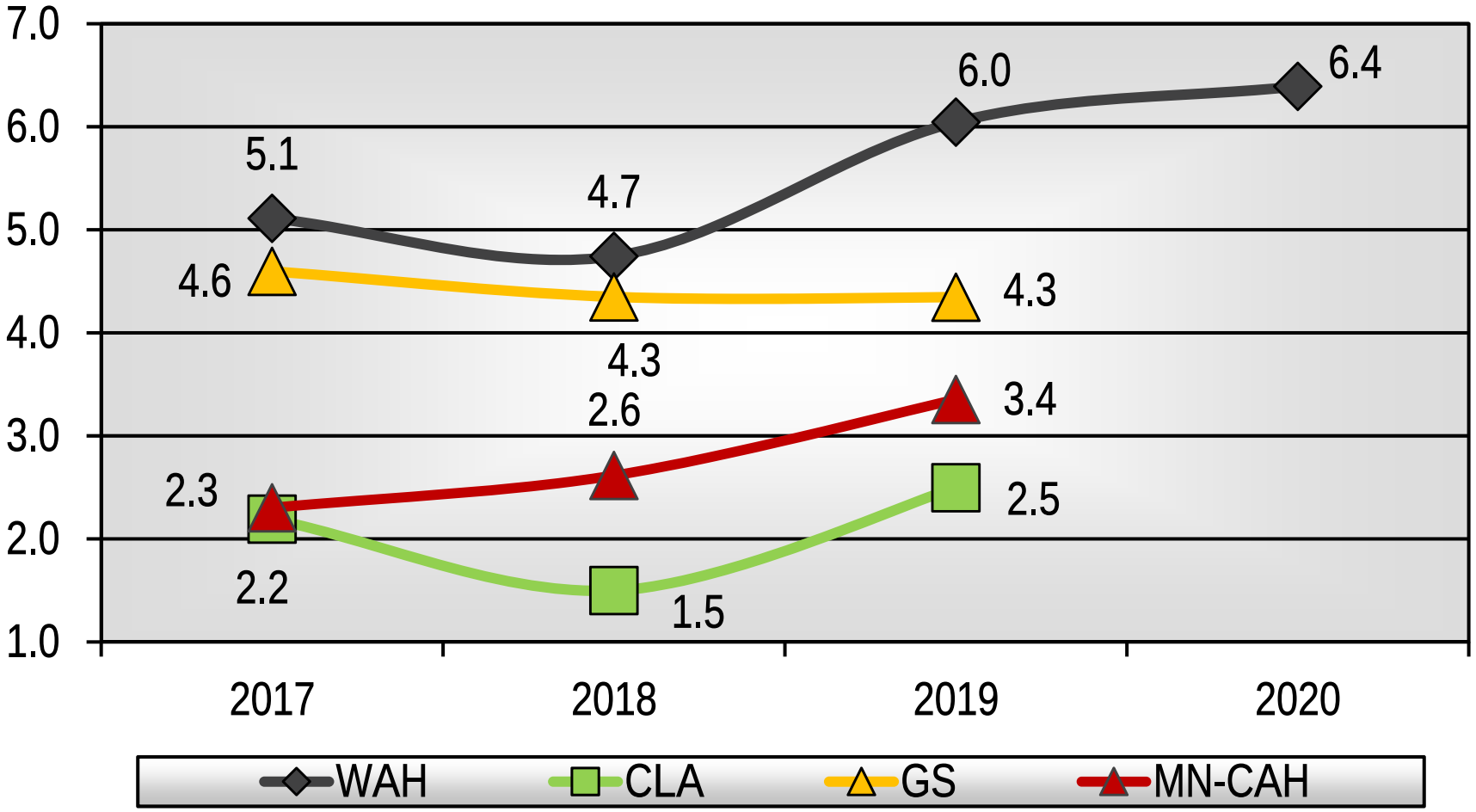
Debt Service Coverage

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).



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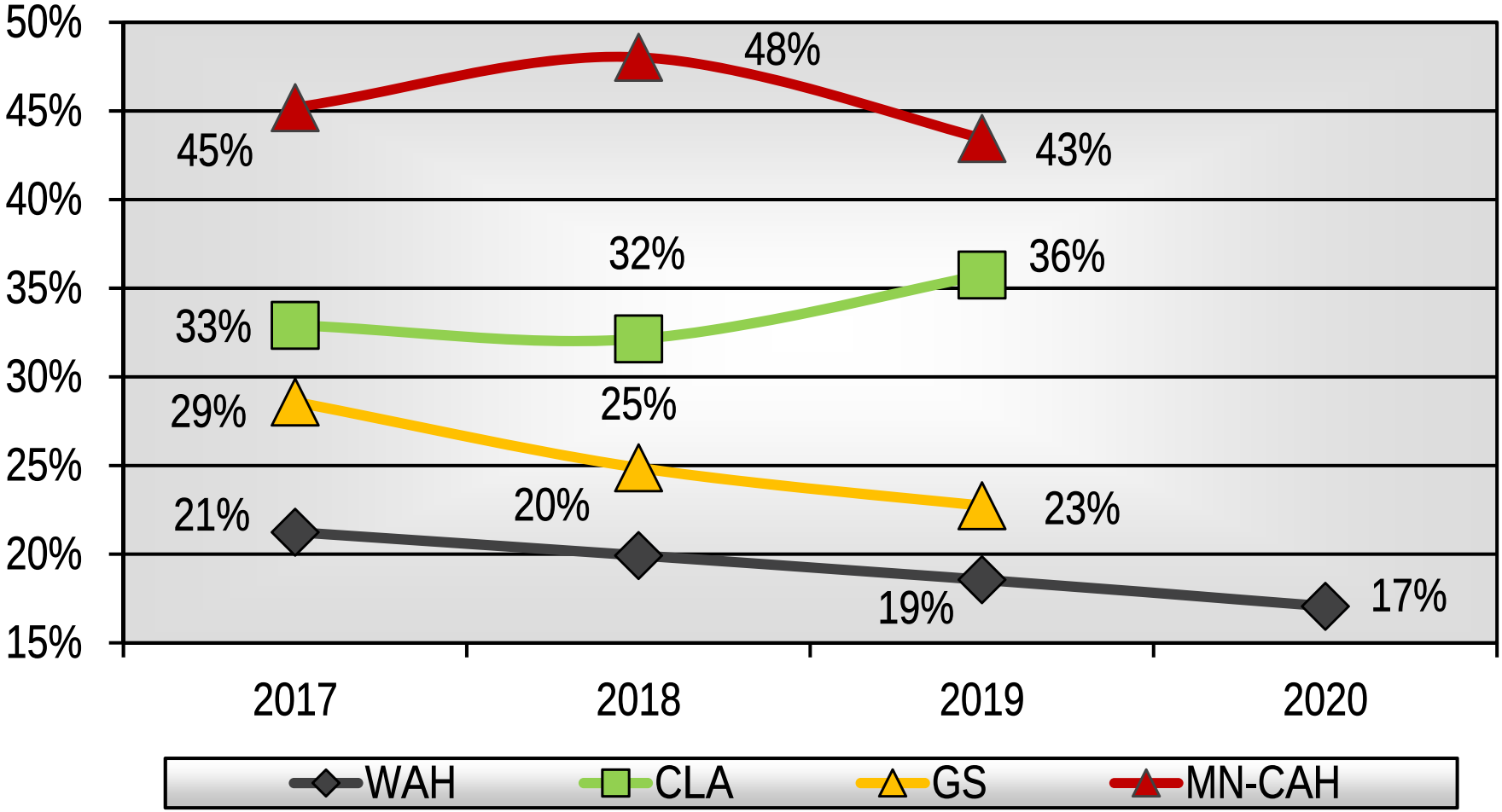
Debt to Capitalization

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.



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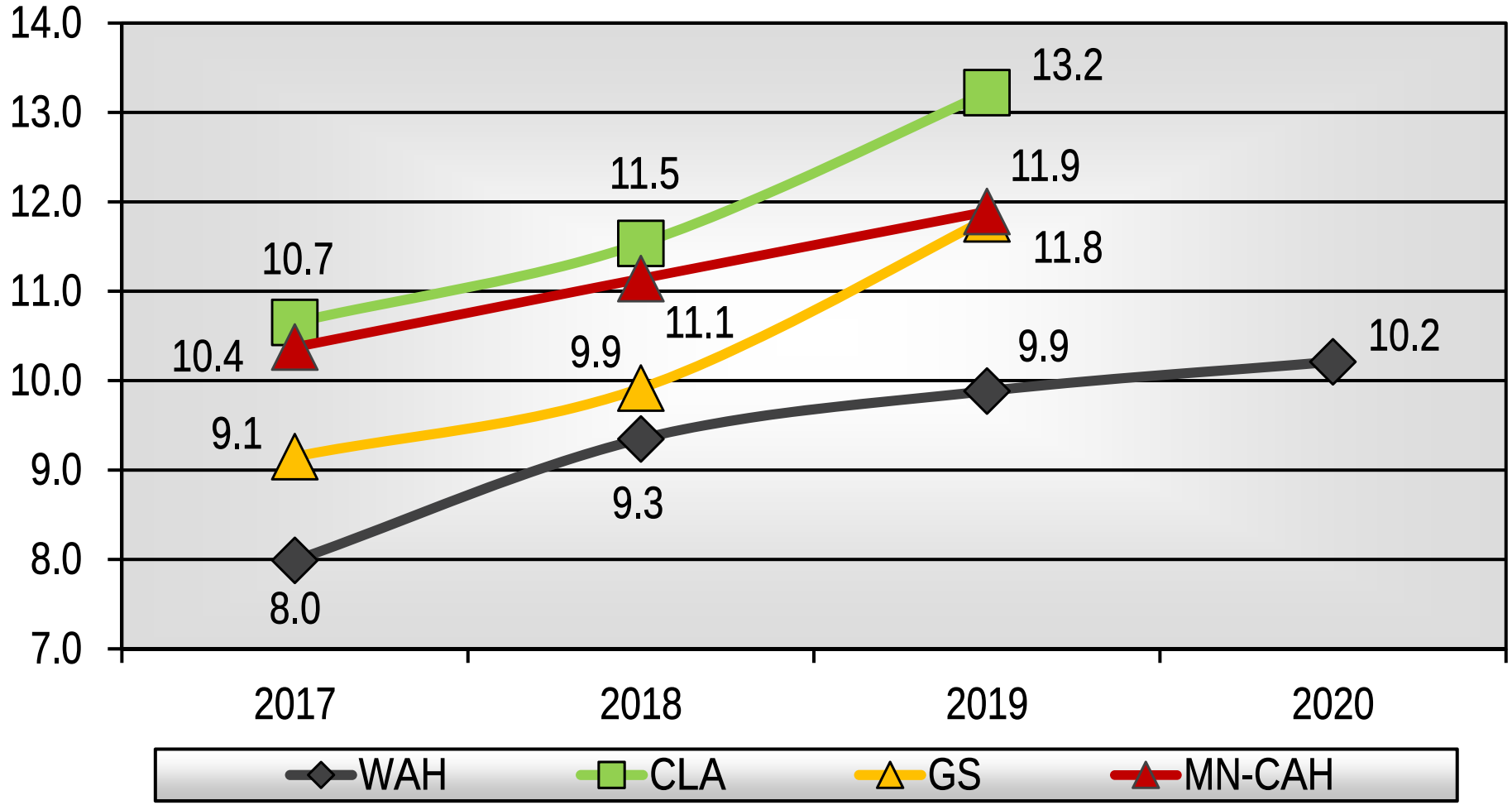
Average Age of Plant

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.



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Appendix

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Required Communications

Topic	Communication
Our responsibility under Generally Accepted Auditing Standards	• Express an opinion on the fair presentation of the financial statements in conformity with GAAP • Plan and perform the audit to obtain reasonable, nonabsolute assurance that the 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	• Performed the audit according to the planned scope and timing previously discussed
Other Information in Documents Containing the Audited Financial Statements	• 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

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Required Communications

Topic	Communication
Significant Accounting Policies	• Management is responsible for the accounting policies of the organization • Accounting policies are outlined in Note 1 to the financial statements • No significant changes to the accounting policies in the current year • Accounting policies deemed appropriate • No unusual transactions occurred
Significant Accounting Estimates	• 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	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

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Required Communications

Topic	Communication
Required Supplemental Information	• 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	• Management provided a signed representation letter dated July 23, 2020
Other	• 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

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Internal Control Matters

Topic	Communication
Purpose	• Express an opinion on the 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	• Reasonable possibility that a material misstatement would not be prevented, or detected and corrected on a timely basis
Significant Deficiencies	• Less significant than a material weakness, yet important enough to merit the attention of governance
Restricted Use	• 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	• Material Weaknesses – financial statement preparation and material audit adjustments

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Deliverables

Report on the Financial Statements

Report on Minnesota Legal Compliance

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

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