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Windom Area Health

2023 Audit Results and Report to the Board of Directors

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Results of Professional Services

Results of Professional Services

Significant Events and Transactions

- PERA Updates and Changes

Change in Accounting Policy

- Adoption of GASB 87 - *Leases*

Audit Adjustments

- Client and auditor proposed adjustments

Subsequent Events

- No subsequent events

Internal Controls

- Material Weakness
  - Control Over Financial Reporting

Required Governance Communications

Governance 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, non absolute assurance that the financial statements are free of material misstatement • Evaluate internal control over financial reporting • Utilize a risk-based audit approach • Evaluate significant policies and significant accounting estimates • Conclude whether there is substantial doubt about the entity's ability to continue as a going concern • Communicate significant matters to appropriate parties
Planned Scope and Timing of the Audit	• Performed the audit according to the planned scope and timing previously communicated
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 • Evaluate presentation of supplementary information related to the presentation of the financial statements as a whole

Governance 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 • GASB 87 – *Leases* was adopted. See Note 1 to the financial statements. • Accounting policies deemed appropriate • No unusual transactions occurred
Significant Accounting Estimates	• An area of focus under a risk-based audit approach • Significant estimates include: valuation of accounts receivable, 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 • Deposits and Investment Income • Long-Term Debt • Defined Benefit Pension Plan • Other Postemployment Benefits

Governance Communications

Topic	Communication
Required Supplemental Information	• MD&A, 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 will provide a signed representation letter prior to the finalization of the audit reports
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 difficult or contentious matters requiring consultations outside of the engagement team • An Emphasis of Matter paragraph was included in the auditors' opinion for the adoption of GASB 87 - *Leases* • No consultations with other independent auditors • No other findings or issues were discussed with, or communicated to, management

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

Your Business:

Financial Ratios

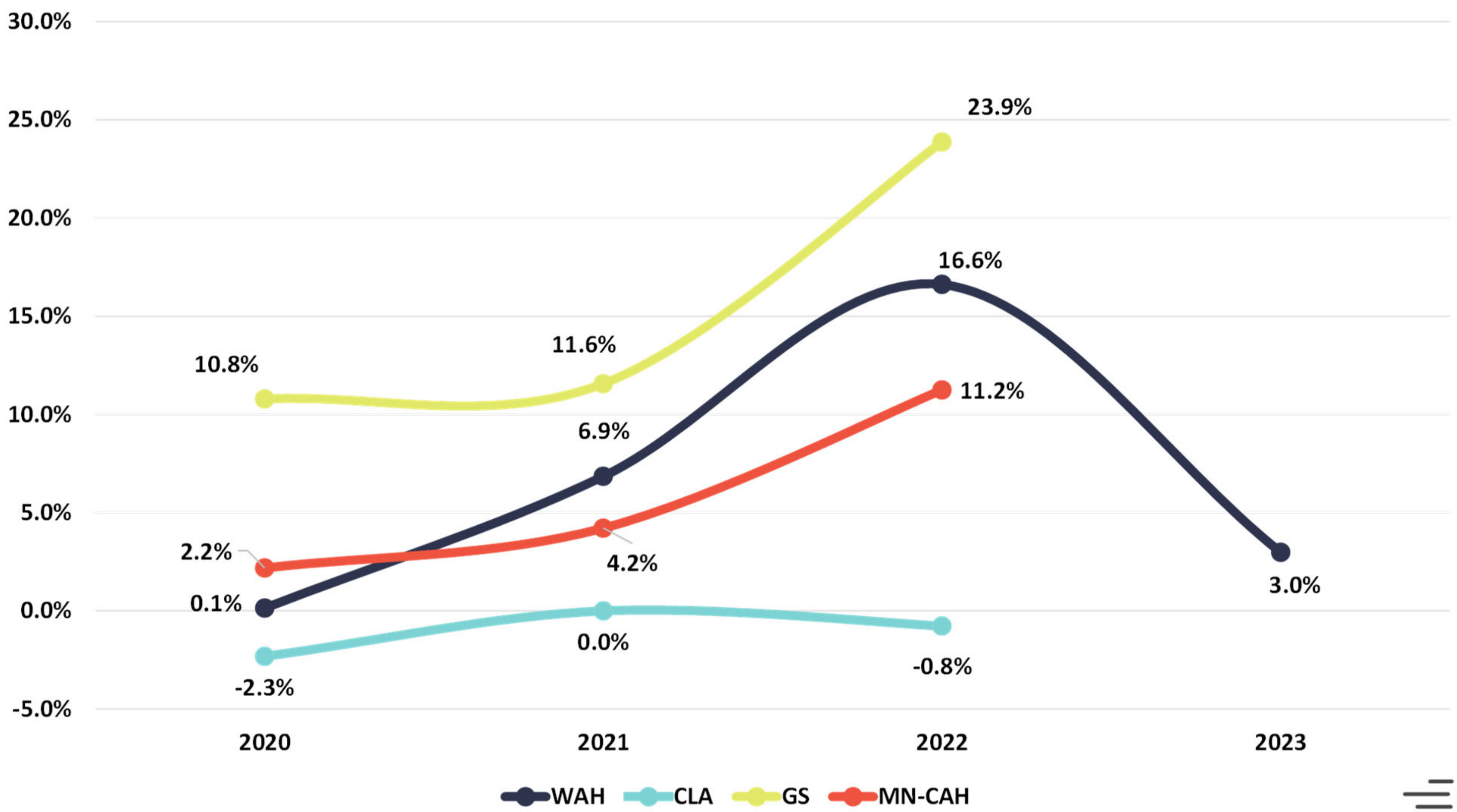
Financial Ratios – Comparative Data Used

- Windom Area Health (WAH)
  - $25.5 Million Net Patient Service Revenue
  - 2020-2023 Data, Based on Audited Financial Statements
- CLA CAH Clients (CLA)
  - Critical Access Hospitals with Net Patient Service Revenue less than $50 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:

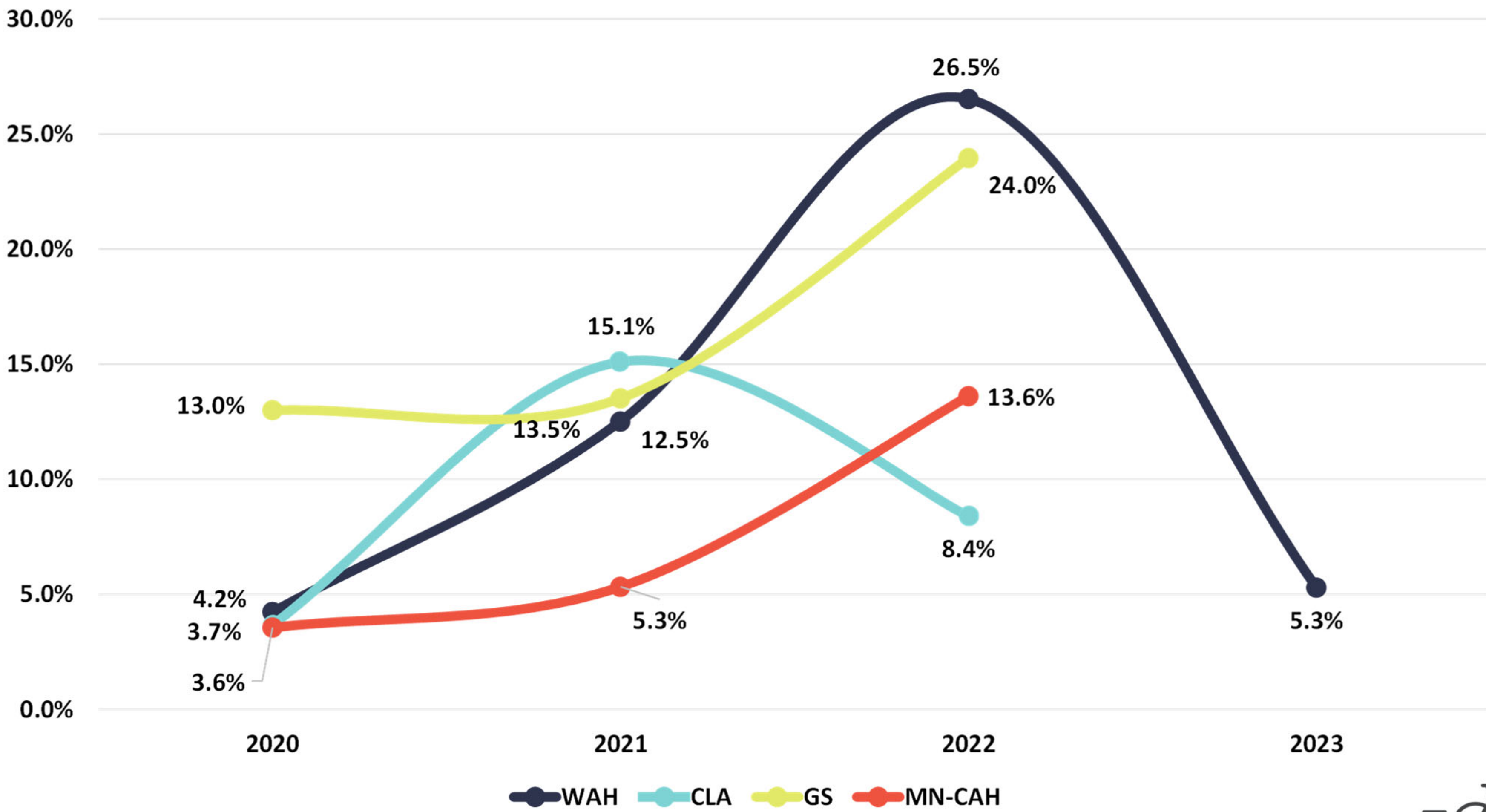
This ratio is operating income as a percentage of net patient service revenue plus other operating revenues. It is used to report the facility's return on revenues which relate to the main purpose of operations.



Total Margin

Definition:

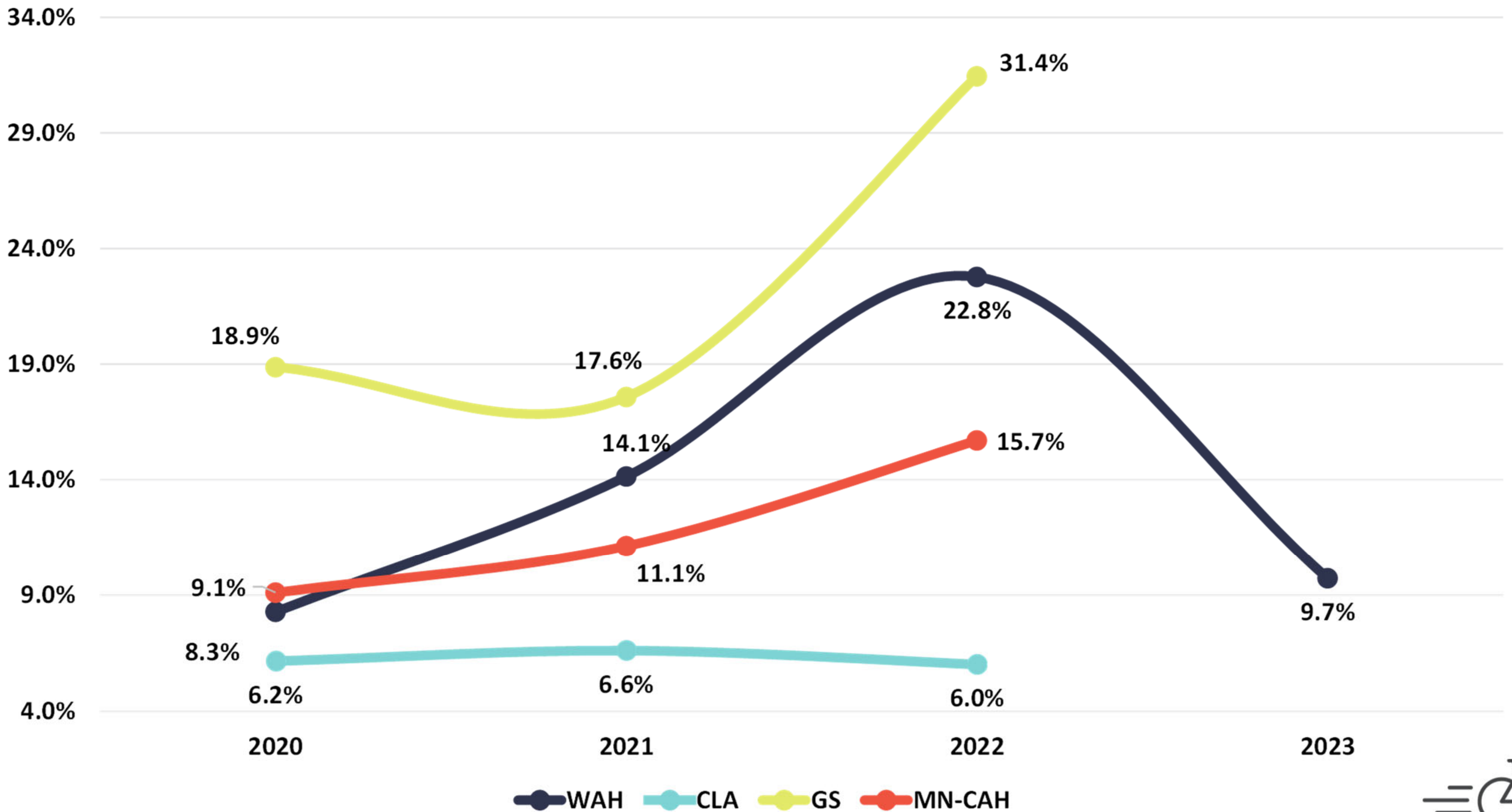
Total margin reflects excess of revenue over expenses as a percentage of total revenues, including nonoperating revenues.



Operating EBIDA

Definition:

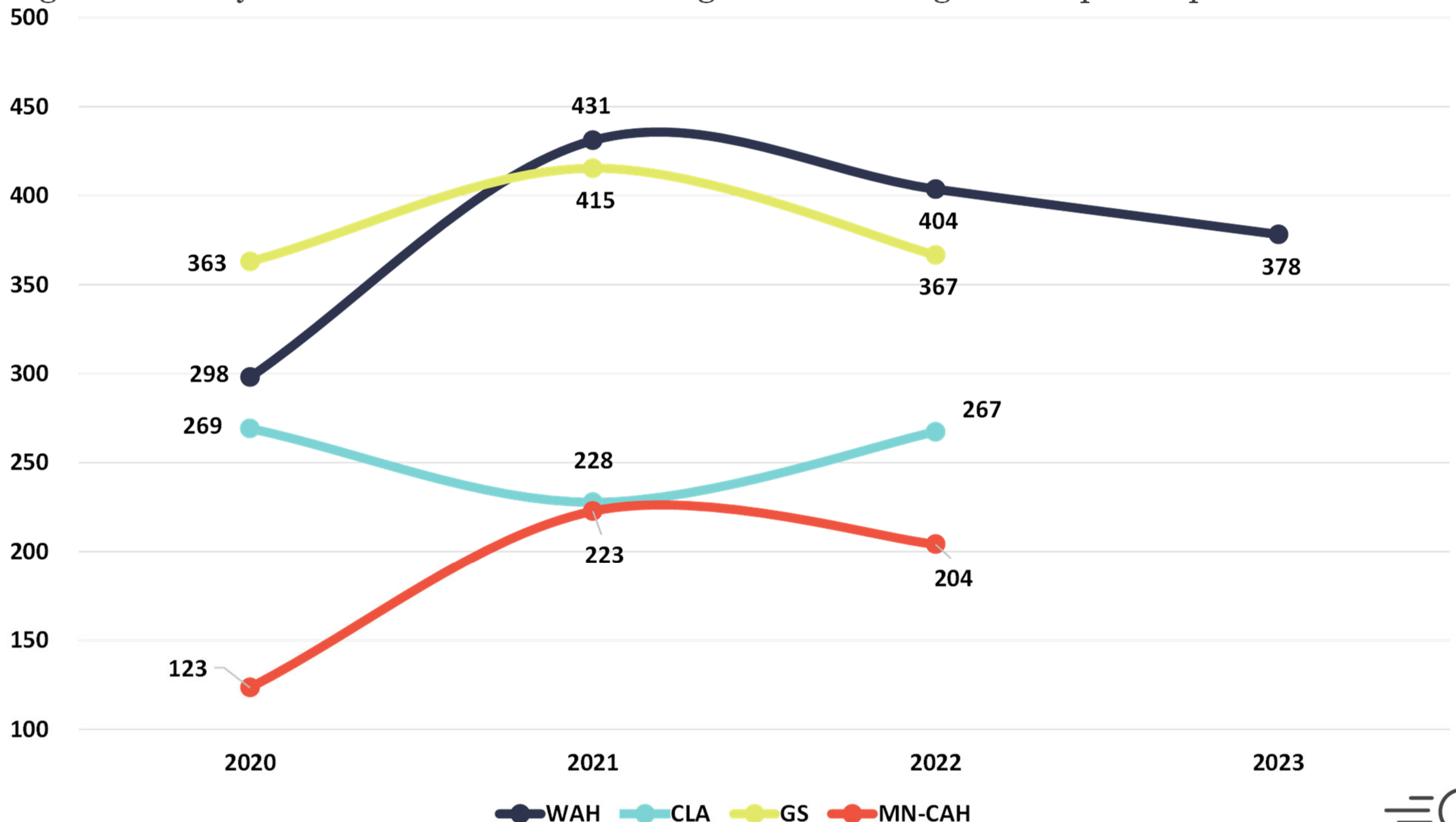
Operating EBIDA represents Earnings (operating income) Before Interest, Depreciation and Amortization divided by total operating revenues. It is used as a rough measure of operating cash flow in a facility. This ratio is often used when evaluating debt capacity.



Days Cash on Hand (All Sources)

Definition:

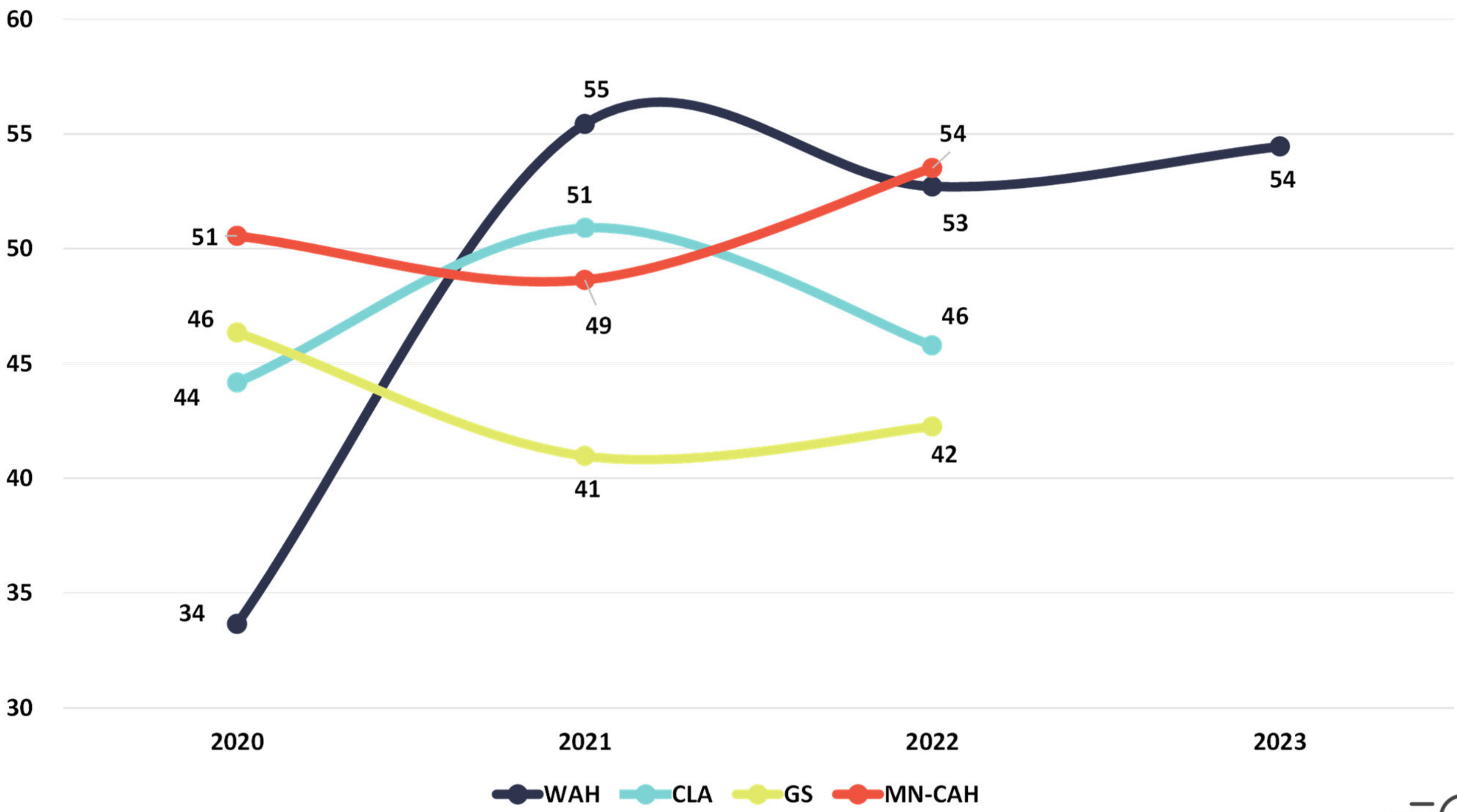
Days Cash on Hand measures the number of days of average cash expenses that the facility maintains in cash and amounts reserved for capital improvements. High values usually imply a greater ability to meet both short-term obligations and long-term capital replacement needs.



Net Days in Accounts Receivable

Definition:

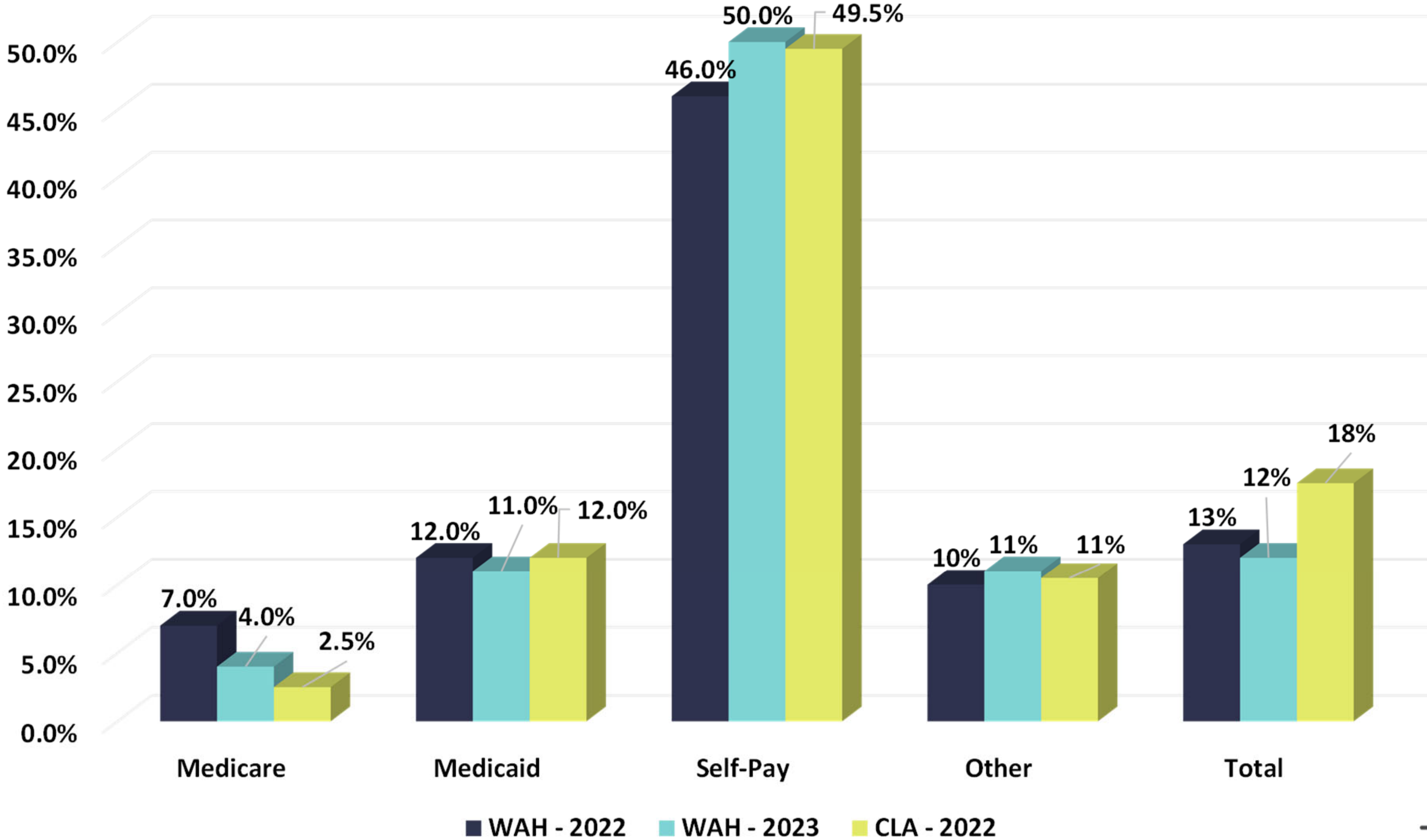
Days in patient accounts receivable is defined as the average time that receivables are outstanding, or the average collection period.



Percentage of A/R over 90 days old

Definition:

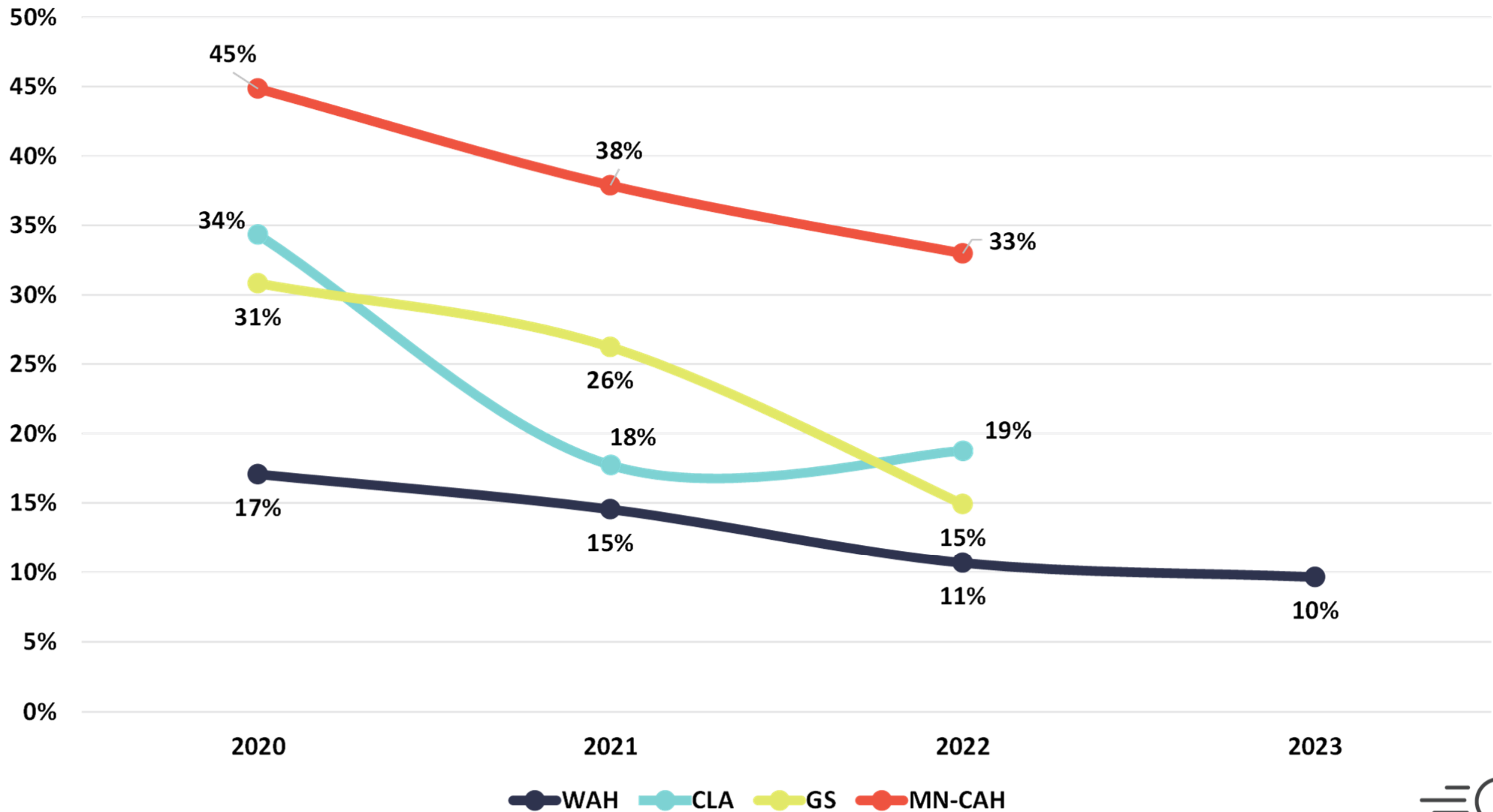
This is measured by dividing the amount of patient accounts receivable over 90 days by the total receivables in that payer category. Generally, the lower this percentage is the shorter turn around time the facility has for collecting receivables.



Debt to Capitalization

Definition:

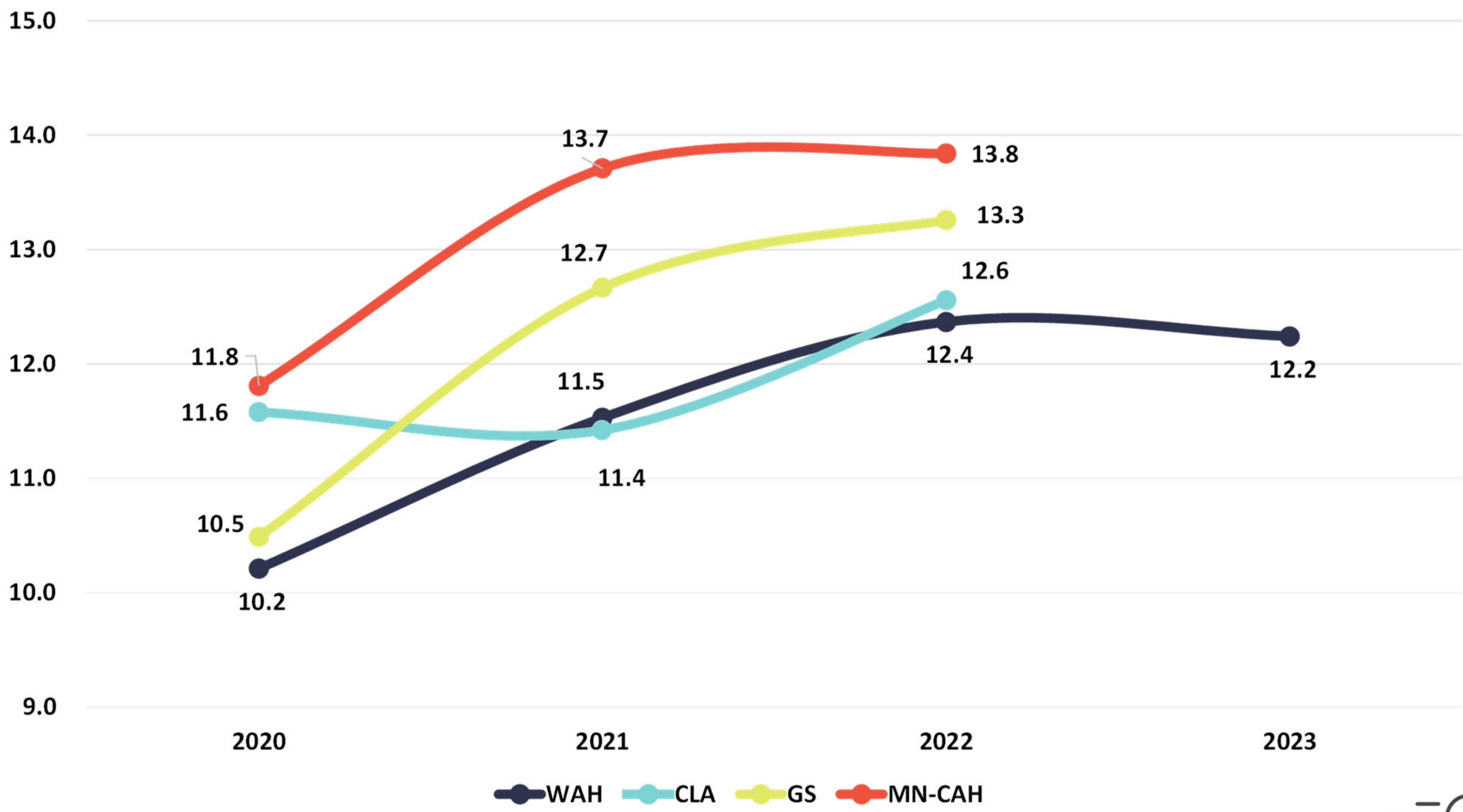
This ratio is defined as the proportion of long-term debt divided by long-term debt plus total net assets. Higher values for this ratio imply a greater reliance on debt financing and may imply reduced ability to carry additional debt.



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.



Understanding Your Industry

#1: Lingering Economic Issues

Inflation has driven up the costs of supplies, pharmaceuticals, and labor. Eroding operating margins. Inflationary pressures. Unstable investment markets and investment losses which can impact capital purchases.

What can you do?

- Reassess supply chain. Review all contracts. Do they vary by department or by entity within your organization? Can you diversify suppliers?
- Analyze spending data
- Carefully scrutinize capital expenditures, especially those requiring financing — are they necessary now, or can they be deferred?
- Rebalance investment portfolios to help reduce investment losses

#2: Revenue Pressures

Some have yet to return to pre-pandemic volumes/occupancy. Medicare reimbursement pressures (physicians, nursing homes, home health face payment cuts, behavioral offsets). Medicaid reimbursements often fail to cover cost. Public health emergency likely ending, eligibility redeterminations start in April. Medicaid churn with potentially more uncompensated, charity care.

What can you do?

- Pay keen attention to reimbursements, denials, and all things revenue cycle
- Undertake financial modeling based on key indicators, service line profitability assessments, and growth opportunities
- Consider investigating new partnerships, alignments, or value-based models
- Advocacy can help lawmakers and regulators understand how reimbursement inadequacy impacts you and the care you provide

#3: Labor Shortages, Demand for Higher Wages

Burnout, low morale, insufficient wages, the need for life balance, or even early retirement. Labor churn. Higher wages, increased union activities, contract labor, higher cost of living. Labor headwinds will continue.

What can you do?

- Pay very close attention to employee morale, engagement, and loyalty
- Consider employee engagement survey, review organizational culture
- Reassess pay structures compared to market, consider your benefit package
- Increase remote work and/other scheduling flexibilities where feasible
- Think innovatively about how to deliver care
- Develop new or reinforce existing talent pipelines
- Know your metrics for recruiting and hiring (time, costs)

#4: Regulatory Scrutiny

COVID relief (PRF, PPP ERC) means ongoing scrutiny. Nursing home scrutiny to continue (role of private equity involvement, staffing levels). Hospitals face scrutiny on price transparency, billing and debt collection practices, not-for-profit tax exemption. M&A scrutiny if perceived to create consolidated or monopolistic markets. Medicare Advantage scrutiny for coding practices, prior authorization requirements, and marketing.

What can you do?

- Understand regulatory requirements — coding, billing, documentation, reporting, quality — that apply. Verify you are operating under appropriate policies.
- Educate and re-educate employees, providers about requirements
- Regular compliance reviews
- Pandemic funds – review everything (use of funds, documentation), correct errors

#5: Insurers, Large Companies Making Moves

Vertical integration, expansion plays throughout 2022 (United Health Group's Optum acquiring Change Healthcare, CVS acquiring Signify, and Walgreens acquiring CareCentrix). Tech-enabled companies compound this headwind, create additional competitors. Downstream impacts are potential for more competitors, lower volumes, or reduced payments.

What can you do?

- Reassess market, service lines, patients, volumes, financial data…Determine strengths and capitalize on them; Look for vulnerabilities and shore them up (or consider an exit strategy)
- Consider investigating new partnerships or affiliations, moves into adjacent services
- Reassess strategic plan. Remain agile.
- Develop and adjust digital strategy (data, tech)

#6: Cybersecurity

Health care a top industry for cyberattacks. Risking risk. Health care information attractive to cyber criminals. Expect cyberattacks to continue well into the future.

What can you do?

- Human factor is responsible for most breaches, ransomware attacks (i.e., phishing, smishing, vishing). Understand how attacks work, train employees
- Create a culture attuned to security
- Develop good cybersecurity hygiene. This includes passwords, multi-factor authentication, use of firewalls, security of “smart” devices (i.e., the Internet of Things), updating software patches immediately, and offline backup of data
- Ongoing cybersecurity assessments, vulnerability testing and improvements

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