MEETING MINUTES

**Stoughton Hospital Association**

**Audit Compliance/Risk Management Committee**

Friday, November 22, 2024 | 8:30 a.m. – 9:30 a.m.

MS Teams: [Click here to join the meeting](https://teams.microsoft.com/l/meetup-join/19%3Ameeting_ODQwYzQ0YWItYmZkMS00NWU2LWFiYzItYzZlYWU1NWE5Njdh%40thread.v2/0?context=%7b%22Tid%22%3a%22367b5c1b-0570-438f-89d9-f701fb549e26%22%2c%22Oid%22%3a%22be3212bb-d10e-4597-b89a-85f8d35f20b9%22%7d) | Meeting ID: 254 629 133 046 | Passcode: pFjUQw

# **Committee Function and Members**

**Committee Function:** Establish and maintain internal systems, controls and procedures to safeguard the corporation’s assets, ensure compliance, avoid fraud and accurately report financial information. Serve as the liaison, and ensure adequate communication between the Board of Directors, management and internal and external auditors. Select and determine the compensation of external auditor.

\* Directors may not service on Finance and Audit Committees simultaneously.

\* 100% independent directors per IRS 990 definition.

**Meeting Attendees:** Kris Krentz | Donna Olson | Tim Rusch | Glenn Kruser | Dan DeGroot | Chris Schmitz | Michelle Abey | Angie Polster | Mary Hermes | Laura Mays | Amy Hermes

**Guest:** Gwen Moser (Eide Bailly)

|  | Item | Discussion | Presenter |
| --- | --- | --- | --- |
|  |  | Call to OrderMr. Krentz called the November 22, 2024 Audit Compliance/Risk Management Committee to order at 8:31 a.m. | Kris Krentz |
| A |  | Review and Approval of August 16, 2024 Audit Compliance/Risk Management Committee Meeting Minutes ***Action: Ms. Olson made a motion to approve the August 16, 2024 Audit Compliance/Risk Management Committee meeting minutes. Mr. Krentz seconded the motion. Motion carried.***  | Kris Krentz |
| A |  | Stoughton Hospital Association Fiscal Year 2024 Audit Review and AcceptanceMs. Gwen Moser provided an overview of Eide Bailly’s independent audit report. She shared the financial statements are in draft format, and they are anticipating an unmodified opinion to be issued on them.Ms. Moser shared significant risks identified in planning and performing the audit: * Management Override of Controls
* Revenue Recognition
* Allowance for Implicit and Explicit Price Concessions on Patient Receivables
* Estimated Third-Party Payor Settlements

Mr. DeGroot asked when Stoughton Health ages these accounts and at what point the accounts are fully written off. Ms. Moser stated when the account reaches 180 days post discharge you are probably increasing to 50-75% reserve, and there is generally a point when accounts are sent over to a collection agency. Ms. Moser noted Stoughton Health has less than 18% of the total accounts receivable balance is for accounts over 60 days. She added industry best practice is to keep this balance under 20%. She noted as of September 30th, there was approximately $80,000 over 365 days on $20M of funds. Ms. Moser shared significant estimates on the balance sheet include the estimate of the 2024 liability for third-party payor settlements which is $771,000, with some reserves for open cost report years (2022, 2023, and 2024). Ms. Moser noted there are generally some adjustments updating information when the cost report audit is completed, and their viewpoint as auditors is to ensure that reserves are calculated consistently. Ms. Moser shared most of the time there are not significant adjustments, but with the building they may dig deeper on those costs when audited for fiscal year 2025. Ms. Moser provided an overview of the growth on balance sheet assets from $104M to $141M, an increase of approximately $37M over the past year. She noted other increases include $2.2M related to renovation costs incurred with leasehold entities (Cottage Grove and Oregon Urgent Cares). She stated the fact they are leased is why they go into other assets. They are then amortized/depreciated once the space is occupied. Ms. Moser noted there was property and equipment increases this year with all of the capital investments which has occurred. Ms. Moser shared on the liabilities side current liabilities is up from 14.8M to 34.8M partly due to construction payables ($5M). She shared total net assets went from $89M to $106M, adding there is a donor restriction of approximately $3.9M in Foundation assets. Ms. Moser shared the change in cash and investments is approximately $14.5M this year. She shared debt proceeds came in at $15M. She noted the increase in cash and investments was not only from debt proceeds but from investment income which provided nice returns this year as well. As of year-end, there is a total of $75.5M in cash and investments. Ms. Moser noted for the assets limited as to use, the Board designated $14.7M assets for capital improvements, operations, and deferred compensation. She noted $12M of this was primarily related to construction projects and related debt proceeds. Ms. Moser shared net assets saw 19% growth which came from operations, investment growth, contributions, etc. She noted there is a nice trend there and shared there was double digit equity growth since 2021. Ms. Moser provided an overview of days cash available, which measures number of days of average cost expenses maintained in unrestricted cash and investments. She stated Stoughton Health has 419 days cash on hand, which is well above the standard. She added the current ratio dropped slightly year over year. The construction payable lowered the ratio, yet despite these factors, the current ratio remains strong. Ms. Moser shared days in accounts receivable is 48 days, which is the average time that receivables are outstanding, or the average collection period. She noted this is slightly up this past year, but with the clearinghouse change, this is expected. Ms. Moser provided an overview of average age of plant, which measures the average age of the Hospital’s property and equipment. She noted the goal is typically under ten years, but Stoughton Health’s ratio trended up this past year to 13.7. Ms. Moser shared operating room four was capitalized in May 2024, so that larger asset was not on the balance sheet for a full year yet. When the Outpatient Center opens and begins to be depreciated, it is expected that the age of plant measure will decrease considerably.Ms. Moser provided a summary of the capitalization ratio, which measures the debt component of an organization’s capital structure. She shared lower values indicate the ability of an organization to finance future operations with potential borrowings. She stated Stoughton Health is at 18.1%, noting bankers often say they want to see this below 60%. Ms. Moser provided a recap of hospital volumes over the past five years, noting that in most areas there has been growth. She added inpatient admissions have decreased over the years, which is a national trend as a lot more things can be done on a same day basis. Ms. Moser shared a summary of our statement of operations noting the operating margin was 13.1%, versus 14.5% last year. She stated revenue increased 5%. Ms. Moser noted Stoughton Health has contractual agreements that don’t allow the organization to recognize the full amount of any rate increase. Revenue was up 4.4% and expenses 6.1% in fiscal year 2024. She added salaries and benefits is the biggest expense. Ms. Moser shared that when looking closely at supplies expenses, it only increased 2.7%, which can be attributed to pharmacy and decreases in drug costs by looking at alternatives. Ms. Moser shared implants and supplies were down due to a decline in orthopedic procedures. Ms. Abey added that a switch in glove vendors resulted in an annual savings of approximately $20,000. Ms. Moser noted that the Governing Board should be aware that depreciation expense will increase as all of the capital assets are put into service which will negatively affect the operating margin. She stated the interest expense is just over $350,000 in fiscal year 2024. This expense will increase in fiscal year 2025 as the interest expense on the 2023 bonds have been capitalized during the construction of the Outpatient Center. Once the Outpatient Center opens in 2025, the interest on the bonds will become additional interest expense. Ms. Moser added something to always remember is the impact of depreciation and interest when doing projects. Ms. Moser noted the change in net assets without donor restrictions is approximately $16M. Ms. Moser stated total net assets at the end of the year is $106M. Ms. Moser provided an overview of the operating margin, which is defined as the proportion of total operating revenue that has been realized in income from operations. She stated Stoughton Health is very consistent averaging approximately 13-14% for the last three years, which is well above the RWHC peer group. Ms. Moser noted after interest and depreciation is removed, earnings before that are expected to be relatively consistent. Ms. Moser provided a summary of the debt service coverage ratio, which measures the ability to meet debt service payments (principal and interest) from annual cash flow. She noted the ratio excludes contributions, grants for property and equipment and stimulus funds. Ms. Moser shared debt proceeds was $15.1M in FY2024, and payments were made of $1.2M. Ms. Moser added outstanding debt as of September 30, 2024 is $22.4M.In summary, Ms. Moser stated the audit went very well and added Ms. Abey’s team is very prepared, so there are no proposed adjustments. She discussed risks and estimates, and noted accounting policies are disclosed in the footnotes. Ms. Olson shared her gratitude with Ms. Abey and her team, and added she hopes the relationship with Eide Bailly can continue. ***Action: Ms. Olson made a motion to accept Stoughton Hospital Association’s Fiscal Year 2024 Audit Review and Acceptance and recommend approval of the audit report to the Governing Board. Mr. Krentz seconded the motion. Motion carried.*** | Gwen Moser Partner, Eide Bailly |
|  |  | Open Discussion |  |
|  |  | Adjournment***Action: Mr. Krentz made a motion to adjourn the November 22, 2024 Audit Compliance/Risk Management Committee Meeting at 8:58 a.m. Ms. Olson seconded the motion. Motion carried.***   | Kris Krentz |

Respectfully submitted,



Glenn Kruser

Secretary/Treasurer