May 3, 2023

The Board of Directors
St. Francis Health Services of Morris, Inc. and Subsidiaries
Morris, Minnesota

We have audited the consolidated financial statements of St. Francis Health Services of Morris, Inc. and Subsidiaries (St. Francis) as of and for the year ended September 30, 2022, and have issued our report thereon dated May 3, 2023. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Consolidated Financial Statement Audit under Generally Accepted Auditing Standards and Government Auditing Standards**

As communicated in our engagement letter dated May 19, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the consolidated financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the consolidated financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free of material misstatement. An audit of consolidated financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of St. Francis solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor’s 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 dated May 3, 2023.

**Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

**Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.
Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by St. Francis is included in Note 1 to the consolidated financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended September 30, 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management’s current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ markedly from management’s current judgments.

The most sensitive accounting estimates affecting the consolidated financial statements are:

- **Collectability of Resident Receivables** – Management’s estimate of the collectability of resident receivables is based on historical loss levels and an analysis of the collectability of individual accounts.

- **Self-Funded Health Insurance Liability** – Management’s estimate of the self-funded health insurance liability is based on historical trends, utilization history, and other relevant factors.

- **Provider Relief Funds** – Amounts received from the Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Fund are subject to terms and conditions imposed by the Department of Health and Human Services (HHS), which state payments will only be used to prevent, prepare for, and respond to coronavirus, and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. Management’s estimate of the funds recognized as operating revenue is based on estimates associated with such terms and conditions, and the terms and conditions are subject to interpretation and potential future guidance.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic consolidated financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting St. Francis’ consolidated financial statements relate to:

- The disclosure of noncompliance with loan agreements and the receipt of waivers from the banks.

- The disclosure of Provider Relief Funds is described in Note 12. This disclosure identifies funds administered by HHS and received by St. Francis as part of the CARES Act Provider Relief Fund and amounts recorded by St. Francis in the consolidated financial statements.
The disclosures in Note 13 of the acquisition of Service Options for Seniors of Morris.

The disclosures in Note 14 include information relating to additional funds received from MHCA during the year.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the consolidated financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period consolidated financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the consolidated financial statements currently under audit.

The following misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- $1,793,000 understatement of receivable and payable for estimated workers’ compensation claims.
- $724,000 understatement of allowance and bad debt expense.
- $550,000 understatement of receivable and payable for insurance settlements.
- $333,000 understatement of receivable and payable for health insurance recoverable.

The following summarizes uncorrected financial statement misstatements whose effects in the current period, as determined by management, are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole:

- $375,000 understatement of receivable and payable for credit resident receivable balances.
- $520,000 prior year reversal of understatement of property and equipment gain from insurance settlement.
- To capitalize interest on debt for Chisholm construction project – $143,756

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the consolidated financial statements or the auditor’s report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor’s Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor’s report. We did not identify any circumstances that affect the form and content of the auditor’s report.
Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated May 3, 2023.

Management’s Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with St. Francis, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as St. Francis’s auditors.

Entity’s Ability to Continue as a Going Concern

We believe that the following events or conditions identified during the course of the audit could indicate substantial doubt on the entity’s ability to continue as a going concern for a reasonable period of time; however, we believe substantial doubt was alleviated:

During the year ended September 30, 2022, St. Francis incurred a loss of approximately $7,675,000 and did not meet the debt service coverage requirements on certain bank loans. Although St. Francis received waivers from the banks regarding this noncompliance, one bank required modifications to their loan agreements which could allow the bank to call its loans after any future quarter, starting with the quarter ending June 30, 2023, if operational results do not provide adequate debt service coverage. St. Francis has continued to incur significant losses in the 2023 fiscal year, therefore, there was a high probability of being out of compliance with the loan agreement. The bank could call their loans if St. Francis was out of compliance.

Management has taken several actions in February and March of 2023 to improve operating results and ensure St. Francis will continue as a going concern, including implementing cost reductions throughout the entire organization, and has delayed certain capital projects. Management believes that these actions will enable St. Francis to meet the modified terms of the loan agreement and alleviate the going concern.

Based on year-to-date results of operations through March 2023, St. Francis will not meet the debt service coverage requirements on certain loans for the year ended September 30, 2023. St. Francis has obtained waivers of the debt service coverage requirement for September 30, 2023, from certain banks, anticipates receiving a waiver from one bank due to projected improvements in operations in 2023, and has modified the terms of another bank’s loans so St. Francis should be able to meet the requirements of the loan modifications as a result of operational changes implemented in February and March 2023.

This report is intended solely for the information and use of the Board of Directors and management of St. Francis and is not intended to be and should not be used by anyone other than these specified parties.

Minneapolis, Minnesota