

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2023 AND 2022



CPAs | CONSULTANTS | WEALTH ADVISORS

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**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Northfield Hospital
dba: Northfield Hospital + Clinics
Northfield, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Northfield Hospital dba: Northfield Hospital + Clinics (the Hospital), a component unit of the City of Northfield, Minnesota, which comprise the statements of net position as of December 31, 2023 and 2022, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northfield Hospital as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Northfield Hospital and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Northfield Hospital's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Northfield Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northfield Hospital's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Directors
Northfield Hospital
dba: Northfield Hospital + Clinics

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 and supplemental pension liability information on pages 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2024, on our consideration of Northfield Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Northfield Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northfield Hospital's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 25, 2024

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2023 AND 2022**

This section of the Hospital's annual audited financial report represents management's discussion and analysis of the Hospital's financial performance during the fiscal year ended December 31, 2023. The analysis will focus on the Hospital's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The December 31, 2023 and 2022 audited financial statements that include:

- Independent Auditors' Report
- Statements of Net Position
- Statements of Revenues, Expenses, and Changes in Net Position
- Statements of Cash Flows
- Notes to Financial Statements

Financial Highlights

The Hospital's total assets and deferred outflows of resources decreased by \$20,825,266 or 14.8% in 2023 and decreased by \$16,491,423 or 10.4% in 2022.

The Hospital's net position decreased by \$8,118,461 or 18.6% in 2023 and decreased by \$18,143,431 or 29.3% in 2022.

The Hospital reported an operating loss of \$13,031,375 in 2023 and an operating loss of \$12,681,688 in 2022. This represents an operating income decrease in 2023 of \$349,687 and a decrease in 2022 of \$13,916,950. The decrease in operating income was impacted by an increase in inflationary expenses. This was in addition to an increase in pension expense of \$1,610,497 in 2023 in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* (see Note 9).

The Statements of Net Position and Revenues, Expenses, and Changes in Net Position

These financial statements report information about the Hospital using standards issued by the GASB. The statement of net position provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). Revenues and expenses are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Position. This statement shows the results of the hospital's operations. The last financial statement is the statements of cash flows. Cash flow reflects the movement of money in and out of the hospital that determines the hospital's solvency. It is divided into cash flows from operating, noncapital financing, capital and related financing, and investing activities.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2023 AND 2022**

Financial Analysis of the Hospital

The information from the statements of net position, statements of revenues, expenses, and changes in net position, and the statements of cash flows are summarized in the following tables. Table 1 reports on the net assets of the Hospital and the changes in them. Increases or decreases in net position are one indicator of whether or not the Hospital's financial health is improving. Table 2 summarizes information from the statements of revenues, expenses, and changes in net position. Other nonfinancial factors can also have an effect on the Hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third-party payors, as well as changes in the economic environment of Northfield and the surrounding areas.

Table 1: Assets, Liabilities, and Net Position

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Current Assets	\$ 24,091,971	\$ 27,378,897	\$ 21,327,174
Noncurrent Cash and Investments	48,527,675	56,179,769	73,062,430
Other Assets	410,412	280,820	300,000
Real Estate Held for Investment	-	-	726,777
Capital Assets, Net	<u>35,458,867</u>	<u>38,880,738</u>	<u>43,103,210</u>
Total Assets	<u>108,488,925</u>	<u>122,720,224</u>	<u>138,519,591</u>
Deferred Outflows of Resources	<u>11,824,014</u>	<u>18,417,981</u>	<u>19,038,037</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 120,312,939</u>	<u>\$ 141,138,205</u>	<u>\$ 157,557,628</u>
LIABILITIES			
Total Current Liabilities	\$ 28,072,150	\$ 27,519,667	\$ 21,668,327
Long-Term Debt (Less: Current Maturities)	5,554,746	13,870,925	20,783,466
Total Noncurrent Liabilities	<u>38,584,029</u>	<u>54,521,509</u>	<u>27,049,019</u>
Total Liabilities	<u>72,210,925</u>	<u>95,912,101</u>	<u>69,500,812</u>
Pension Related Deferred Inflows	12,519,669	1,525,298	26,212,579
NET POSITION			
Net Investment in Capital Investments	15,095,838	12,046,283	19,831,757
Restricted by Bond Agreement	313,271	342,526	288,587
Unrestricted	<u>20,173,236</u>	<u>31,311,997</u>	<u>41,723,893</u>
Total Net Position	<u>35,582,345</u>	<u>43,700,806</u>	<u>61,844,237</u>
Total Liabilities and Net Position	<u>\$ 120,312,939</u>	<u>\$ 141,138,205</u>	<u>\$ 157,557,628</u>

The asset categories changing significantly during 2023 was Current Assets and Noncurrent Cash and Investments. Current Assets decreased by \$3,286,926 due to a decrease in accounts receivable. Noncurrent Cash and Investments decreased by \$7,652,094 due to purchases of capital assets.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2023 AND 2022**

Financial Analysis of the Hospital (Continued)

The current ratio (current assets divided by current liabilities) increased in 2023 to 1.04 from 0.99 in 2022. It is a measure of liquidity, providing an indication of the Hospital's ability to pay current liabilities.

Table 2 summarizes information from the statements of revenues, expenses, and changes in net position.

Table 2: Statement of Revenues, Expenses, and Changes in Net Position

	<u>2023</u>	<u>2022</u>	<u>2021</u>
OPERATING REVENUE			
Net Patient and Resident Service Revenue	\$ 129,025,874	\$ 118,540,203	\$ 116,270,798
Other Revenues	901,771	1,163,463	1,019,868
Total Operating Revenue	<u>129,927,645</u>	<u>119,703,666</u>	<u>117,290,666</u>
OPERATING EXPENSES			
Salaries and Wages	64,402,245	58,950,701	53,991,160
Employee Benefits	19,481,326	18,391,262	10,233,957
Supplies and Drugs	21,144,013	19,822,781	19,137,666
Purchased Services	20,152,020	18,167,559	16,542,064
Utilities	1,448,092	1,508,686	1,296,498
Other	6,673,796	6,170,671	5,336,471
Depreciation and Amortization	5,873,281	6,103,555	6,195,562
Interest	1,096,570	793,347	616,320
Taxes and Surcharges	2,687,677	2,476,792	2,705,706
Total Operating Expenses	<u>142,959,020</u>	<u>132,385,354</u>	<u>116,055,404</u>
OPERATING INCOME (LOSS)	(13,031,375)	(12,681,688)	1,235,262
NONOPERATING REVENUES (EXPENSES), NET	<u>4,912,914</u>	<u>(5,497,593)</u>	<u>6,920,188</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(8,118,461)	(18,179,281)	8,155,450
CAPITAL GRANTS AND CONTRIBUTIONS	-	35,850	-
Net Position - Beginning of Year	<u>43,700,806</u>	<u>61,844,237</u>	<u>53,688,787</u>
NET POSITION - END OF YEAR	<u>\$ 35,582,345</u>	<u>\$ 43,700,806</u>	<u>\$ 61,844,237</u>

Net patient and resident service revenue made up 99.3% of the Hospital's total operating revenue in 2023 and 99.0% in 2022 of the Hospital's total operating revenue. To arrive at net patient and resident service revenue, contractual adjustments have been made to gross patient service revenue due to agreements with third-party payors. The increase in net patient and resident service revenue during 2023 was due to organic revenue growth.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2023 AND 2022**

Financial Analysis of the Hospital (Continued)

Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient and Resident Service Revenue and Contractual Adjustments

	2023	2022	2021
Total Patient and Resident Service Revenues	\$ 339,244,179	\$ 297,023,362	\$ 271,396,945
Contractual Adjustments and Provisions for Bad Debt	<u>(210,218,305)</u>	<u>(178,483,159)</u>	<u>(155,126,147)</u>
Net Patient Service Revenue	<u>\$ 129,025,874</u>	<u>\$ 118,540,203</u>	<u>\$ 116,270,798</u>
Contractual Adjustments and Bad Debts as a Percent of Revenues	61.97%	60.09%	57.16%

Total operating expenses increased \$10,573,666 or 8% in 2023 and increased \$16,329,950 or 14.1% in 2022. The increase in pension expense of \$1,610,947 from the prior year is in accordance with Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (see Note 9).

The Operating Margin (total operating revenue less total operating expenses divided by total operating revenue) was -10% in 2023 down from -10.6% in 2022. Operating loss in 2023 was \$13,031,375 and the operating loss in 2022 was \$12,618,688.

Other Operating Revenue decreased by \$261,692 or 22.5% in 2023 after increasing \$143,595 or 14.1% in 2022.

**NORTHFIELD HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2023 AND 2022**

Hospital Statistical Data

Table 4 shows the Hospital's statistical data. This data demonstrates the direct correlation between utilization changes and revenue changes.

Table 4: Statistical Data

	2023	2022	2021
Patient Days			
Acute	4,410	4,163	4,020
Swing Bed	-	-	-
Newborn	1,046	913	1,013
Long-Term Care	6,849	11,453	11,626
Total	<u>12,305</u>	<u>16,529</u>	<u>16,659</u>
Admissions			
Acute	1,574	1,426	1,511
Swing Bed	-	-	-
Newborn	594	541	594
Long-Term Care	15	39	48
Total	<u>2,183</u>	<u>2,006</u>	<u>2,153</u>
Discharges			
Acute	1,572	1,433	1,504
Swing Bed	-	-	-
Newborn	595	544	592
Long-Term Care	44	42	46
Total	<u>2,211</u>	<u>2,019</u>	<u>2,142</u>
Average Length of Stay, Acute	<u>2.80</u>	<u>2.92</u>	<u>2.66</u>
Beds			
Acute and Swing	37	37	37
Long-Term Care	40	40	40
Occupancy Percentage			
Acute and Swing, Based on 37 Beds	32.7%	30.8%	29.8%
Long-Term Care, Based on 40 Beds	46.9%	78.4%	79.6%

The Hospital's Cash Flows

The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

Capital Assets

At December 31, 2023, the Hospital had \$35,458,867 invested in capital assets net of accumulated depreciation. The Hospital spent approximately \$1,469,000 on capital purchases in 2023.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2023 AND 2022**

Long-Term Debt

Table 5 shows a summary of the Hospital's long-term debt outstanding.

Table 5: Long-Term Debt

	<u>2023</u>	<u>2022</u>	<u>2021</u>
2015B Revenue Bonds	\$ 4,380,000	\$ 4,940,000	\$ 5,480,000
2016A Revenue Bonds	7,824,281	13,957,171	15,377,515
2016B Revenue Bonds	1,466,249	1,637,231	1,803,898
2022B Revenue Bonds	2,024,342	5,980,000	-
2023A Revenue Bonds	3,790,000	-	-
Leased Equipment	603,049	77,368	259,460
Leased Facilities	275,108	242,685	350,581
	<u>-</u>	<u>-</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 20,363,029</u>	<u>\$ 26,834,455</u>	<u>\$ 23,271,454</u>

The City of Northfield adopted a resolution authorizing the issuance of \$25,000,000 of Hospital Revenue Bonds in August 2016 to refund the 2006 revenue bonds to decrease the interest rate. The bonds are payable through August 1, 2031, with interest coupons payable monthly at an annual rate of 2.56%.

The City of Northfield adopted a resolution authorizing the issuance of \$8,405,000 of Hospital Revenue Bonds in December 2015 to fund the hospital surgery center expansion and the purchase of capital equipment. The bonds are payable through November 1, 2025, with interest coupons payable at May 1 and November 1 at an annual rate of 2.98%.

The City of Northfield adopted a resolution authorizing the issuance of \$5,980,000 of Hospital Revenue Bonds in September 2022. The bonds are payable through September 1, 2032, with interest coupons payable monthly at an annual rate of 3.25%.

The City of Northfield adopted a resolution authorizing the issuance of \$4,020,000 of Hospital Revenue Bonds in February 2023. The bonds are payable through September 1, 2032, with interest coupons payable monthly at an annual rate of 3.25%.

Economic Factors

The population of Northfield continues to grow at a reasonably healthy annual rate, and the populations of many surrounding communities that the Hospital serves are growing at rates higher than the state averages – especially to the north. The two private colleges, St. Olaf and Carleton College, remain very stable in both of their enrollments, financial strength, and their economic support to the local community businesses.

At this time there are no signs of any new industries making a move to the community. The larger industrial employers remain stable in their employment and business production.

The economic outlook for the community remains steady to positive.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2023 AND 2022**

Contacting the Hospital

The financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Hospital Administration at Northfield Hospital + Clinics, 2000 North Avenue, Northfield, Minnesota 55057.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022**

	2023	2022
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 349,526	\$ 2,736,019
Current Portion of Noncurrent Cash and Investments	1,190,768	872,688
Patient Receivables, Less Allowance for Uncollectible Accounts (2023, \$9,051,000; 2022, \$7,244,000)	18,812,549	20,069,262
Accounts Receivable - Other	101,808	111,606
Inventories	2,341,830	2,353,165
Prepaid Expenses	1,295,490	1,236,157
Total Current Assets	24,091,971	27,378,897
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Health Benefits	1,190,768	872,688
Internally Designated for Capital Improvements	48,214,404	55,837,243
Restricted by Bond Agreement	313,271	342,526
Less: Current Portion of Noncurrent Cash and Investments	(1,190,768)	(872,688)
Noncurrent Cash and Investments	48,527,675	56,179,769
OTHER ASSETS	410,412	280,820
CAPITAL ASSETS, NET	35,458,867	38,880,738
Total Assets	108,488,925	122,720,224
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	11,517,940	18,071,547
Loss on Refunding	306,074	346,434
Total Deferred Outflows of Resources	11,824,014	18,417,981
Total Assets and Deferred Outflows of Resources	\$ 120,312,939	\$ 141,138,205

See accompanying Notes to Financial Statements.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2023 AND 2022**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2023	2022
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 14,808,283	\$ 12,963,530
Accounts Payable, Trade	3,835,148	4,528,721
Accrued Payroll and Benefits	8,461,652	8,508,219
Accrued Interest Payable	78,203	109,630
Unearned Revenue	121,791	1,055,495
Third-Party Payor Settlements Payable	767,073	354,072
Total Current Liabilities	28,072,150	27,519,667
LONG-TERM DEBT, Less Current Maturities	5,554,746	13,870,925
NONCURRENT LIABILITIES		
Net Pension Liability	38,584,029	54,521,509
Total Liabilities	72,210,925	95,912,101
DEFERRED INFLOWS OF RESOURCES		
Pension Related Deferred Inflows	12,519,669	1,525,298
NET POSITION		
Net Investment in Capital Assets	15,095,838	12,046,283
Restricted:		
Expendable Under Bond Agreement	313,271	342,526
Unrestricted	20,173,236	31,311,997
Total Net Position	35,582,345	43,700,806
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 120,312,939	\$ 141,138,205

See accompanying Notes to Financial Statements.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Net Patient and Resident Service Revenue	\$ 129,025,874	\$ 118,540,203
Other Revenues	901,771	1,163,463
Total Operating Revenues	<u>129,927,645</u>	<u>119,703,666</u>
OPERATING EXPENSES		
Salaries and Wages	64,402,245	58,950,701
Employee Benefits	19,481,326	18,391,262
Supplies and Drugs	21,144,013	19,822,781
Purchased Services	20,152,020	18,167,559
Utilities	1,448,092	1,508,686
Other	6,673,796	6,170,671
Depreciation	5,873,281	6,103,555
Interest	1,096,570	793,347
Taxes and Surcharges	2,687,677	2,476,792
Total Operating Expenses	<u>142,959,020</u>	<u>132,385,354</u>
OPERATING LOSS	(13,031,375)	(12,681,688)
NONOPERATING REVENUES AND EXPENSES, NET		
Investment Income (Loss)	4,895,873	(6,707,917)
Noncapital Grants and Contributions	77,679	1,341,994
Gain on the Sale/Disposal of Assets	9,362	68,917
Miscellaneous Expenses	(70,000)	(200,587)
Total Nonoperating Revenues and Expenses, Net	<u>4,912,914</u>	<u>(5,497,593)</u>
DEFICIT OF REVENUES OVER EXPENSES	(8,118,461)	(18,179,281)
Capital Grants and Contributions	<u>-</u>	<u>35,850</u>
DECREASE IN NET POSITION	(8,118,461)	(18,143,431)
Net Position - Beginning of Year	<u>43,700,806</u>	<u>61,844,237</u>
NET POSITION - END OF YEAR	<u>\$ 35,582,345</u>	<u>\$ 43,700,806</u>

See accompanying Notes to Financial Statements.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third-Party Payors	\$ 130,695,588	\$ 112,565,659
Cash Paid to Employees	(84,863,842)	(82,562,069)
Cash Paid to Suppliers and Contractors	(51,325,903)	(44,311,075)
Other Receipts and Payments, Net	911,569	1,181,937
Net Cash Used by Operating Activities	(4,582,588)	(13,125,548)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital Grants and Contributions	77,679	1,341,994
Miscellaneous Expenses	(70,000)	(200,587)
Net Cash Provided by Noncapital Financing Activities	7,679	1,141,407
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Land	-	800,000
Purchase of Capital Assets	(1,469,227)	(1,782,064)
Proceeds from Issuance of Long-Term Debt	4,020,000	5,980,000
Principal Payments on Long-Term Debt	(11,464,247)	(2,520,323)
Capital Grants and Contributions	-	35,850
Interest Payments on Long-Term Debt	(1,127,997)	(747,587)
Net Cash Provided (Used) by Capital and Related Financing Activities	(10,041,471)	1,765,876
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Noncurrent Cash and Investments	7,334,014	16,698,130
Investment Income (Loss)	4,895,873	(6,527,461)
Net Cash Provided by Investing Activities	12,229,887	10,170,669
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,386,493)	(47,596)
Cash and Cash Equivalents - Beginning of Year	2,736,019	2,783,615
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 349,526	\$ 2,736,019

See accompanying Notes to Financial Statements.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (13,031,375)	\$ (12,681,688)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	5,873,281	6,103,555
Interest	1,096,570	793,347
Provision for Bad Debt Expense	3,292,835	2,991,801
Amortization of Deferred Loss on Refinancing	40,360	40,362
(Increase) Decrease in:		
Patient Receivables	(2,036,122)	(9,049,634)
Inventories, Prepaids, and Other Receivables	(167,792)	(18,231)
Pension Related Deferred Outflow	6,553,607	579,694
Increase (Decrease) in:		
Accounts Payable	(693,573)	466,854
Third-Party Payor Settlements Payable	413,001	83,289
Accrued Expenses	(980,271)	(5,220,106)
Net Pension Liability	(15,937,480)	27,472,490
Pension Related Deferred Inflow	10,994,371	(24,687,281)
Net Cash Used by Operating Activities	\$ (4,582,588)	\$ (13,125,548)
NONCASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Assets Acquired by Lease Obligation	\$ 972,821	\$ 103,325

See accompanying Notes to Financial Statements.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Northfield Hospital dba: Northfield Hospital + Clinics (the Hospital), including the Northfield Hospital Long Term Care Center, onsite Women's Health and Medical Clinics, and offsite Orthopedic, Ophthalmology, and Medical Clinics at Lonsdale, Farmington, Lakeville, Faribault, and Kenyon, is operated by and is a component unit of the City of Northfield, Minnesota (the City) and is governed by the board of directors of Northfield Hospital. The Hospital is exempt from federal and state income taxes and property taxes. The Freestanding clinics are subject to property tax. The Long Term Care Center closed in September, 2023 and the Lonsdale Clinic closed in November, 2023.

Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Hospital has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Government Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the organization to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. The Hospital has no funds which meet the GASB criteria. The Hospital is considered a part of the reporting entity of the City of Northfield, Minnesota and is included in the City's financial statements as a component unit.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Receivables

The Hospital provides an allowance for uncollectible accounts using management's judgment. Acute-care patients are not required to provide collateral for services rendered. Nursing home residents are required to make a prepayment for the estimated monthly amount when Medicaid, Medicare or private insurance is not paying for room and board. Payment for services is required within 30 days of receipt of invoice. Past due accounts are individually analyzed for collectability, and then turned over to collection agents. Accounts for which no payments have been received are analyzed and after approval are written off. In addition, an allowance is estimated for other accounts based on historical experience of the Hospital. At December 31, 2023 and 2022, the allowance for uncollectible accounts was \$9,051,000 and \$7,244,000, respectively.

Inventories

The inventories are recorded at the lower of cost or market using the latest invoice cost, which approximates the first-in, first-out method.

Noncurrent Cash and Investments

Noncurrent cash and investments include assets set aside by the board of directors for future capital improvements, assets set aside under bond indenture agreements and assets set aside under employee health insurance arrangements.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period. Deferred outflows also include the unamortized loss on refinancing that is being amortized over the period the obligation is outstanding, using the straight-line method.

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and reported at cost, if purchased or at fair market value on the date received, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the property. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets. The estimated useful lives of capital assets are as follows:

Land Improvements	5 to 25 Years
Buildings and Improvements	5 to 40 Years
Equipment	3 to 20 Years

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Patient and Resident Service Revenue

Net patient/resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERA) and additions to/deductions from PERA'S fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consist of pension related deferred inflows.

Net Position

Net position of the Hospital is classified in three components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted* is noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. *Unrestricted* is the remaining net assets that do not meet the definition of *net investment in capital assets or restricted*.

Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenue contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Hospital's principal activity. Other revenues, including interest income, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, and an estimated cost (based on cost to charge ratio) of those services and supplies. The estimated costs and expenses incurred to provide charity care for the years ended December 31, 2023 and 2022, was approximately \$214,000 and \$11,000, respectively.

Other Assets

The Hospital entered into a service agreement for a Meditech expense upgrade for \$300,000 during the year ended December 31, 2023. This upgrade commenced on June 28, 2022 and will continue for 24 months ending on June 28, 2024. This amount will be amortized over the life of the service period. At December 31, 2023 and December 31, 2022, accumulated amortization was \$225,000 and \$75,000, respectively.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

To the extent available, the Hospital's investments are recorded at fair value. GASB Statement No. 72 – *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take in to account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources.

In contrast, unobservable inputs reflect an entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Hospital has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Leases

The Hospital determines if an arrangement is a lease at inception. Leases are included in capital assets and long-term debt in the statements of net position.

Lease assets represent the Hospital's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Lease liabilities represent the Hospital's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or terminate the lease when it is reasonably certain that the Hospital will exercise that option.

The Hospital has elected to recognize payments for short-term leases with a lease term of 12 months or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use lease assets on the statements of net position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Hospital has elected to use their incremental borrowing rate to calculate the present value of expected lease payments.

The Hospital accounts for contracts containing both lease and nonlease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and nonlease components, and it is impractical to estimate the price of such components, the Hospital treats the components as a single lease unit.

Adoption of New Accounting Standard

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This standard defines a subscription-based information technology arrangement (SBITA); establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA.

The Hospital adopted the requirements of the guidance effective July 1, 2022. There was no impact on the statement of net position and statement of revenues, expenses, and changed in net position as a result of adopting GASB Statement No. 96.

Reclassifications

Certain items in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the Hospital's overall net position.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 2 DESIGNATED FUNDS

For the years ended December 31, 2023 and 2022, the board of directors has designated \$48,214,404 and \$55,837,243, respectively, for capital expenditures and \$1,190,768 and \$872,688, respectively, for the payment of health benefits. Designated funds remain under the control of the board of directors, which may at its discretion later use the funds for other purposes. Designated funds are reflected in noncurrent cash and investments.

NOTE 3 NET PATIENT AND RESIDENT SERVICE REVENUE

The Hospital and the nursing facility have entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. The base payment for the nursing facility includes room charges and ancillary services to nursing facility residents. Revenue is recorded at established billing rates, net of contractual adjustments, resulting from agreements with third-party payors.

Medicare

By Minnesota Statute, a nursing facility, which participates in the Medicaid program, must also participate in the Medicare program. This program is administered by United States Centers for Medicare and Medicaid Services (CMS).

The Northfield Hospital Long Term Care Center is paid under the Medicare Prospective Payment System (PPS) for residents who are Medicare Part A eligible and meet the coverage guidelines for skilled nursing facility services (SNFs). The PPS is a per diem price-based system. Annual cost reports are required to be submitted to the designated Medicare Administrative Contractor; however, they do not contain a cost settlement. CMS implemented the Patient Driven Payment Model (PDPM) for the Medicare reimbursement system effective October 1, 2019. Under PDPM, therapy minutes are removed as the primary basis for payment and instead uses the underlying complexity and clinical needs of a patient as a basis for reimbursement. In addition, PDPM introduces variable adjustment factors that change reimbursement rates during the resident's length of stay.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 3 NET PATIENT AND RESIDENT SERVICE REVENUE (CONTINUED)

Medicare (Continued)

Nursing facilities licensed for participation in the Medicare and Medicaid programs are subject to annual surveys. If it is determined that a nursing facility is not in substantial compliance with the requirements of participation, CMS may impose sanctions and penalties during the period of noncompliance, which would have a negative impact on the revenues of the nursing facility.

Inpatient acute care services provided to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Outpatient services provided to Medicare outpatient program beneficiaries are subject to the Ambulatory Payment Classification (APC) method. Medicare reimburses the Hospital a predetermined amount for most outpatient services. The following services are excluded from the APC payment methodology; services already paid on a fee schedule, services to SNF residents which are already included in the SNF's payment, and certain drugs, biologicals and medical devices identified as pass-through items. The APC payments are not based on the provider's annual cost report.

Physician-Based Clinic services are reimbursed using the Medicare Physician Fee Schedule.

Medicaid

The Northfield Hospital Long-Term Care Center participates in the Medicaid program that is administered by the Minnesota Department of Human Services (DHS). Medicaid and private paying residents are classified into one of 48 Resource Utilization Groups (RUG) for purposes of establishing payment rates.

Nursing facilities are paid under the Value Based Nursing Facility Reimbursement System (VBR) as approved during the 2015 Minnesota State Legislative Session. Under the VBR system, care related costs are reimbursed at actual cost subject to certain limitations. Other operating costs are reimbursed using a pricing model, which results in the rates of these costs being the same for all nursing facilities in the state. Certain other costs, such as qualifying employer health insurance costs, are reimbursed at an external fixed payment rate and are cost based with no limitations. Reimbursement for historic property related costs is a separate component of the rate that has been frozen since 2010. Additional reimbursement for new property related costs is possible under certain conditions.

The change to the VBR system includes a hold harmless provision which protects nursing home facilities from being paid at rates lower than those in effect December 31, 2015. Nursing facilities are also protected from significant decreases in rates in a single year due to changes in care related costs.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 3 NET PATIENT AND RESIDENT SERVICE REVENUE (CONTINUED)

Medicaid (Continued)

By Minnesota Statute, a nursing facility may not charge private paying residents in multiple occupancy rooms per diem rates in excess of the approved Medicaid rates for similar services.

Hospital inpatient services rendered to Medicaid program beneficiaries are reimbursed under a reimbursement methodology similar to inpatient Medicare. Hospital outpatient and Physician-Based clinic Medicaid services are reimbursed using the Medicaid fee schedule.

Other

The Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates. As of August 1, 2014, the Hospital Blue Cross contract moved to APR-DRG for inpatient acute care services and EAPG for outpatient services.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in estimated settlement amounts resulted in net patient and resident service revenue increasing by approximately \$132,000 and \$161,000 for the years ended December 31, 2023 and 2022, respectively.

A summary of patient and resident revenues and contractual adjustments is as follows:

	<u>2023</u>	<u>2022</u>
Total Patient and Resident Revenues	\$ 339,244,179	\$ 297,023,362
Contractual Adjustments:		
Medicare	(59,545,222)	(56,949,528)
Medicaid	(3,493,397)	(3,424,851)
Commercial/HMOs	(129,640,012)	(101,785,793)
Provision for Bad Debts	(3,292,835)	(2,991,801)
Other	(14,246,839)	(13,331,186)
Total Contractual Adjustments	<u>(210,218,305)</u>	<u>(178,483,159)</u>
Net Patient and Resident Revenues	<u>\$ 129,025,874</u>	<u>\$ 118,540,203</u>

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 4 DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it in full. The Hospital follows the Minnesota Statutes for deposits. The Hospital does not have a formal policy regarding the holding of securities by counterparties; however, as of December 31, 2023 or 2022, the Hospital did not have any such arrangements.

In accordance with Minnesota Statutes, the Hospital maintains deposits at financial institutions that are authorized by the Hospital's board of directors.

Minnesota Statutes require that all Hospital deposits be protected by insurance, surety bond, or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes certain U.S. government securities, state or local government obligations, and other securities authorized by Minn. Stat. 118.A.03. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the Treasurer or in a financial institution other than that furnishing collateral.

The Hospital's deposits in banks at December 31, 2023 and 2022 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

Investments

Publicly owned hospitals can invest funds in a security recommended by an investment advisor, bank, or trust company, provided the funds are invested according to the hospital's written investment policies and procedures. The Hospital has a policy that conforms to these requirements and had the following investments at December 31:

	<u>2023</u>	<u>2022</u>
Federal Home Loan Bank	\$ 2,891,495	\$ 2,783,055
Federal National Mortgage Association	4,041,646	4,672,242
Federal Home Loan Mortgage Corp	1,997,813	2,274,488
Federal Farm Credit Bank	887,970	866,230
U.S. Treasury Notes	4,202,180	5,832,804
U.S. Government Obligations	2,755,225	3,557,963
Collateralized Mortgage Obligations	7,569,935	7,492,180
Certificate of Deposit	-	2,052,164
U.S. Equities	8,813,264	12,432,764
International Equities	4,684,358	5,899,987
Taxable Fixed Income	1,952,174	1,451,007
Other Assets	2,091,551	2,742,209
Private Equity Investments	2,513,733	2,330,024
Total	<u>\$ 44,401,344</u>	<u>\$ 54,387,117</u>

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

- **Federal Home Loan Bank:** Consists of discount notes and notes with interest rates of 1.00% to 1.05% maturing from 2024 to 2026 and have AA+ ratings by Standard & Poor's.
- **Federal National Mortgage Association:** Consists of discount notes and notes with interest rates ranging from 1.50% to 3.50% maturing from 2029 to 2039 and have AA+ ratings by Standard & Poor's.
- **Federal Home Loan Mortgage Corp:** Consists of discount notes with interest rates ranging from 1.50% to 2.50% maturing from 2031 to 2041 and have AA+ ratings by Standard & Poor's.
- **Federal Farm Credit Bank:** Consists of discount notes with interest rates of 0.90% maturing in 2027 and have AA+ ratings by Standard & Poor's.
- **U.S. Treasury Notes:** Consists of discount notes with interest rates ranging from -0-% to 2.63% maturing from 2023 to 2025 and have AA+ ratings by Standard & Poor's.
- **Certificates of Deposits (CD):** Consists of deposits with interest rates ranging from 0.60% to 0.95% maturing in 2023.
- **U.S. Government Obligations:** Consists of discount notes with interest rates ranging from of 0.85% to 5.00% maturing from 2023 to 2028 and have BBB – AA+ ratings by Standard & Poor's.
- **Collateralized Mortgage Obligations:** Consists of discount notes with interest rates ranging from of 3.17% to 3.77% maturing from 2024 to 2028 and have BBB – AA+ ratings by Standard & Poor's.
- **Equity Investments:** Consists of common stock of U.S. companies, American Depository Receipts, U.S. dollar denominated foreign equity securities and foreign equity securities of foreign companies that are listed on a major domestic stock exchange or traded in the over the counter markets.
- **Alternative Investments:** Alternative investments include real estate, commodities, hedging strategies, and private equities.

**NORTHFIELD HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Fair Value Measurements

The Hospital uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the hospital measures fair value refer to Note 1 – Summary of Significant Accounting Policies. Cash and cash equivalents are stated at cost but are included in the table for comparison purposes to the balance sheet. The following table presents the fair value hierarchy for the balances of the assets and liabilities of the Hospital measured at fair value on a recurring basis as of December 31:

2023				
Investment Type	Level 1	Level 2	Level 3	Total
Equities	\$ 17,541,347	\$ -	\$ -	\$ 17,541,347
U.S. Treasuries	-	4,202,180	-	4,202,180
U.S. Government Agencies	-	12,574,149	-	12,574,149
Collateralized Mortgage Obligations	-	7,569,935	-	7,569,935
Private Equity	-	-	2,513,733	2,513,733
Totals	<u>\$ 17,541,347</u>	<u>\$ 24,346,264</u>	<u>\$ 2,513,733</u>	<u>\$ 44,401,344</u>

2022				
Investment Type	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$ 2,052,164	\$ -	\$ -	\$ 2,052,164
Equities	22,525,967	-	-	22,525,967
U.S. Treasuries	-	5,832,804	-	5,832,804
U.S. Government Agencies	-	14,153,978	-	14,153,978
Collateralized Mortgage Obligations	-	7,492,180	-	7,492,180
Private Equity	-	-	2,330,024	2,330,024
Totals	<u>\$ 24,578,131</u>	<u>\$ 27,478,962</u>	<u>\$ 2,330,024</u>	<u>\$ 54,387,117</u>

Interest Rate Risk

The Hospital has a formal investment policy that addresses permissible investments, portfolio diversification, and instrument maturities. Within these parameters, the liquidity of the investments is a concern maximizing income and the quality of the investment is paramount.

Concentration of Credit Risk

The Hospital does not place a limit on the amount of the total portfolio that may be invested in any one depository or issuer. The Finance Department is responsible for the formulation, documentation and monitoring of investment strategy consistent with the investment policy.

**NORTHFIELD HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Concentration of Credit Risk (Continued)

At December 31, 2023 and 2022, deposits and investments are presented in the financial statements as follows:

	<u>2023</u>	<u>2022</u>
Deposits	\$ 5,666,625	\$ 5,401,359
Investments	44,401,344	54,387,117
Total	<u>\$ 50,067,969</u>	<u>\$ 59,788,476</u>

	<u>2023</u>	<u>2022</u>
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 349,526	\$ 2,736,019
Noncurrent Cash and Investments:		
Internally Designated for Health Benefits	1,190,768	872,688
Internally Designated for Capital Improvements	48,214,404	55,837,243
Restricted by Bond Agreement	313,271	342,526
Total	<u>\$ 50,067,969</u>	<u>\$ 59,788,476</u>

As of December 31, 2023 and 2022, accrued interest of \$105,580 and \$130,608 respectively, is included in Internally Designated for Capital Improvements in the above schedules.

For the years ended December 31, investment income (loss) is as follows:

	<u>2023</u>	<u>2022</u>
Interest and Dividend Income	\$ 1,454,657	\$ 1,057,932
Realized Gain on Investments	705,933	228,509
Unrealized Gain (Loss) on Investments	3,441,216	(7,765,849)
Total Investment Income (Loss)	<u>\$ 4,895,873</u>	<u>\$ (6,707,917)</u>

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 5 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at December 31 consist of the following:

	<u>2023</u>	<u>2022</u>
Receivable from Patients and Their Insurance Carriers	\$ 23,047,323	\$ 22,146,854
Receivables from Medicare	3,888,217	3,773,298
Receivables from Medicaid	928,009	1,393,110
Total Patient Receivables	<u>27,863,549</u>	<u>27,313,262</u>
Less: Allowance for Doubtful Accounts	<u>(9,051,000)</u>	<u>(7,244,000)</u>
Patient Receivables, Net	<u>\$ 18,812,549</u>	<u>\$ 20,069,262</u>

NOTE 6 DEFERRED OUTFLOWS OF RESOURCES

The loss of \$605,421 from the refinancing of the 2006 Revenue Bonds is shown net of accumulated amortization. The remaining refunding loss to be amortized is \$306,072 at December 31, 2023. Amortization expense was \$40,360 for the years ended December 31, 2023 and 2022. The loss is amortized over the life of the bonds.

See details on Pension Related Deferred Outflows in Note 9.

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NOTE 7 CAPITAL ASSETS, NET

A summary of capital assets and related accumulated depreciation is as follows:

	January 1, 2023	Additions and Transfers	Retirements	December 31, 2023
Capital Assets				
Land	\$ 3,233,283	\$ -	\$ -	\$ 3,233,283
Land Improvements	2,313,108	-	-	2,313,108
Buildings	73,406,907	109,975	-	73,516,882
Building Equipment	3,853,245	19,112	(9,081)	3,863,276
Movable Equipment	34,729,903	995,406	(940,174)	34,785,135
Leased Equipment	-	763,425	55,619	819,044
Leased Facilities	-	209,396	274,182	483,578
Other Real Estate	105,396	-	-	105,396
Construction in Progress	421,105	372,200	-	793,305
Total	<u>118,062,947</u>	<u>2,469,514</u>	<u>(619,454)</u>	<u>119,913,007</u>
Accumulated Depreciation				
Land Improvements	1,087,267	185,811	-	1,273,078
Buildings	45,577,997	3,382,560	-	48,960,557
Building Equipment	2,595,844	243,434	(4,767)	2,834,511
Movable Equipment	30,130,784	1,645,696	(928,817)	30,847,663
Leased Equipment	-	237,578	(18,257)	219,321
Leased Facilities	-	178,202	35,412	213,614
Other Real Estate	105,396	-	-	105,396
Total	<u>79,497,288</u>	<u>\$ 5,873,281</u>	<u>\$ (916,429)</u>	<u>84,454,140</u>
	<u>\$ 38,565,659</u>			<u>\$ 35,458,867</u>

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NOTE 7 CAPITAL ASSETS, NET (CONTINUED)

	January 1, 2022	Additions and Transfers	Retirements	December 31, 2022
Capital Assets				
Land	\$ 3,233,283	\$ -	\$ -	\$ 3,233,283
Land Improvements	2,191,093	122,015	-	2,313,108
Buildings	73,308,983	97,924	-	73,406,907
Building Equipment	3,750,474	102,771	-	3,853,245
Movable Equipment	33,838,143	1,065,240	(173,480)	34,729,903
Leased Equipment	634,269	39,344	-	673,613
Leased Facilities	538,381	63,981	-	602,362
Other Real Estate	105,396	-	-	105,396
Construction in Progress	26,840	394,265	-	421,105
Total	117,626,862	1,885,540	(173,480)	119,338,922
Accumulated Depreciation				
Land Improvements	889,263	198,004	-	1,087,267
Buildings	42,131,938	3,446,059	-	45,577,997
Building Equipment	2,345,680	250,164	-	2,595,844
Movable Equipment	28,482,826	1,816,981	(169,023)	30,130,784
Leased Equipment	378,228	219,074	-	597,302
Leased Facilities	190,321	173,273	-	363,594
Other Real Estate	105,396	-	-	105,396
Total	74,523,652	\$ 6,103,555	\$ (169,023)	80,458,184
	<u>\$ 43,103,210</u>			<u>\$ 38,880,738</u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE 8 LONG-TERM DEBT

Long-term debt consists of the following as of December 31:

	Balance January 1, 2023	Additions	Payments/ Amortization	Balance December 31, 2023	Amounts Due Within One Year
Hospital Revenue Bonds, Series 2015B	\$ 4,940,000	\$ -	\$ (560,000)	\$ 4,380,000	\$ 575,000
Hospital Revenue Bonds, Series 2016A	13,957,170	-	(6,132,889)	7,824,281	7,824,281
Hospital Revenue Bonds, Series 2016B	1,637,232	-	(170,983)	1,466,249	175,413
Hospital Revenue Bonds, Series 2022B	5,980,000	-	(3,955,658)	2,024,342	2,024,342
Hospital Revenue Bonds, Series 2023A	-	4,020,000	(230,000)	3,790,000	3,790,000
Total Bonds	26,514,402	4,020,000	(11,049,530)	19,484,872	14,389,036
Leased Equipment	77,368	763,425	(237,744)	603,049	266,605
Leased Facilities	242,685	209,396	(176,973)	275,108	152,642
Total Lease Obligations	320,053	972,821	(414,717)	878,157	419,247

	Balance January 1, 2022	Additions	Payments/ Amortization	Balance December 31, 2022	Amounts Due Within One Year
Hospital Revenue Bonds, Series 2015B	\$ 5,480,000	\$ -	\$ (540,000)	\$ 4,940,000	\$ 560,000
Hospital Revenue Bonds, Series 2016A	15,377,515	-	(1,420,344)	13,957,171	6,085,409
Hospital Revenue Bonds, Series 2016B	1,803,898	-	(166,667)	1,637,231	170,984
Hospital Revenue Bonds, Series 2022B	-	5,980,000	-	5,980,000	5,980,000
Total Bonds	22,661,413	5,980,000	(2,127,011)	26,514,402	12,796,393
Leased Equipment	259,459	39,344	(221,435)	77,368	56,116
Leased Facilities	350,582	63,981	(171,878)	242,685	111,021
Total Lease Obligations	610,041	103,325	(393,313)	320,053	167,137
Total Long-Term Debt	\$ 23,271,454	\$ 6,083,325	\$ (2,520,324)	\$ 26,834,455	\$ 12,963,530

The following is a summary of the provisions of each major component of long-term debt:

Hospital Revenue Bonds, Series 2015B

These bonds were issued December 29, 2015 in the amount of \$8,405,000 to provide funding for construction of the expansion of the surgery center and purchase of the MRI and other diagnostic equipment. The bonds are limited obligations of the City and are payable primarily from the net revenues of the Hospital and are secured by a mortgage and security agreement between the City and Wells Fargo Bank, MN NA as Trustee. Interest on the bond is 2.98%, and is due each May 1 and November 1, with principal payments due each November 1 through November 1, 2025. The Hospital is required to meet certain financial covenants related to the outstanding bonds.

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NOTE 8 LONG-TERM DEBT (CONTINUED)

Hospital Revenue Bonds, Series 2016

These bonds were issued August 5, 2016 in the amount of \$25,000,000 to extinguish the Hospital Revenue Bonds Series 2006. The bonds are limited obligations of the City and are payable primarily from the net revenues of the Hospital and are secured by a mortgage and security agreement between the City and Wells Fargo Bank, MN NA as Trustee.

Interest on the bond is 2.56%, and is due monthly from September 2016 through August 2031.

Hospital Revenue Bonds, Series 2022

These bonds were issued September 21, 2022 in the amount of \$5,980,000 to finance the construction, installment and equipping of various improvements to the Hospital's facilities. The bonds are limited obligations of the City and are payable primarily from the net revenues of the Hospital and are secured by a mortgage and security agreement between the City, Community Resource Bank, and Wells Fargo Bank, MN NA as Trustee.

Interest on the bond is 3.25%, and is due monthly from March 2023 through September 2032.

Hospital Revenue Bonds, Series 2023

These bonds were issued February 16, 2023 in the amount of \$4,020,000 to finance the construction, installment and equipping of various improvements to the Hospital's facilities. The bonds are limited obligations of the City and are payable primarily from the net revenues of the Hospital and are secured by a mortgage and security agreement between the City, Community Resource Bank, and Wells Fargo Bank, MN NA as Trustee.

Interest on the bond is 3.25%, and is due monthly from March 2023 through September 2032.

The revenue bonds loan agreement places limits on the incurrence of additional borrowings and requires the Hospital to satisfy certain measures of financial performance. The Hospital is required to meet certain financial covenants related to the outstanding bonds. The Hospital was not in compliance with the debt service coverage ratio as of December 31, 2023. The Hospital received bank waivers from the various lenders that waived the covenant violation for missing the debt service coverage ratio in 2023. Some of the outstanding debt has been classified as current because of some accelerated debt payment requirements in 2024.

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NOTE 8 LONG-TERM DEBT (CONTINUED)

The following is a summary of debt service requirements for the Series 2015, 2016, 2022 and 2023 bonds to maturity:

<u>Year Ending December 31,</u>	Long-Term Debt	
	Principal	Interest
2024	\$ 14,389,037	\$ 765,806
2025	3,984,956	144,333
2026	184,618	26,282
2027	189,400	21,500
2028	194,306	16,594
2029-2032	542,555	19,290
Total	\$ 19,484,872	\$ 993,805

NOTE 9 RETIREMENT PLANS

Plan Description

The Hospital participates in the following cost-sharing multiple employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax-qualified plans under Section 401(a) of the Internal Revenue Code.

All full-time and certain part-time employees of the Hospital are covered by the General Employees Fund. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested Terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989.

Under Method 1, the accrual rate for coordinated members is 1.20% of average salary for each of the first 10 years of service and 1.70% of average salary for each additional year. Under Method 2, the accrual rate for coordinated members is 1.70% of average salary for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

**NORTHFIELD HOSPITAL
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DECEMBER 31, 2023 AND 2022**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.00% and a maximum of 1.50%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

Contributions

Minnesota Statutes, Chapter 353, sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2023 and the Hospital was required to contribute 7.50% for Coordinated Plan members. The Hospital's contributions to the General Employees Fund for the years ended December 31, 2023 and 2022 were approximately \$3,867,000 and \$3,739,000, respectively. The Hospital's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs

At December 31, 2023 and 2022, the Hospital reported a liability of \$38,584,029 and \$54,521,509, respectively, for its proportionate share of the General Employees Fund's net pension liability. The Hospital's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund. The state of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the Hospital totaled \$1,063,596 and \$1,598,448 for the years ended December 31, 2023 and 2022, respectively. The net pension liability was measured as of June 30, 2023 and 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Hospital's proportion of the net pension liability was based on the Hospital's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023 and July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2023, the Hospital's proportion share was .6900%, which was an increase of .0016% from its proportion measured as of June 30, 2022.

Hospital's Proportionate Share of the Net Pension Liability	2023 \$ 38,584,029	2022 \$ 54,521,509
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the Hospital	1,063,596	1,598,448
Total	\$ 39,647,625	\$ 56,119,957

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NOTES TO FINANCIAL STATEMENTS
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NOTE 9 RETIREMENT PLANS (CONTINUED)

Pension Costs (Continued)

There were no benefit provision changes during the measurement period.

For the years ended December 31, 2023 and 2022, the Hospital recognized pension expense of \$6,034,187 and \$7,646,555, respectively, for its proportionate share of the General Employees Plan's pension expense. In addition, the Hospital recognized an additional \$4,870 and \$238,845 during the years ended December 31, 2023 and 2022, respectively, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million the General Employees Fund.

At December 31, 2023 and 2022, the Hospital reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>December 31, 2023</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 1,267,115	\$ 265,800
Changes of Assumptions	6,246,214	10,575,558
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	-	1,442,909
Changes in Proportion and Differences Between Hospital		
Contributions and Proportionate Share		
of Contributions	1,601,576	235,402
Hospital Contributions Subsequent to		
the Measurement Date	2,403,035	-
Total	<u>\$ 11,517,940</u>	<u>\$ 12,519,669</u>
<u>December 31, 2022</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 455,409	\$ 582,420
Changes of Assumptions	12,339,206	221,749
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	945,704	-
Changes in Proportion and Differences Between Hospital		
Contributions and Proportionate Share		
of Contributions	2,293,626	721,129
Hospital Contributions Subsequent to		
the Measurement Date	2,037,602	-
Total	<u>\$ 18,071,547</u>	<u>\$ 1,525,298</u>

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DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 RETIREMENT PLANS (CONTINUED)

Pension Costs (Continued)

For the years ended December 31, 2023 and 2022, \$2,403,035 and \$2,037,602, respectively, were reported as deferred outflows of resources related to pensions resulting from the Hospital's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended December 31, 2023 and 2022, respectively. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>2023</u>	<u>2022</u>
2023	\$ -	\$ 5,044,066
2024	1,501,042	5,506,579
2025	(4,994,082)	(972,938)
2026	925,012	4,930,940
2027	(836,736)	-
Total	<u>\$ (3,404,764)</u>	<u>\$ 14,508,647</u>

Actuarial Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.0% was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25% for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

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NOTE 9 RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions (Continued)

The following changes in actuarial assumptions and plan provisions occurred in 2023:

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.0 percent.

Changes in Plan Provisions:

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Long-Term Expected Return on Investments

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return (Geometric)
Domestic Equity	33.5 %	5.10%
International Equity	16.5	5.30%
Private Markets	25.0	5.90%
Fixed Income	25.0	0.75%
Total	100.0 %	

Discount Rate

The discount rate used to measure the total pension liability in 2023 and 2022 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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NOTE 9 RETIREMENT PLANS (CONTINUED)

Pension Liability Sensitivity

The following presents the Hospital's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

<u>December 31, 2023</u>	<u>1% Decrease (6.0%)</u>	<u>Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Hospital's Proportionate Share of the Net Pension Liability	\$ 68,258,243	\$ 38,584,029	\$ 14,175,857
 <u>December 31, 2022</u>	 <u>1% Decrease (5.5%)</u>	 <u>Discount Rate (6.5%)</u>	 <u>1% Increase (7.5%)</u>
Hospital's Proportionate Share of the Net Pension Liability	\$ 86,119,577	\$ 54,521,509	\$ 28,606,214

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 10 LEASES

The Hospital leases facilities and computers for various terms under long-term, noncancelable lease agreements. The leases expire at various dates through 2026 and provide for renewal options ranging from six months to two years.

Certain facility leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases.

Total future minimum lease payments under lease agreements are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 419,247	\$ 13,315
2025	344,388	6,557
2026	114,522	821
Total	<u>\$ 878,157</u>	<u>\$ 20,693</u>

Right-to-use assets acquired through outstanding leases are shown in Note 7.

For the years ended December 31, 2023 and 2022, there were no impairment related losses on the lease assets.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 11 COMMITMENTS AND CONTINGENCIES

Land Lease

The Hospital leases the land on which the facility is located from a local college. The lease term is for 60 years with two 20-year options. The annual rent expense for the first 20 years of the lease is approximately \$6,000. The rent expense in subsequent years will be equal to 5% of the appraised market price for rural agricultural land in the Dakota/Rice County Region. The rent expense would be adjusted to current market rates if certain events were to occur, such as the sale of the Hospital.

Self-Insurance Plan

The Hospital self-insures their employee health and dental insurance program. The Hospital has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual and aggregate claims and to provide claims processing and other administrative functions. Claims are accrued as incurred. The amounts charged to expense include administrative fees, stop-loss insurance premiums, claims paid, and accruals for claims incurred but not yet paid at year-end. The total health and dental insurance expense for the years ended December 31, 2023 and 2022 was \$8,364,968 and \$6,566,522, respectively, and are included with Accrued Payroll and Benefits.

Medical Malpractice Insurance

The Hospital purchases medical malpractice insurance under a "claims made" policy on a fixed-premium basis. The Hospital has coverage for any individual claims exceeding \$1,000,000, and for aggregate claims exceeding \$3,000,000 for a policy year. Should this policy lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant reduction in insurance coverage from the previous year in any of the Hospital's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Hospital is involved in legal proceedings which resulted through the normal course of providing health care services and other matters. The litigation is in the early stages and too premature to determine the degree of liability, if any, to the Hospital. Management has assessed its coverage under medical malpractice and other insurances and believes at the point of the proceedings adequate provisions have been made for any amounts it may be responsible to pay under the respective policies deductible amounts.

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NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. During fiscal year 2007, the RAC's identified and corrected a significant amount of improper overpayments to providers in the demonstration states, which did not include Minnesota. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. While the hospital was selected for a RAC audit during 2017 and 2016, they were not materially impacted and appear to have appropriate policies and procedures to mitigate the risks related to RAC reviews.

Management believes that the Hospital is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (UNAUDITED)
DECEMBER 31, 2015 THROUGH 2023**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Hospital's Proportion of the Net Pension Liability	0.6900%	0.6884%	0.6334%	0.6489%	0.6646%
Hospital's Proportionate Share of the Net Pension Liability	\$ 38,584,029	\$ 54,521,509	\$ 27,049,019	\$ 38,904,521	\$ 36,744,246
Hospital's Covered Payroll	\$ 58,988,153	\$ 53,518,633	\$ 53,991,160	\$ 46,274,711	\$ 47,616,107
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	65.41%	101.87%	50.10%	84.07%	77.17%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.10%	76.67%	87.00%	79.10%	80.23%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	
Hospital's Proportion of the Net Pension Liability	0.6745%	0.6747%	0.5948%	0.5948%	
Hospital's Proportionate Share of the Net Pension Liability	\$ 37,418,495	\$ 43,072,403	\$ 52,533,192	\$ 30,825,624	
Hospital's Covered Payroll	\$ 46,735,681	\$ 46,735,681	\$ 44,316,610	\$ 40,117,088	
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	80.06%	92.16%	118.54%	76.84%	
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.53%	75.90%	68.91%	78.20%	

See accompanying Notes to Schedule of Changes in Net Pension Liability.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
SCHEDULE OF THE HOSPITAL'S CONTRIBUTIONS (UNAUDITED)
DECEMBER 31, 2014 THROUGH 2023**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Statutorily Required Contribution	\$ 4,423,690	\$ 4,042,808	\$ 3,738,643	\$ 3,266,052	\$ 3,593,622
Contributions in Relation to the Statutorily Required Contribution	<u>4,423,690</u>	<u>4,042,808</u>	<u>3,738,643</u>	<u>3,266,052</u>	<u>3,593,622</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital Covered Payroll	\$ 58,988,153	\$ 53,518,633	\$ 53,991,160	\$ 46,274,711	\$ 47,616,107
Contributions as a Percentage of Covered Payroll	7.50%	7.55%	6.92%	7.06%	7.55%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily Required Contribution	\$ 3,458,545	\$ 3,311,327	\$ 3,118,305	\$ 2,877,619	\$ 2,327,602
Contributions in Relation to the Statutorily Required Contribution	<u>3,458,545</u>	<u>3,311,327</u>	<u>3,118,305</u>	<u>2,877,619</u>	<u>2,327,602</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital Covered Payroll	\$ 48,630,870	\$ 46,735,681	\$ 44,316,610	\$ 40,117,088	\$ 33,751,616
Contributions as a Percentage of Covered Payroll	7.11%	7.09%	7.04%	7.17%	6.90%

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO SCHEDULE OF CHANGES IN NET PENSION LIABILITY
DECEMBER 31, 2023**

NOTE 1 NOTES TO NET PENSION LIABILITY

2023 Changes in Actuarial Assumptions

The investment return assumption and single discount rate were changed from 6.5 percent to 7.0 percent.

2023 Changes in Plan Provision

An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.

The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.

The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.

A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 Changes in Actuarial Assumptions

The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2022 Changes in Plan Provision

There were no changes in plan provisions since the previous valuation.



**INDEPENDENT AUDITORS' 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**

Board of Directors
Northfield Hospital
dba: Northfield Hospital + Clinics
Northfield, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northfield Hospital dba: Northfield Hospital + Clinics (the Hospital), which comprise the statement of financial position as of December 31, 2023, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Northfield Hospital
dba: Northfield Hospital + Clinics

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 25, 2024



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors
Northfield Hospital
dba: Northfield Hospital + Clinics
Northfield, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of Northfield Hospital dba: Northfield Hospital + Clinics (the Hospital), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated April 25, 2024.

In connection with our audit, nothing came to our attention that caused us to believe that Northfield Hospital dba: Northfield Hospital + Clinics failed to comply with the provisions of the contracting-bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Hospital's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 25, 2024



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