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CPAs | CONSULTANTS | WEALTH ADVISORS

# Northfield Hospital + Clinics

2024 Audit Results and Report to the Board of Directors

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# Executive Summary

## Results of Professional Services



# Results of Professional Services

## Significant Events and Transactions

- New Debt Issuance
- Adopted GASB 101, Compensated Absences, which did not have an impact

## Unpredictability Tests

- Disbursement Testing – No issues noted

## Audit Adjustments

- No audit adjustments proposed
- One passed adjustment related to write-off of remaining bond refunding loss

## Subsequent Events

- No subsequent events

## Internal Controls

- No material weaknesses noted





# Required Governance Communications



# Governance Communications

Topic	Communication
<b>Our Responsibility under Generally Accepted Auditing Standards</b>	<ul style="list-style-type: none"> <li>Express an opinion on the fair presentation of the financial statements in conformity with GAAP</li> <li>Plan and perform the audit to obtain reasonable, non absolute assurance that the financial statements are free of material misstatement</li> <li>Evaluate internal control over financial reporting</li> <li>Utilize a risk-based audit approach</li> <li>Communicate significant matters to appropriate parties</li> </ul>
<b>Planned Scope and Timing of the Audit</b>	<ul style="list-style-type: none"> <li>Performed the audit according to the planned scope and timing previously communicated</li> </ul>
<b>Other Information in Documents Containing the Audited Financial Statements</b>	<ul style="list-style-type: none"> <li>Financial statements may only be used in their entirety</li> <li>Our approval is required to use our audit report in a client prepared document</li> <li>We have no responsibility to perform procedures beyond those related to the financial statements</li> <li>Evaluate presentation of supplementary information related to the presentation of the financial statements as a whole</li> </ul>



# Governance Communications

Topic	Communication
<b>Significant Accounting Policies</b>	<ul style="list-style-type: none"> <li>• Management is responsible for the accounting policies of the organization</li> <li>• Accounting policies are outlined in Note 1 to the financial statements</li> <li>• Adoption of GASB 101 in 2024. No impact on the organization.</li> <li>• Accounting policies deemed appropriate</li> <li>• No unusual transactions occurred</li> </ul>
<b>Significant Accounting Estimates</b>	<ul style="list-style-type: none"> <li>• An area of focus under a risk-based audit approach</li> <li>• Significant estimates include: valuation of accounts receivable, third-party payor settlement estimates, and PERA pension liability</li> <li>• Estimates determined by management based on their knowledge and experience</li> <li>• No management bias indicated</li> <li>• Estimates were deemed reasonable</li> <li>• Estimate uncertainty is disclosed in the financial statements</li> </ul>
<b>Significant Financial Statement Disclosures</b>	<ul style="list-style-type: none"> <li>• Net Patient and Resident Service Revenue – Note 3</li> <li>• Deposits and Investments – Note 4</li> <li>• Long-Term Debt – Note 8</li> <li>• Retirement Plans – Note 9</li> </ul>



# Governance Communications

Topic	Communication
<b>Corrected and Uncorrected Adjustments</b>	<ul style="list-style-type: none"> <li>• There were no audit adjustments. There were some management provided entries</li> <li>• One passed adjustment related to write-off of \$266K remaining bond refunding loss in the current year</li> </ul>
<b>Management Representation Letter</b>	<ul style="list-style-type: none"> <li>• Management will provide a signed representation letter as of the date of our report</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>• No difficulties encountered in performing the audit</li> <li>• No issues discussed prior to retention as independent auditors</li> <li>• No disagreements with management regarding accounting, reporting, or other matters</li> <li>• No Consultations with other independent auditors</li> <li>• No other findings or issues were discussed with, or communicated to, management</li> <li>• Included Required Supplementary Information (RSI)</li> </ul>
<b>Supplemental Information</b>	<ul style="list-style-type: none"> <li>• Management’s Discussion and Analysis, Schedule of the Hospital’s Proportionate Share of the Net Pension Liability, and Schedule of the Hospital’s Contributions</li> <li>• Engaged to report in relation to the financial statements as a whole</li> <li>• Method of preparing has not changed from the prior year, supplemental information reconciles to financial statements</li> <li>• Supplemental information is appropriate and complete in relation to our audit</li> </ul>



# Internal Control Communication

Topic	Communication
<b>Purpose</b>	<ul style="list-style-type: none"> <li>Express an opinion on the financial statements, not on the effectiveness of internal controls.</li> <li>Our consideration of internal controls was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls.</li> </ul>
<b>Material Weakness</b>	<ul style="list-style-type: none"> <li>Reasonable possibility that a material misstatement would not be prevented, or detected and corrected on a timely basis</li> </ul>
<b>Significant Deficiencies</b>	<ul style="list-style-type: none"> <li>Less significant than a material weakness, yet important enough to merit the attention of governance</li> </ul>
<b>Restricted Use</b>	<ul style="list-style-type: none"> <li>This communication is intended solely for the information and use of management, the audit committee, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.</li> </ul>
<b>Results</b>	<ul style="list-style-type: none"> <li>No material weaknesses noted</li> </ul>





# Your Business:

## Financial Ratios



# Financial Ratios – Comparative Data Used

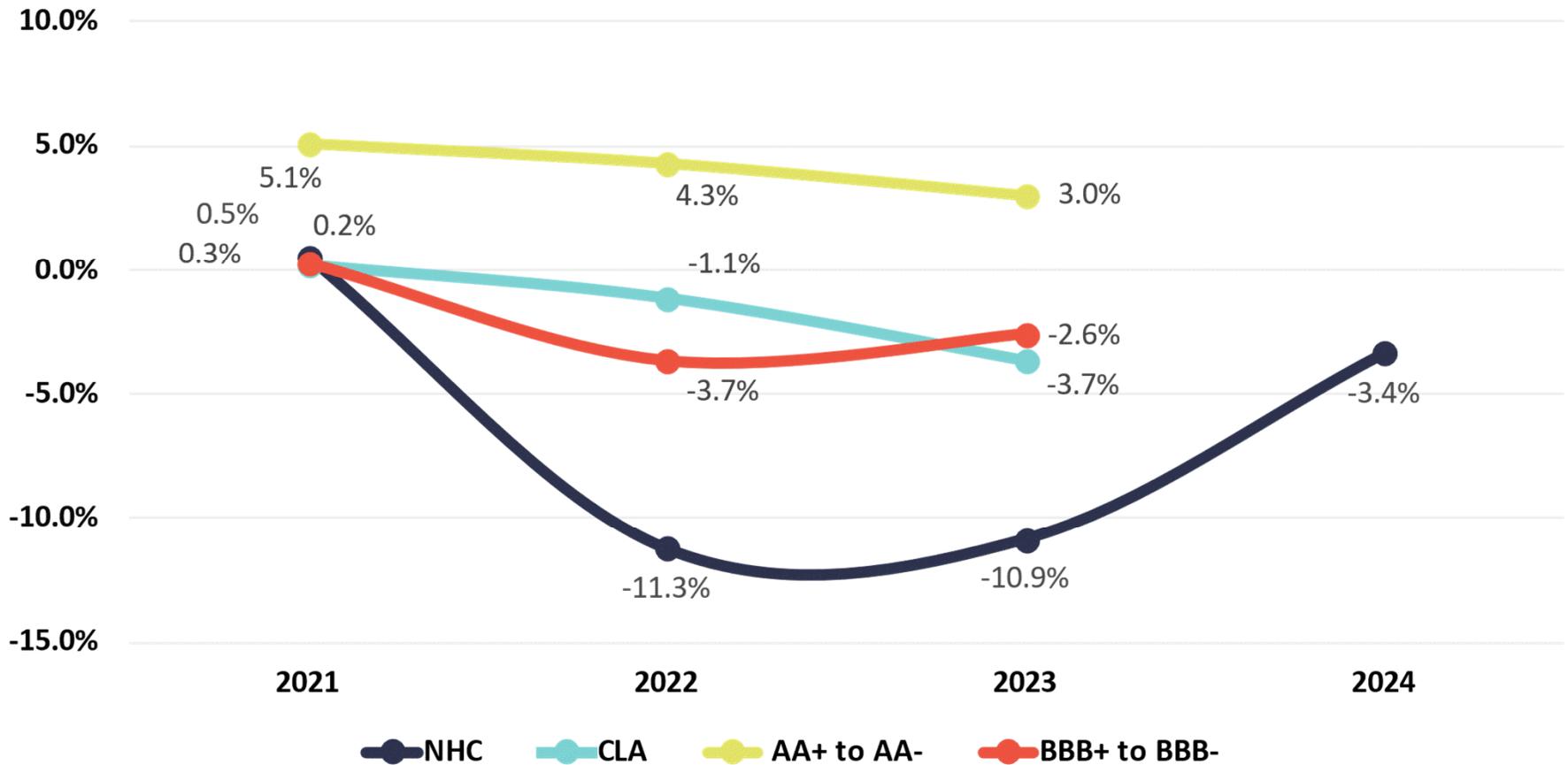
- Northfield Hospital + Clinics (NHC)
  - \$129M Net Patient Service Revenue
  - 2021-2024 Data, Based on Audited Financial Statements
- CLA Health System Clients (CLA)
  - PPS facilities with \$50M to \$250M in Net Patient Service Revenue
- Standard & Poors (AA+ to AA-)
- Standard & Poors (BBB+ to BBB-)



## Operating Margin

**Definition:**

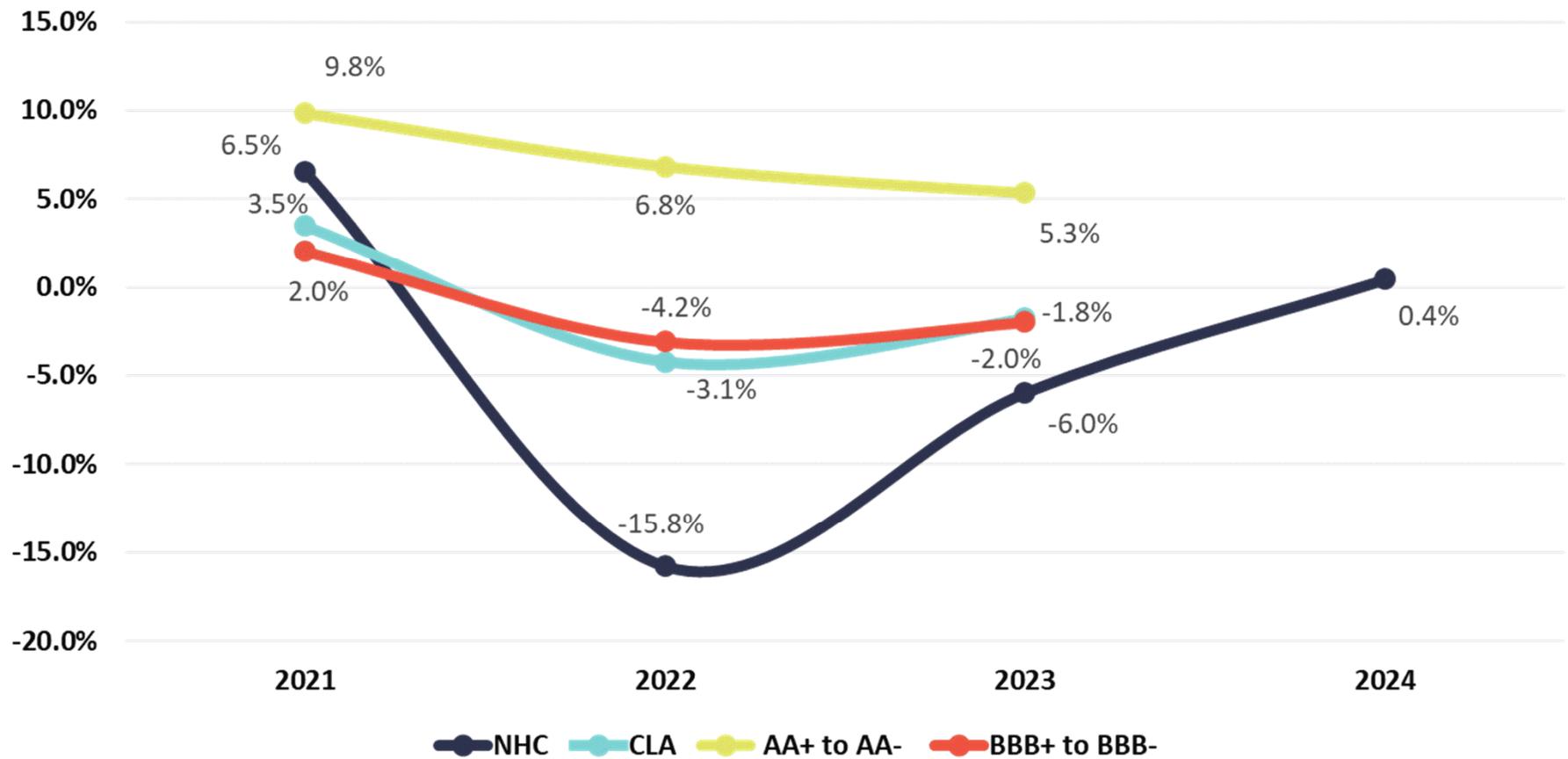
This ratio is operating income as a percentage of net patient service revenue plus other operating revenues. It is used to report the facility's return on revenues which relate to the main purpose of operations.



## Total Margin

**Definition:**

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

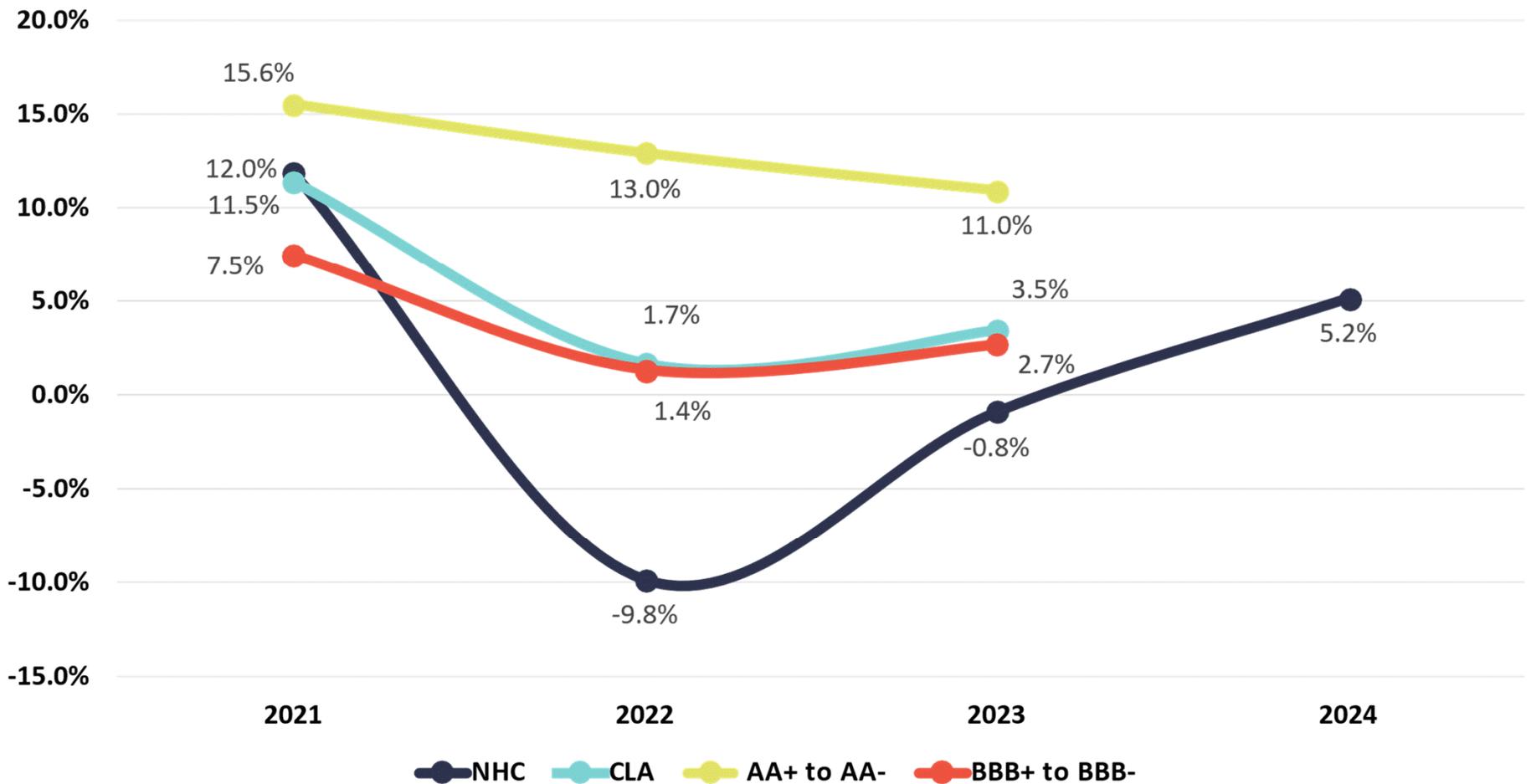


Northfield Hospital + Clinics  
Financial Indicators – Profitability Ratios

## EBIDA

**Definition:**

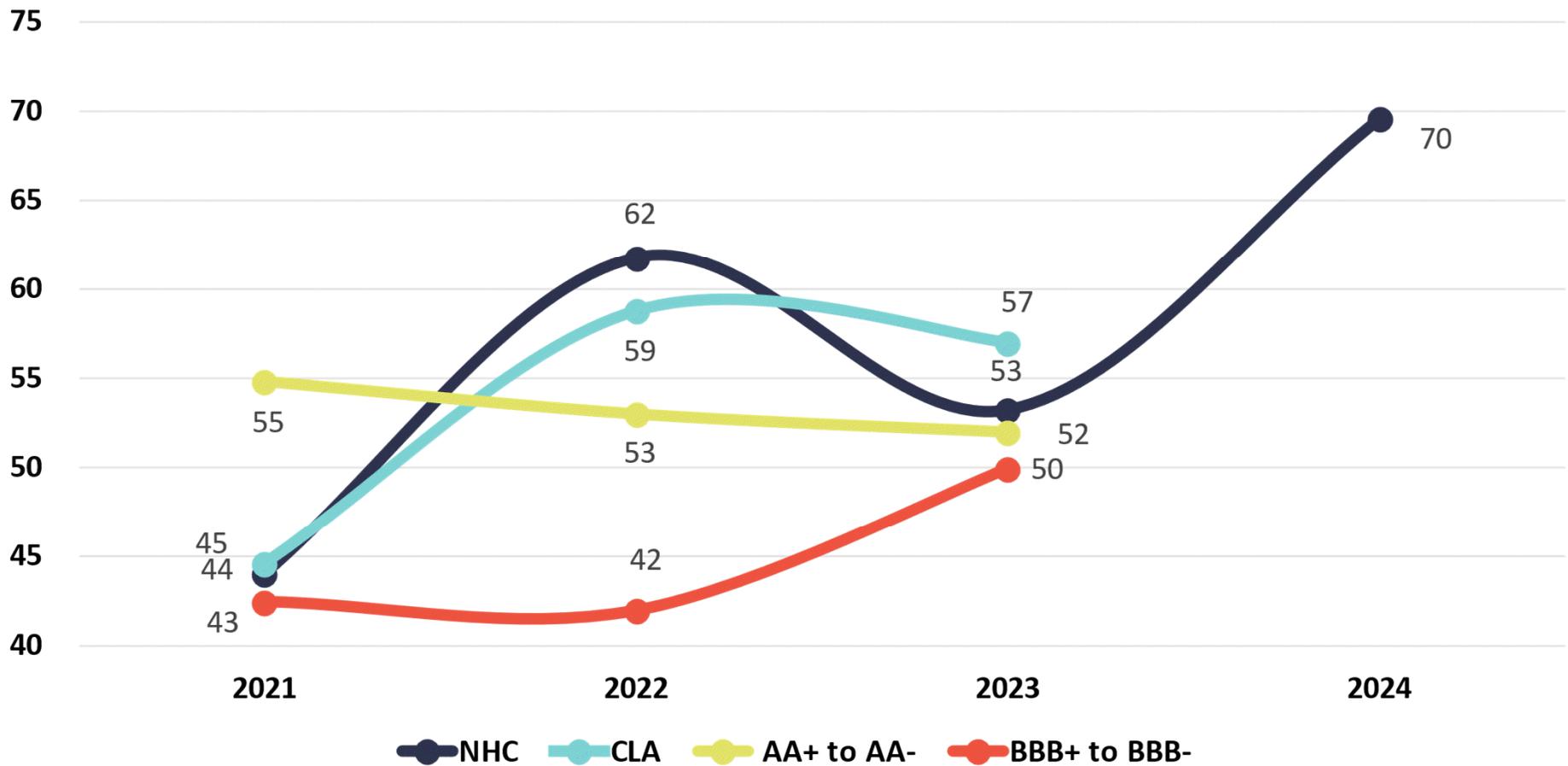
EBIDA represents Earnings (excess (deficit) of revenue over expenses) Before Interest, Depreciation, and Amortization divided by total revenues. This ratio is often used when evaluating debt capacity.



## Net Days in Accounts Receivable

**Definition:**

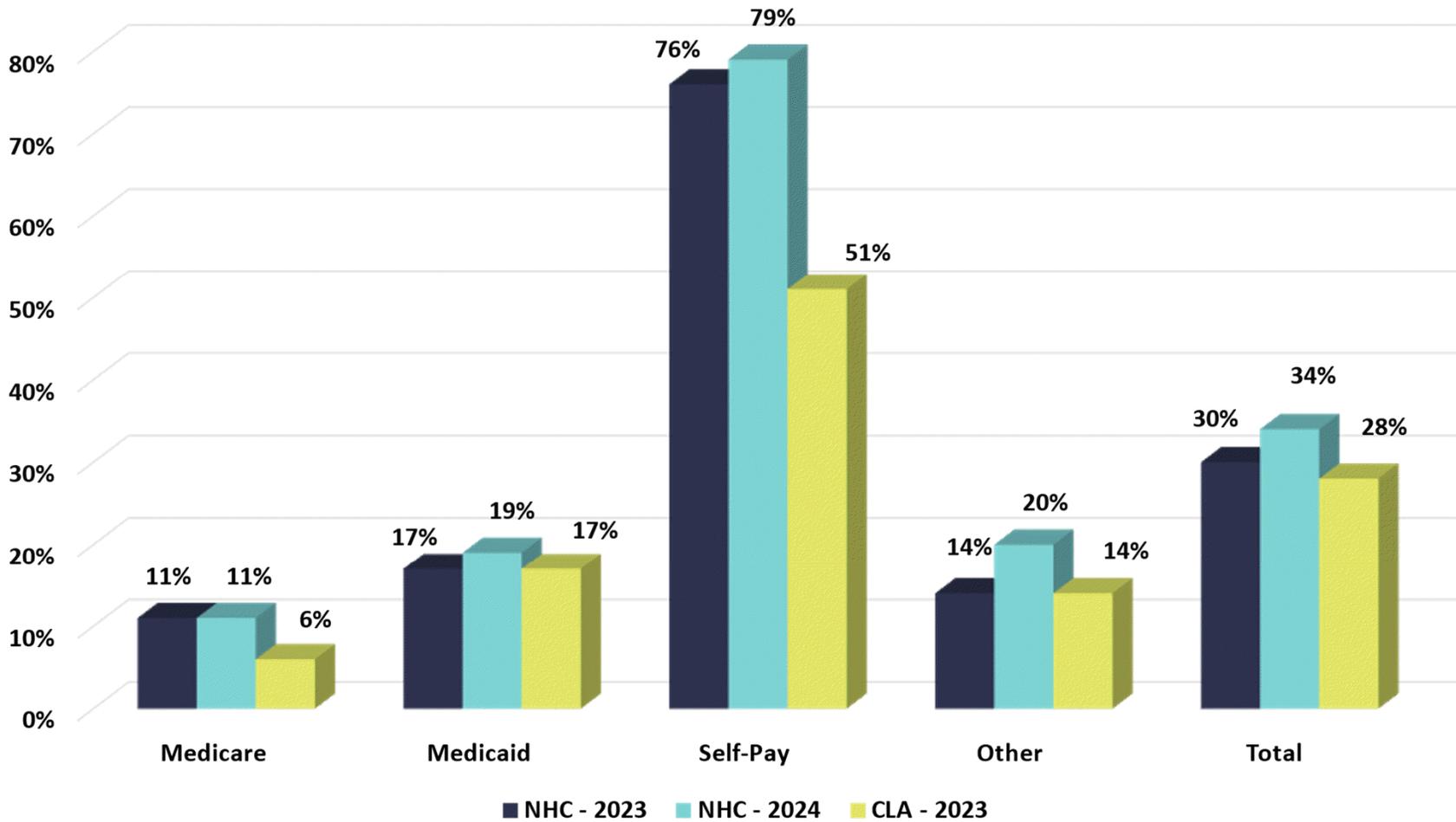
Days in patient accounts receivable is defined as the average time that receivables are outstanding, or the average collection period.



## Accounts Receivable by Payor > 90 Days Old

**Definition:**

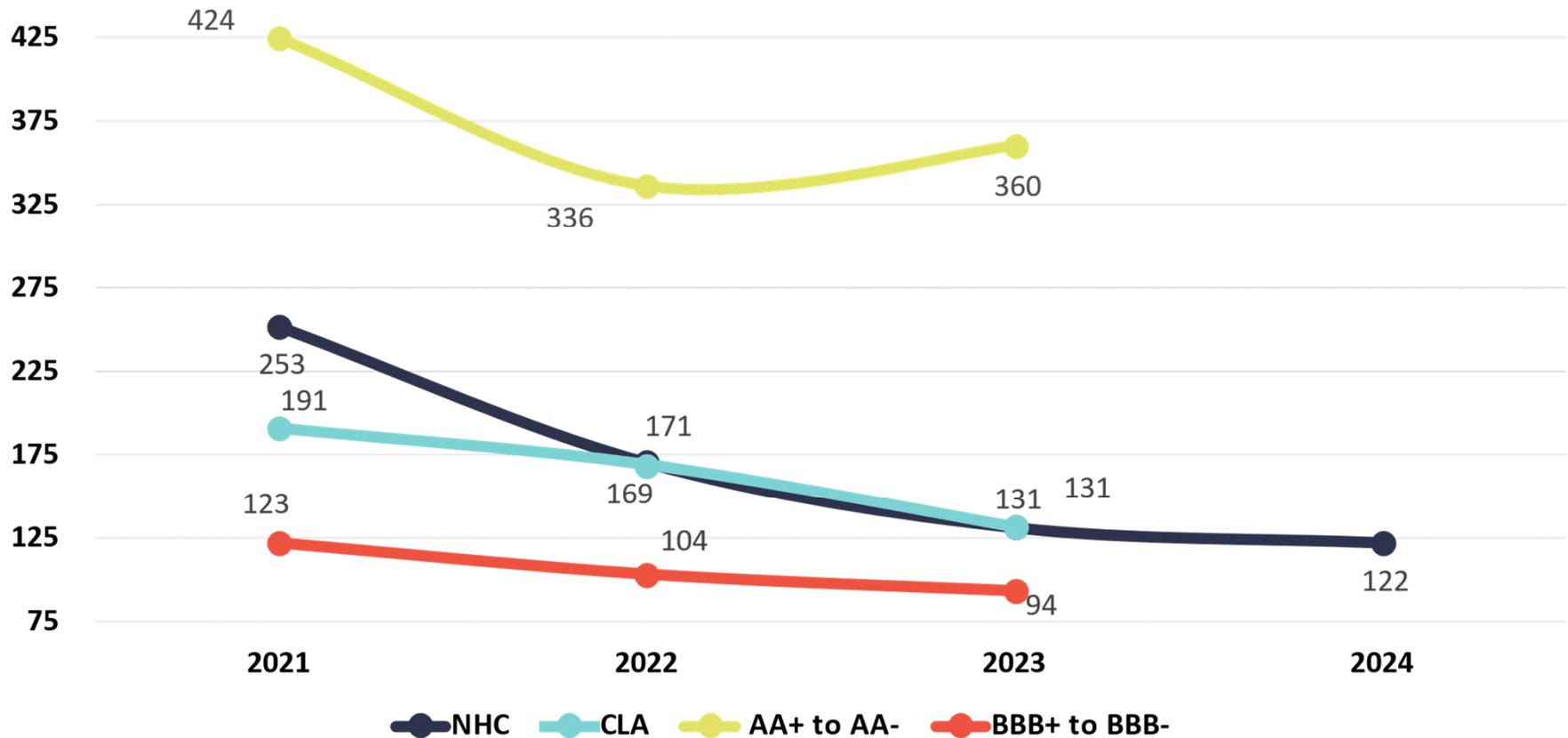
The portion of accounts receivable from each payor classification that is greater than 90 days old.



## Days Cash on Hand (All Sources)

**Definition:**

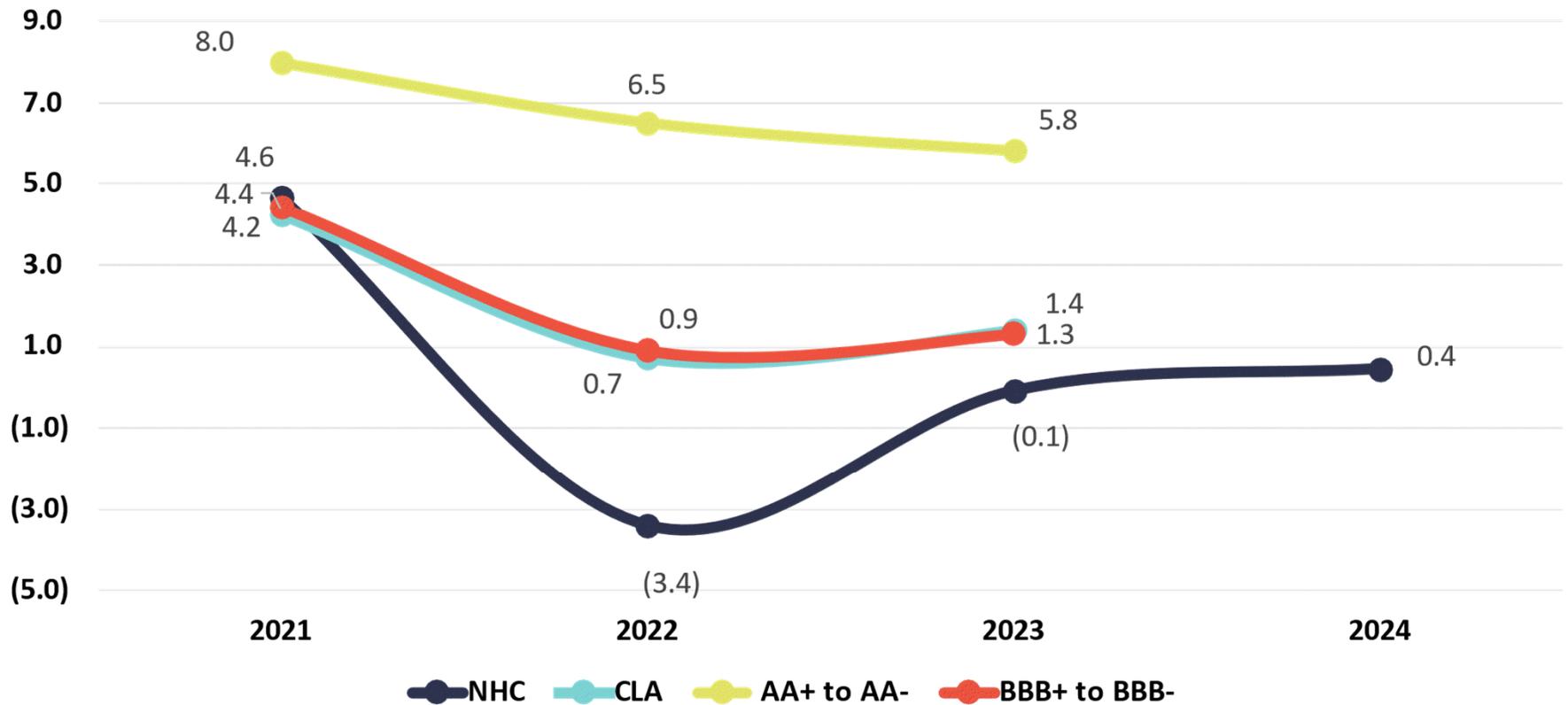
Days Cash on Hand measures the number of days of average cash expenses that the facility maintains in cash and amounts reserved for capital improvements. High values usually imply a greater ability to meet both short-term obligations and long-term capital replacement needs.



## Debt Service Coverage

**Definition:**

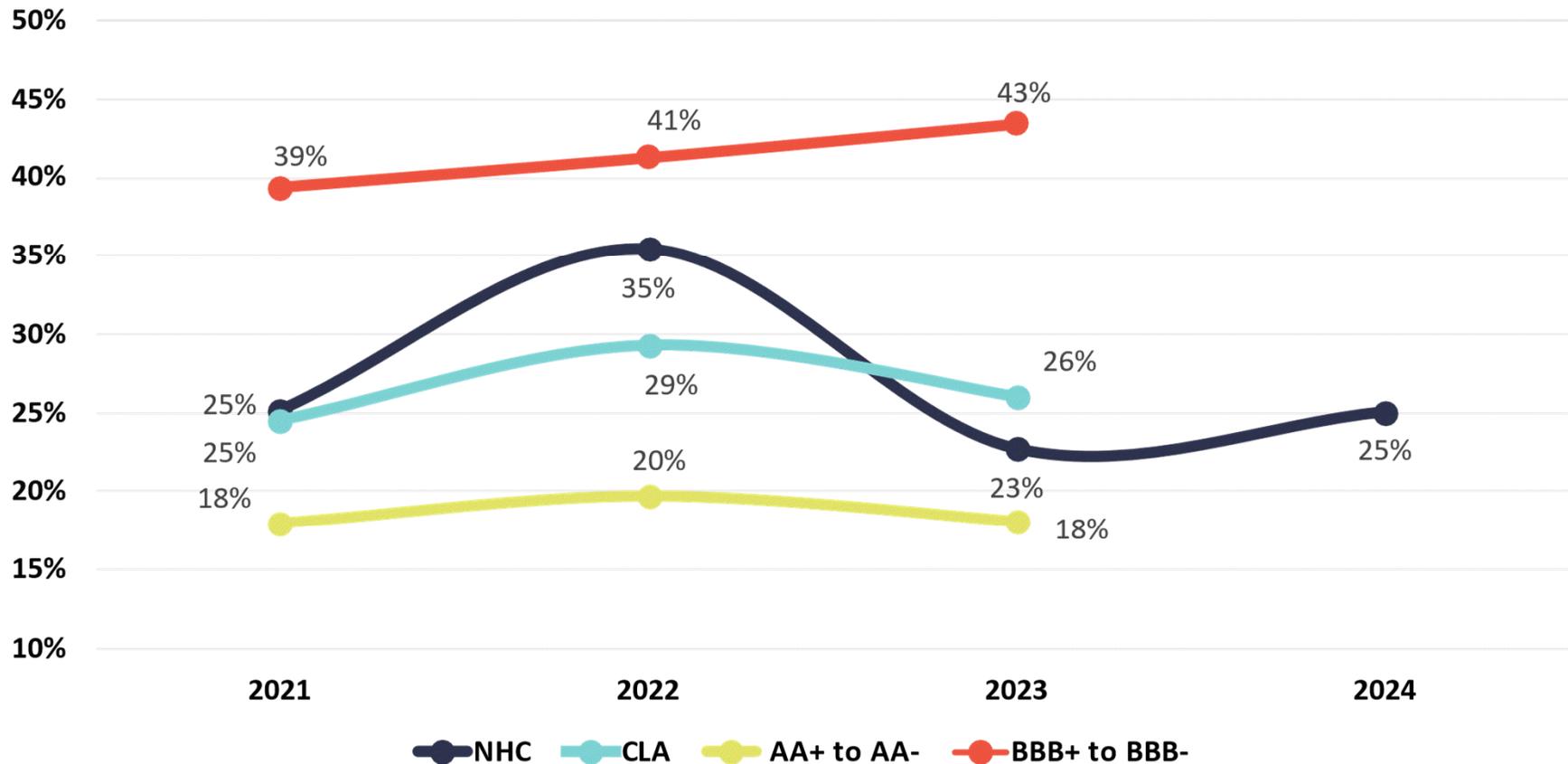
Debt service coverage is calculated as income available for debt service (net income (loss) + depreciation and amortization + interest expense) divided by the annual debt service requirements (principal payments made + interest expense).



## Debt to Capitalization

**Definition:**

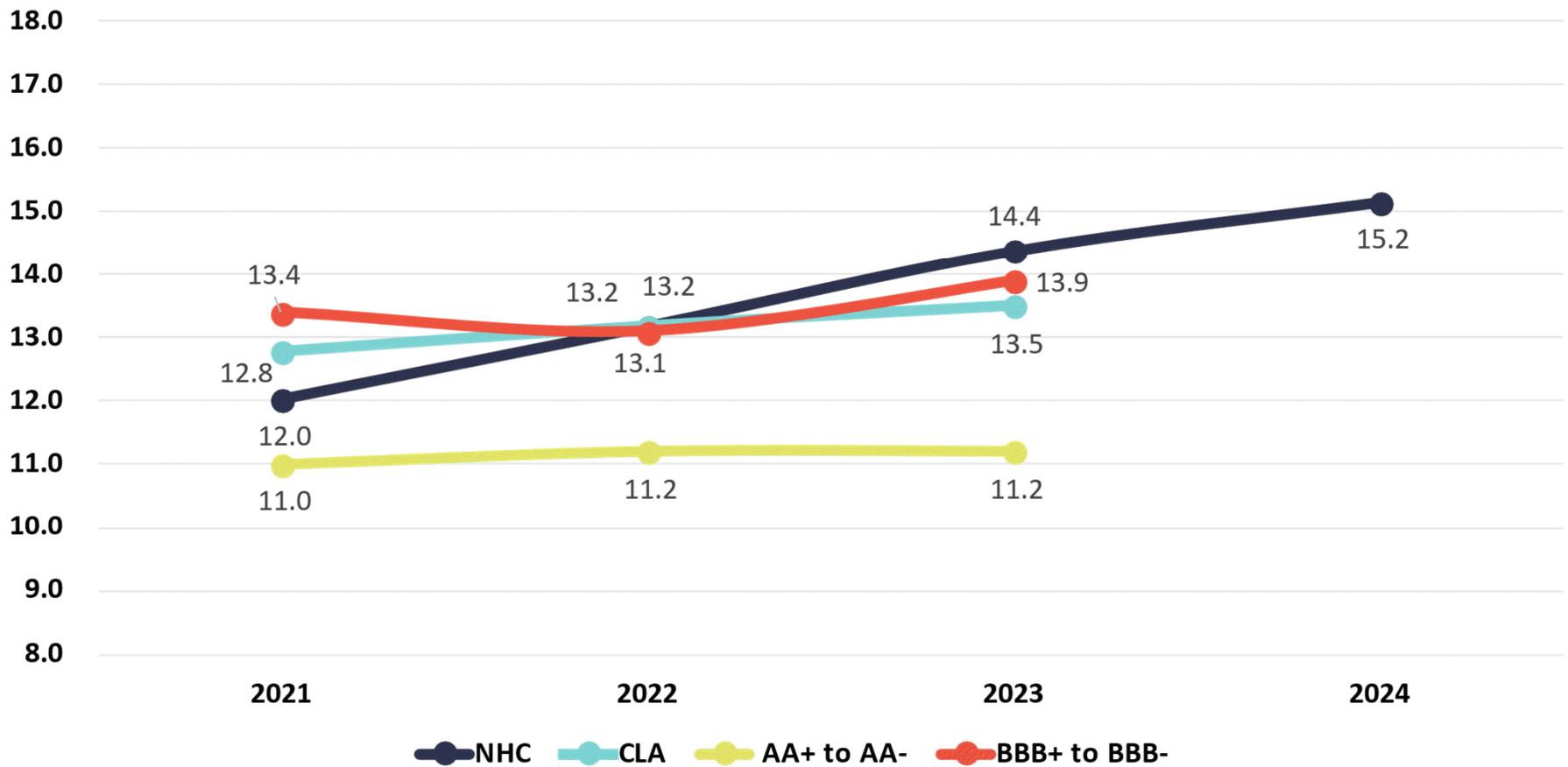
This ratio is defined as the proportion of long-term debt divided by long-term debt plus total net assets. Higher values for this ratio imply a greater reliance on debt financing and may imply reduced ability to carry additional debt.



## Average Age of Plant

**Definition:**

Average age of plant attempts to approximate the average age of the organization’s fixed assets. A low value is considered to be desirable as it indicates a newer facility.

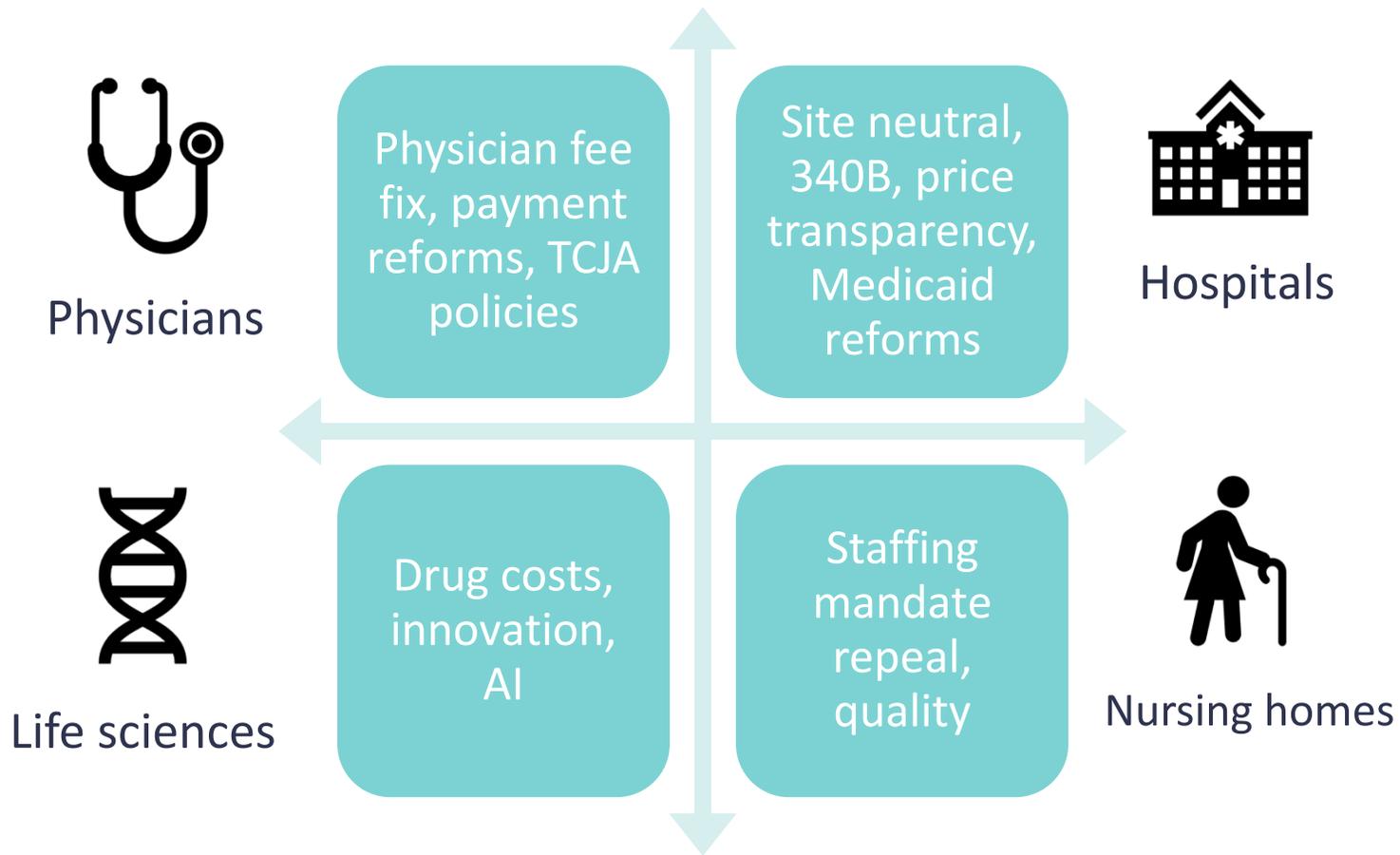




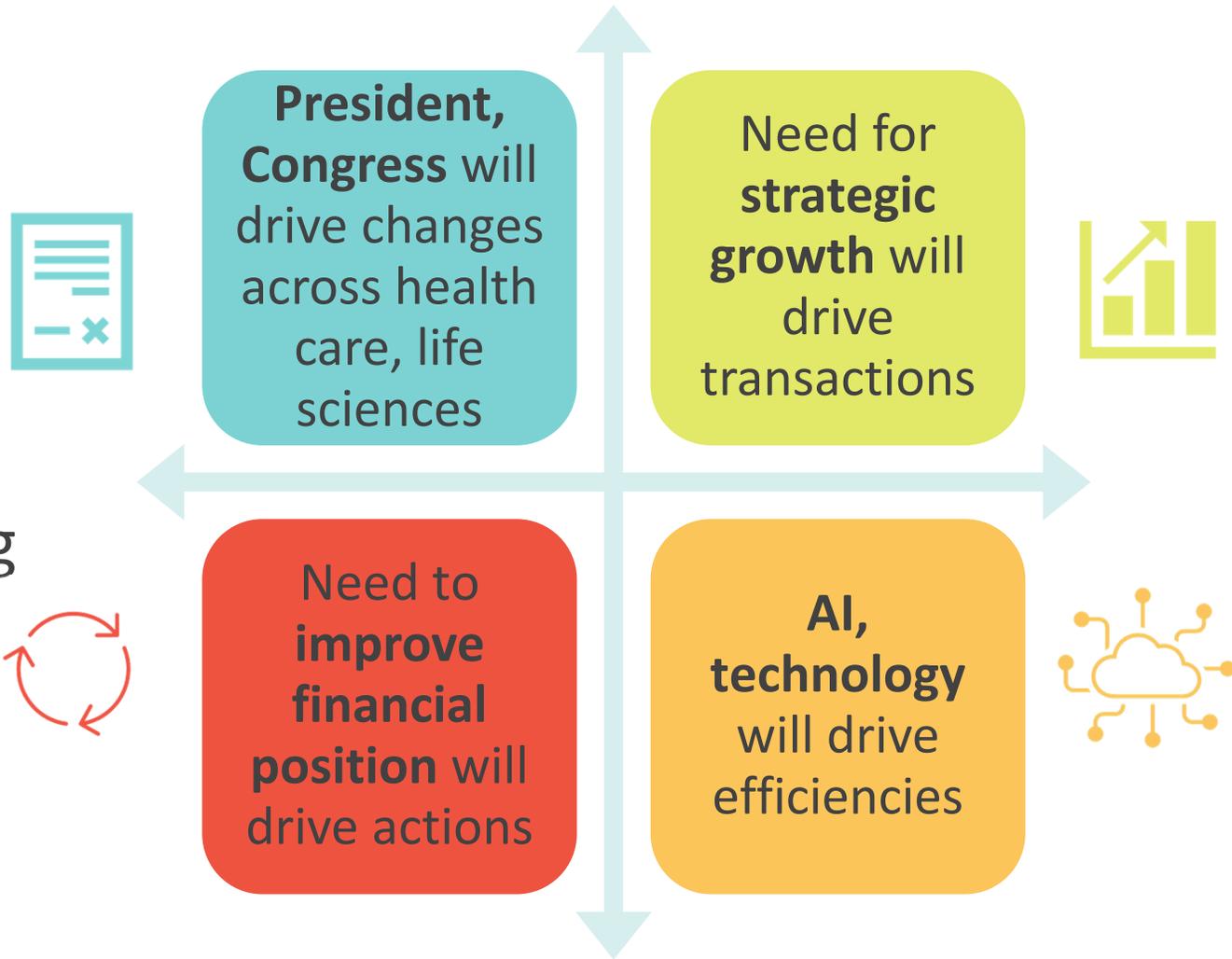
# 2025 Health Care & Life Sciences Drivers, Outlook



# Key Potential Issues Impacting Segments?



# 4 Drivers we're watching in 2025



# Hospitals & Health Systems



## *Administration, Congress*

- Robust Capitol Hill activity
- Site neutral a target
- Price transparency continues
- 340B program
- Medicaid program reforms
- DSH, state-directed payments scrutiny
- Medicare Advantage reforms possible
- Ban on physician owned hospitals potentially adjusted



## *Strategic Growth*

- Deals will continue
- New collaborations or unique alliances (ex: Risant Health or Longitude Health) continue
- Segment seeks to transform itself from within
- More joint ventures (ex with ASCs), new partnerships
- Ongoing movement to outpatient setting/services



## *Financial Improvement*

- Management structures will be flattened
- Outsourcing certain functions (like rev cycle) pursued
- Financial calculus for some may require closing unperforming locations or services (OB/labor, behavioral health)
- Continued contract disputes with MA plans
- Labor need, costs



## *AI, Technology*

- Technology and innovations will grow
- Technology and AI will produce improvements and efficiencies in the key areas: patient discharge processes, virtual care delivery, AI scribes, revenue cycle functions, and care quality
- Cybersecurity a must





# 2025 IT and Cybersecurity Trends in Healthcare

[Prepare for Proposed HIPAA Security  
Rule Changes: CLA](#)



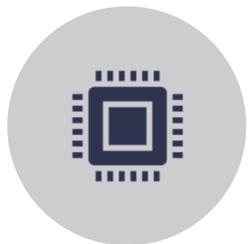
# Proposed HIPAA Security Rule Changes



**Technical standards** - Entities covered by HIPAA will be required to achieve specific technical standards such as encryption and multifactor authentication. This also applies to business associates and group health plans.



**Updated definitions** - The rule updates definitions of terms like confidentiality and introduces new definitions such as multifactor authentication. It also enhances administrative, technical, and physical safeguards.



**New technologies** - The rule specifically addresses new technologies in healthcare, including artificial intelligence, quantum computing, virtual reality, and applied reality. Healthcare organizations must conduct risk assessments of the cybersecurity threats posed by these new tools.



**Clarifications and compliance** - The rule provides clarifications on the current HIPAA Security Rule and emphasizes the importance of security measures that bolster an organization's ability to recover from security breaches. It also introduces specific compliance time periods for many existing requirements.

# Implications for Healthcare Organizations



**Enhanced security measures** - Organizations will need to implement stronger security measures to protect ePHI, including encryption, multifactor authentication, and regular vulnerability scanning.



**Risk assessments** - Conducting thorough risk assessments will be crucial, especially for new technologies. This includes identifying potential threats and vulnerabilities and assessing the risk level for each.



**Compliance and documentation** - Organizations must maintain detailed documentation of all Security Rule policies, procedures, plans, and analyses. Regular compliance audits will be required to comply with the new standards.

# How to Prepare



## **Review and update security policies**

Confirm all security policies and procedures are up to date and compliant with the new standards.



## **Conduct risk assessments**

Regularly conduct risk assessments to identify and address potential threats and vulnerabilities.



## **Implement technical safeguards**

Deploy necessary technical safeguards such as encryption, multifactor authentication, and anti-malware protection.



## **Train staff**

Provide training for staff on the new security measures and help them understand their roles in protecting ePHI.



## **Stay informed**

Keep up to date with the latest developments in cybersecurity and HIPAA regulations to support ongoing compliance.

# Proactive Culture of Cybersecurity

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Governance Risk Compliance (GRC)

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Regulatory compliance (HIPAA, PCI, CMMC, GLBA)

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Microsoft365 security

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Penetration testing

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Vulnerability scanning

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Application testing

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Social Engineering (Phishing)

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Wireless penetration testing

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Rapid Pen test and GCR Assessments



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