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# Northfield Hospital + Clinics

2023 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

- Ongoing Financial Pressures and missing debt service coverage ratio.
- Closing Long Term Care and Lonsdale Clinic during the year

## Unpredictability Tests

- Credit Card Testing – No issues noted

## Audit Adjustments

- No audit adjustments posted; one passed adjustment for unrecorded revenue accrual

## 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 96 in 2023. 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 of \$725K for unrecorded revenue accrual 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 identified</li></ul>





# Your Business:

## Financial Ratios



# Financial Ratios – Comparative Data Used

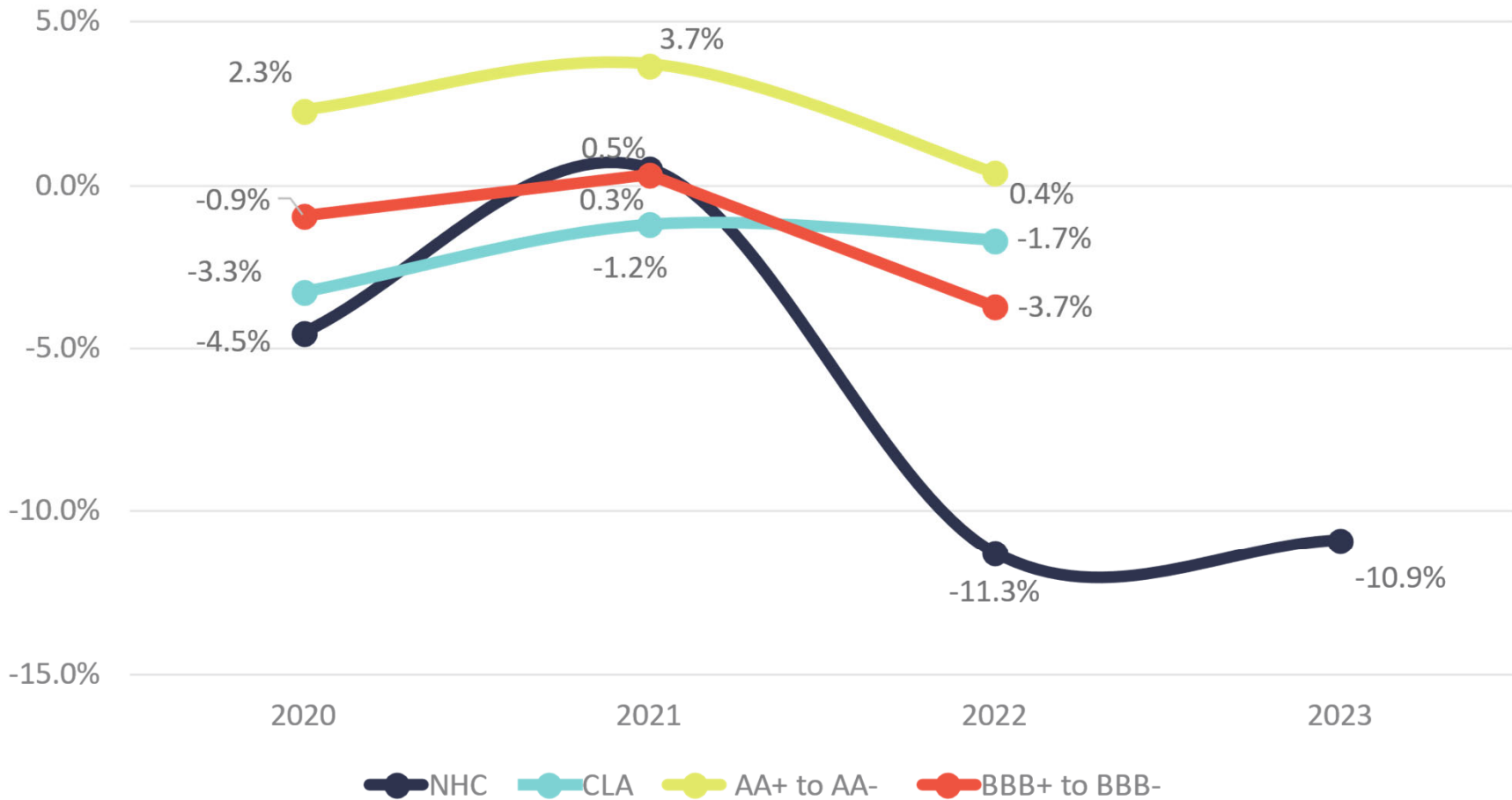
- Northfield Hospital + Clinics (NHC)
  - \$129M Net Patient Service Revenue
  - 2020-2023 Data, Based on Audited Financial Statements
- CLA Health System Clients (CLA)
  - PPS facilities with \$50M to \$250M in Net Patient Service Revenue
- Standard & Poors (AA+ to AA-)
- Standard & Poors (BBB+ to BBB-)



# Operating Margin

## Definition:

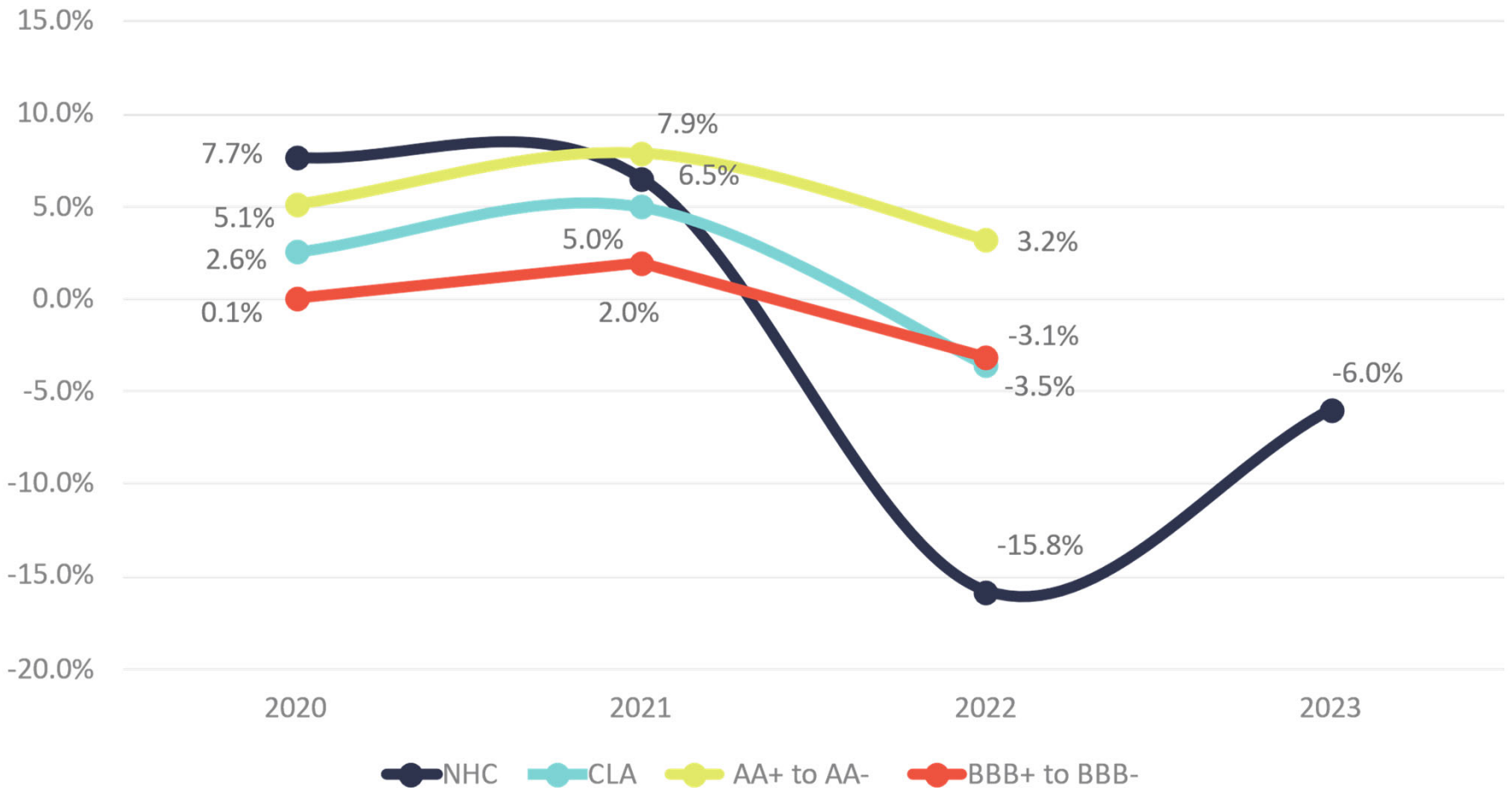
This ratio is operating income as a percentage of net patient service revenue plus other operating revenues. It is used to report the facility's return on revenues which relate to the main purpose of operations.



# Total Margin

**Definition:**

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



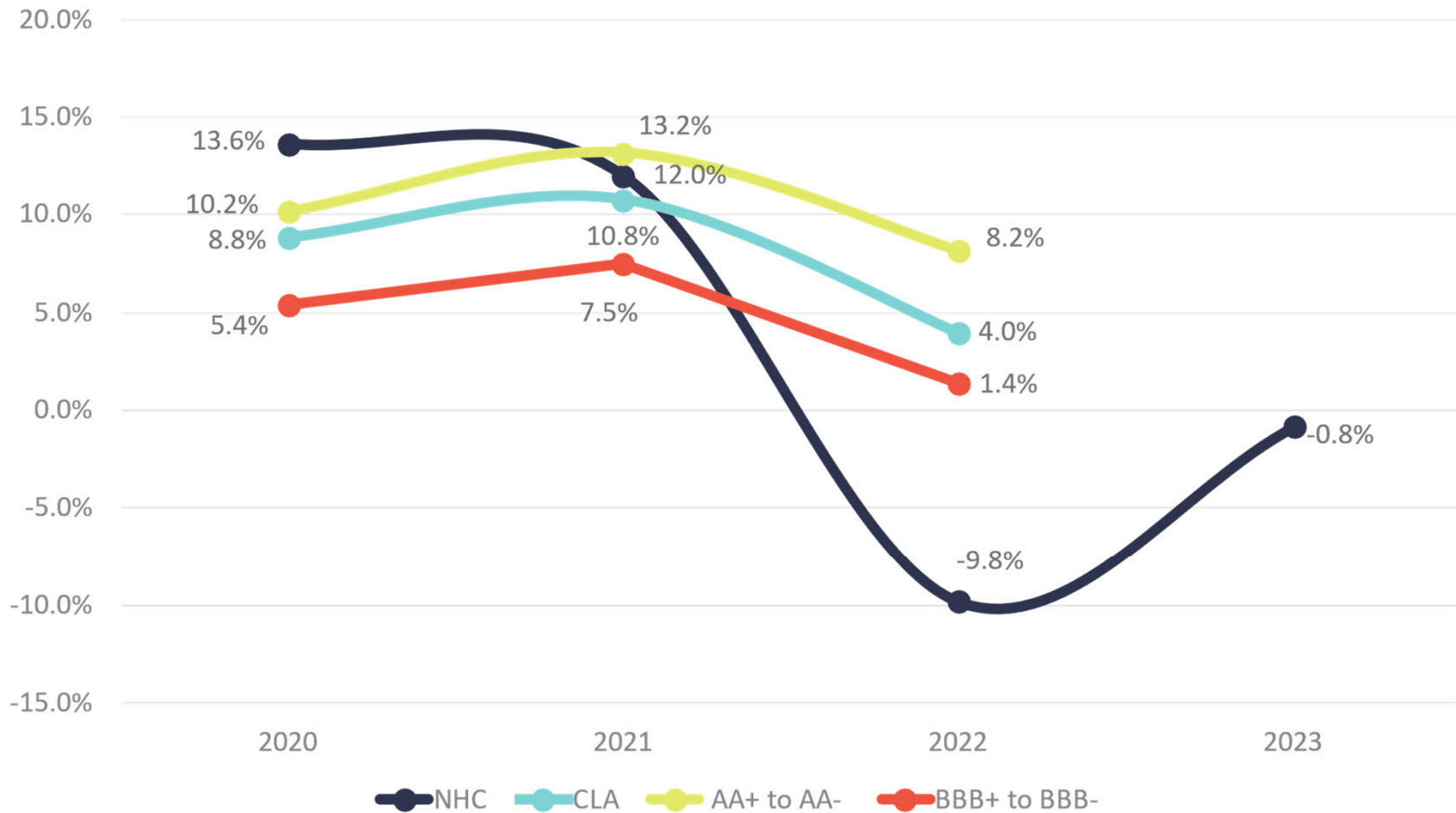
# Northfield Hospital + Clinics

## Financial Indicators – Profitability Ratios

### EBIDA

#### Definition:

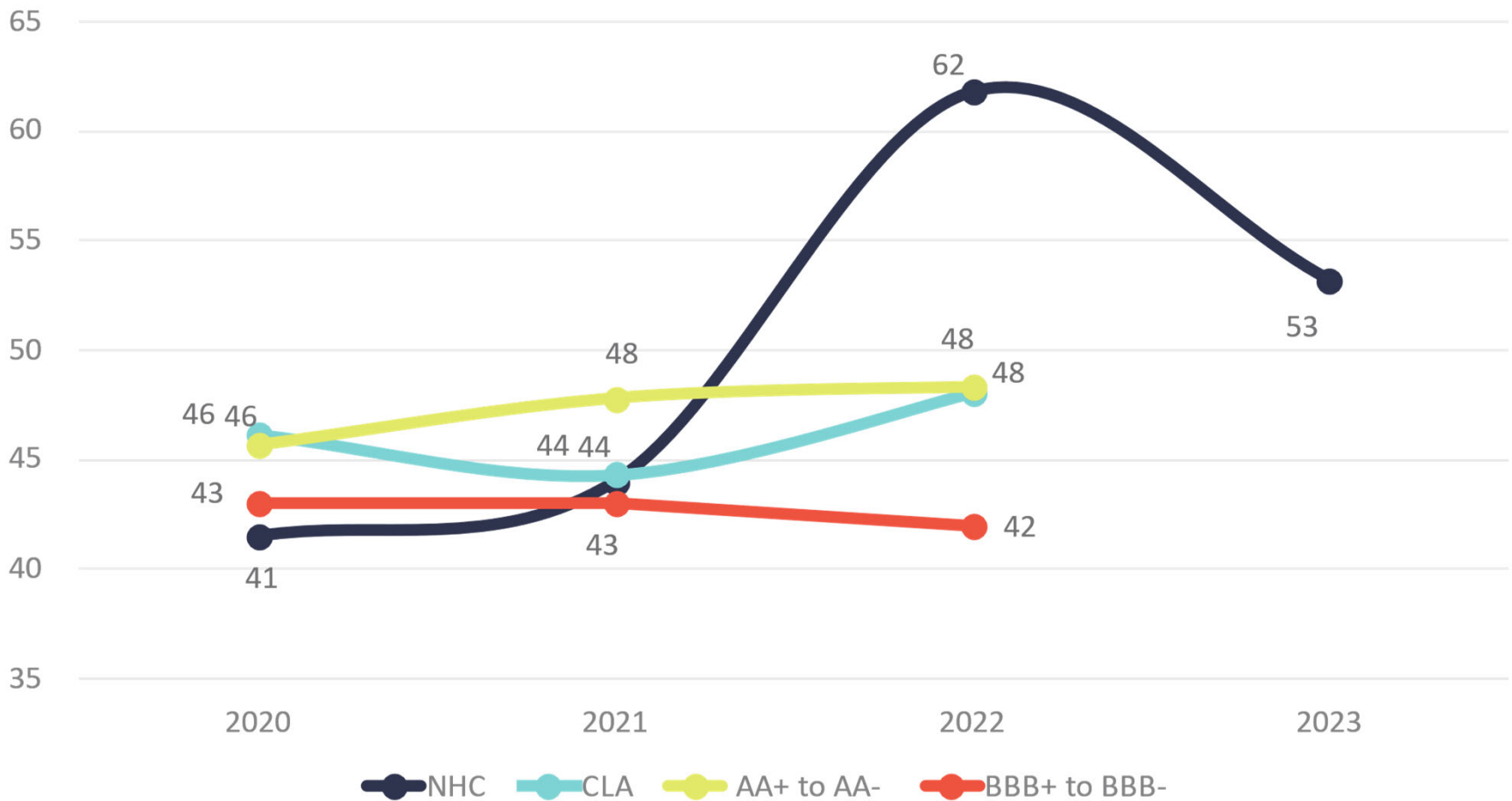
EBIDA represents Earnings (excess (deficit) of revenue over expenses) Before Interest, Depreciation, and Amortization divided by total revenues. This ratio is often used when evaluating debt capacity.



## Net Days in Accounts Receivable

**Definition:**

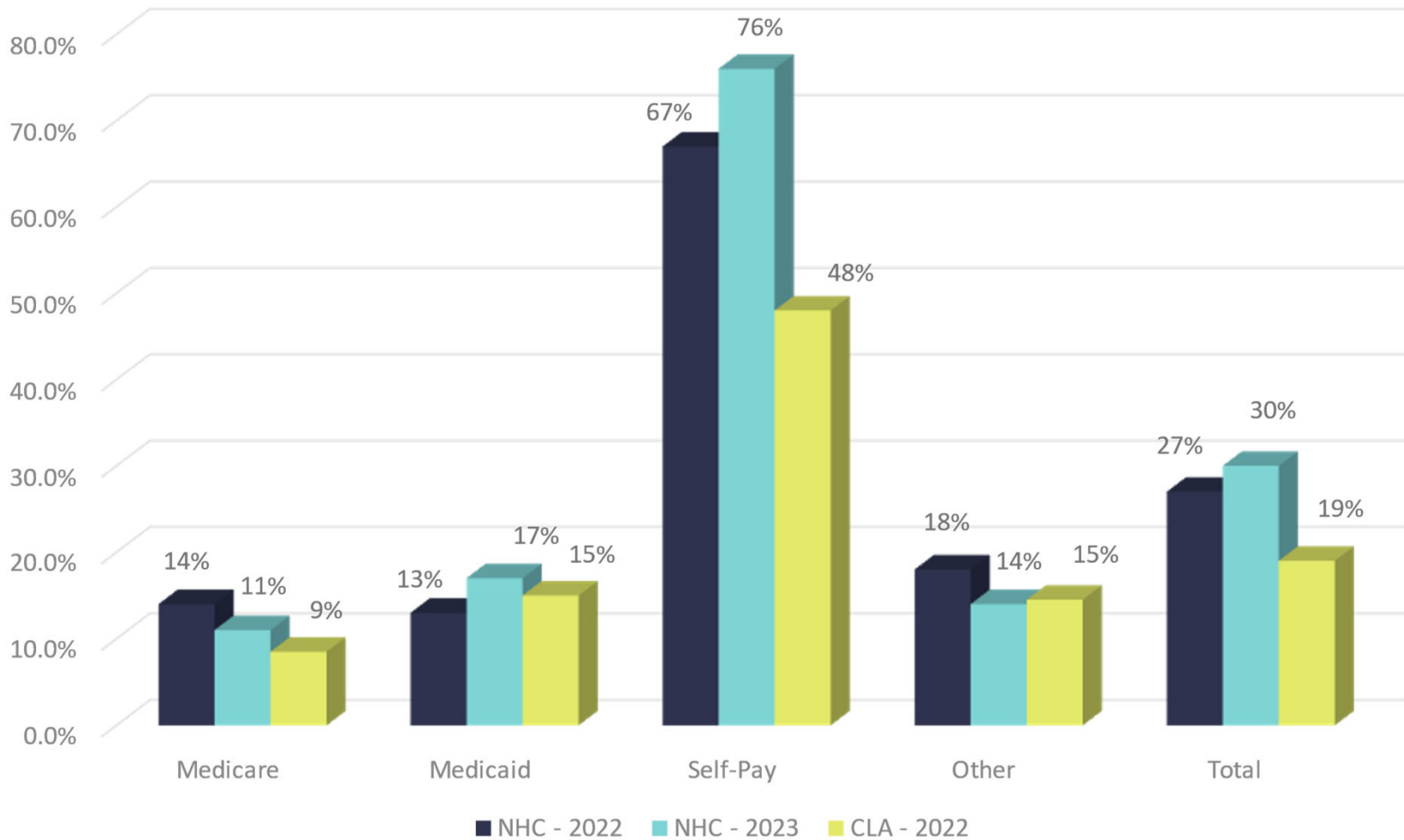
Days in patient accounts receivable is defined as the average time that receivables are outstanding, or the average collection period.



## Accounts Receivable by Payor > 90 Days Old

**Definition:**

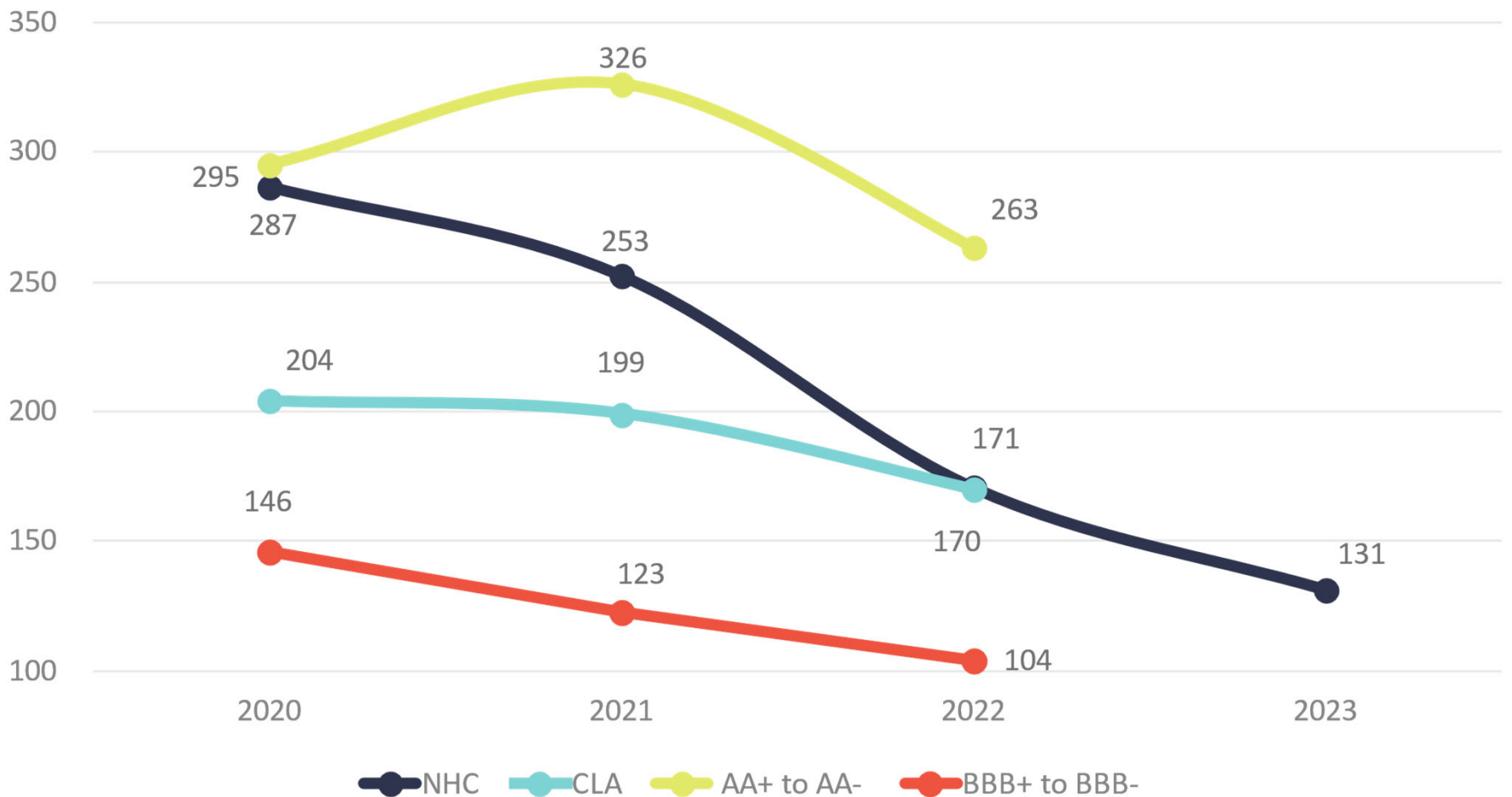
The portion of accounts receivable from each payor classification that is greater than 90 days old.



## Days Cash on Hand (All Sources)

**Definition:**

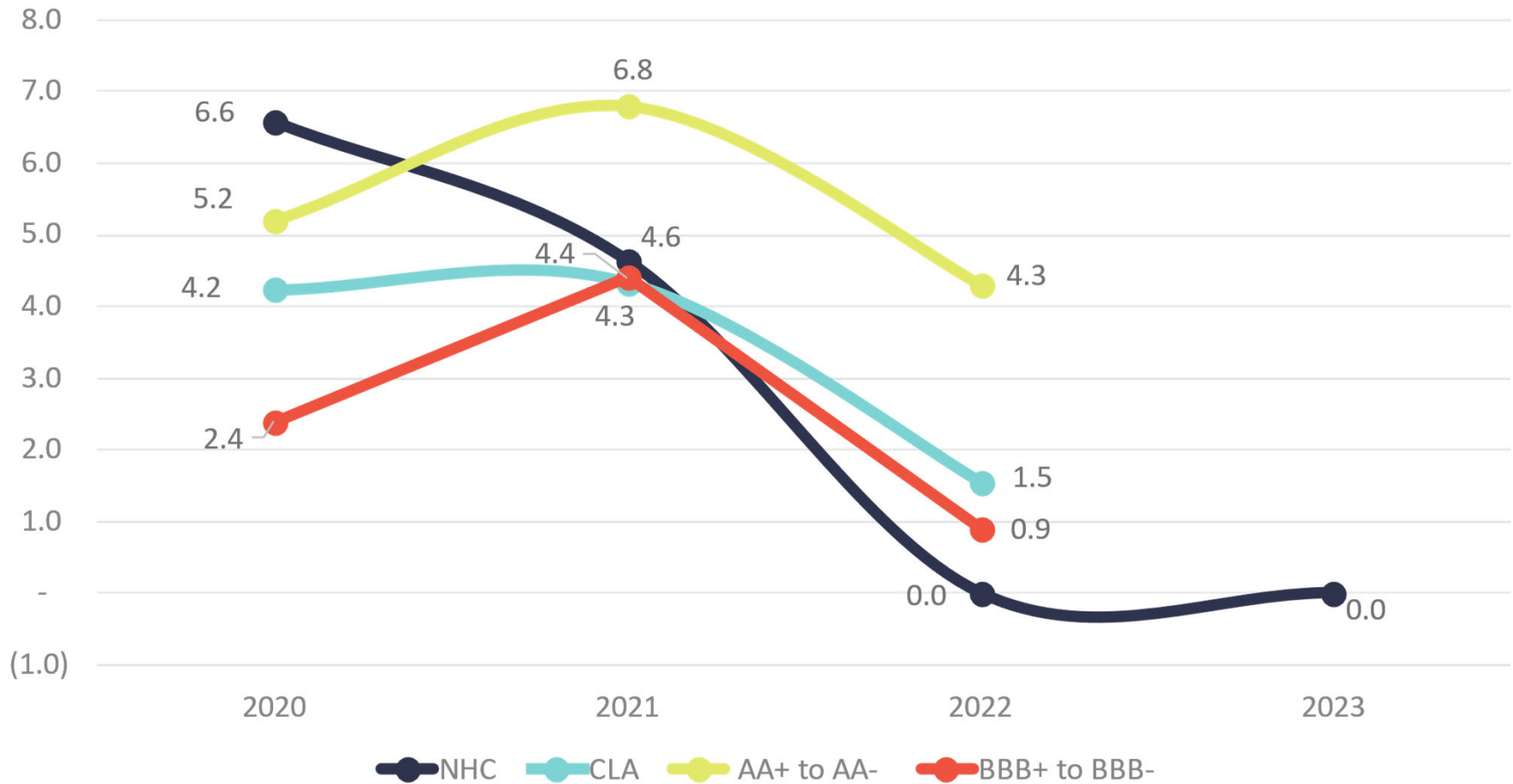
Days Cash on Hand measures the number of days of average cash expenses that the facility maintains in cash and amounts reserved for capital improvements. High values usually imply a greater ability to meet both short-term obligations and long-term capital replacement needs.



## Debt Service Coverage

### Definition:

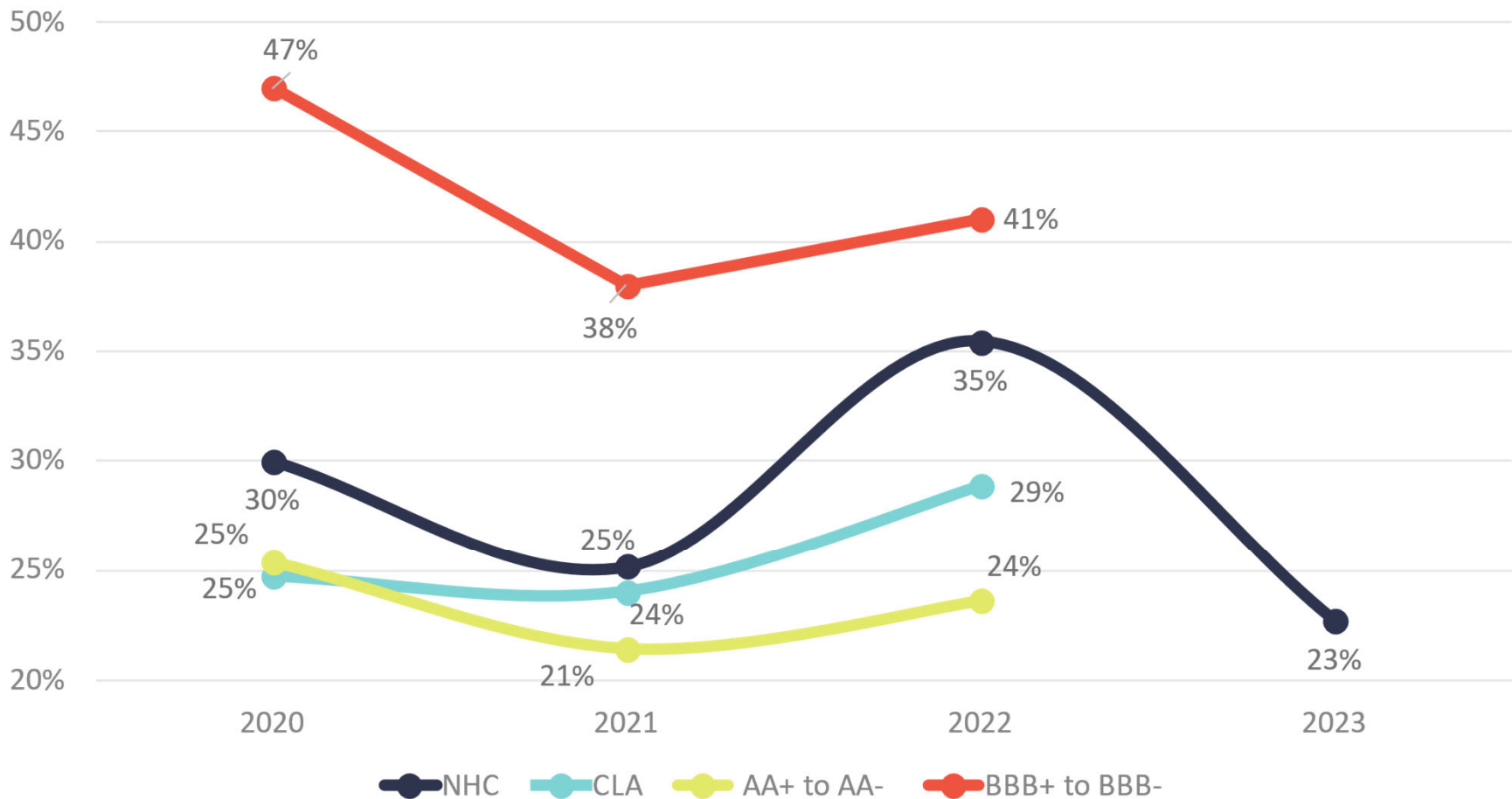
Debt service coverage is calculated as income available for debt service (net income (loss) + depreciation and amortization + interest expense) divided by the annual debt service requirements (principal payments made + interest expense).



## Debt to Capitalization

**Definition:**

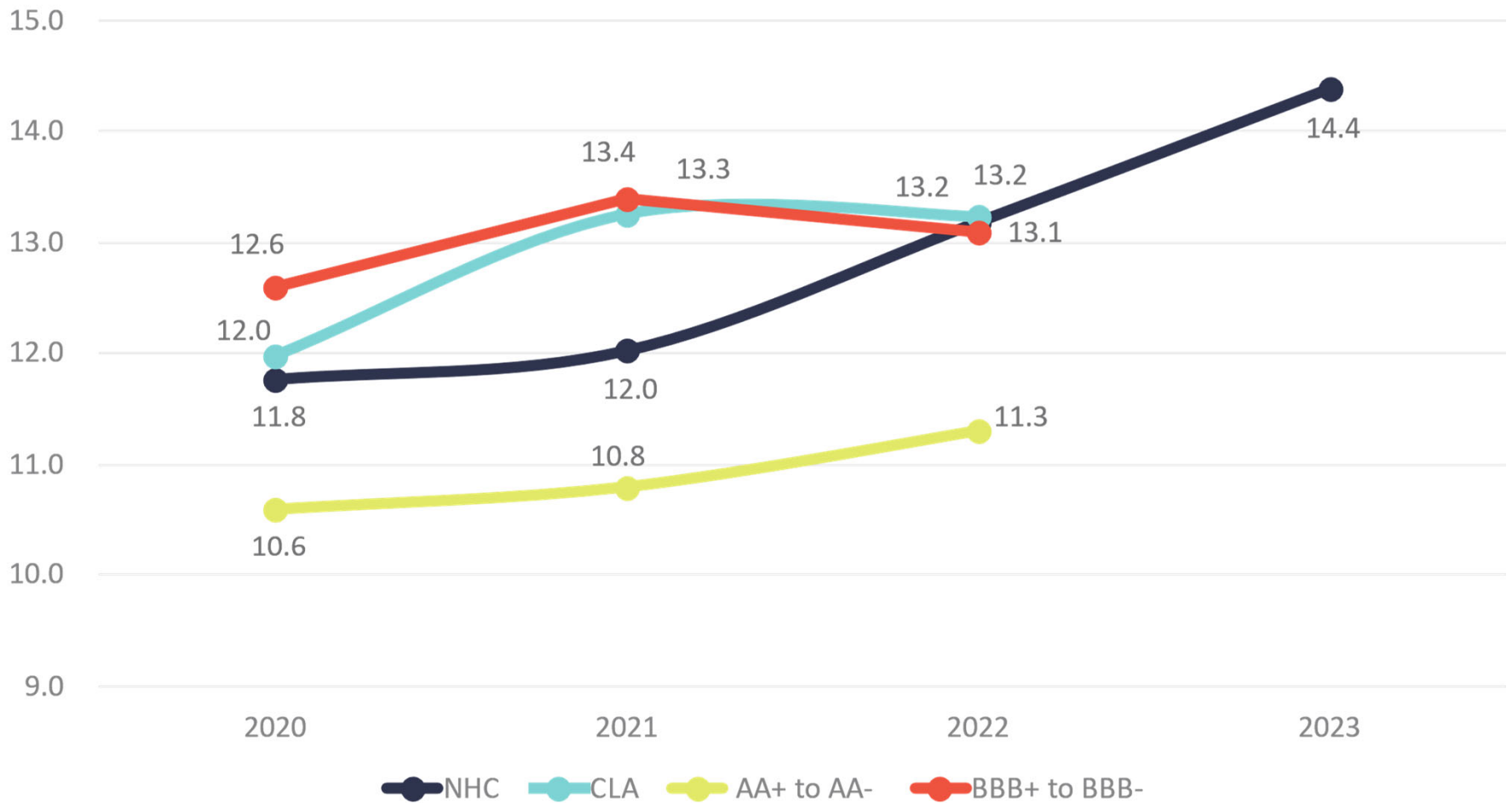
This ratio is defined as the proportion of long-term debt divided by long-term debt plus total net assets. Higher values for this ratio imply a greater reliance on debt financing and may imply reduced ability to carry additional debt.



## 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.





# 2024 Industry Trends to Watch





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# #1: Health Care Consolidation, Deals

For any number of reasons, there is ongoing consolidation and dealmaking in health care and life sciences.

Labor expenses skyrocketed during the pandemic and then reset at higher rates. These higher labor rates and a tight labor market plus ongoing inflationary pressures are wreaking havoc on some operating margins.

A ripple effect has resulted in closures or mergers and acquisitions. Private equity interest has been piqued. Due to M&A, there is more regulatory scrutiny.



A few things we're watching:

- Private equity moves
- Hospital/health and SNF deals/consolidation
- Impact of insurer market moves
- Regulatory anti-trust focus

# #2: Labor Market

A very tight labor market has loosened a bit and employment has stabilized over the past year. That said, wages have reset at higher rates. This places enormous financial and operational pressure on employers.

Key roles in health care are still experiencing burnout, leading to job changes, reduced hours, retirements, and an uptick in union activity.

Demographics will complicate this picture as millions of eligible beneficiaries move into Medicare in the coming years. This will have ripple effects felt throughout all of health care and life sciences.



## A few things we're watching:

- Demographic changes
- New workforce pipelines
- Heightened focus on recruitment/retention
- Career ladders, upskilling
- Use of AI

# #3: Margin Compression

Higher labor costs compounded by overall high operating costs due to inflation and economic uncertainty has created margin pressures. Plus, for many, higher reimbursement rates have not materialized to accommodate those higher operating expenses. This is particularly true for providers dependent on government payers.

Add on an aging population and demographics will skew the financial picture towards Medicaid and Medicare. Rural providers are particularly vulnerable here.

Commercial contract negotiations are getting tougher.

Across all of health care, administrative expenses for compliance and paperwork are leading to growing frustration and inefficiencies.



## A few things we're watching:

- Tough contract negotiations
- Heightened focus on care delivery models, alternative payments
- Potential labor reductions
- Reducing inefficiencies
- Use of AI

# #4: Rising Role of Medicare Advantage

Medicare Advantage's (MA) rise continues. It now comprises half of all Medicare eligibles. As growth increases so, too, does scrutiny. This has led to more regulatory and legislative attention.

There are growing contract fights between providers-insurers over inadequate reimbursements and administrative burden.

Due to its popularity, size and demographic trends, providers must pay attention to MA long-term. The program is where many patients will consume health care dollars.

Also, various Medicare value-based models look to or use MA's risk adjustment and financing methodologies as a basis.



## A few things we're watching:

- Impact of vertical integration by insurers
- Regulatory, legislative scrutiny, and lawsuits
- Tougher negotiations

# #5: Capitol Hill/Regulatory/Election Year

This will be a rough year on Capitol Hill. There are small majorities in either chamber which always makes passing bills more difficult, compounded by competing issues.

It is also an election year, which means all issues are viewed through that lens.

The number one issue to address is funding government which is magnified by a growing annual deficit and national debt.

Regulatory activities will be robust, especially in first half of 2024.



## A few things we're watching:

- March 1, 8 government funding deadlines
- Reducing physician fee cuts
- Site neutral cuts to hospitals
- Election year politics impacts

# #6: Artificial Intelligence

Throughout the industry, AI is rapidly being deployed. Whether that's for medical scribes, revenue cycle applications, patient information, data analytics/predictive analytics, and much more.

Because there isn't a statutory or legal construct specific to AI, the landscape is wide open for a host of lawsuits (copyright infringement, patient rights, privacy violations and more).

With all of it, those creating and adopting AI must also work to protect against inherent bias of its outputs and address cybersecurity.



## A few things we're watching:

- Increased use of AI
- Lawsuits
- Legislative/regulatory focus
- Cybersecurity

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