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Northfield Hospital + Clinics

2025 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

Unpredictability Tests

- Payroll Testing – No issues noted

Audit Adjustments

- No audit adjustments proposed
- No passed audit adjustments

Subsequent Events

- Allina Clinic in Northfield Purchase

Internal Controls

- No material weaknesses noted





Required Governance Communications



Governance Communications

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



Governance Communications

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



Governance Communications

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



Internal Control Communication

Topic	Communication
Purpose	<ul style="list-style-type: none">• Express an opinion on the financial statements, not on the effectiveness of internal controls.• 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.
Material Weakness	<ul style="list-style-type: none">• Reasonable possibility that a material misstatement would not be prevented, or detected and corrected on a timely basis
Significant Deficiencies	<ul style="list-style-type: none">• Less significant than a material weakness, yet important enough to merit the attention of governance
Restricted Use	<ul style="list-style-type: none">• 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.
Results	<ul style="list-style-type: none">• No material weaknesses noted





Your Business:

Financial Ratios



Financial Ratios – Comparative Data Used

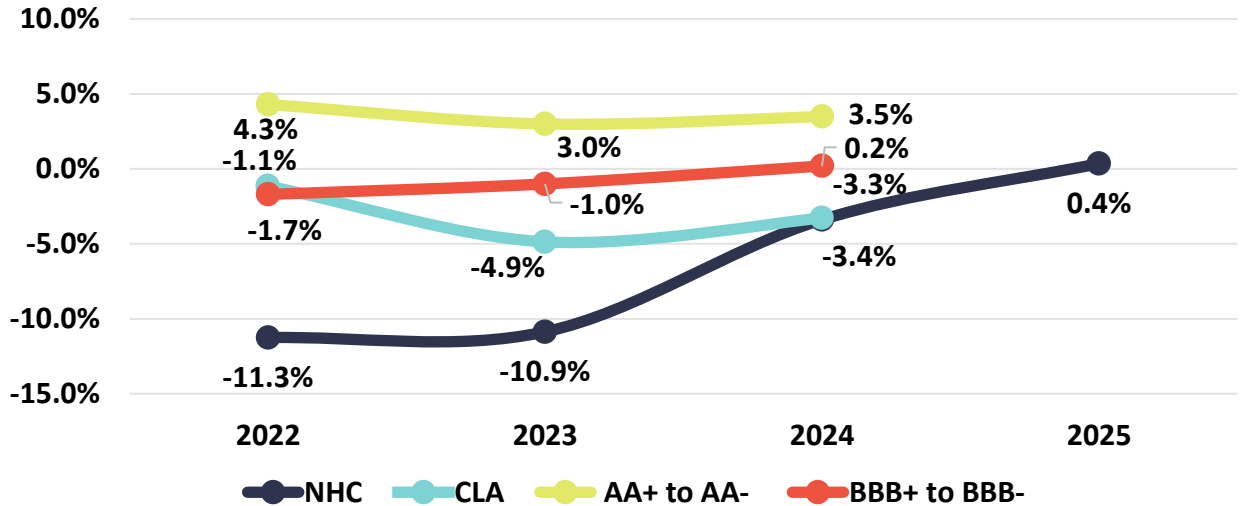
- Northfield Hospital + Clinics (NHC)
 - \$136M Net Patient Service Revenue
 - 2022-2025 Data, Based on Audited Financial Statements
- CLA Health System Clients (CLA)
 - PPS facilities with \$50M to \$250M in Net Patient Service Revenue
- Standard & Poors (AA+ to AA-)
- Standard & Poors (BBB+ to BBB-)



Operating Margin

Definition:

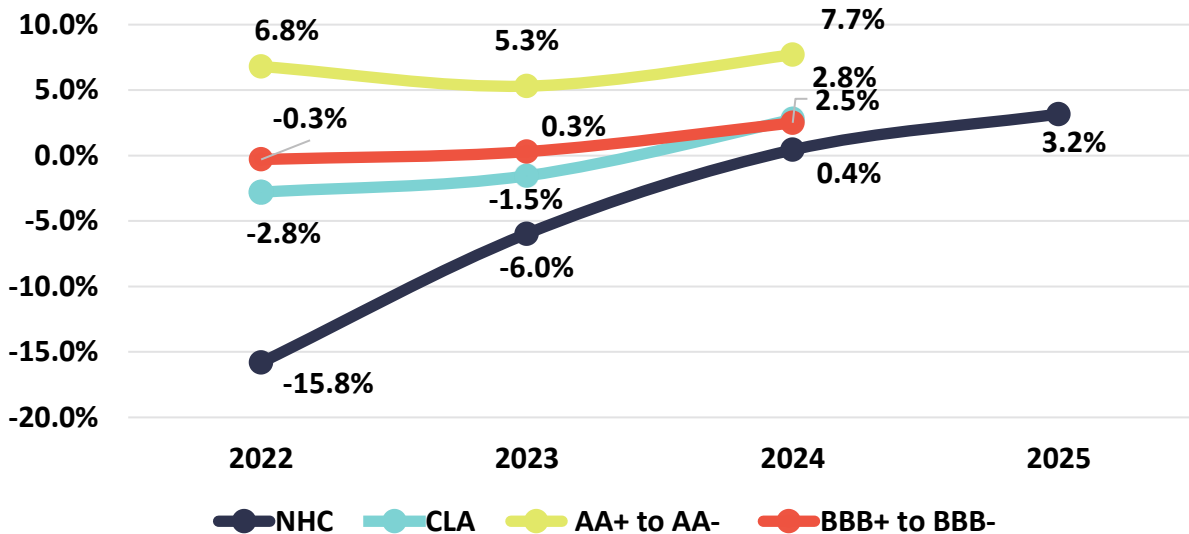
This ratio is operating income as a percentage of net patient service revenue plus other operating revenues. It is used to report the facility's return on revenues which relate to the main purpose of operations.



Total Margin

Definition:

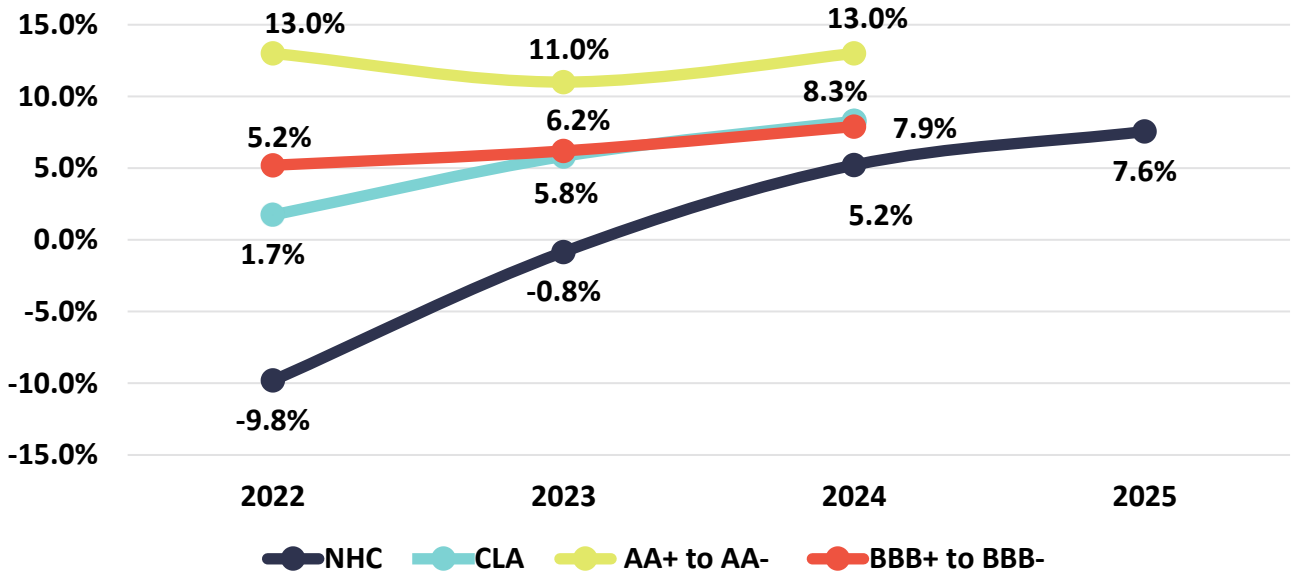
Total margin reflects excess of revenue over expenses as a percentage of total revenues, including nonoperating revenues.



EBIDA

Definition:

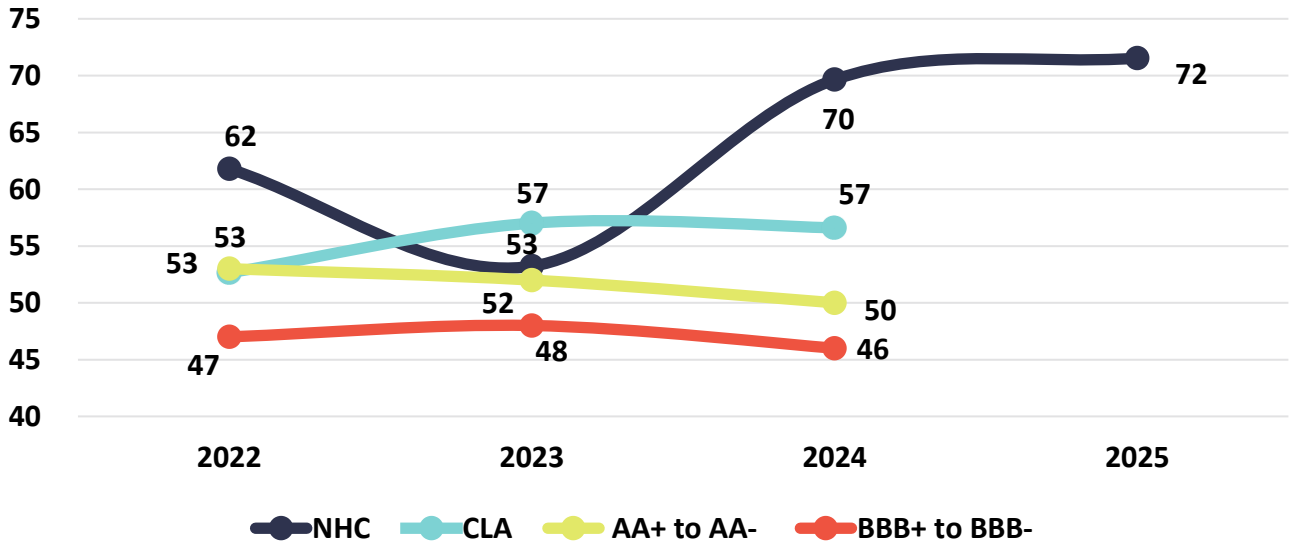
EBIDA represents Earnings (excess (deficit) of revenue over expenses) Before Interest, Depreciation, and Amortization divided by total revenues. This ratio is often used when evaluating debt capacity.



Net Days in Accounts Receivable

Definition:

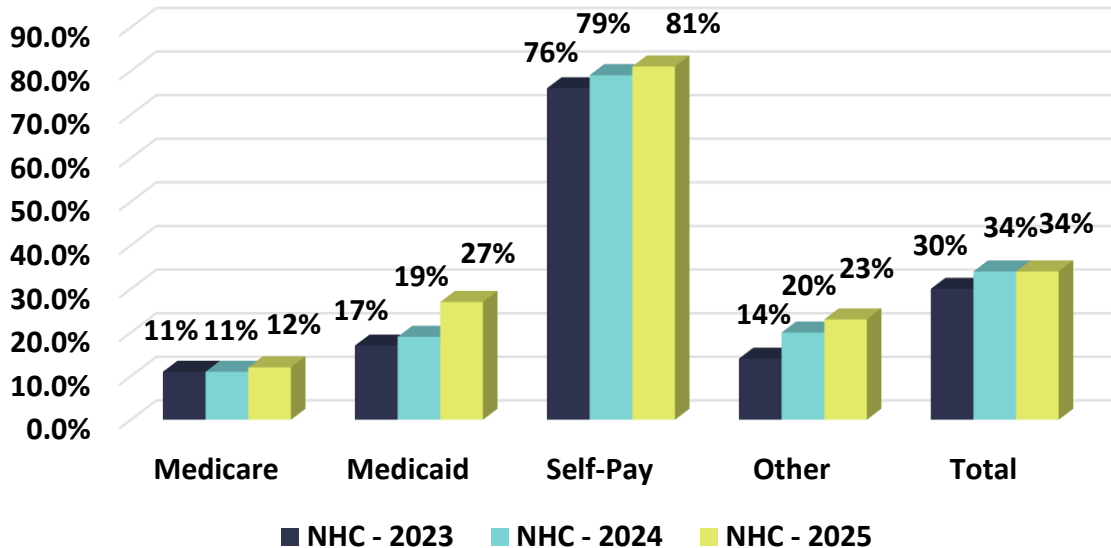
Days in patient accounts receivable is defined as the average time that receivables are outstanding, or the average collection period.



Accounts Receivable by Payor > 90 Days Old

Definition:

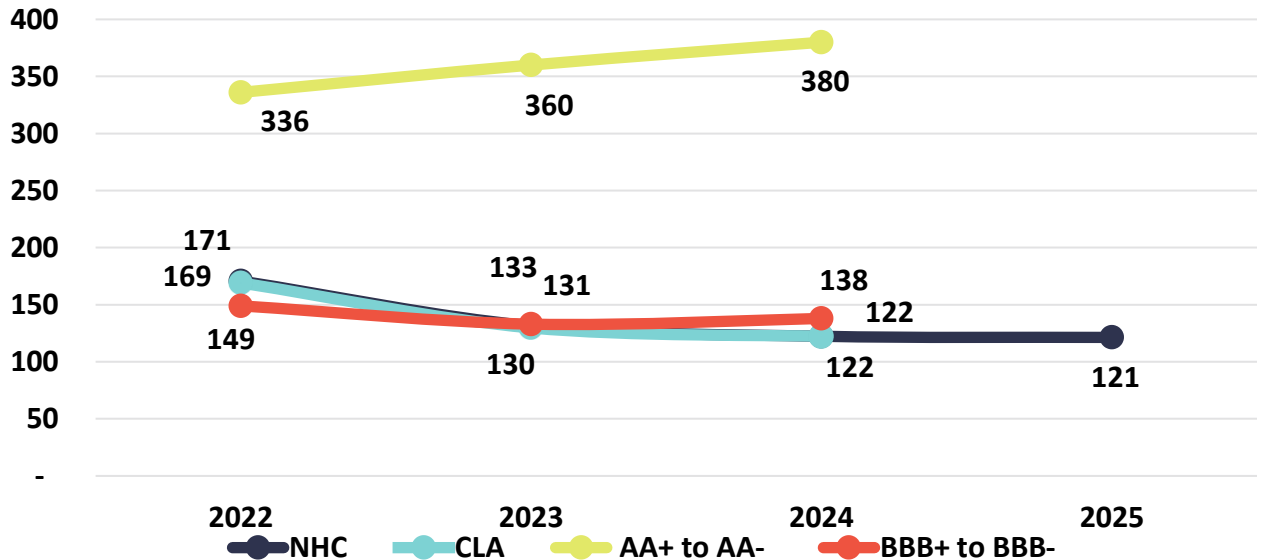
The portion of accounts receivable from each payor classification that is greater than 90 days old.



Days Cash on Hand (All Sources)

Definition:

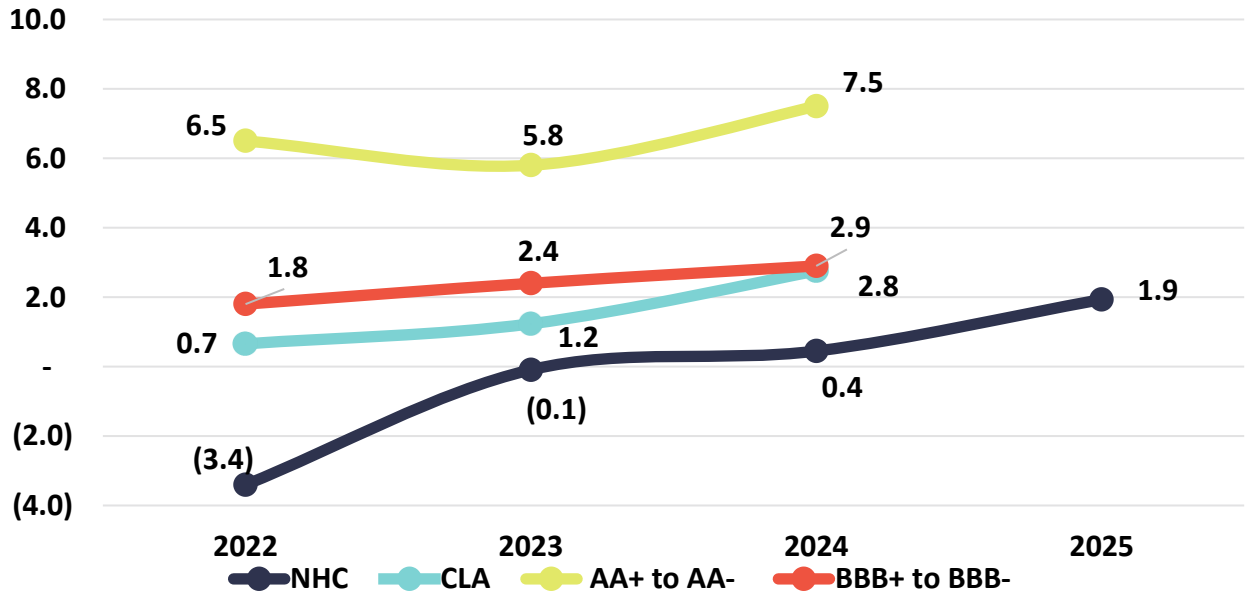
Days Cash on Hand measures the number of days of average cash expenses that the facility maintains in cash and amounts reserved for capital improvements. High values usually imply a greater ability to meet both short-term obligations and long-term capital replacement needs.



Debt Service Coverage

Definition:

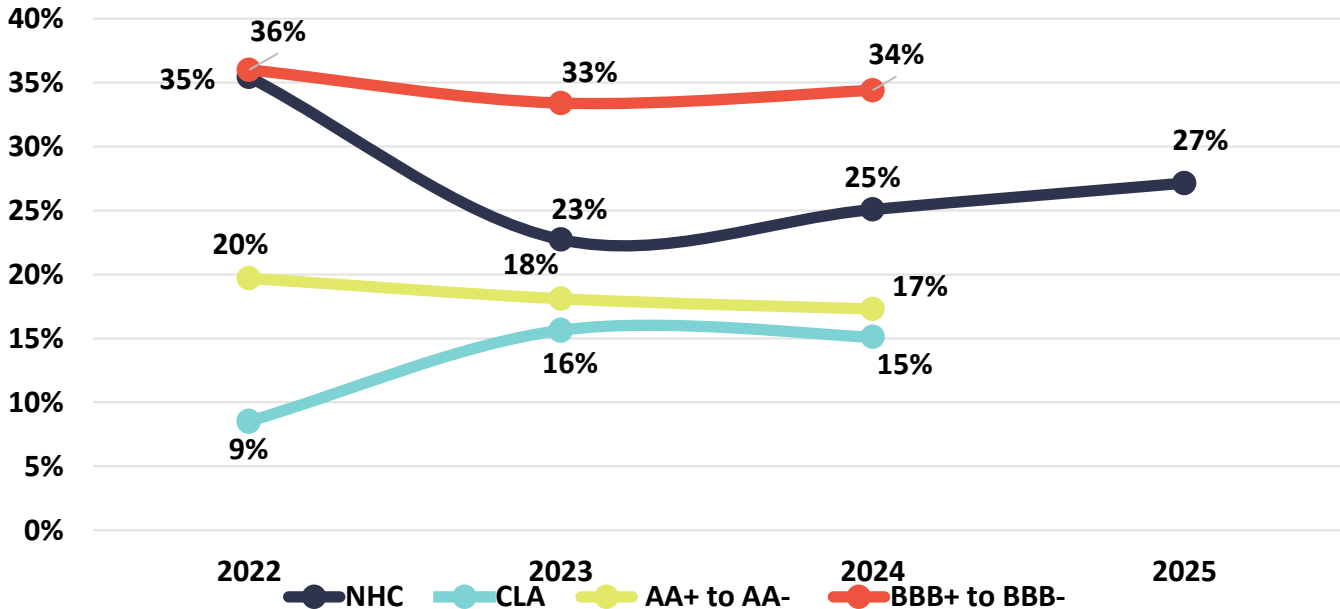
Debt service coverage is calculated as income available for debt service (net income (loss) + depreciation and amortization + interest expense) divided by the annual debt service requirements (principal payments made + interest expense).



Debt to Capitalization

Definition:

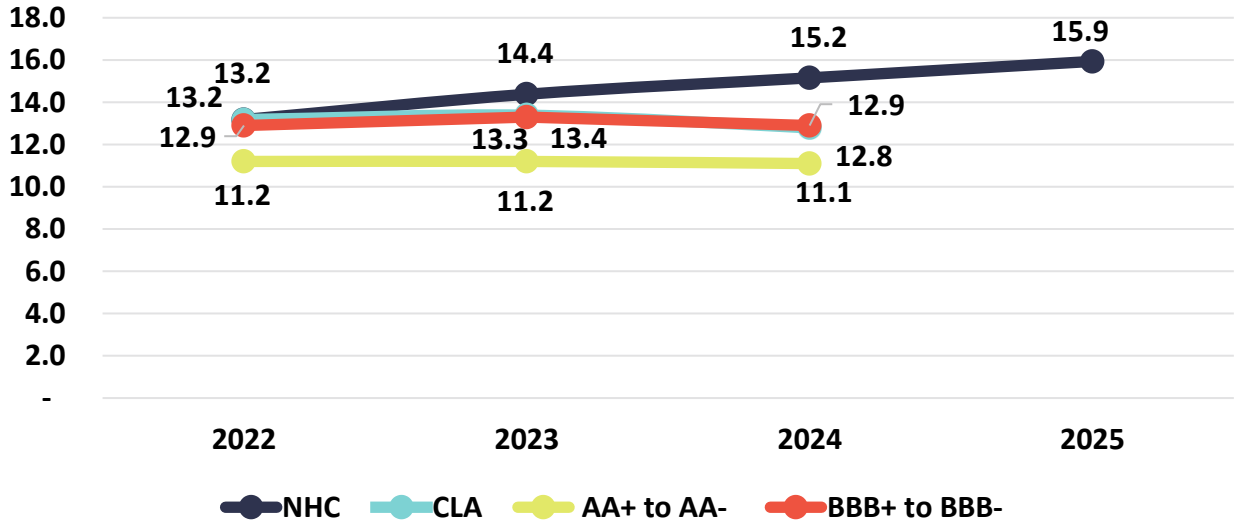
This ratio is defined as the proportion of long-term debt divided by long-term debt plus total net assets. Higher values for this ratio imply a greater reliance on debt financing and may imply reduced ability to carry additional debt.



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.





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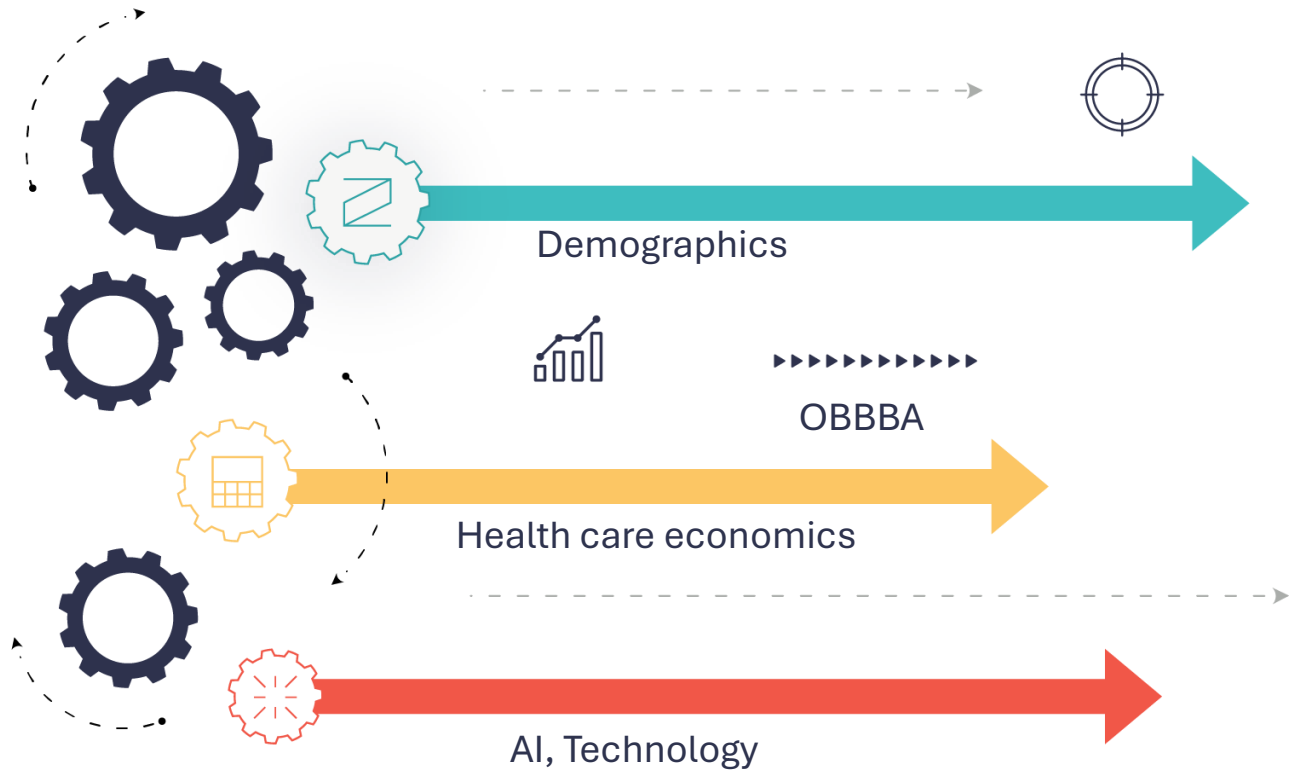
The Coming Decade: 2035

How HCLS Can Meet The Future Today

Navigating the future



There are four major forces converging on health care and life sciences in the coming decade.





Demographics



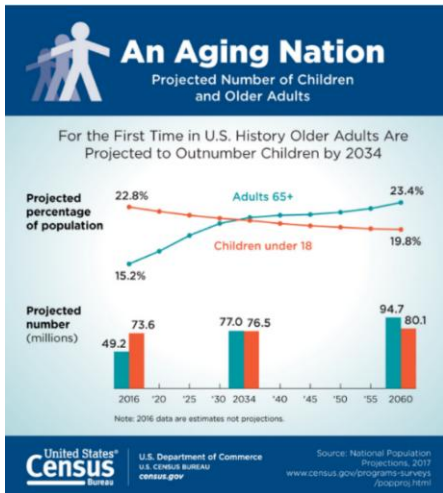


Generational Cohorts

Generation	Birth Years	U.S. Population (Approx.)	Workforce
Silent Generation	1928–1945	19.0 million	Out of workforce
Baby Boomers	1946–1964	71+ million	Retired or retiring
Generation X	1965–1980	61 million	Later career, leadership years
Millennials (Gen Y)	1981–1996	74 million	Early-mid career
Generation Z	1997–2012	69 million	Early career or moving into workforce in coming years
Generation Alpha	2013–2024	51.5 million	Not in workforce yet
Generation Beta	2025–2039	Not yet measurable	Not in workforce



Demographics



[An Aging Nation: Projected Number of Children and Older Adults](#)

An aging population

Lower birth rates

Longer life expectancy

More chronic conditions



- Increasing need for care, services, housing
 - Senior housing
 - Aging in place
 - Holistic environments
- Increasing role for integrated care, care management
 - Prevention
 - Wellness
 - Breaking down silos
 - Alternative sites of service
- Increasing pressures on workforce supply
 - New pipelines
 - Top of scope
 - Employee needs, satisfaction
 - Upskilling



Health Care Economics



Demographics Impact Health Care Economics

- Timing of generations, retirement waves
- Smaller working age-to-retirement ratios
- Longer life expectancy
- More chronic conditions
- Higher health care costs



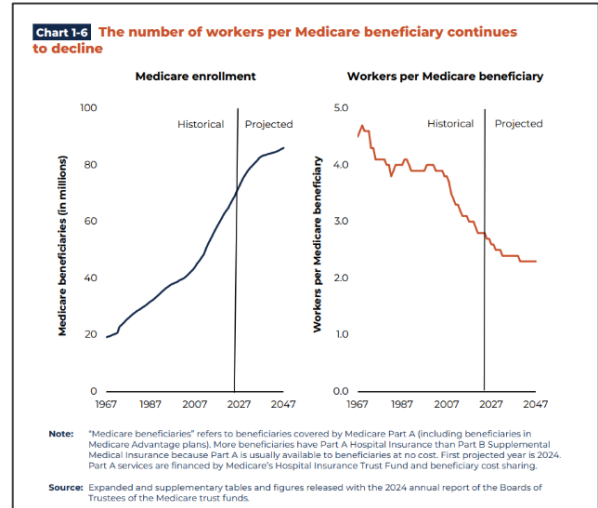
For Context: Medicare

78 million people eligible for

↑ Medicare *by* 2030

↓ Workers paying into Medicare have declined

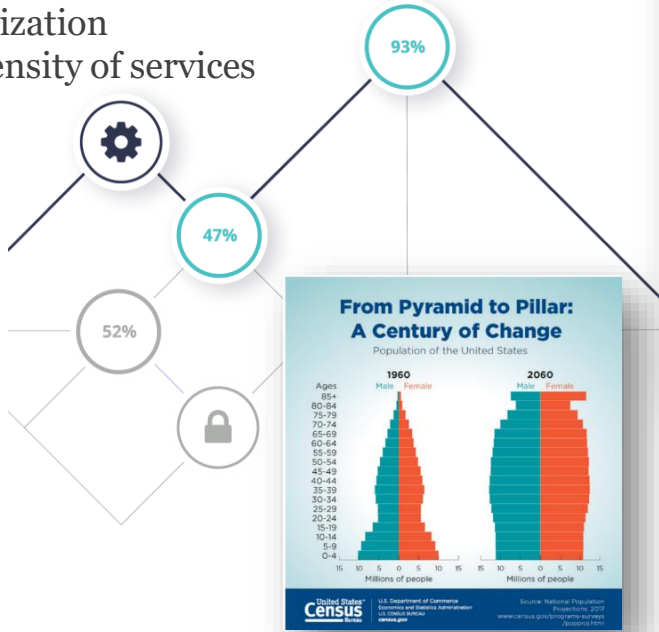
Part A Trust Fund Insolvency *by* 2033



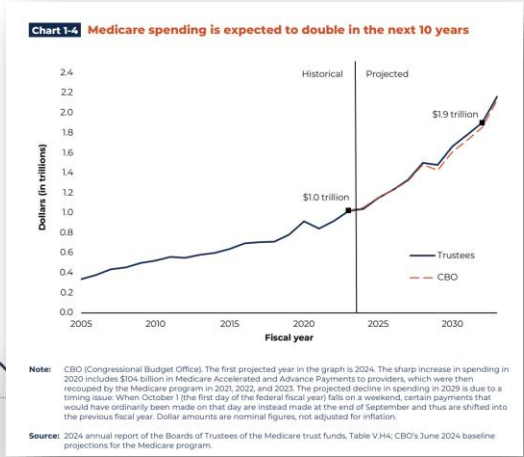
[March 2025 Report to the Congress: Medicare Payment Policy – MedPAC](#)

Medicare growth drivers

1. Number of beneficiaries
2. Utilization
3. Intensity of services



<https://www.census.gov/library/visualizations/2018/comm/century-of-change.html>



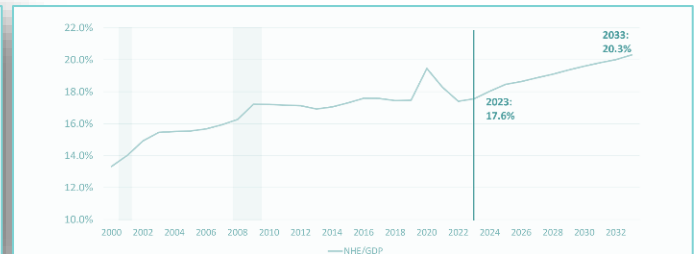
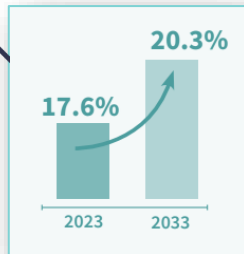
[July2025_MedPAC_DataBook_Sec1_SEC.pdf](#)



National Healthcare Expenditures to GDP

In next decade...

- NHE projected to grow annually at 5.8%
- GDP growth projected at 4.3%
- Health spending of GDP to go from to 20.3% by 2033



National Health Expenditure Projections 2024–33

<https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/projected>



The Coming Decade

- NHE up across all payers; Government will finance 50% of health care spend by 2033
- Macroeconomic trends, including tariff policies and geopolitical conditions, impact the cost of goods, supplies, building facilities etc
- In 2025, federal government spent \$355 billion to maintain the debt—that's 19% of federal spending
- Total government debt = \$38 trillion
- Within two decades, federal spending on four items—Medicare, Medicaid, Social Security and federal debt payments—will exceed all federal revenues coming in.

<https://www.cbo.gov/publication/61270>

[National Health Expenditure Projections 2024–33](#)

<https://fiscaldata.treasury.gov/americas-finance-guide/federal-spending/>

[Understanding the National Debt | U.S. Treasury Fiscal Data](#)

<https://www.medpac.gov/document/march-2025-report-to-the-congress-medicare-payment-policy/>



Future



Increasing role of value, outcomes-based models, services, approaches



Strategic mergers and acquisitions throughout ecosystem



Significant changes in sites of services settings



Rapid technology and AI enablement uptake



More unique partnerships to maintain viability, compete or grow



OBBBA



Major Impact Areas

**Medicaid Coverage
and Financing Policies**



**\$50 Billion in Rural
Health Funds**



Tax, Credit Policies

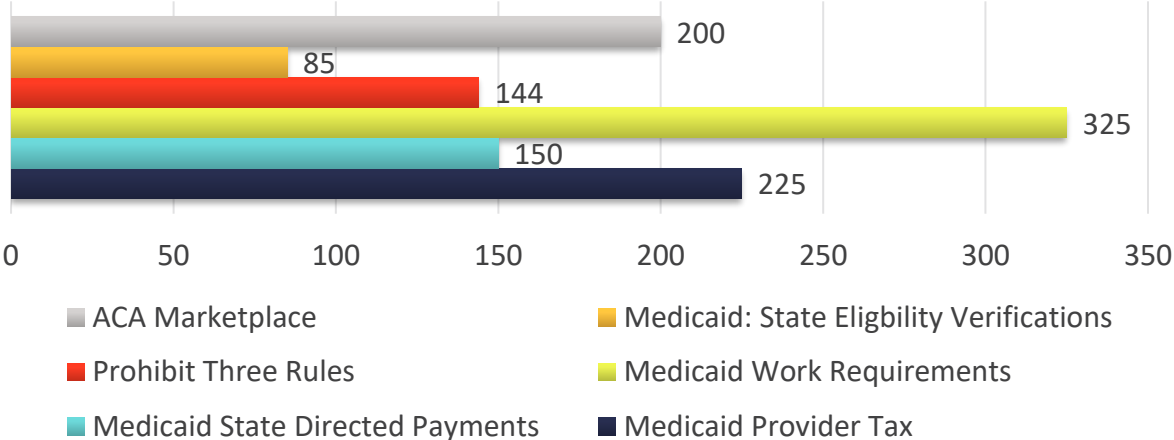


10 Year Estimated Impacts (2025-2034)

Congressional Budget Office estimates OBBBA (Public Law 119-21) will results in a net budget deficit increase of \$3.4 trillion.

- OBBBA reduces incoming federal revenues by \$4.5 trillion
- OBBBA reduces outgoing federal spending by \$1.1 trillion
 - \$900+ billion in Medicaid funding reductions
- Results in net \$3.4 trillion deficit

Quick Estimate: Major OBBBA Cuts (in Billions)



[Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline | Congressional Budget Office](#)



Provider Taxes + SDP + ACA Expansion

	ACA Expansion	ACA Non-Expansion												
State	All others	AL, FL, GA, KS, MS, SC, TN, TX, WI, WY												
OBBBA Provider Tax Policy Impact	<ul style="list-style-type: none"> No new provider taxes Beginning phase down FFY 2028 as follows: <table border="1" data-bbox="321 529 511 646"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2028</td> <td>5.50%</td> </tr> <tr> <td>2029</td> <td>5.00%</td> </tr> <tr> <td>2030</td> <td>4.50%</td> </tr> <tr> <td>2031</td> <td>4.00%</td> </tr> <tr> <td>2032</td> <td>3.50%</td> </tr> </tbody> </table> Nursing home, ICF/ID exempted 	Year	Percentage	2028	5.50%	2029	5.00%	2030	4.50%	2031	4.00%	2032	3.50%	<ul style="list-style-type: none"> No New Taxes Existing Taxes Frozen
Year	Percentage													
2028	5.50%													
2029	5.00%													
2030	4.50%													
2031	4.00%													
2032	3.50%													
OBBBA State Directed Payment Policy Impact	<ul style="list-style-type: none"> Phases down to 100% Medicare Begins CY 2028 10% reduction per year 	<ul style="list-style-type: none"> Phase down to 110% Medicare Begins CY 2028 10% reduction per year 												



2026-2030: Rural Health Transformation Fund

\$50 billion Total

\$10 billion per year

50% of funds go to states equally
50% determined by HHS (ex: based on specific rural metrics and state application scoring)

[Rural Health Transformation \(RHT\) Program | CMS](#)

Application

States submit 1 application for all five years

HHS approved applications Dec. 29, 2025

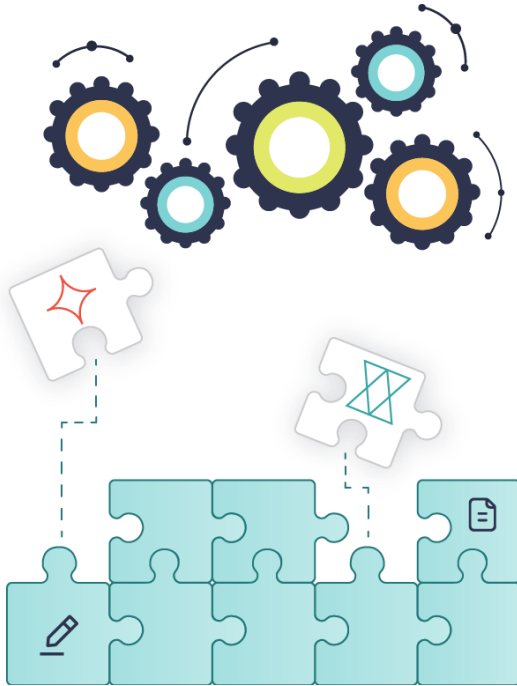
States will determine downstream distribution of funds

Each state's use of funds will differ

[H.R.1 - 119th Congress \(2025-2026\) | Congress.gov | Library of Congress](#)



Cross-Cutting RHTF Themes



Technology. Addressing cybersecurity, remote care, telehealth, EHRs, interoperability

Workforce development. Recruiting and retaining workforce, expanded pipelines, rural residencies and rotations, emergency services

Chronic disease management, prevention. Promoting disease management, wellness

Maternal health care. Improving maternal and perinatal care, remote fetal monitoring, digital obstetrics, regionalized work

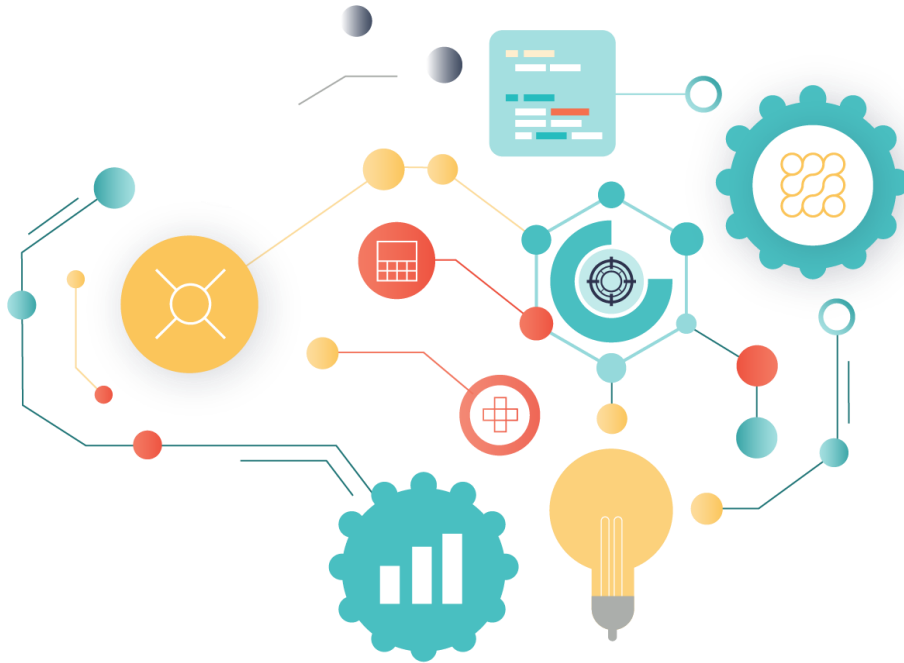
Sustainable, innovative care models. Creating hub-and-spoke models, shared-service networks, value-based payment reforms



Artificial Intelligence



AI will transform health care and life sciences.



AI: The Coming Decade...

Low Hanging Fruit (now)

Administrative efficiency (ex: revenue cycle, workflows, patient experience)

Clinical documentation (ex: AI scribe, coding)

Connecting siloed data (ex: surfacing insights)

Digital tools, apps (ex: wellness, prevention)

Predictive analytics (ex: scheduling, staffing, ACOs, population health, decompensation)

Groundbreaking (coming)

Drug discoveries (ex: foundation models, digital twin)

Clinical care (ex: AI diagnostics, AI driven care plans)

Robotics (surgeries)

Personalized medicine (“bespoke”)

Brain-computer interfaces

Robust Governance, Cybersecurity

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