Northfield Hospital + Clinics

2017 Audit Presentation to Board of Directors

(An excerpt from the full Board Reporting Packet)

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Presentation Overview

- Audit Overview & Outcomes
- Financial Ratio Analysis
- GASB 68 Update
- Industry Trends

Audit Overview & Outcomes

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Audit Overview

CLA Responsibility

- *Express Opinion on financial statements*
- *Reasonable, not absolute assurance no material misstatements*

Risk Based Approach

- *Evaluation of internal controls*
- *Focus on areas of greatest risk of error*
- *Data Analytics*

Adjustments

- *No audit adjustments*
- *No passed adjustments*
- *Worked with Mgt. to update GASB 68*

Difficulties Encountered

- *Audit went as planned*
- *No difficulties*
- *No disagreements*
- *No issues*
- *Great prep!!*

Financial Ratios

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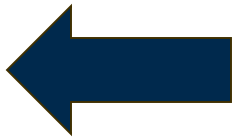
Industry Benchmark Data

Northfield Hospital + Clinics (NHC)

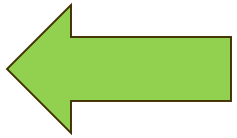
- PPS Hospital ($105M Net Revenues)



2014-2017

Standard & Poors

- BBB+ to BBB-



2014-2016

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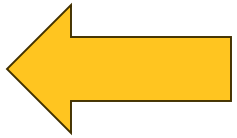
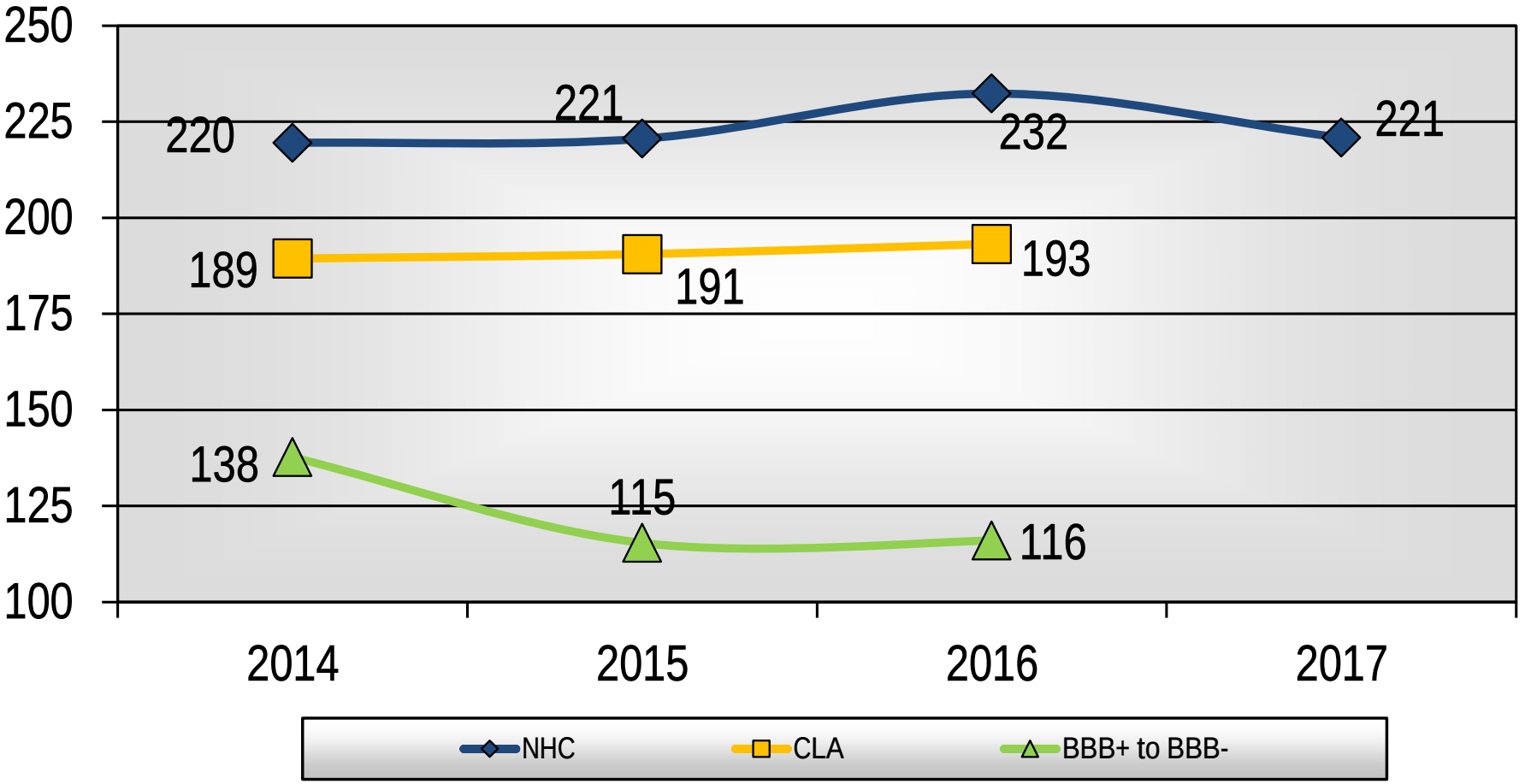


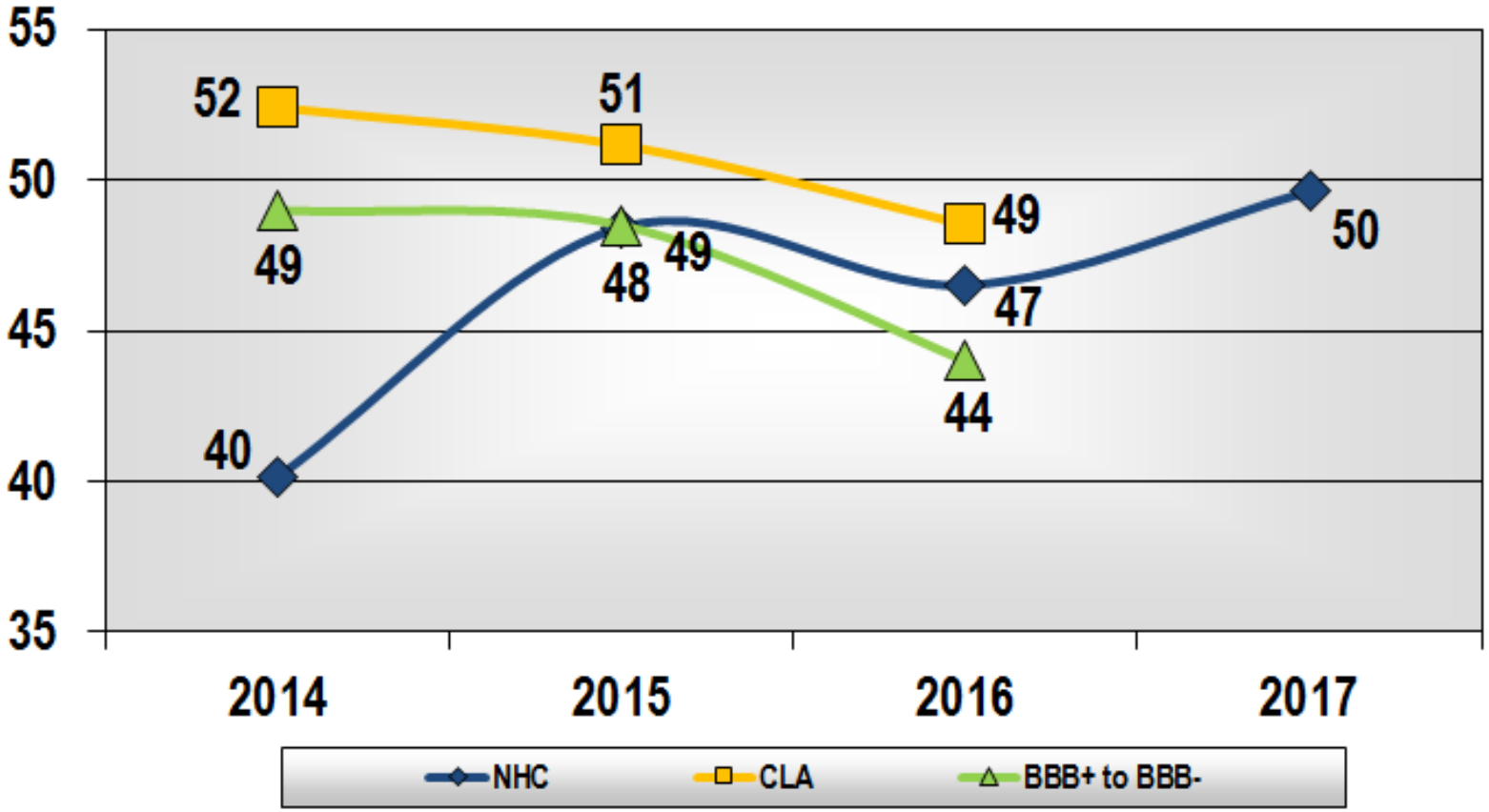
2014-2016

- 24 PPS Facilities with $50 million to $250 Million of Net Patient Revenue

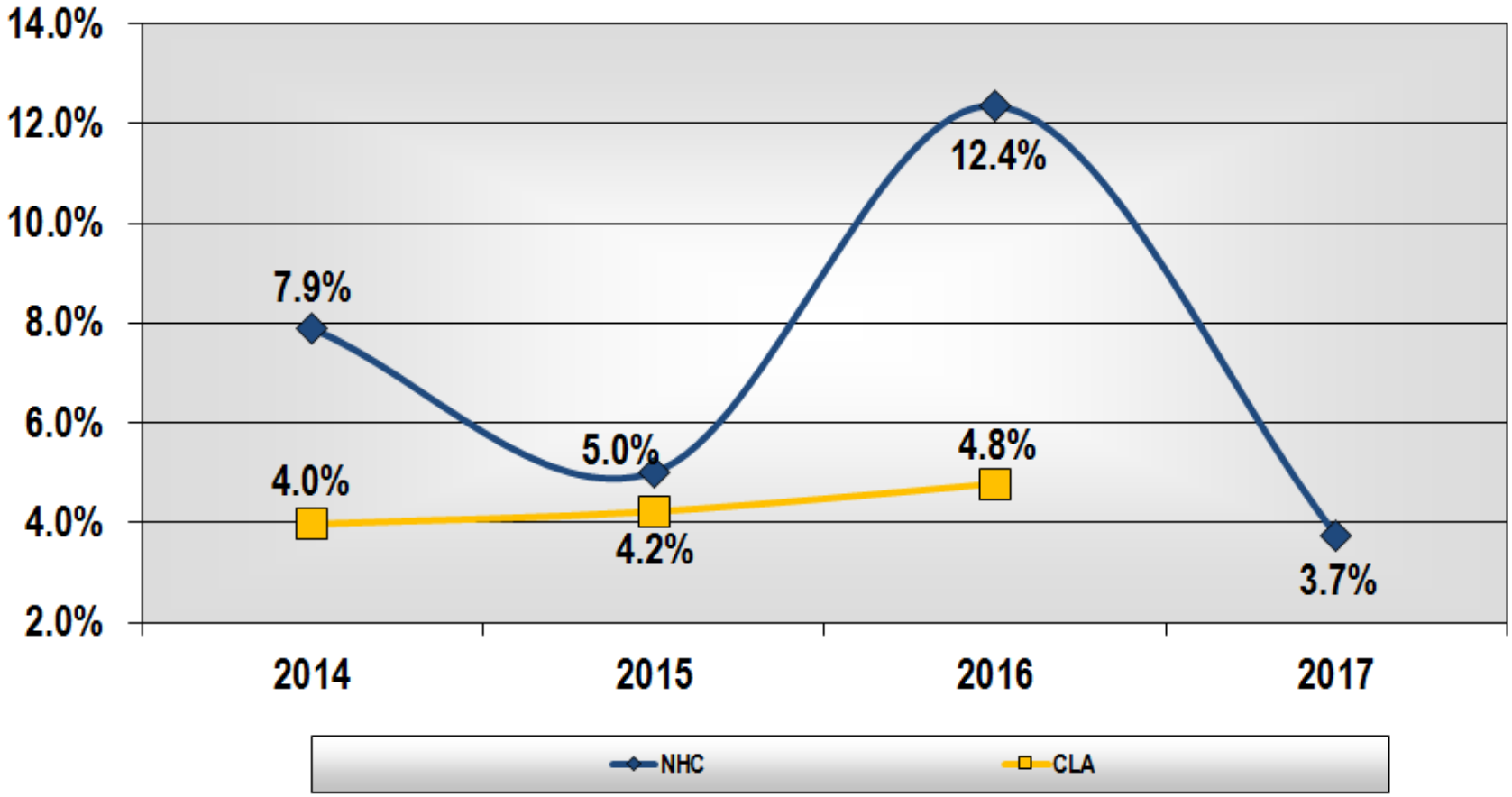
Days Cash on Hand (All Sources)



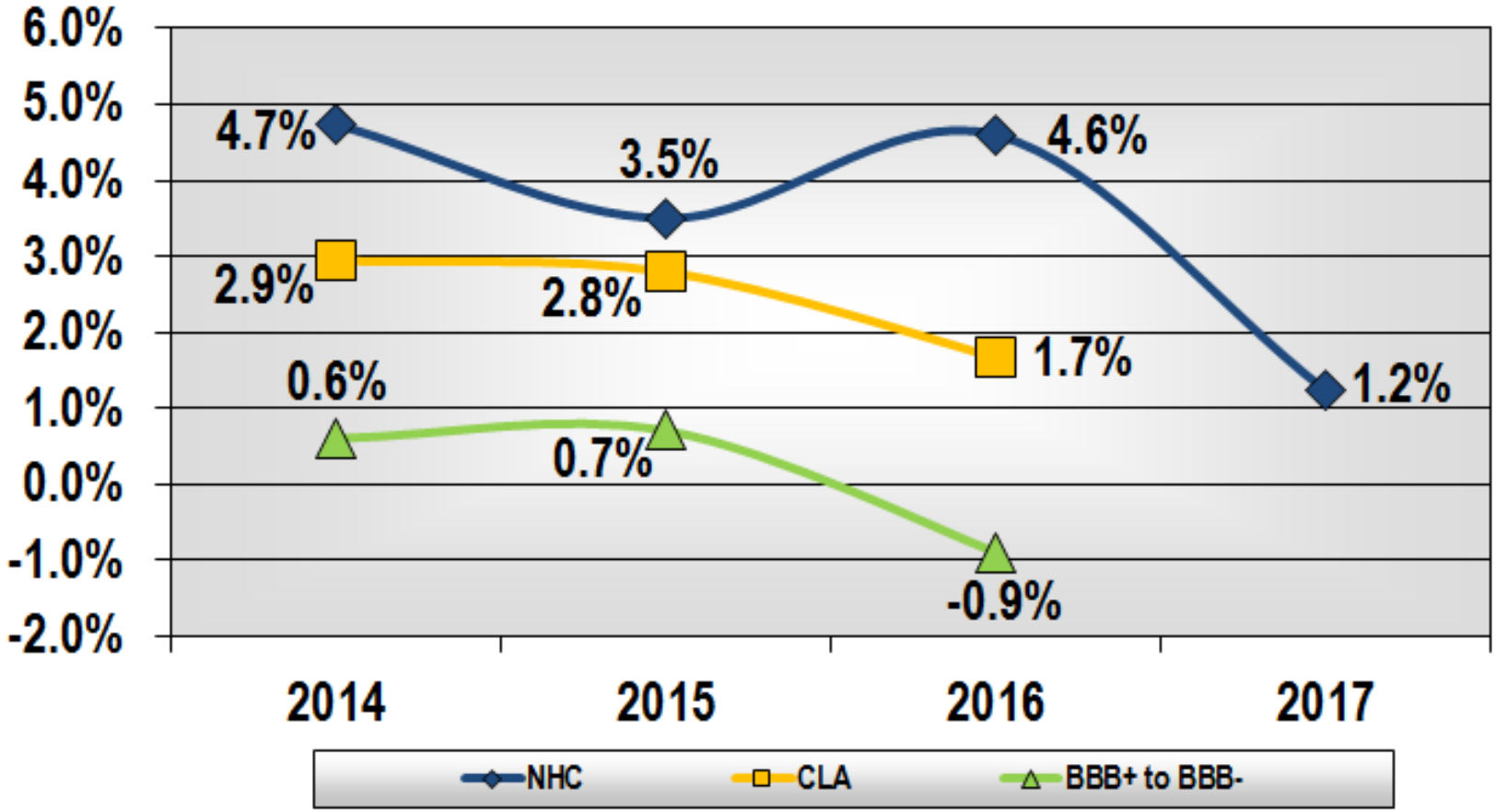
Net Days in Accounts Receivable



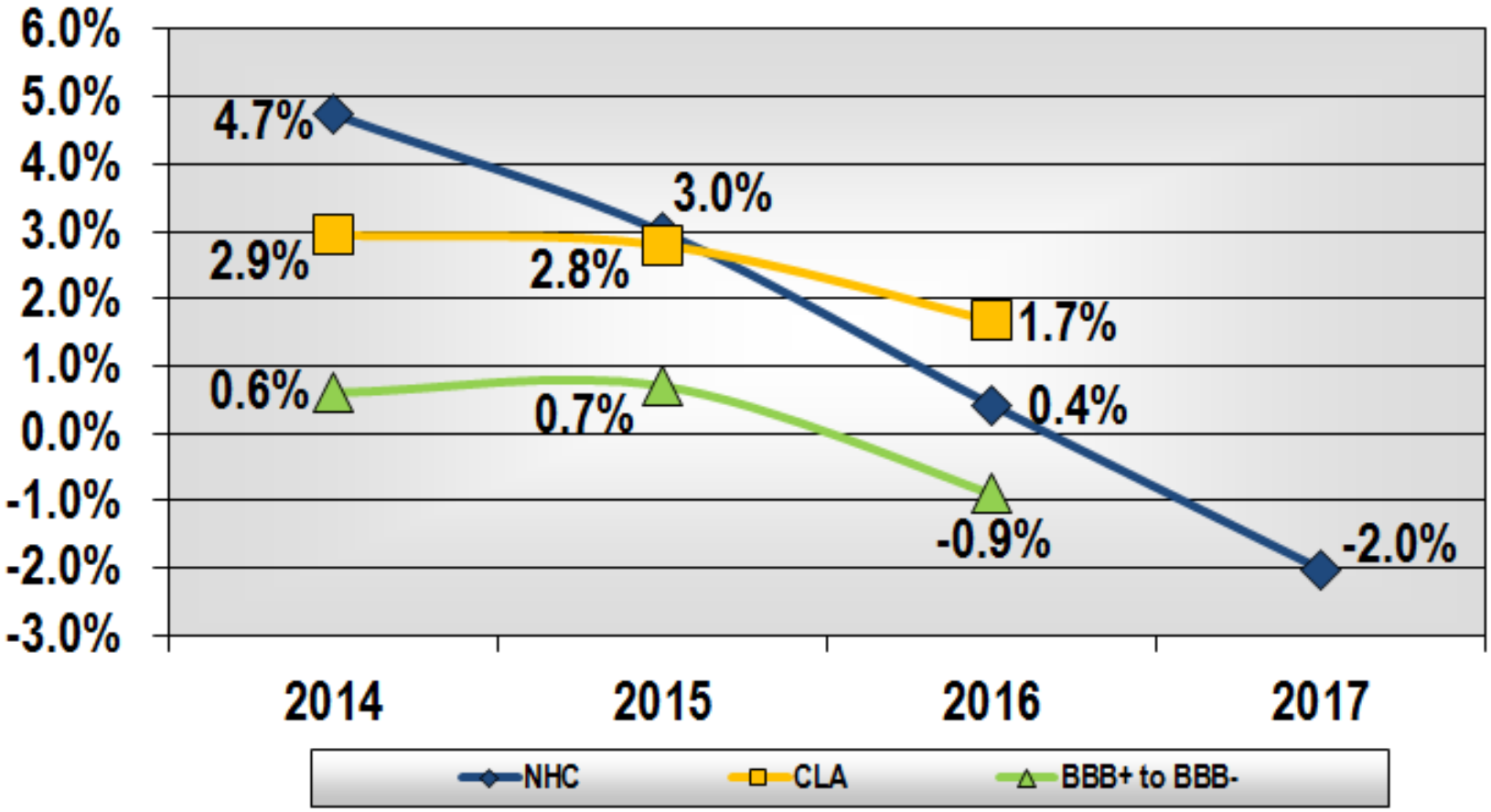
Percentage Growth in Net Patient Revenues



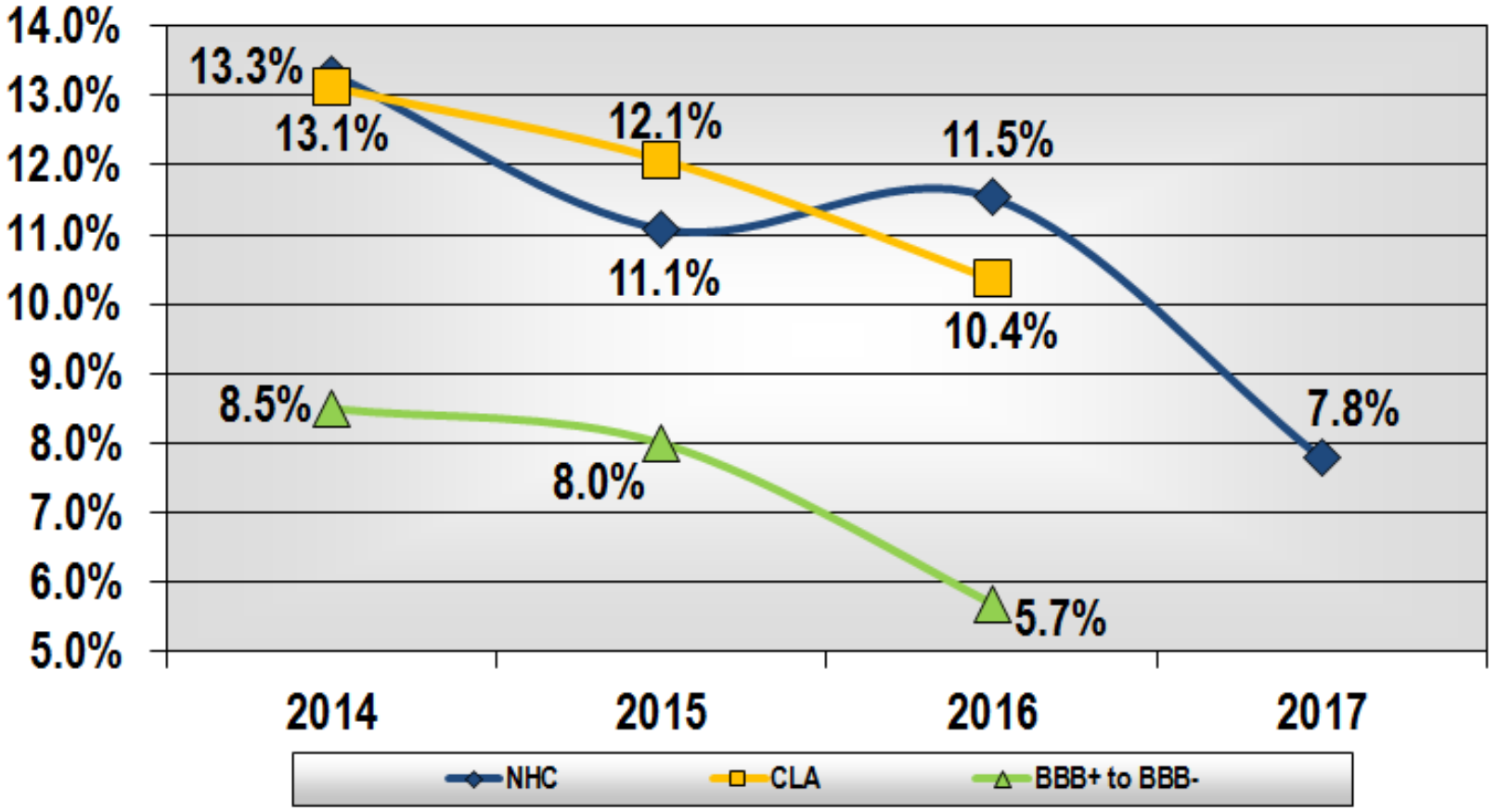
Operating Margin – Pre-GASB 68



Operating Margin – Post-GASB 68



EBIDA



GASB 68 Update

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GASB 68 Accounting & Reporting for Pensions

MN PERA Information

- MN PERA Net Pension Liability:
  - 6/30/16: $8,119,504,000
  - 6/30/17: $6,383,934,000
- Total MN PERA employer contributions:
  - FYE Ended 6/30/16: $465,978,000
  - FYE Ended 6/30/17: $483,888,000

NH+C PERA Information

- NH+C Employer Contributions:
  - FYE 6/30/16: $3.0M or .6470%*
  - FYE 6/30/17: $3.3M or .6747%
  - Decreased proportion of .0277%
- Based on Formula NH+C's NPL Equals:
  - 12/31/16: $52.5M*
  - 12/31/17: $43.1M
  - Decrease of $9.4M

*As reported in PY and not adjusted based on current year proportion of .6747%

GASB 68 Accounting + Reporting for Pensions

- Resulting Financial Statement Impact
  - Net Pension Liability decrease of $9.4M to $43.1M
  - Decrease in Deferred Outflows of $8.2M to $12.9M
  - Decrease in Deferred Inflows of $4.7M to $8.9M
  - Increase in PERA Pension Expense of $3.4M

Description	Deferred Outflows	Deferred Inflows	Pension Expense
Current Year Activity - Regular	1,419,537	(11,631,378)	1,766,743
CY accrual and PY reversal	59,210	-	(3,324,002)
Amortization of PY Amounts	(6,257,566)	1,679,295	4,578,271
Change in Proportionate Share	2,009,565	(182,707)	422,244
Allocation between deferred inflow and deferred outflow	(5,450,631)	5,450,631	-
Net Change	(8,219,885)	(4,684,159)	3,443,255
Beginning Balance	21,197,841	(4,267,255)	3,311,327
Endng Balance	**12,977,956**	**(8,951,414)**	**6,754,582**

Industry Update

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Advancing Bundles:

Bundled Payments for Care Improvement Advanced

- Announced by CMS on 1/09/18
- Application deadline: 3/12/18
- First performance period: 10/1/18 – 12/31/23
- Designed by CMS by considering:
  - Evaluation results from other CMMI models
  - Industry experience with bundled payments
  - Key provider stakeholder input
- Eligible Participants:
  - Non-Convener: Acute Care Hospitals (ACH) or Physician Group Practices (PGP) (only)
  - Convener: ACHs, PGPs, and other

"……BPCI Advanced builds upon earlier success of bundled payment models and is an important step in the move away from fee-for-service and towards paying for value……."

Seema Verma, CMS Administrator

BPCI Advanced: 4 Characteristics

Payment and Risk Track

- Single payment and risk track
- Episode with triggered inpatient stay or ***outpatient procedure***
- Episode continues 90 days post-discharge/post-procedure

Inpatient Clinical Episodes Triggers

- 29 eligible inpatient clinical episodes
- Identified by the MS-DRG
- Triggered by submission of fee-for-service claim by "Episode Initiator"

Outpatient Clinical Episodes

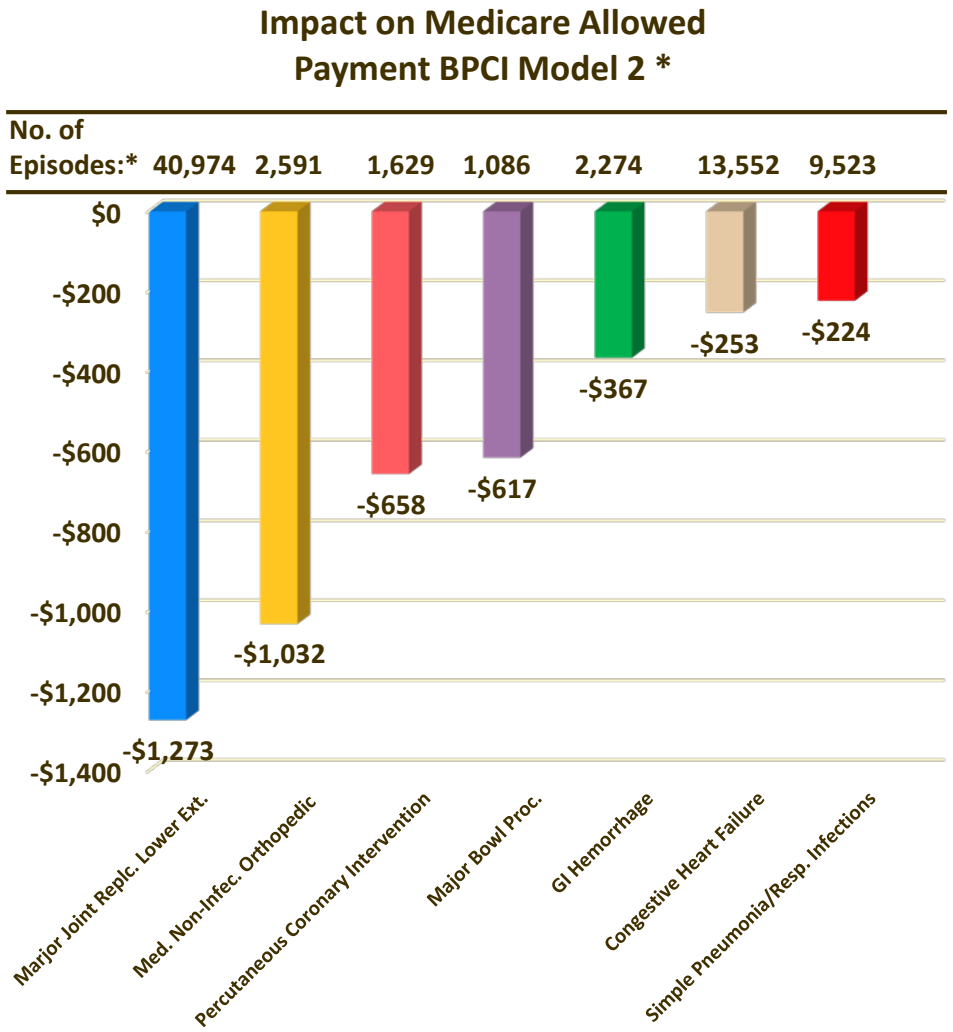
- Three eligible outpatient clinical episodes
- Percutaneous Coronary Intervention (PCI), Cardiac Defibrillator, and Back or Neck, except Spinal Fusion
- Triggered by submission of FFS claim utilizing specified HCPCS codes

Target Prices

- CMS will determine target price and will utilize a 3% discount from historical payments
- Participating providers will receive fee-for-service payments, with retrospective settlement based on actual payments to established target

Is BPCI Driving Improvement?

- Under the current BPCI program, Model 2 is most comparable to the new BPCI Advanced as it covers the entire continuum of care.
- The graphic at right depicts the reduction in Medicare allowable payment for various clinical episodes under Model 2.
- Out of 23 different clinical episodes analyzed in BPCI Model 2, Major Joint Replacement posted the largest reduction in allowed Medicare payment at $1,273.
- Even with this reduction, the results of study did not reflect any clear patterns in the total allowed Medicare payment amount across all clinical episodes.
- The clinical episodes depicted in the graphic at right represent those episodes that reflected the largest reductions.



*** Source: CMS Bundled Payments for Care Improvement Initiative Models 2-4: Year 3 Evaluation Report Prepared for CMS, Prepared by The Lewin Group, dated October 2017.**

2018 A New Era:
New Secretary of Health & Human Services

- Alex Azar, Secretary HHS
  - Confirmed by Senate 1/24/18
  - Previously held significant roles in HHS
    - ◊ 2001 General Counsel
    - ◊ 2005 Deputy Secretary
  - Played key roles during President George W. Bush Administration
    - ◊ Implementation of Medicare Part D
    - ◊ Managed and oversight over various epidemic and chemical outbreaks/concerns
  - 2007 to 2017 President of Eli Lilly U.S. Operations

- Azar's Top Priorities as Leader of HHS
  - Sky rocketing drug prices
  - Health care affordability and availability
  - Tackling the opioid epidemic
  - Shifting Medicare to paying for health and outcomes

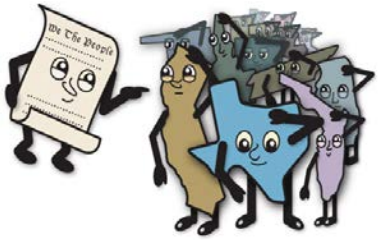
2018 A New Era:
Key Take Away for Health Care Providers

- Azar's priorities are signaling a return to advancing the speed of payment transformation, along with other potential changes that could impact providers of all types.
- Key comments he made during his various Senate hearings included the following signals:
  - Stressed his belief in market competition and opening up markets to allow competition
  - On record as agreeing with the "able bodied work" initiative to receive Medicaid benefits
  - Emphasized the need to move the current payment to paying for health and outcomes
  - Believes in leveraging technologies that have been implemented
  - Believes in capitalizing on best elements in one program, and translating them to others
- Themes we hear from Azar are in direct alignment with the Administration

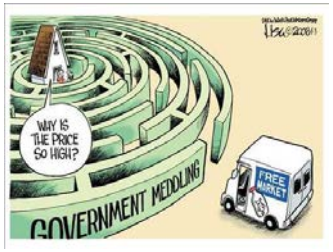
**** Source: 2016 letter to CMS from 178 congressional law makers***

2018 A New Era:
HHS in Alignment with Administration Principles

Reductions in federal health care spending



Greater state management and control with less federal intervention



Increased market competition and incentives to drive consumerism

Continue to drive policies that promote increasing the value of health care

Questions/Comments

THANK YOU!

Rob Schile, CPA,
Managing Principal of Industry

Rob.Schile@claconnect.com

For information on health care reform, go to

CliftonLarsonAllen's Health Care Reform Center at:

http://www.cliftonlarsonallen.com/healthreform/