

# Northfield Hospitals + Clinics

2020 Audit Results and Report to the Board of Directors  
(Condensed from full board packet)

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor



Create Opportunities

# Presentation Agenda

- **Audit Overview & Outcomes**
- **Your Business:**
  - Financial Ratios
- **Post-Pandemic Considerations:**
  - Rethinking Strategies in a post-COVID environment



# Audit Overview

## CLA Responsibility

- *Express Opinion on financial statements*
- *Reasonable, not absolute assurance no material misstatements*
- *In accordance with GAAS.*

## Risk Based Approach

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

## Adjustments

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

## Difficulties Encountered & Other Items

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



# Your Business

## Financial Ratios & Benchmark Analysis

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

# Industry Benchmark Data

## Northfield Hospital + Clinics (NHC)

- \$98 Million Net Patient Service Revenue
- 2017 –2020 Data, Based on Audited Financial Statements

 2017-2020

## CLA Health System Clients (CLA)

- 12 PPS Facilities with \$50 Million to \$250 Million of Net Patient Revenue

 2017-2019

## Standard & Poors (AA+ to AA-)

 2017-2019

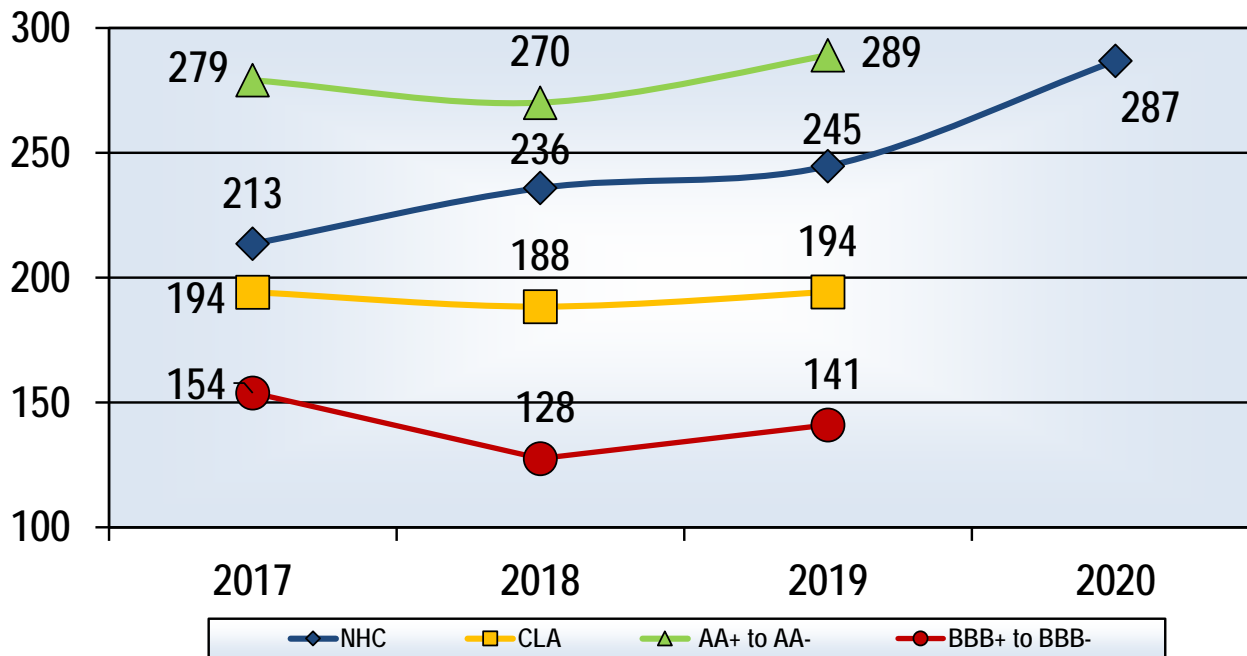
## Standard & Poors (BBB+ to BBB-)

 2017-2019

### Days Cash on Hand (All Sources)

#### Definition:

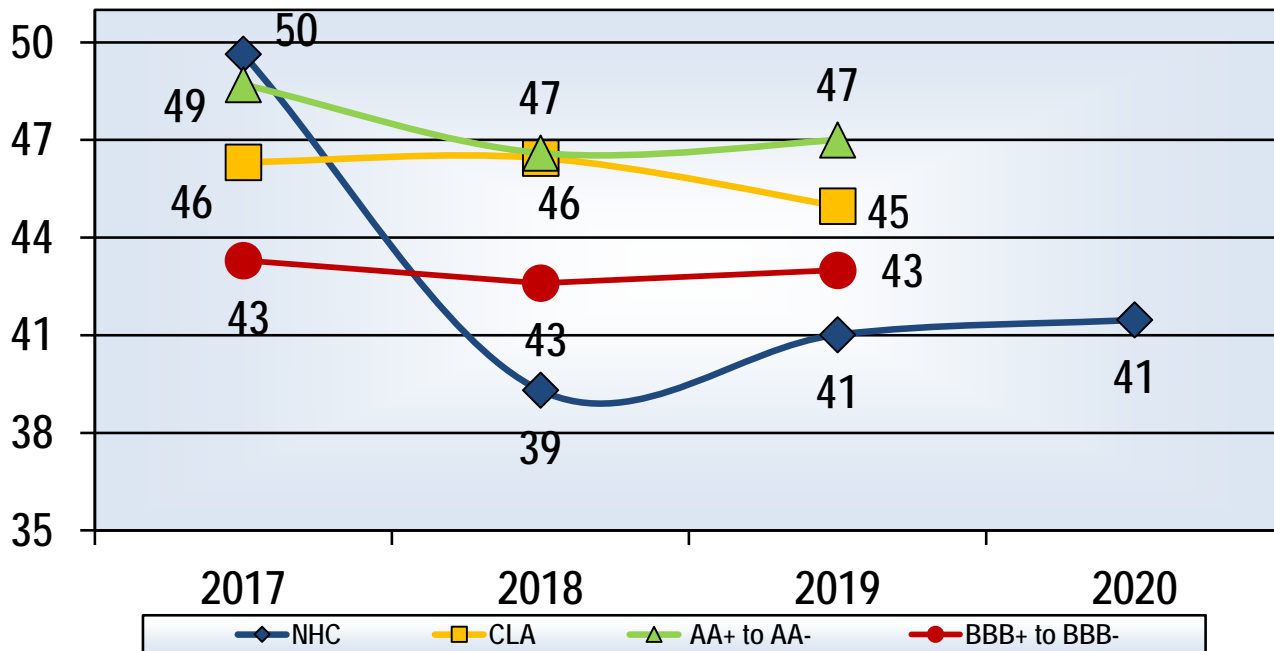
Days Cash on Hand measures the number of days of average cash expenses that the facility maintains in cash and amounts reserved for capital improvements. High values usually imply a greater ability to meet both short-term obligations and long-term capital replacement needs.



## Net Days in Accounts Receivable

### Definition:

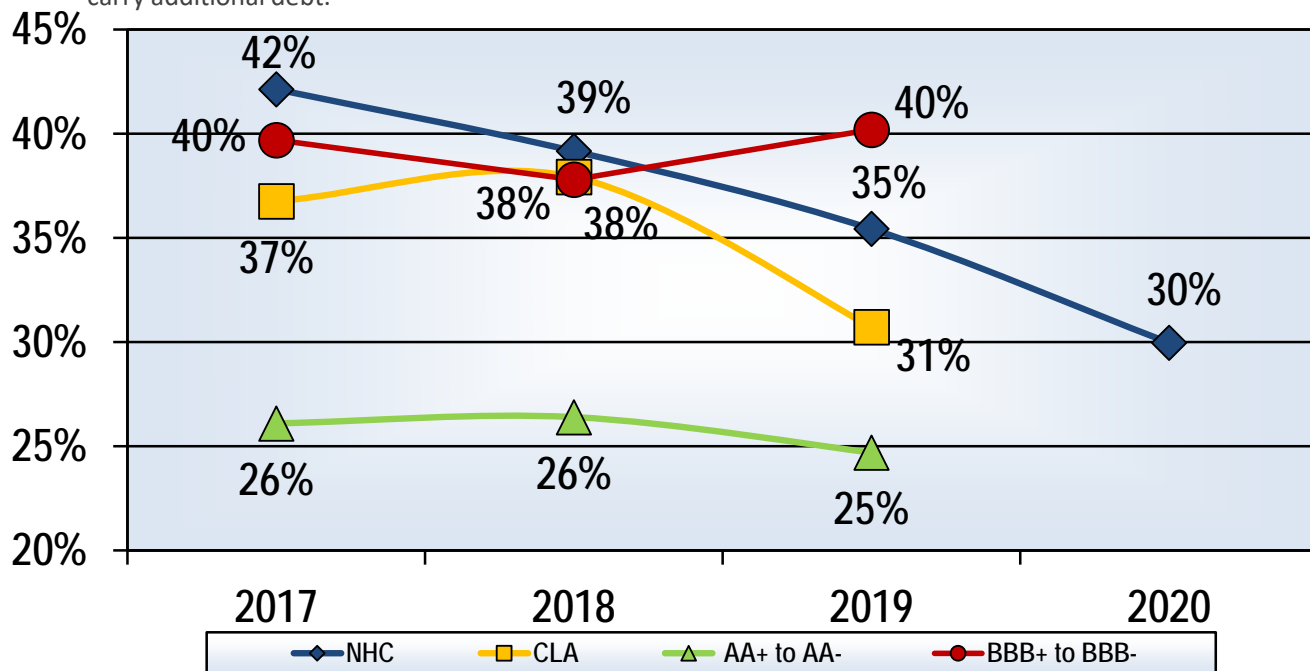
Days in patient accounts receivable is defined as the average time that receivables are outstanding, or the average collection period.



### 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.

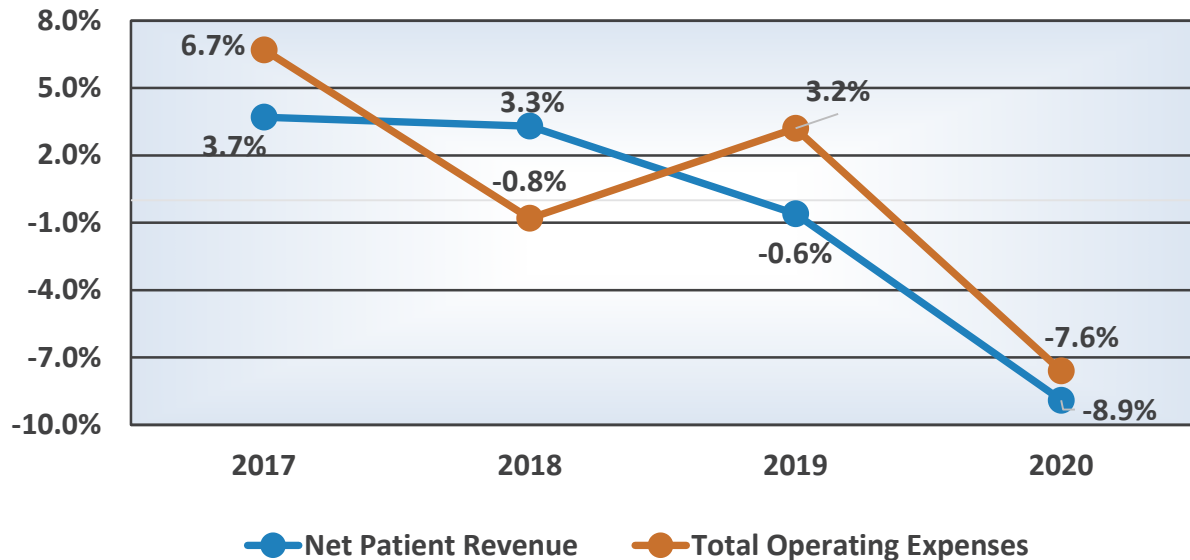




### Percentage Change in Net Patient Revenue and Non-Capital Expenses

#### Definition:

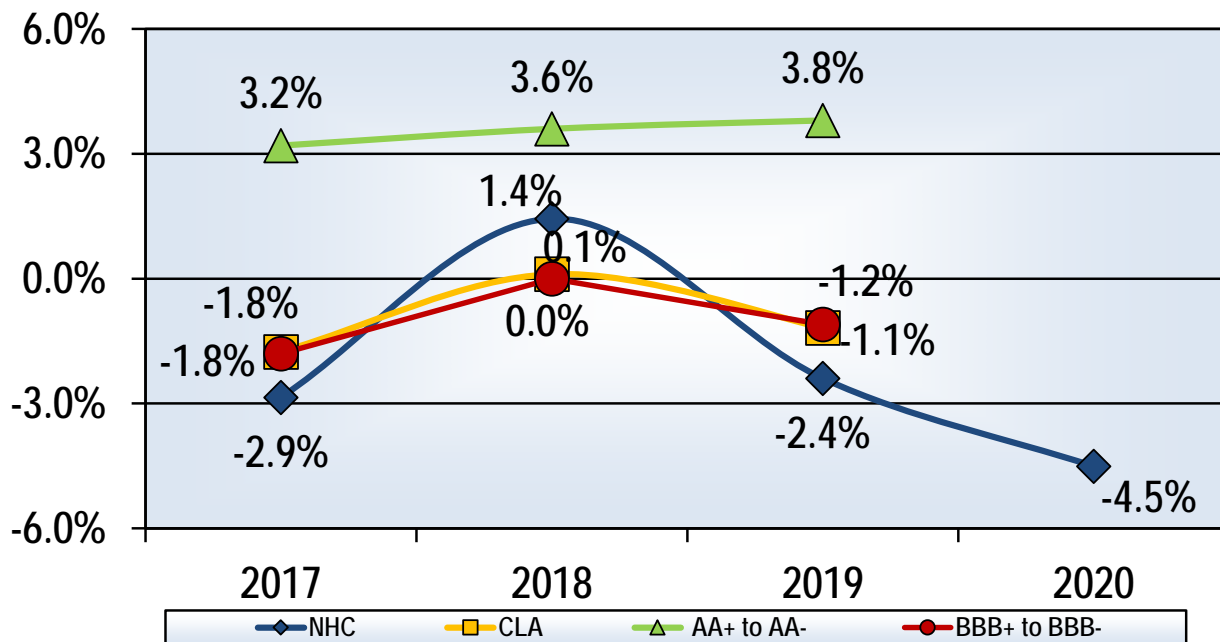
The graphic below depicts the percentage change in net patient service revenue and the change in non-capital related operating expenses, both on a year-over-year basis. NH+C embarked on a path to rebase its operating expenses, which put it ahead of other organizations from an expense management standpoint when the Pandemic hit. Unlike most organizations, NH+C was able to reduce its operating expenses in 2020 while many others still had expense increases, even with furloughs and layoffs.



### Operating Margin – Post-GASB 68

#### Definition:

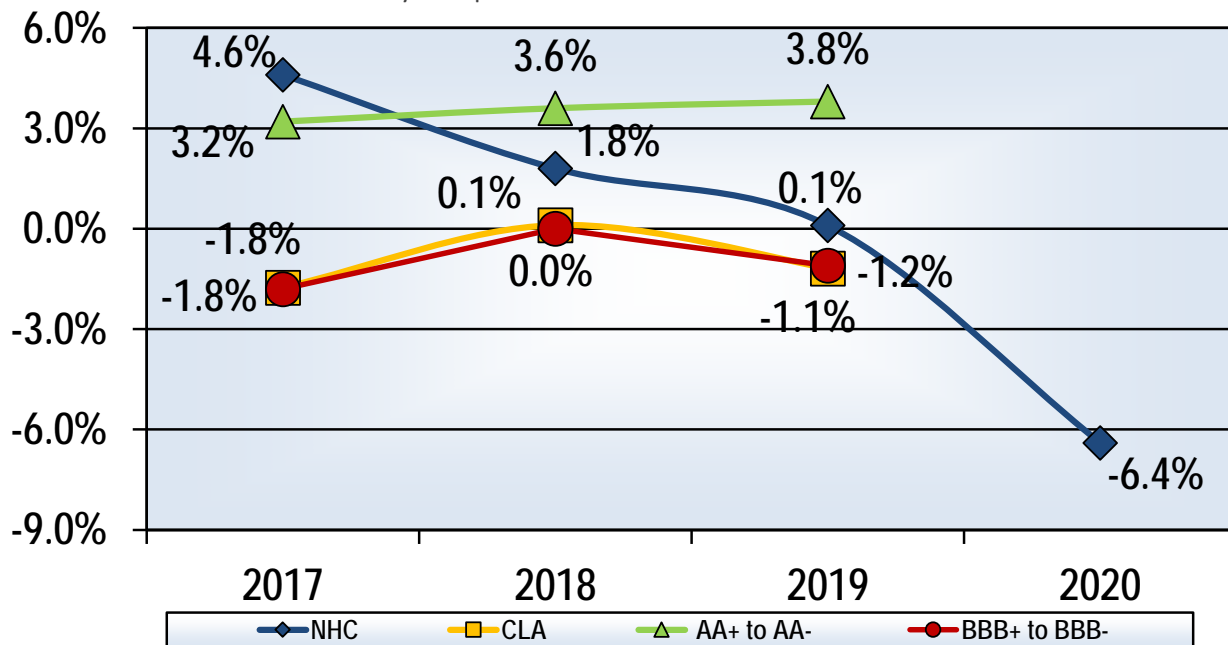
This ratio is operating margin as a percentage of net patient service revenue plus total other operating revenue. It is used to report the facility's return on revenues which relates to the main purpose of operations. The "Post-GASB 68" means this is the operating margin after recording the impact of GASB 68 for PERA in each of the year's presented.



## Operating Margin – Pre-GASB 68

### Definition:

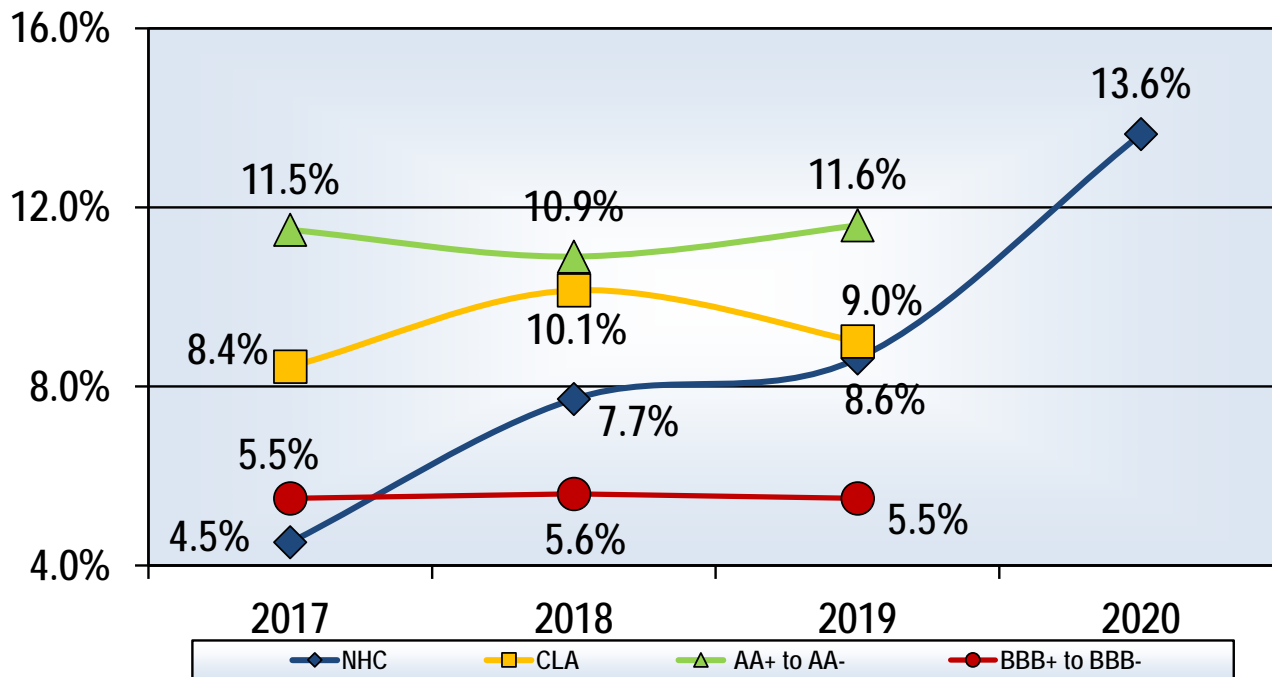
This ratio is operating margin as a percentage of net patient service revenue plus total other operating revenue. It is used to report the facility's return on revenues which relates to the main purpose of operations. The "Pre-GASB 68" means this is the operating margin before recording the impact of GASB 68 for PERA in each of the year's presented.



### Total 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.





# Post-Pandemic Considerations

*Rethinking strategies in a post-COVID environment*

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND

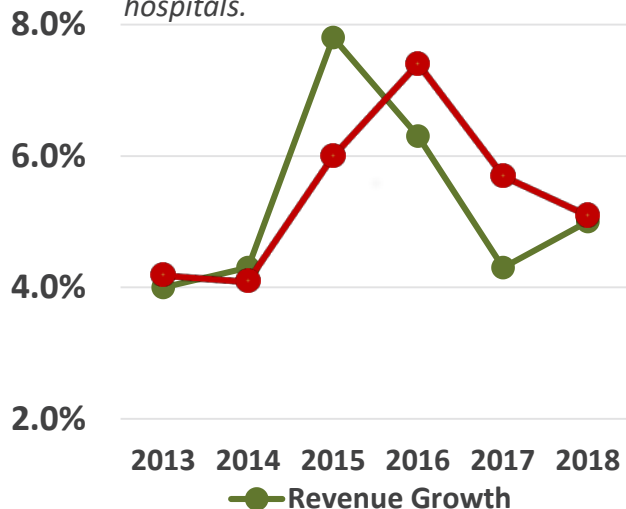
CONSULTING

Our Consulting and Advisory Services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

# COVID-19 Compounds Financial Challenges

**Prior to COVID-19, Hospital's faced increasing financial pressures.**

*Median revenue and expense growth rate for nonprofit hospitals.*



**COVID-19 Pandemic Increased Those Pressures**

- **> 50%** observed decline in hospital operating revenue during shutdown.
- **~90%** volume levels today when compared to pre-COVID baseline; final gap to 100% expected to close slowly, if ever.
- **50%** of hospitals projected to end 2020 with negative operating margins.

*\*Source: The Advisory Board "State of the Union 2020; The Resilient Health Care System"*

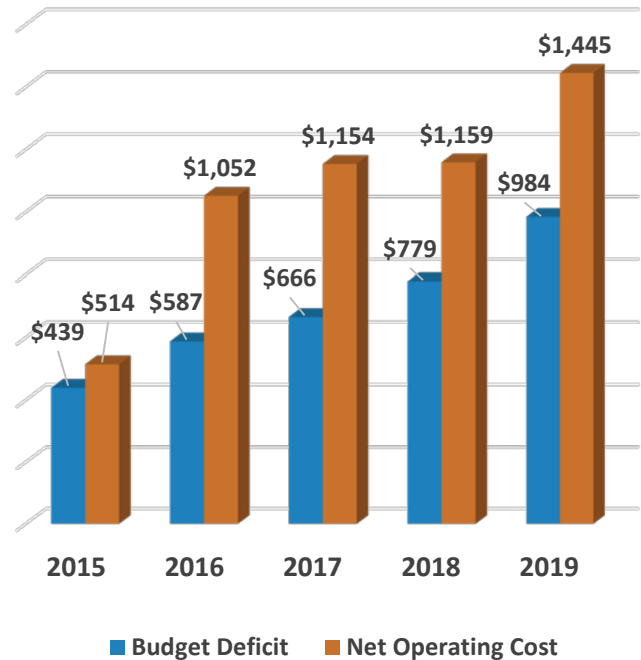


# Federal Government Economic Relief

## *A tale of two stories.....*

- The federal government has distributed trillions to help organizations and people get through the pandemic.
- However, deficit spending has resulted in total pre-COVID debt of \$27T which has been labeled as “unsustainable” by the GAO. COVID-19 aid will increase the total debt.
- Additional deficit spending could very well trigger statutory cuts known as “PAYGO”\*.
- The CBO has estimated, absent Congressional intervention, more funding could trigger PAYGO reductions amounting to \$381B/year, beginning in 2022.
- If enacted, it could result in a maximum 4% reduction in health care payments to providers, which is in addition to 2% sequestration, which has been suspended through March.
- The CBO believes Congress will have to intervene due to there are not enough resources available to cut that will fully offset the \$381B per year of increased deficits.
- However, it’s important to note “intervention” doesn’t necessarily mean health care will fully escape the 4% reduction.

U.S Budget Deficit & Net Operating Cost \*  
(in billions of dollars)

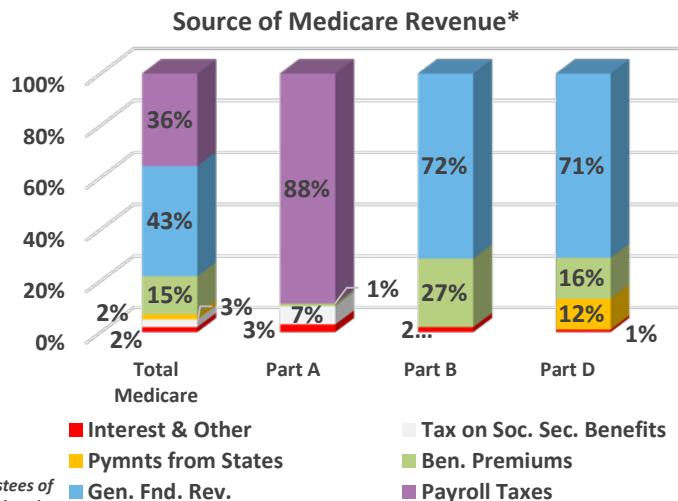
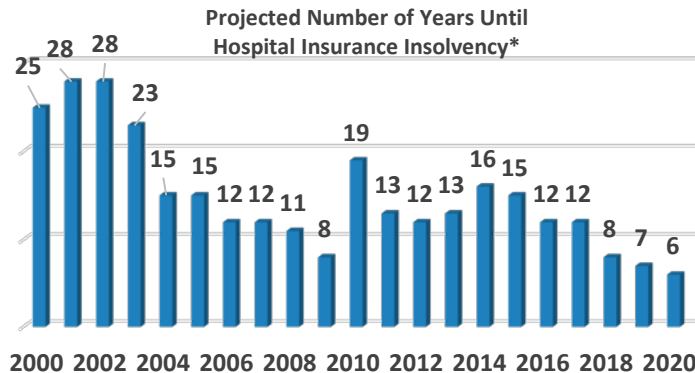


\* Source: “Financial Report of the United States Government” for FFYE 2019, issued by GAO, Dept. of Treas. & OMB; Letter from CBO to Honorable Kevin McCarthy, Republican Leader U. S. House of Representatives dated February 25, 2021.



# Medicare Insolvency: Post-Pandemic Impact?

- Medicare solvency has been an on-again, off-again topic for several decades.
- According to the most recent Medicare Board of Trustees Report, dated April 2020, the Hospital Insurance Fund was projected to be depleted by 2026.
- Payroll taxes are a significant revenue source for total Medicare at 36%, and even more so for the Hospital Insurance Fund at 88%.
- The loss of tax revenues as a result of the pandemic will accelerate the insolvency timeline as well as measures to avoid it.
- For health care providers this means all strategies, including price cuts, will be under consideration.



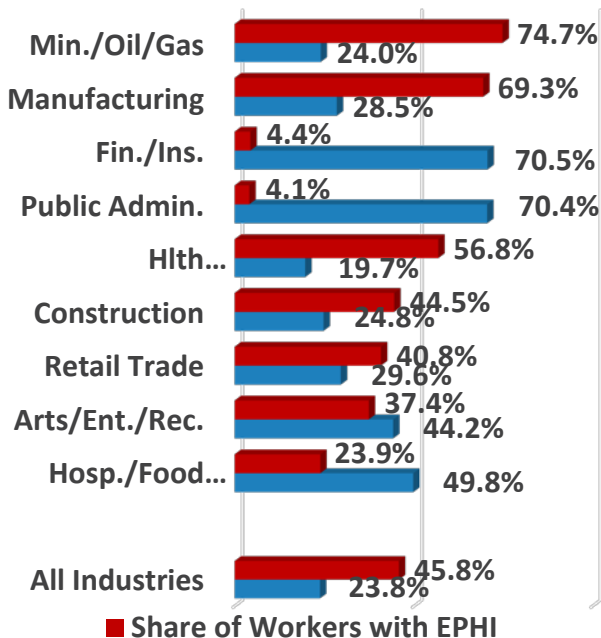
\* Source: "Medicare Financial Status: In Brief" Updated June 2020, issued by Congressional Research Service, with tables & graphics from "The 2020 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds" dated April 22, 2020.





# Rising Unemployment Creates Multiple Challenges\*

## Rising Unemployment Results in Lost Employer Paid Health Insurance\*



## Who Will Pay for Future Health Care Needs?

- COVID-19 Survivor Impacts:
  - 46% of hospitalized patients in NY study experience acute kidney injury.
  - 60% of patients had ongoing myocardial inflammation.
  - 88% of hospitalized patients in an Austrian study had visible lung damage 6 weeks post-discharge.
- Impact of Deferred Care:
  - 41% of U.S. adults delayed or avoided medical care due to COVID.
  - Non-influenza immunization rates dropped 83% for seniors compared to 2019 & 60% for individuals aged 19-49.
  - Cancer screenings for breast and colorectal down 89% & 85%, respectively.
- Impact of Stress and Isolation
  - Isolation linked to 29% increase in risk of heart disease and 32% increased risk of stroke.
  - 53% of Americans report their mental health has been impacted; 50% increase in tele-behavioral health through Doctor on Demand in Sept. & Oct. 2020.

\* Sources: Economic Policy Institute "16 million workers have likely lost employer-provided health insurance since the coronavirus shock began" May 14, 2020; The Advisory Board "State of the Union 2020 The Resilient Health System" January 2021.

# Purchasers Feeling Pressures Too!



## What levers will purchasers pull to manage costs?



### Medicare

Continued efforts to shift care to lower cost setting, and shift risk to providers willing to accept it. Hospital Insurance Trust Fund is running low, so “price” cuts, and strategies designed to reduce total health care spend are all in play.

---



### Medicaid

State Medicaid budgets were challenged before COVID-19, and loss of tax revenues during the pandemic will compound this; expect near term cuts and accelerated movements towards managed care.

---



### Employers

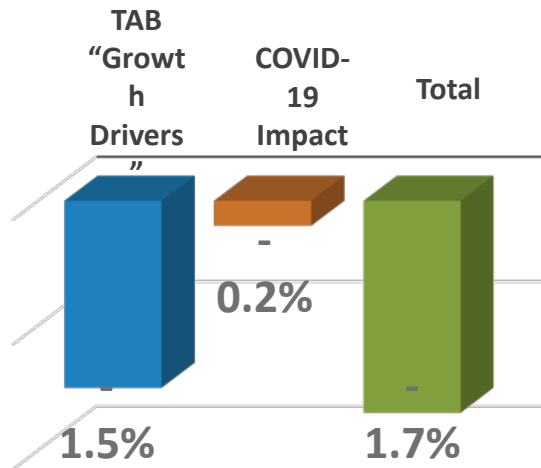
Struggling to manage and/or reduce costs due to lost revenues, and ESI will continue to be a focus. Look for aggressive movements towards plans that manage steerage of patients and show promise of cost management. Enhanced public options by the new Administration may become attractive options for some.

*\*Source: The Advisory Board “State of the Union 2020; The Resilient Health Care System*

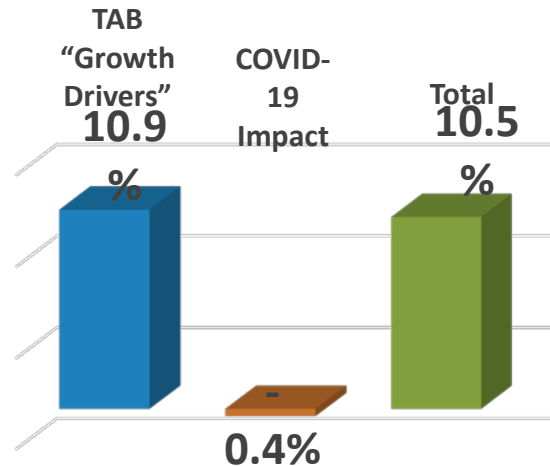
# Despite COVID Site of Service Shift Continues

## Advisory Board National Forecast 2019 – 2024\*

### 5 Year **Inpatient** Growth Projection



### 5 Year **Outpatient** Growth Projection



The market forces driving site-of-care shifts, including payer incentives, physician and consumer preferences, technological progress, and regulatory change, remain in effect and will continue to cause migration of services to lower cost settings into the future.

*\*Source: The Advisory Board "State of the Union 2020; The Resilient Health Care System*

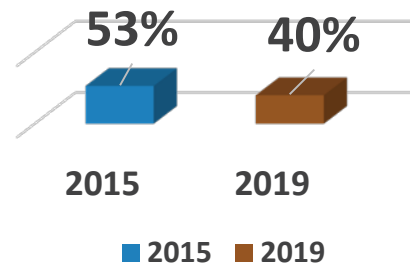


# Rising Tide of Consumer Expectations

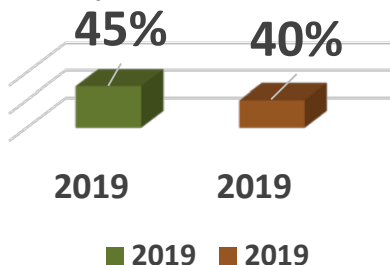
## *Erosion of patient loyalty*

- Consumer loyalty to primary care providers has declined from 2015 to 2019.
- Two measurements of note:
  - The percentage who planned to stay with current PCP declined from 53% in 2015 to 40% in 2019.
  - In the 2019 survey, more respondents, 45% indicated they **WOULD NOT** stay with current PCP vs. 40% who indicated they **WOULD** stay.
- Understanding the attributes that drive consumer loyalty and designing systems to meet expectations is critical as options for PCP access evolve.

Staying w/Current Provider



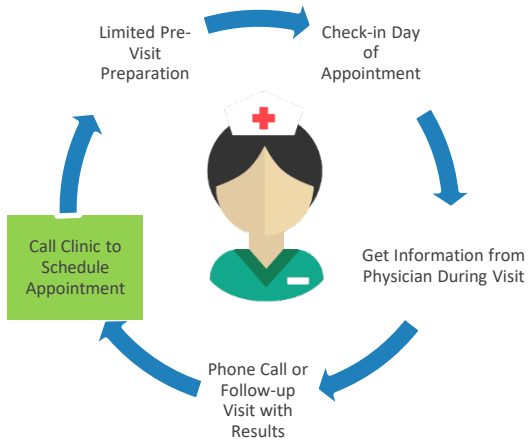
“Would not” vs. “Would” Stay w/Current Provider



\* Source: The Advisory Board Company survey of thousands of consumers across the United States; [www.advisory.com/mpc/pcsurvey](http://www.advisory.com/mpc/pcsurvey)



# Do Systems Align With Consumer Expectations?



## The “Good ‘Ole Days”

- Care access based largely on geography
- Organized around provider availability
- Mon. – Fri. “banker’s hours”
- Primary Care trusted source for patient information
- Little price or quality transparency

## The “New Era”

- Access no longer limited by geography
- Flexible hours
- Treasure trove of information available
- Accessible pricing & quality indicators
- Options puts loyalty at risk



# What Next? Strategies to Consider

**CLA Belief: COVID-19 accelerated transitions (and made permanent) already in progress!**

## Assess Governance & Leadership Effectiveness



Pandemic highlighted importance of efficient decision making, and hazards of structures that create barriers.

## Address Operational Efficiencies



Financial pressures are causing organizations to reassess operational efficiency, and “rebasings” cost structures to more align with transitioning reimbursement models.

## Service Evaluation



Underperforming services are being evaluated to determine if they should continue or be terminated.

## Consider Consumer Preferences



Are systems aligned to meet consumer preference, or are they outdated and leading to loyalty erosion?

## Embrace Shifting Sites of Service



Readdress readiness to embrace the shift and new models – COVID has accelerated it – the time is now!

## Go Virtual!



COVID demonstrated the value of virtual care – where does it fit into your strategic direction?



CLAconnect.com

©2020 CliftonLarsonAllen LLP

Rob Schile, CPA  
Health Care  
Rob.Schile@CLAconnect.com  
612-376-4592

Daniel Deyle, CPA  
Health Care  
Daniel.Deyle@CLAconnect.com  
612-397-3305

