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# Hennepin Healthcare System, Inc.

2025 Audit Results

HHS Finance and Audit Committees

Year ended 12/31/25

# Audit Scope



Report on the  
financial  
statements of HHS



Internal Controls  
Communications



Required  
Governance  
Communications



Industry Insights





## AUDIT OPINION

### Financial statements

Financial statement audit opinion is **unmodified**



## AUDIT RESULTS

### Financial statements

No material weaknesses noted.  
No significant deficiencies noted.



# Financial Highlights

## HHS Statements of Net Position

	<u>2025</u>	<u>2024</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (Note 3)	\$ 10,579	\$ 28,197
Accounts Receivable:		
Patient Accounts Receivable, Net of Estimated Uncollectibles of \$81,605 and \$96,378 in 2025 and 2024, Respectively	178,133	195,706
Other	26,286	32,318
Third-Party Payor Settlements	31,571	17,126
Due from Related Parties	7,278	4,139
Inventories	14,278	14,205
Prepaid Expenses and Other Current Assets	16,216	11,782
Total Current Assets	<u>284,341</u>	<u>303,473</u>
<b>INVESTMENTS</b>	28,784	26,846
<b>ASSETS LIMITED AS TO USE</b>		
Cash and Cash Equivalents	24,226	22,289
Investments	67,352	55,418
Receivables, Other	9,172	9,784
Total Assets Limited as to Use	<u>100,750</u>	<u>87,491</u>
<b>CAPITAL ASSETS (NOTE 4)</b>		
Nondepreciable	108,100	73,895
Depreciable, Net of Accumulated Depreciation	312,253	333,978
Leased Assets, Net of Accumulated Amortization	14,015	16,390
Subscription Assets, Net of Amortization	29,052	21,260
Total Capital Assets	<u>463,420</u>	<u>445,523</u>
<b>OTHER ASSETS</b>	4,396	3,948
<b>DEFERRED OUTFLOWS (NOTES 8 AND 9)</b>	<u>72,602</u>	<u>75,053</u>
Total Assets and Deferred Outflows	<u>\$ 954,293</u>	<u>\$ 942,334</u>



# Financial Highlights

## HHS Statements of Net Position (Continued)

	<u>2025</u>	<u>2024</u>
<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 23,580	\$ 18,616
Accounts Payable	36,060	46,981
Third-Party Payor Settlements	-	603
Due to Related Parties	5,396	4,480
Accrued Expenses:		
Salaries, Wages, and Benefits	113,893	105,725
Other	<u>64,373</u>	<u>59,656</u>
Total Current Liabilities	243,302	236,061
Employee Benefit Obligations (Note 9):		
Retiree Health Care Program	18,528	20,401
Other Employee Benefits	11,557	11,620
Long-Term Debt, Net of Current Maturities (Notes 1 and 7)	164,843	171,262
Net Pension Liability (Note 8)	<u>185,194</u>	<u>207,678</u>
Total Liabilities	623,424	647,022
<b>DEFERRED INFLOWS (NOTES 8 AND 9)</b>	<u>147,952</u>	<u>177,542</u>
Total Liabilities and Deferred Inflows	771,376	824,564
<b>COMMITMENTS AND CONTINGENCIES (NOTE 11)</b>		
<b>NET POSITION</b>		
Net Investment in Capital Assets	274,997	255,645
Restricted:		
Expendable	62,292	69,658
Nonexpendable	33,197	17,834
Unrestricted	<u>(187,569)</u>	<u>(225,367)</u>
Total Net Position	<u>182,917</u>	<u>117,770</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 954,293</u>	<u>\$ 942,334</u>



# Financial Highlights

## HHS Statements of Revenue, Expenses and Changes in Net Position

	<u>2025</u>	<u>2024</u>
<b>OPERATING REVENUES</b>		
Net Patient Service Revenue, Net of Provision for Bad Debts and Charity Care of \$200,681 and \$255,695 in 2025 and 2024, Respectively	\$ 1,435,916	\$ 1,337,916
Other Operating Revenue:		
Grants	82,597	99,635
Other	<u>65,045</u>	<u>48,646</u>
Total Operating Revenues	<u>1,583,558</u>	<u>1,486,197</u>
<b>OPERATING EXPENSES</b>		
Salaries and Benefits Excluding Pension Expense	1,086,703	1,021,259
Supplies and Services	393,320	374,896
Depreciation and Amortization	53,072	50,675
Utilities and Maintenance	51,752	47,624
Taxes and Surcharges	24,344	22,912
Other	<u>14,789</u>	<u>14,728</u>
Total Operating Expenses Before Pension Plans, Actuarial Impact	<u>1,623,980</u>	<u>1,532,094</u>
<b>LOSS FROM OPERATIONS BEFORE PENSION PLANS, ACTUARIAL IMPACT</b>	(40,422)	(45,897)
Pension Plans, Actuarial Gain	<u>49,995</u>	<u>15,244</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	9,573	(30,653)
<b>NONOPERATING REVENUE, NET</b>		
Interest Expense	(5,253)	(5,700)
Contributions, Net	32	33
Investment Income	16,953	12,982
Total Nonoperating Revenue, Net	<u>11,732</u>	<u>7,315</u>
<b>EXCESS (DEFICIT) OF REVENUE OVER EXPENSES</b>	21,305	(23,338)
Capital Contributions from Related Parties, Net	<u>43,842</u>	<u>33,088</u>
<b>CHANGE IN NET POSITION</b>	65,147	9,750
Net Position – Beginning of Year	<u>117,770</u>	<u>108,020</u>
<b>NET POSITION – END OF YEAR</b>	<u>\$ 182,917</u>	<u>\$ 117,770</u>



# Financial Highlights

## HHS Statements of Cash Flows

	2025	2024
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Third-Party Payors and Patients	\$ 1,438,441	\$ 1,307,703
Grants	82,597	99,635
Other Receipts, Net	71,689	43,950
Payments to Employees for Salaries and Benefits	(1,093,307)	(1,044,858)
Payments to Suppliers	(478,277)	(421,796)
Net Cash Provided (Used) by Operating Activities	<u>21,143</u>	<u>(15,366)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Gifts and Bequests, Net	<u>1,606</u>	<u>477</u>
Net Cash Provided by Noncapital Financing Activities	1,606	477
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Contributions from Related Parties	43,842	33,088
Purchases of Capital Assets	(54,003)	(40,439)
Principal Payments on Long-Term Debt	(25,785)	(22,585)
Interest Paid on Long-Term Debt	(5,253)	(5,700)
Other	1,160	(381)
Net Cash Used by Capital and Related Financing Activities	<u>(40,039)</u>	<u>(36,017)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(6,152)	(2,952)
Sale of Investments	3,006	-
Investment Earnings Received	4,755	4,998
Net Cash Provided by Investing Activities	<u>1,609</u>	<u>2,046</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(15,681)	(48,860)
Cash and Cash Equivalents - Beginning of Year	<u>50,486</u>	<u>99,346</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 34,805</u>	<u>\$ 50,486</u>
Cash and Cash Equivalents are Reported in the Accompanying Statements of Net Position as Follows:		
Cash and Cash Equivalents	\$ 10,579	\$ 28,197
Assets Limited as to Use	24,226	22,289
Total	<u>\$ 34,805</u>	<u>\$ 50,486</u>



# Financial Highlights

## HHS Statements of Cash Flows (Continued)

	2025	2024
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 9,573	\$ (30,653)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	53,072	50,675
Provision for Bad Debts and Charity Care	200,681	255,695
Loss on Disposal of Assets	1,622	1,460
Changes in Assets and Liabilities Related to Operations:		
Accounts Receivable	(176,464)	(286,513)
Prepaid Expenses and Inventories	(4,507)	2,268
Accounts Payable	(10,921)	(6,708)
Due from Related Parties, Net	(2,223)	5,981
Deferred Inflows, Outflows, and Net Pension Liability	(49,623)	(17,740)
Accrued Expenses and Estimated Third-Party Settlements	(67)	10,169
Net Cash Provided (Used) by Operating Activities	<u>\$ 21,143</u>	<u>\$ (15,366)</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Capital Assets Financed Through Loans and Payables	<u>\$ 24,330</u>	<u>\$ 14,470</u>
Net Change in Realized Gain on Investments, Net	<u>\$ 11,748</u>	<u>\$ 10,620</u>



# Internal Control Communications

## Purpose

- 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

- Reasonable possibility that a material misstatement would not be prevented, or detected and corrected on a timely basis

## Significant Deficiencies

- Less significant than a material weakness, yet important enough to merit the attention of governance.

## Restricted Use

- This communication is intended solely for the information and use of management, governance, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

## Results

- No material weaknesses noted
- No significant deficiencies noted
- Subsequent Events and Hospital Stabilization Legislation footnotes added



# Required Governance Communications

## Our Responsibility under Generally Accepted Auditing Standards and Governmental Auditing Standards

- Express an opinion on the fair presentation of the financial statements in conformity with GAAP
- Audit also performed under Governmental Auditing Standards
- Plan and perform the audit to obtain reasonable, non absolute assurance that the financial statements are free of material misstatement
- Obtain an understanding of internal control over financial reporting
- Utilize a risk-based audit approach
- Evaluate accounting policies and significant accounting estimates
- Conclude whether there is substantial doubt about the entity's ability to continue as a going concern
- Communicate significant matters to appropriate parties

## Planned Scope and Timing of the Audit

- Performed the audit according to the planned scope and timing previously communicated

## Significant Items/Transactions

- HHS Going Concern Considerations/Analysis
  - Added subsequent event and hospital stabilization legislation footnotes

## Other Information in Documents Containing the Audited Financial Statements

- Financial statements may only be used in their entirety
- Our approval is required to use our audit report in a client prepared document
- We are required to read other information and consider whether a material inconsistency exists between the other information and the financial statements



## Required Governance Communications (Continued)

### Corrected and Uncorrected Adjustments

- No audit adjustments proposed
- No passed audit adjustments

### Significant Accounting Policies

- Management is responsible for the accounting policies of the organization
- Accounting policies are outlined in the financial statements
- No other significant changes to the accounting policies during the year
- Accounting policies deemed appropriate
- No unusual transactions occurred

### Significant Accounting Estimates

- An area of focus under a risk-based audit approach
- Significant estimates include: contractual allowances and allowances for bad debts, third party payor settlement estimates, net pension liability, other post-employment liability and self funded health insurance.
- 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

- Pension Plan and OPEB



## Required Governance Communications (Continued)

### Management Representation Letter

- Management will provide signed representation letter prior to finalization of the audit report

### Required Supplementary Information

- Managements Discussion and Analysis
- The Schedule of Pension Plan Contributions, the Schedule of Proportionate Share of the Pension Plan, and the Schedule of Changes in Total OPEB Liability and Related Ratios
- Combining Statements of Net Position, Combining Statements of Revenues, Expenses, Changes in Net Position
- Engaged to report in relation to the financial statements as a whole
- Supplemental information included in financial statements not required part of audit, not subject to audit procedures
- Required supplemental information limited audit procedures

### Other

- 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, other than initial audit review
- No other findings or issues were discussed with, or communicated to, management





# Emerging Issues

## ACCOUNTING STANDARD CHANGES - GASB

### **GASB 102** Certain Risk Disclosures

- Effective for 12/31/25

### **GASB 103** Financial Reporting Model Improvements

- Effective for 12/31/26

### **GASB 104** Disclosure of Certain Capital Assets

- Effective for 12/31/26

### **GASB 105** Subsequent Events

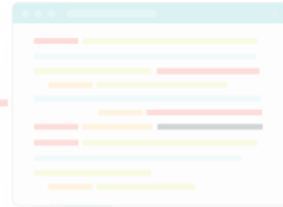
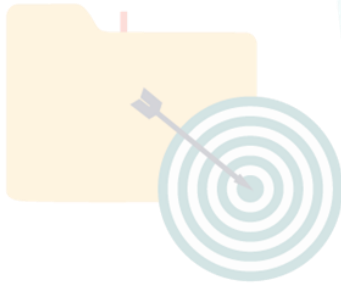
- Effective for 12/31/27

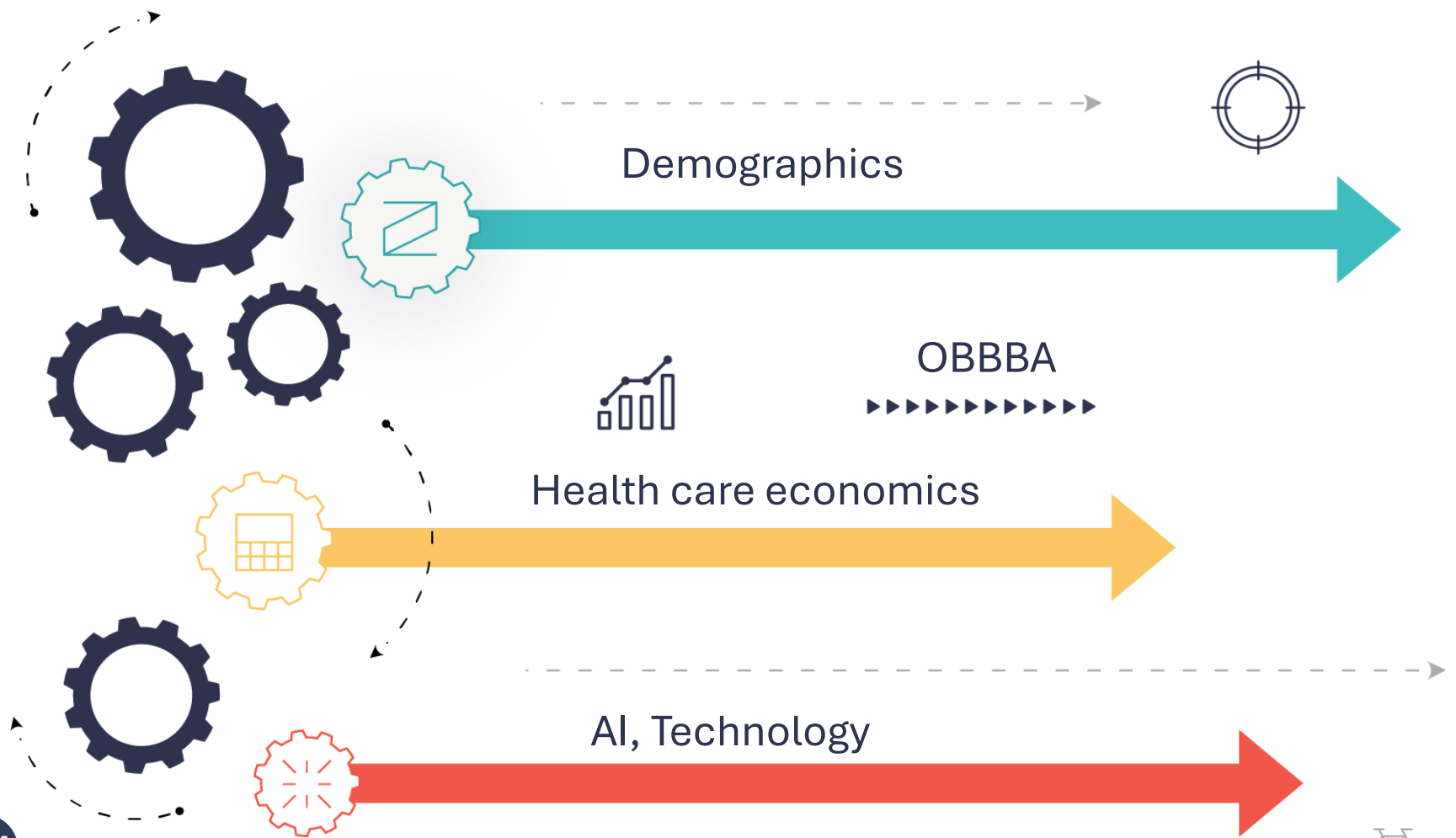




# Navigating The Future

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





Demographics

Health care economics



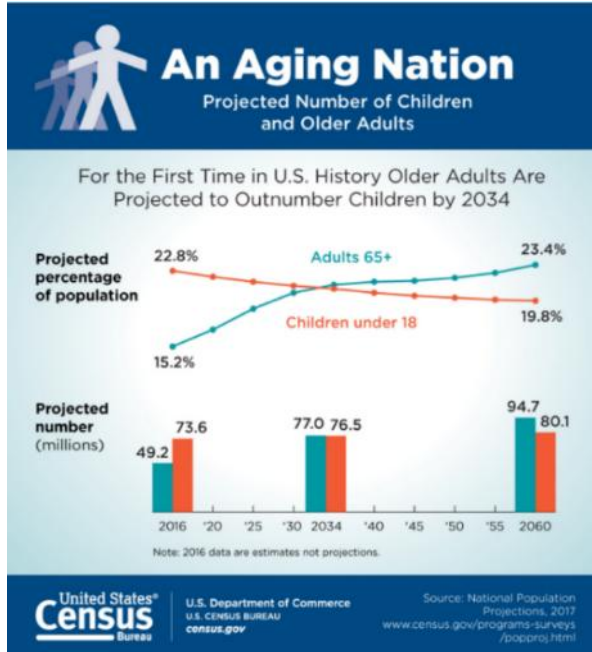
OBBBA



AI, Technology



# 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



# 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



# Economics The Coming Decade

- National Health Expenditures 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/>



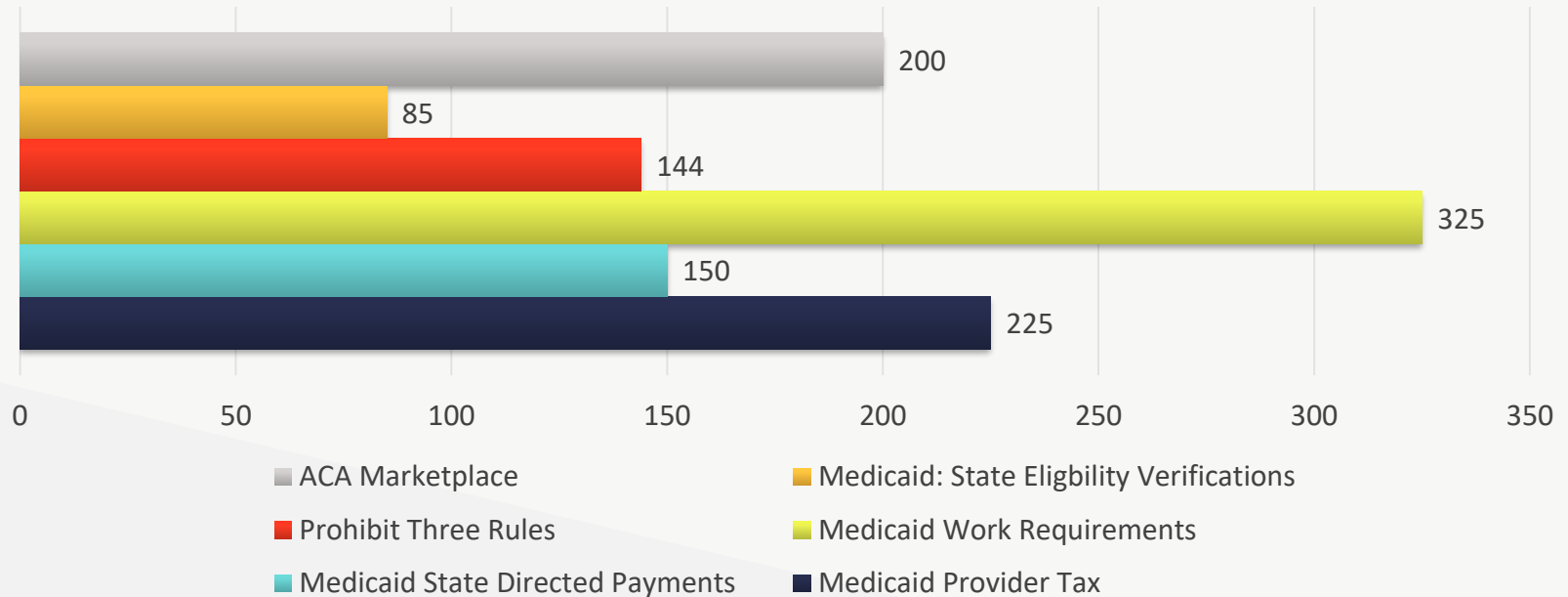
# OBBBA 10 Year Estimated Impacts (2025-2034)

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)

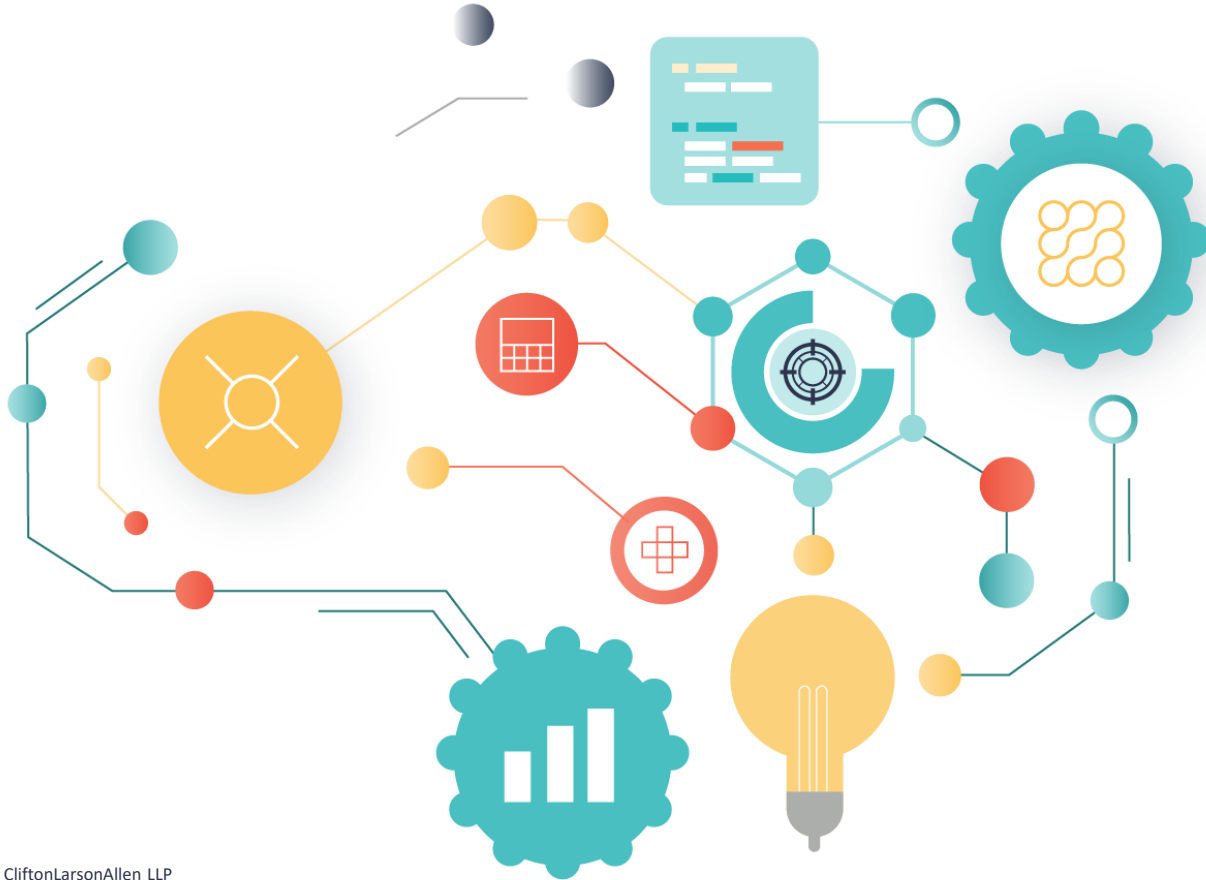


# Provider Taxes + SDP + ACA Expansion

	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"> <li>No new provider taxes</li> <li>Beginning phase down FFY 2028 as follows:</li> </ul> <table border="1"> <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> <ul style="list-style-type: none"> <li>Nursing home, ICF/ID exempted</li> </ul>	Year	Percentage	2028	5.50%	2029	5.00%	2030	4.50%	2031	4.00%	2032	3.50%	<ul style="list-style-type: none"> <li>No New Taxes</li> <li>Existing Taxes Frozen</li> </ul>
Year	Percentage													
2028	5.50%													
2029	5.00%													
2030	4.50%													
2031	4.00%													
2032	3.50%													
OBBBA State Directed Payment(SDP) Policy Impact	<ul style="list-style-type: none"> <li>Phases down to 100% Medicare</li> <li>Begins CY 2028</li> <li>10% reduction per year</li> </ul>	<ul style="list-style-type: none"> <li>Phase down to 110% Medicare</li> <li>Begins CY 2028</li> <li>10% reduction per year</li> </ul>												



# 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*



# HCLS Future State



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



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