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Solving for Uncertainty: The Power of Financial Modeling

June 17, 2025



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Session CPE Requirements

- You need to attend 50 minutes to receive the full 1 CPE credit.
 - There will be 4 polling questions throughout the presentation. You must respond to a minimum of 3 to receive the full 1 CPE credit.

****Both requirements must be met to receive CPE credit****



Learning Objectives



Discuss key financial drivers and new ideas for how you might approach scenario planning within your organization



Recognize how CLA Intuition™ can help you inform decisions and stress test strategies



A Landscape of Uncertainty



Congressional Outlook (2025)

Major activity

Continuing
resolution/government
funded through
September 30

Federal debt ceiling
comes into play

Tax Cuts and Jobs Act

Immigration

Border security

Energy policy

Budget
Reconciliation



Congress: Major Issues

Continuing resolution - enacted

- Enacted March 15, 2025
- Funds government through Sept. 30, 2025
- Health care extensions included
 - Medicare Dependent Hospital designation
 - Low Volume Adjustment hospitals
 - Telehealth, hospital-at-home
 - Medicaid DSH cuts stopped
 - Rural ambulance add-on
 - Community health centers funding

Budget reconciliation - ongoing

- Budget resolution (i.e.: framework) has topline numbers under the "One Big Beautiful Bill"
- House has passed; Senate negotiations currently underway
- House and Senate have agreed to this framework, now Committees fill in specifics
- Must have major impact on tax/budget
- Simple majority votes
- This process will be used to advance many policies – TCJA, border/immigration, debt ceiling, energy...



Outlook for 2025

Moody's outlook: “Stable”

- Moved the previously “Stable” outlook to “Negative” in March 2025.
- Revision due to actions taken by the Trump Administration:
- Proposed cap on NIH reimbursements at research universities
- Endowment Tax
- Actions against DEI
- Potentially fewer international students

S&P Global “Bifurcated/mixed”

- Institutions with enrollment and financial challenges : outlook = negative
- Institutions with steady demand and sufficient liquidity: outlook = stable
- College closures and mergers are expected to rise

Fitch “Deteriorating”

- Enrollment challenges
- Tight margins
- Legislative uncertainties
- Continued operating pressures and increased capital expenditures



Sources:

- https://www.moodys.com/research/Higher-Education-US-2025-Outlook-Stable-as-revenue-and-Outlook--PBC_
- <https://www.spglobal.com/ratings/en/research/articles/241205-u-s-not-for-profit-higher-education-outlook-2025-the-credit-quality-divide-widens-13345815>
- <https://www.insidehighered.com/news/business/financial-health/2024/12/17/what-three-ratings-agencies-project-higher-ed-2025>



Outlook for 2025

Revenue and expenses uncertainty

- Inflation pressures may be subsiding
- The U.S. House Budget Committee has proposed cutting \$330 billion in higher education funding over the next decade

Operating margins

- In fiscal 2023, 50% of rated private universities ran operating deficits, and 2024 margins weaken further. Fiscal 2025 margins are projected to struggle to exceed 2024 levels due to persistent net tuition revenue pressure and rising expenses

Diverging financial paths

- Stronger institutions (broad geographic reach, strong fundraising, healthy liquidity) are maintaining or improving operating margins
- Weaker institutions (regional, less-selective, with limited financial flexibility) are facing enrollment declines, rising costs, and operating deficits.



Sources:

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- <https://www.insidehighered.com/news/business/financial-health/2024/12/17/what-three-ratings-agencies-project-higher-ed-2025>



Other Key Trends



Federal policy
changes



Online
learning



The demographic
cliff



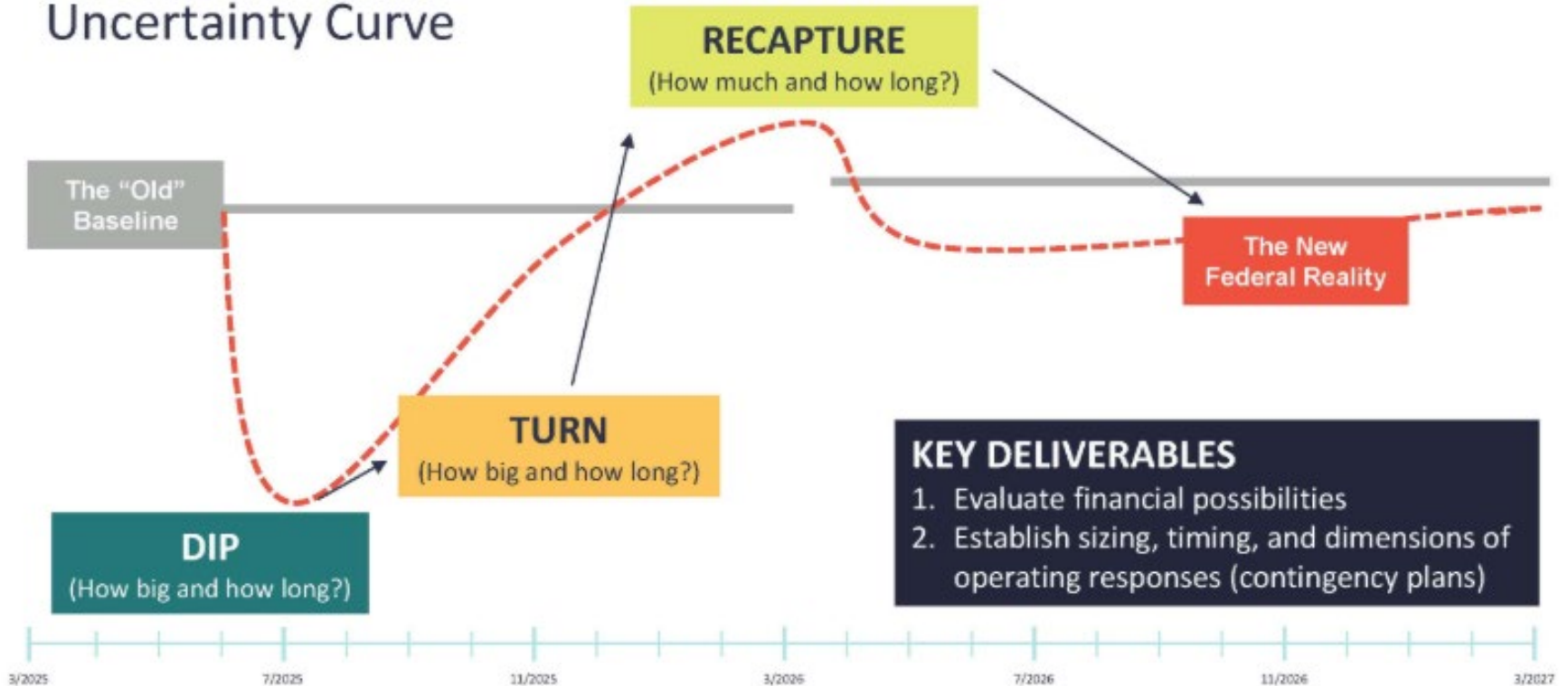
Artificial
intelligence



Other risks



Uncertainty Curve



Knowledge Check

Activities in Washington D.C. are creating uncertainty for organizations to plan for their financial future:

- True
- False

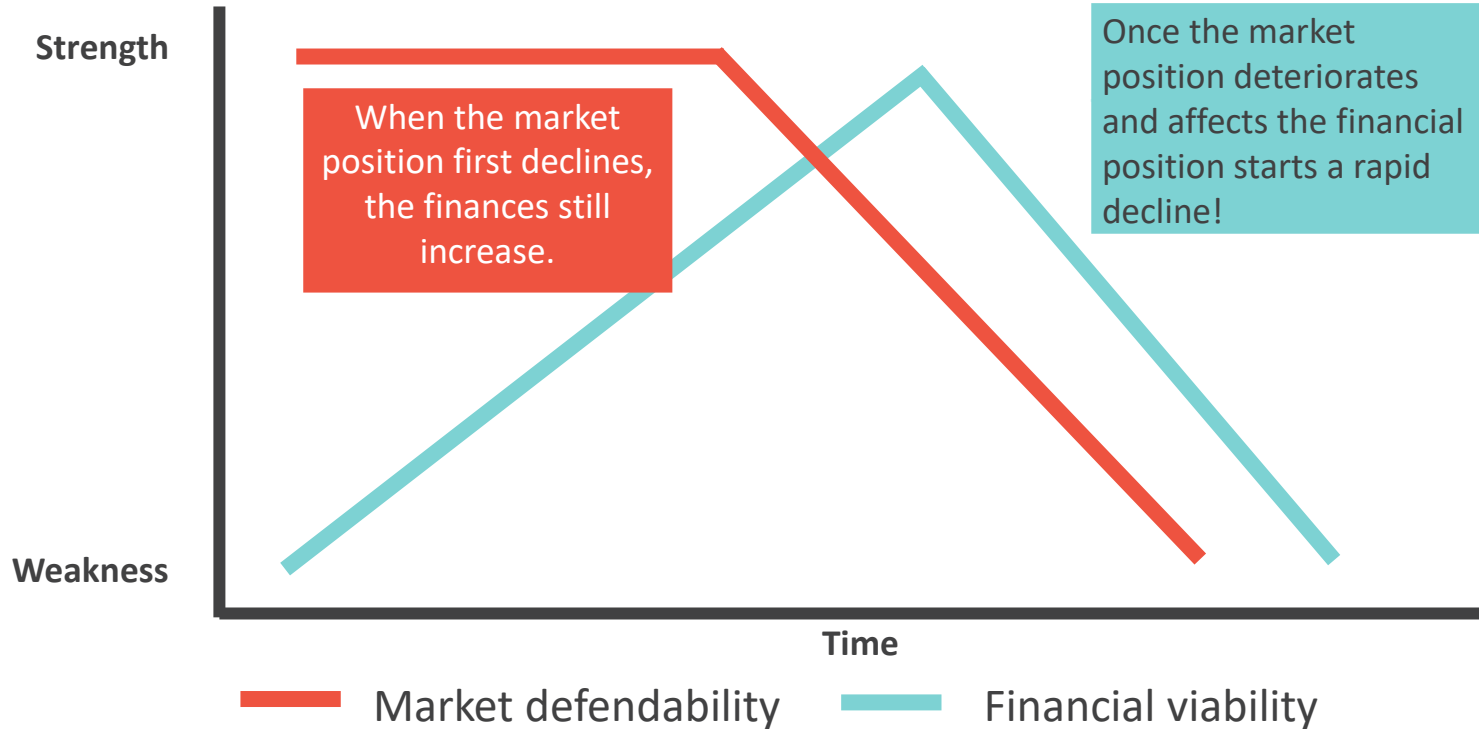




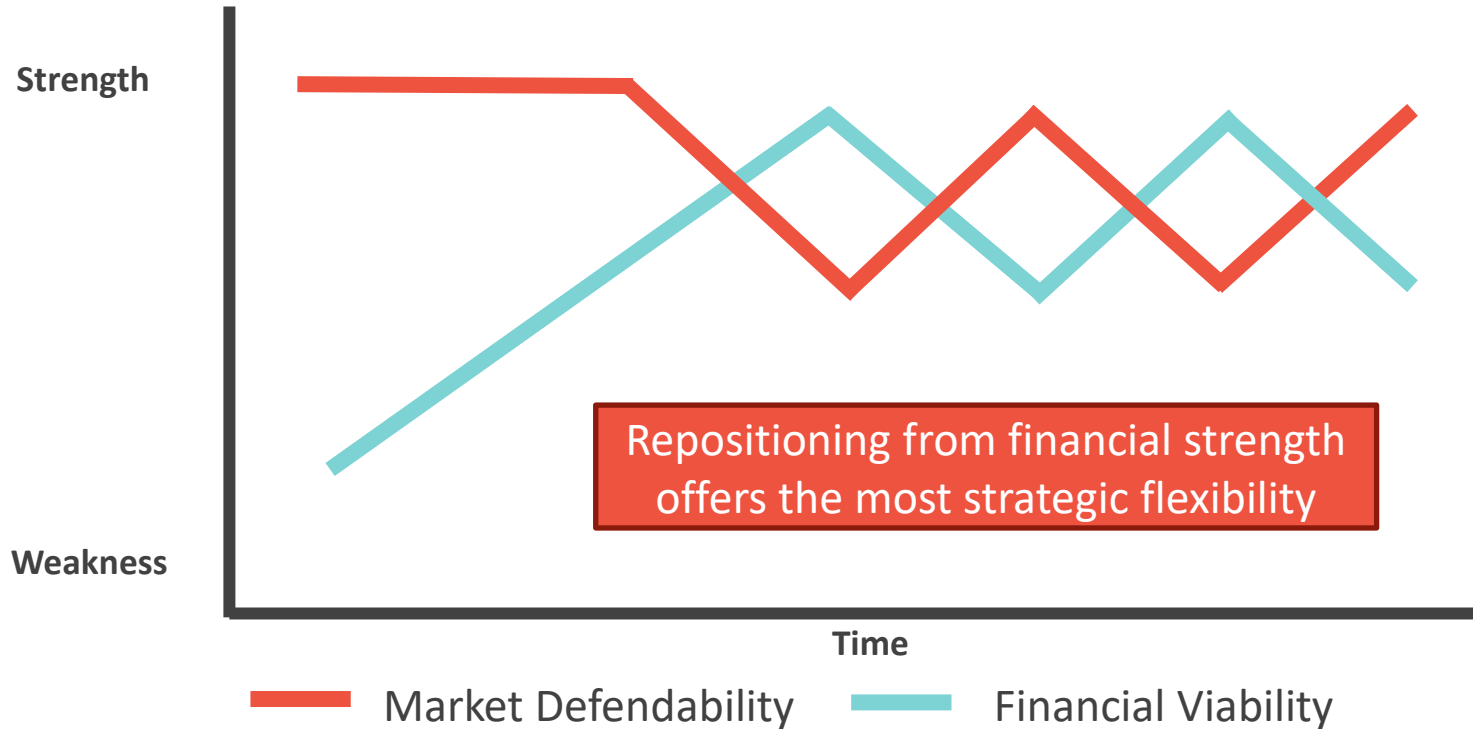
A Method to Planning



Lifecycle With No Planning



Planning From Financial Strength



Opportunities



Increase your scale



Redefine your market value



Increase your efficiency



Innovate and reinvent

Increased Challenges

Attract and
retain talent

Healthcare
complexity

Financial
pressure

Leadership
turnover

Competition

Board strength

Technology
needs

Capital access

Need for
reinvestment

Consolidation
of health
systems

Diversification



The Case for Planning

Market share

Organizations can capture a larger portion of the market, leading to increased sales and revenue. This can help establish dominance in the industry and create a competitive advantage.

Economies of scale

Organizations can benefit from economies of scale. This means they can produce goods or services at a lower cost per unit, enabling them to offer competitive prices and improve profitability.

Improved profitability

Allows organizations to generate higher profits by increasing sales volume, expanding into new markets, or diversifying their product/service offerings. This can result in better financial performance.

Talent attraction and retention

Opportunities for career advancement, higher salaries, and more challenging roles. This helps in building a skilled and motivated workforce, driving innovation and productivity.

Access to resources

Greater access to resources like capital, technology, and knowledge. This enables them to invest in research and development, upgrade infrastructure, and explore new business opportunities.

Mission advancement

At the core of your mission is a desire to serve and to be a good corporate citizen. Growth builds confidences and expands the reach of your organization- or protects its current reach!

Clearing Obstacles

| Area | Obstacle | Clearing |
|------------|---------------------------------------|---|
| Strategy | We don't have one | Develop a strategic plan – not a business plan |
| Operations | We don't have a history of excellence | Develop a track record that inspires confidence – NOM |
| Missions | We believe our mission constrains us | Re-examine mission and relevance in today's environment |
| Market | We don't understand our market | Assess demographic growth, geographic opportunities and price positioning |
| Finances | We don't understand our finances | Develop a defensible 10-year model |



Financial Wherewithal

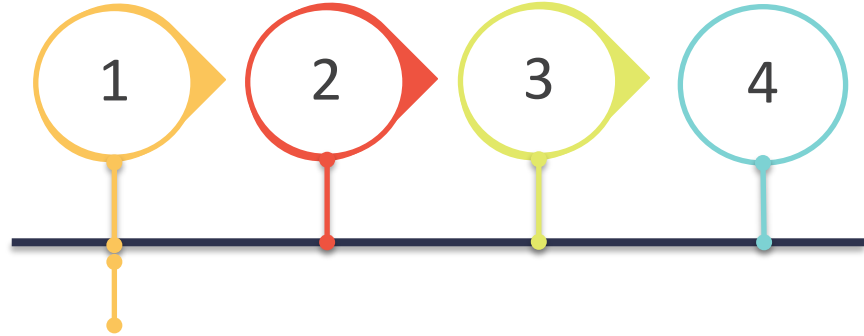
We need to change the conversation and how we tell our financial story

- From complexity to simplicity
- From paralysis to quick action
- Financial statements to operational snapshots
- Vanity metrics to capacity metrics (to achieve our strategic plan)
- Nebulous strategies to quantified strategies
- Confusion about ability to invest to confidence and risk management (not risk elimination)



CLA Intuition™ Roadmap

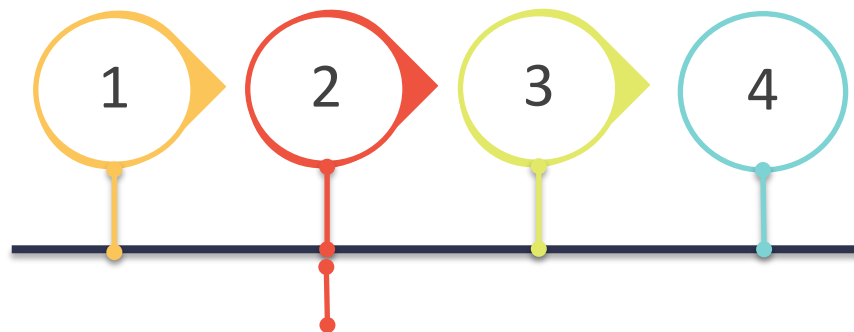
- Access to capital, and the confidence in the ability to deploy that capital, becomes a crucial differentiator between those that don't or can't pursue opportunities and those that can!



- Establish your baseline
- Develop a realistic baseline for your organization:
 - What do we know?
 - What do we think we know?
 - What drives our success?

CLA Intuition™ Roadmap

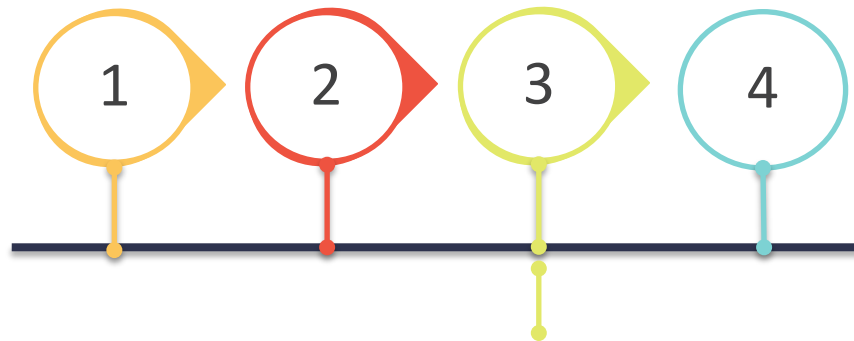
- Financial data and financial information can be offsetting and intimidating to many in organizations, including board members and others who are not “financial experts”.
- To that end, we have found that simplicity is more conducive to action and decision making!



- Develop metrics to help guide the journey
 - Tailor your measurements
 - Tailor your targets
 - Communicate on or more alternative scenarios

CLA Intuition™ Roadmap

- The lifeblood of an organization is the ability to create sufficient financial resources to be able to invest in its mission, people and market position of its offerings.
- To that end, we have developed an intuitive “capital capacity” analysis that helps quantify resources above its targeted needs.
- This is a dynamic measurement that is the result of your collective assumptions and targets. It may even answer how much capital you may be able to invest in growth opportunities in a prudent manner.

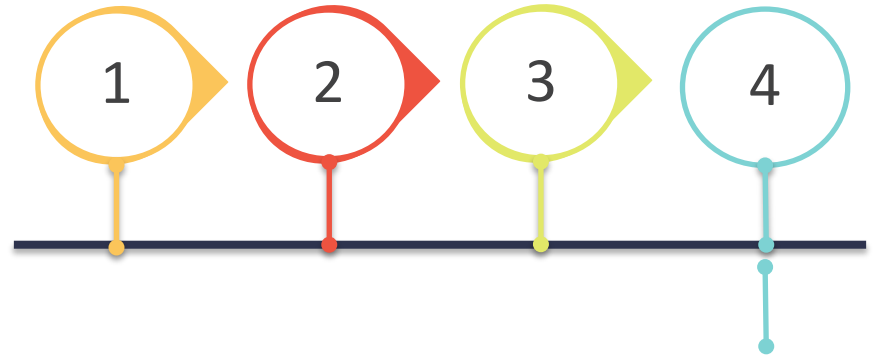


- Establish your “excess” financial strength
- Determine how to measure your ability to act strategically
 - Develop a metric that allows you to gauge progress
 - Evaluate timing
 - Agree on a threshold



CLA Intuition™ Roadmap

- Agree on risk tolerances
- Develop success criteria for the investment of organizational resources:
 - Prevents wasting of time
 - Ability to act quickly
 - Potential to establish a strategic opportunity scorecard



| | INTERNAL | | | | EXTERNAL | | |
|-------------------------------|--|--|---|---------------------|-------------------|-------------------|--------------------------------------|
| Source: CLA | Expand Existing Services That We Currently Provide | New Service Additions: Bricks and Mortar | New Service Additions: Other (HCBS for Example) | New Geographies | Joint Ventures | Affiliator | Affiliated: Strategic or Desperation |
| Organizational Capabilities | Green | Yellow | Yellow | Orange | Red | Orange | Green |
| Access to Seed Capital | Green | Green | White | Green | White | White | Yellow |
| Access to Permanent Capital | Green | Green | White | Green | Green | Green | Yellow |
| Challenges | Green | Yellow | Yellow | Orange | Red | Orange | Yellow |
| Anticipated Seed Capital | \$\$\$ | \$\$\$ | \$ | \$\$\$\$ | \$\$\$-\$\$\$\$\$ | \$\$\$-\$\$\$\$\$ | |
| Anticipated Permanent Capital | \$\$\$-\$\$\$\$\$ | \$\$\$-\$\$\$\$\$ | \$ | \$\$\$\$-\$\$\$\$\$ | \$\$\$-\$\$\$\$\$ | \$-\$\$\$\$\$ | |
| Likelihood of Execution | Green | Yellow | Yellow | Orange | Red | Orange | Orange |



Knowledge Check

The essential element(s) of planning road map include:

- Establishing the baseline
- Success metrics
- Financial strength
- Risk tolerances
- All of the above





Sustaining a Growth Mindset

Focusing on our 10-year journey



Managing Exposure

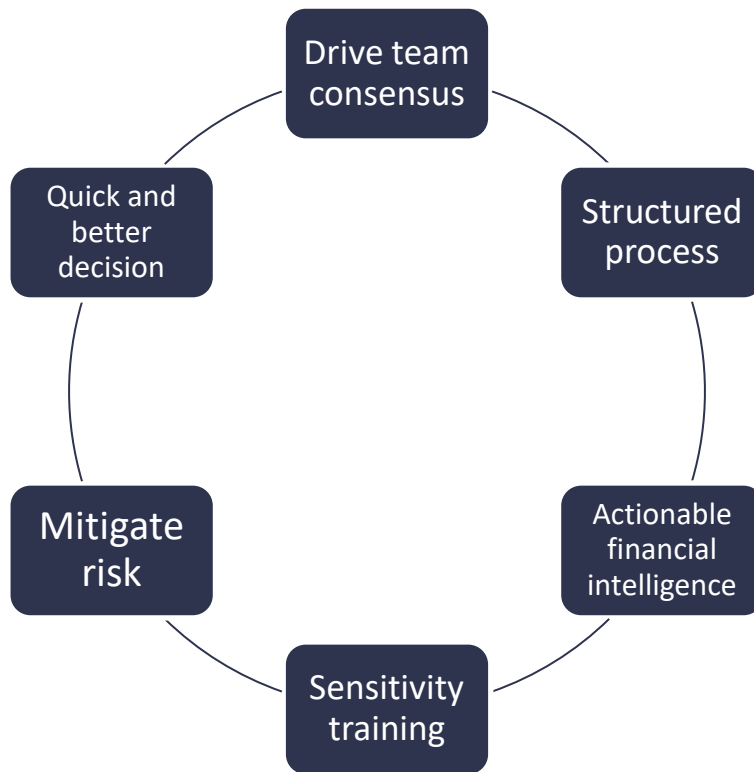


Important to understand the role of various operating components associated with a financial model

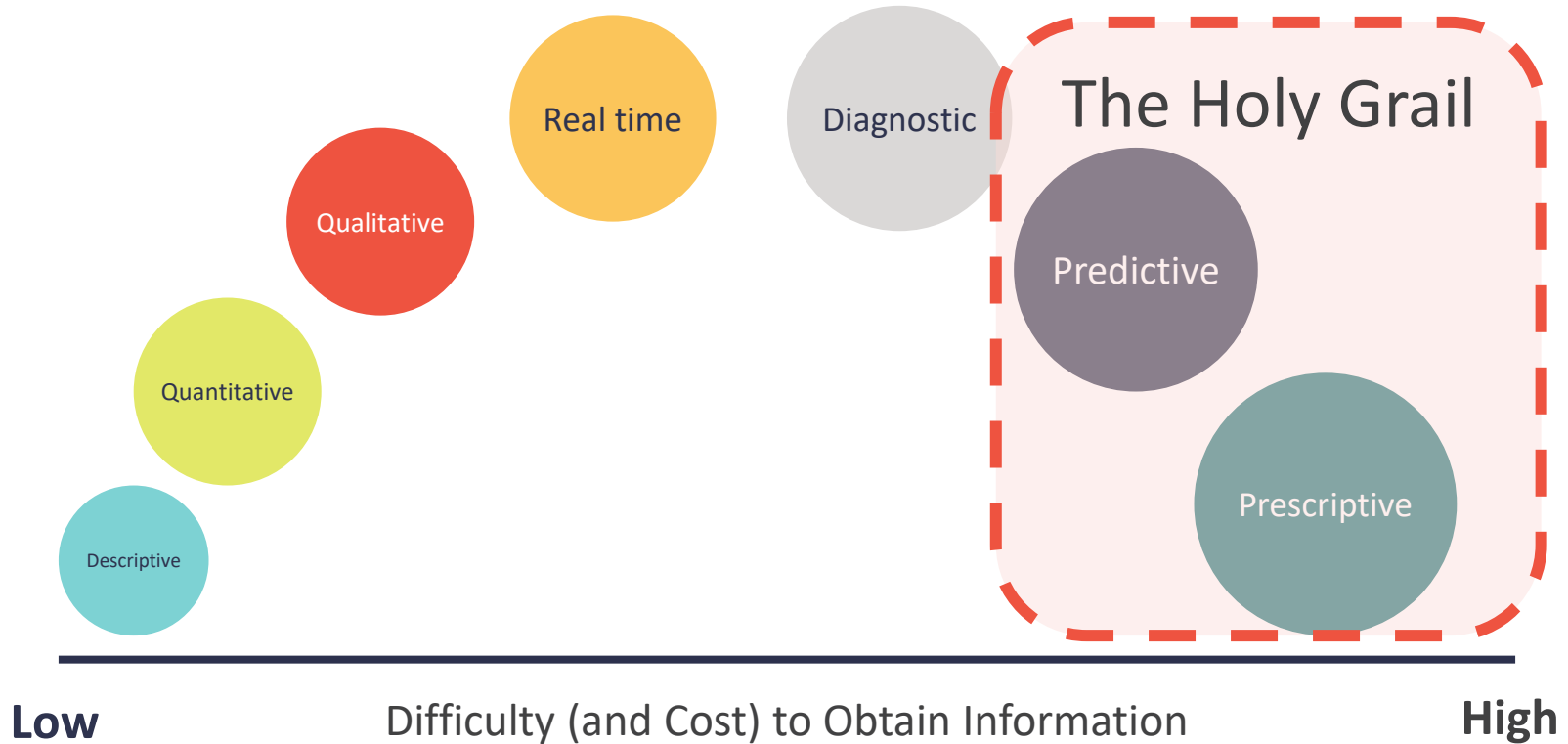


Thinking about the activities that occur provides insight into risk management

CLA Intuition™



Information Hierarchy



Knowledge Check

I would like someone from CLA to reach out and discuss the following services with me:

- Financial benchmarking
- Program profitability analysis
- Market research
- Strategic planning
- CLA Intuition™
- Nothing at this time





Financial Model Case Studies





CLA Intuition™ Model – Nonprofit





CLA Intuition™ Model – Higher Education





CLA Intuition™ Model – Health Care



Thank you!

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