NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2020 AND 2019

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
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YEARS ENDED DECEMBER 31, 2020 AND 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Northfield Hospital
dba: Northfield Hospital + Clinics
Northfield, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Northfield Hospital dba: Northfield Hospital + Clinics (the Hospital), a component unit of the City of Northfield, Minnesota, which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net positions, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. For the year ended December 31, 2020, we also conducted our audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Northfield Hospital
dba: Northfield Hospital + Clinics

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northfield Hospital as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding a Change in Accounting Principle

As discussed in Note 1 and Note 10 to the financial statements, Northfield Hospital adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use lease asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and supplemental pension liability information on pages 40 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2021, on our consideration of Northfield Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Northfield Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northfield Hospital's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 16, 2021

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019

This section of the Hospital's annual audited financial report represents management's discussion and analysis of the Hospital's financial performance during the fiscal year ended December 31, 2020. The analysis will focus on the Hospital's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The December 31, 2020 and 2019 audited financial statements that include:

- Independent Auditors' Report
- Statements of Net Position
- Statements of Revenues, Expenses, and Changes in Net Position
- Statements of Cash Flows
- Notes to Financial Statements

Financial Highlights

The Hospital's total assets and deferred outflows of resources increased by $11,673,560 or 9.1% in 2020 and decreased by $75,435 or 0.1% in 2019.

The Hospital's net position increased by $8,628,850 or 19.1% in 2020 and increased by $3,518,386 or 8.5% in 2019.

The Hospital reported an operating loss of $3,589,608 in 2020 and an operating loss of $1,830,896 in 2019. This represents an operating income decrease in 2020 of $1,758,712 and a decrease in 2019 of $4,219,883. The decrease in operating income was negatively impacted by a decrease in volumes due to the COVID-19 global pandemic. This was offset by a decrease in pension expense of $1,873,841 in 2020 in accordance with Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (see Note 9).

The Statements of Net Position and Revenues, Expenses, and Changes in Net Position

These financial statements report information about the Hospital using standards issued by the Governmental Accounting Standards Board (GASB). The statement of net position provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). Revenues and expenses are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Position. This statement shows the results of the hospital's operations. The last financial statement is the statements of cash flows. Cash flow reflects the movement of money in and out of the hospital that determines the hospital's solvency. It is divided into cash flows from operating, noncapital financing, capital and related financing, and investing activities.

Financial Analysis of the Hospital

The information from the statements of net position, statements of revenues, expenses, and changes in net position, and the statements of cash flows are summarized in the following tables. Table 1 reports on the net assets of the Hospital and the changes in them. Increases or decreases in net position are one indicator of whether or not the Hospital's financial health is improving. Table 2 summarizes information from the statements of revenues, expenses, and changes in net position. Other nonfinancial factors can also have an effect on the Hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third-party payors, as well as changes in the economic environment of Northfield and the surrounding areas.

Table 1: Assets, Liabilities, and Net Position

	2020	2019	2018
Assets:			
Current Assets	$ 16,767,681	$ 20,298,125	$ 18,093,234
Noncurrent Cash and Investments	75,378,538	66,201,381	63,435,666
Other Assets	300,000	-	-
Real Estate Held for Investment	726,777	726,777	-
Capital Assets, Net	44,087,261	38,028,440	39,081,737
Total Assets	137,260,257	125,254,723	120,610,637
Deferred Outflows of Resources	3,335,834	3,667,808	8,387,329
Total Assets and Deferred Outflows of Resources	$ 140,596,091	$ 128,922,531	$ 128,997,966
Liabilities:			
Total Current Liabilities	$ 22,370,642	$ 15,304,214	$ 14,158,033
Long-Term Debt (Less: Current Maturities)	22,981,511	24,733,354	26,751,236
Total Noncurrent Liabilities	38,904,521	36,744,246	37,418,495
Total Liabilities	84,256,674	76,781,814	78,327,764
Pension Related Deferred Inflows	2,650,630	7,080,780	9,128,651
Net Position:			
Net Investment in Capital Investments	18,384,116	10,892,063	10,241,908
Restricted by Bond Agreement	288,685	289,380	287,492
Unrestricted	35,015,986	33,878,494	31,012,151
Total Net Position	53,688,787	45,059,937	41,541,551
Total Liabilities and Net Position	$ 140,596,091	$ 128,922,531	$ 128,997,966

The asset categories changing significantly during 2020 was Noncurrent Cash and Investments and Capital Assets. Noncurrent Cash and Investments increased by $9,177,157 due to Medicare advance payments received in 2020 and positive investment gains (see Note 4). Capital Assets increased by $6,058,821 due to the ongoing Birth Center project and Clinic expansion project.

Financial Analysis of the Hospital (Continued)

The current ratio (current assets divided by current liabilities) decreased in 2020 to 0.75 from 1.33 in 2019. It is a measure of liquidity, providing an indication of the Hospital's ability to pay current liabilities.

Table 2 summarizes information from the statements of revenues, expenses, and changes in net position.

Table 2: Statement of Revenues, Expenses, and Changes in Net Position

	2020	2019	2018
Operating Revenue:			
Net Patient and Resident Service Revenue	$ 98,105,441	$ 107,733,758	$ 108,376,210
EHR/Meaningful Use Incentive Payment	-	-	43,217
Other Revenues	1,328,949	1,147,252	1,289,404
Total Operating Revenue	99,434,390	108,881,010	109,708,831
Operating Expenses:			
Salaries and Wages	48,140,125	50,053,652	48,630,870
Employee Benefits	10,154,965	15,306,874	13,498,027
Supplies and Drugs	17,078,276	16,653,417	17,141,244
Purchased Services	13,838,222	13,868,153	13,729,701
Utilities	1,158,990	1,149,187	1,194,695
Other	3,578,004	4,464,534	4,093,162
Depreciation and Amortization	5,819,026	5,674,391	5,444,214
Interest	897,653	782,175	856,367
Taxes and Surcharges	2,358,737	2,759,523	2,731,564
Total Operating Expenses	103,023,998	110,711,906	107,319,844
Operating Income (Loss)	(3,589,608)	(1,830,896)	2,388,987
Nonoperating Revenues (Expenses), Net	12,218,458	5,286,362	(305,671)
Excess of Revenues Over Expenses	8,628,850	3,455,466	2,083,316
Capital Grants	-	62,920	30,347
Net Position - Beginning of Year	45,059,937	41,541,551	39,427,888
Net Position - End of Year	$ 53,688,787	$ 45,059,937	$ 41,541,551

Net patient service revenue made up 98.7% of the Hospital's total operating revenue in 2020 and 98.9% in 2019 of the Hospital's total operating revenue. To arrive at net patient service revenue, contractual adjustments have been made to gross patient service revenue due to agreements with third-party payors. The decrease in volumes caused by the COVID-19 global pandemic had a major impact on the net patient service revenue decrease during 2020.

Financial Analysis of the Hospital (Continued)

Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	2020	2019	2018
Total Patient Service Revenues	$ 220,656,565	$ 239,207,988	$ 239,912,694
Contractual Adjustments and Provisions for Bad Debt	(122,551,124)	(131,474,230)	(131,536,484)
Net Patient Service Revenue	$ 98,105,441	$ 107,733,758	$ 108,376,210
Contractual Adjustments and Bad Debts as a Percent of Revenues	55.54%	54.96%	54.83%

Total operating expenses decreased $7,687,908 or 6.9% in 2020 and increased $3,392,062 or 3.2% in 2019. The decrease in pension expense of $3,830,880 from prior year in accordance with Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (see Note 9) and cost reduction efforts in conjunction with the decrease of revenue related to the COVID-19 global pandemic account for the decrease in expenses.

The Operating Margin (total operating revenue less total operating expenses divided by total operating revenue) was -3.6% in 2020 down from -1.7% in 2019. Operating loss in 2020 was $3,589,608 and the operating loss in 2019 was $1,830,896.

Other Operating Revenue increased by $181,697 or 15.8% in 2020 after decreasing $142,152 or 11.0% in 2019. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	2020	2019	2018
Outside Patient Services	$ 147,499	$ 212,097	$ 210,861
College Health Program	163,216	205,543	169,785
Cafeteria and Coffee Shop	129,569	191,197	194,523
Support Services to Mayo Radiation Clinic	93,928	105,949	92,436
Meals on Wheels	90,287	71,269	67,003
Rent Received	45,904	50,990	80,026
State Grant PERA	102,456	85,521	286,241
Other	556,090	224,686	188,529
Total Other Revenues	$ 1,328,949	$ 1,147,252	$ 1,289,404

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. This data demonstrates the direct correlation between utilization changes and revenue changes.

Table 5: Statistical Data

	2020	2019	2018
Patient Days			
Acute	3,230	3,725	4,667
Swing Bed	4	27	40
Newborn	860	979	990
Long-Term Care	13,123	13,615	13,646
Total	17,217	18,346	19,343
Admissions			
Acute	1,416	1,675	1,930
Swing Bed	1	7	13
Newborn	491	505	550
Long-Term Care	35	120	129
Total	1,943	2,307	2,622
Discharges			
Acute	1,417	1,677	1,929
Swing Bed	7	7	12
Newborn	490	508	549
Long-Term Care	43	114	132
Total	1,957	2,306	2,622
Average Length of Stay, Acute	2.28	2.22	2.42
Beds			
Acute and Swing	37	37	37
Long-Term Care	40	40	40
Occupancy Percentage			
Acute and Swing, Based on 37 Beds	23.9%	27.8%	34.9%
Long-Term Care, Based on 40 Beds	89.6%	93.3%	93.5%

The Hospital's Cash Flows

The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

Capital Assets

At December 31, 2020, the Hospital had $44,087,261 invested in capital assets net of accumulated depreciation. The Hospital spent approximately $12,050,000 on building renovations and equipment purchases in 2020.

Long-Term Debt

Table 6 shows a summary of the Hospital's long-term debt outstanding.

Table 6: Long-Term Debt

	2020	2019	2018
2015B Revenue Bonds	$ 6,005,000	$ 6,515,000	$ 7,010,000
2016A Revenue Bonds	16,761,997	18,111,523	19,426,975
2016B Revenue Bonds	1,966,357	2,124,714	2,279,072
Leased Equipment	392,075	-	-
Leased Facilities	190,201	-	-
Total Long-Term Debt	$ 25,315,630	$ 26,751,237	$ 28,716,047

The City of Northfield adopted a resolution authorizing the issuance of $25,000,000 of Hospital Revenue Bonds in August 2016 to refund the 2006 revenue bonds to decrease the interest rate. The bonds are payable through August 1, 2031, with interest coupons payable monthly at an annual rate of 2.56%.

The City of Northfield adopted a resolution authorizing the issuance of $8,405,000 of Hospital Revenue Bonds in December 2015 to fund the hospital surgery center expansion and the purchase of capital equipment. The bonds are payable through November 1, 2025, with interest coupons payable at May 1 and November 1 at an annual rate of 2.98%.

Economic Factors

The population of Northfield continues to grow at a reasonably healthy annual rate, and the populations of many surrounding communities that the Hospital serves are growing at rates higher than the state averages – especially to the north. The two private colleges, St. Olaf and Carleton College, remain very stable in both of their enrollments, financial strength, and their economic support to the local community businesses.

At this time there are no signs of any new industries making a move to the community. The larger industrial employers remain stable in their employment and business production.

The economic outlook for the community remains steady to positive.

Contacting the Hospital

The financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Hospital Administration at Northfield Hospital + Clinics, 2000 North Avenue, Northfield, Minnesota 55057.

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,136,029	$ 4,068,712
Current Portion of Noncurrent Cash and Investments	841,782	929,840
Patient Receivables, Less Allowance for Uncollectible Accounts (2020, $4,004,000; 2019, $4,354,000)	11,147,391	12,106,542
Accounts Receivable - Other	339,717	153,645
Inventories	2,122,997	1,895,084
Prepaid Expenses	1,179,765	1,144,302
Total Current Assets	16,767,681	20,298,125
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Health Benefits	841,782	929,840
Internally Designated for Capital Improvements	75,089,853	65,912,001
Restricted by Bond Agreement	288,685	289,380
Less: Current Portion of Noncurrent Cash and Investments	(841,782)	(929,840)
Noncurrent Cash and Investments	75,378,538	66,201,381
OTHER ASSETS	300,000	-
REAL ESTATE HELD FOR INVESTMENT	726,777	726,777
CAPITAL ASSETS, NET	44,087,261	38,028,440
Total Assets	137,260,257	125,254,723
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	2,908,676	3,200,288
Loss on Refunding	427,158	467,520
Total Deferred Outflows of Resources	3,335,834	3,667,808
Total Assets and Deferred Outflows of Resources	$ 140,596,091	$ 128,922,531

See accompanying Notes to Financial Statements.

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2020 AND 2019

	2020	2019
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 2,334,119	$ 2,017,883
Accounts Payable, Trade	3,298,464	3,830,270
Construction Payable	387,515	385,140
Accrued Payroll and Benefits	6,374,727	8,478,031
Accrued Interest Payable	69,779	75,529
Unearned Revenue	9,407,312	-
Third-Party Payor Settlements Payable	498,726	517,361
Total Current Liabilities	22,370,642	15,304,214
LONG-TERM DEBT, Less Current Maturities	22,981,511	24,733,354
NONCURRENT LIABILITIES		
Net Pension Liability	38,904,521	36,744,246
Total Liabilities	84,256,674	76,781,814
DEFERRED INFLOWS OF RESOURCES		
Pension Related Deferred Inflows	2,650,630	7,080,780
NET POSITION		
Net Investment in Capital Assets	18,384,116	10,892,063
Restricted:		
Expendable Under Bond Agreement	288,685	289,380
Unrestricted	35,015,986	33,878,494
Total Net Position	53,688,787	45,059,937
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 140,596,091	$ 128,922,531

See accompanying Notes to Financial Statements.

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Net Patient and Resident Service Revenue, Net of Provision for Bad Debts of $1,577,303 in 2020 and $2,822,419 in 2019	$ 98,105,441	$ 107,733,758
Other Revenues	1,328,949	1,147,252
Total Operating Revenues	99,434,390	108,881,010
OPERATING EXPENSES		
Salaries and Wages	48,140,125	50,053,652
Employee Benefits	10,154,965	15,306,874
Supplies and Drugs	17,078,276	16,653,417
Purchased Services	13,838,222	13,868,153
Utilities	1,158,990	1,149,187
Other	3,578,004	4,464,534
Depreciation	5,819,026	5,674,391
Interest	897,653	782,175
Taxes and Surcharges	2,358,737	2,759,523
Total Operating Expenses	103,023,998	110,711,906
OPERATING LOSS	(3,589,608)	(1,830,896)
NONOPERATING REVENUES AND EXPENSES		
Investment Income	4,097,355	5,341,511
Gifts and Grants	116,063	153,140
Gain (Loss) on the Sale/Disposal of Assets	290	(5,039)
Grant Revenue	8,084,750	-
Miscellaneous Expenses	(80,000)	(203,250)
Total Nonoperating Revenues and Expenses, Net	12,218,458	5,286,362
EXCESS OF REVENUES OVER EXPENSES	8,628,850	3,455,466
Capital Grants	-	62,920
INCREASE IN NET POSITION	8,628,850	3,518,386
Net Position - Beginning of Year	45,059,937	41,541,551
NET POSITION - END OF YEAR	$ 53,688,787	$ 45,059,937

See accompanying Notes to Financial Statements.

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third-Party Payors	$ 99,045,957	$ 107,258,474
Cash Paid to Employees	(50,991,082)	(64,932,869)
Cash Paid to Suppliers and Contractors	(41,045,312)	(36,460,748)
Other Receipts and Payments, Net	1,142,877	1,188,771
Net Cash Provided by Operating Activities	8,152,440	7,053,628
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted Gifts and Grants	8,200,813	153,140
Miscellaneous Expenses	(80,000)	(203,250)
Net Cash Provided (Used) by Noncapital Financing Activities	8,120,813	(50,110)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(11,113,514)	(5,091,552)
Principal Payments on Long-Term Debt	(2,197,275)	(1,964,810)
Interest Payments on Long-Term Debt	(903,403)	(787,768)
Capital Contributions	-	62,920
Net Cash Used by Capital and Related Financing Activities	(14,214,192)	(7,781,210)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in Noncurrent Cash and Investments	(9,125,620)	(2,804,393)
Investment Income	4,133,876	5,319,239
Net Cash Provided (Used) by Investing Activities	(4,991,744)	2,514,846
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,932,683)	1,737,154
Cash and Cash Equivalents - Beginning of Year	4,068,712	2,331,558
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,136,029	$ 4,068,712

See accompanying Notes to Financial Statements.

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	$ (3,589,608)	$ (1,830,896)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	5,819,026	5,674,391
Interest	897,653	782,175
Provision for Bad Debt Expense	1,577,303	2,822,419
Amortization of Deferred Loss on Refinancing	40,362	40,361
(Increase) Decrease in:		
Patient Receivables	(618,152)	(3,257,094)
Inventories, Prepaids, and Other Receivables	(749,448)	27,888
Pension Related Deferred Outflow	291,612	4,679,160
Increase (Decrease) in:		
Accounts Payable	(531,806)	450,296
Third-Party Payor Settlements Payable	(18,635)	(40,609)
Accrued Expenses	7,304,008	427,657
Net Pension Liability	2,160,275	(674,249)
Pension Related Deferred Inflow	(4,430,150)	(2,047,871)
Net Cash Provided by Operating Activities	$ 8,152,440	$ 7,053,628
NONCASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction Payable	$ 387,515	$ 385,140
Capital Assets Acquired by Lease Obligation	$ 498,694	$ -

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Northfield Hospital dba: Northfield Hospital + Clinics (the Hospital), including the Northfield Hospital Long Term Care Center, onsite Women's Health and Medical Clinics, and offsite Orthopedic, Ophthalmology, and Medical Clinics at Lonsdale, Farmington, and Lakeville, is operated by and is a component unit of the City of Northfield, Minnesota (the City) and is governed by the Board of Directors of Northfield Hospital. The Hospital is exempt from federal and state income taxes and property taxes. The Freestanding clinics are subject to property tax.

Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Hospital has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the organization to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. The Hospital has no funds which meet the Governmental Accounting Standards Board criteria. The Hospital is considered a part of the reporting entity of the City of Northfield, Minnesota and is included in the City's financial statements as a component unit.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Receivables

The Hospital provides an allowance for uncollectible accounts using management's judgment. Acute-care patients are not required to provide collateral for services rendered. Nursing home residents are required to make a prepayment for the estimated monthly amount when Medicaid, Medicare or private insurance is not paying for room and board. Payment for services is required within 30 days of receipt of invoice. Past due accounts are individually analyzed for collectibility, and then turned over to collection agents. Accounts for which no payments have been received are analyzed and after approval are written off. In addition, an allowance is estimated for other accounts based on historical experience of the Hospital. At December 31, 2020 and 2019, the allowance for uncollectible accounts was $4,004,000 and $4,354,000, respectively.

Inventories

The inventories are recorded at the lower of cost or market using the latest invoice cost, which approximates the first-in, first-out method.

Noncurrent Cash and Investments

Noncurrent cash and investments include assets set aside by the board of directors for future capital improvements, assets set aside under bond indenture agreements and assets set aside under employee health insurance arrangements.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period. Deferred outflows also include the unamortized loss on refinancing that is being amortized over the period the obligation is outstanding, using the straight-line method. The last deferred outflow is excess consideration provided for acquisition which is being amortized over the same period that the corresponding promissory note is for, using the straight-line method.

Capital Assets

Capital assets are reported at cost, if purchased or at fair market value on the date received, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the property. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Patient and Resident Service Revenue

Net patient/resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERA) and additions to/deductions from PERA'S fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consist of pension related deferred inflows.

Net Position

Net position of the Hospital is classified in three components. *Net position invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position is* noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. *Unrestricted net position* is the remaining net assets that do not meet the definition of *net position invested in capital assets net of related debt or restricted*.

Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenue contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Hospital's principal activity. Other revenues, including interest income, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, and an estimated cost (based on cost to charge ratio) of those services and supplies. The estimated costs and expenses incurred to provide charity care for the years ended December 31, 2020 and 2019, was approximately $30,000 and $31,000, respectively.

Real Estate Held for Investment

The Hospital acquired land during 2011 with the intent of completing a clinic expansion on it. However, during 2019 the decision was made to not go through with the project and sell the land instead. As a result, land in the amount of $726,777 was moved from capital assets to real estate held for investment at December 31, 2020 and 2019.

Other Assets

The Hospital entered into a service agreement for a Meditech expanse upgrade for $300,000 during the year ended December 31, 2020. This upgrade will commence on April 30, 2021 and will continue for 24 months ending on April 30, 2023. This amount will be amortized over the life of the service period.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

To the extent available, the Hospital's investments are recorded at fair value. GASB Statement No. 72 – *Fair Value Measurement and Application,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take in to account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources.

In contrast, unobservable inputs reflect an entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Hospital has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Leases

The Hospital determines if an arrangement is a lease at inception. Leases are included in lease assets and lease liabilities in the statements of net position.

Lease assets represent the Hospital's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Lease liabilities represent the Hospital's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or terminate the lease when it is reasonably certain that the Hospital will exercise that option.

The Hospital has elected to recognize payments for short-term leases with a lease term of 12 months or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use lease assets on the statements of net position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Hospital has elected to use their incremental borrowing rate to calculate the present value of expected lease payments.

The Hospital accounts for contracts containing both lease and non-lease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and non-lease components, and it is impractical to estimate the price of such components, the Hospital treats the components as a single lease unit.

Unearned Revenue

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Given the significant impact the pandemic had on global markets, supply chains, businesses and communities, the U.S. Department of Health and Human Services (HHS) made available emergency relief grant funds to health care providers. Total grant funds approved and received by the Hospital from these grants was approximately $10,584,750. The HHS grant funds are subject to certain restrictions on eligible expenses or uses, and reporting requirements. Of the total amount received, $8,084,750 is reported as Grant Revenue in the statements of revenues, expenses, and changes in net position and the remaining $2,500,000 is reported as Unearned Revenue in the statements of net position.

Specific to the Hospital, COVID-19 may impact various parts of its 2021 operations and financial results including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of health care personnel, or loss of revenue due to reductions in certain revenue streams. Management believes the Hospital is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of December 31, 2020.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unearned Revenue (Continued)

As part of the Coronavirus Aid, Relief and Economic Security (CARES) Act the Centers for Medicare & Medicaid Services (CMS) administered an Accelerated and Advanced Payment Program to provide additional relief funds to providers. During the year ended December 31, 2020 the Hospital received total advanced funds through the Accelerated and Advanced Payment Program of $6,907,312, which is to be recouped by CMS within one year from the date the funds were received. These amounts are reflected as Unearned Revenue in the statements of net position.

New Accounting Pronouncement

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Hospital adopted the requirements of the guidance effective January 1, 2020, and has elected to apply the provisions of this standard to the beginning of the period of adoption.

NOTE 2 DESIGNATED FUNDS

For the years ended December 31, 2020 and 2019, the board of directors has designated $75,089,853 and $65,912,001, respectively, for capital expenditures and $841,782 and $929,840, respectively, for the payment of health benefits. Designated funds remain under the control of the board of directors, which may at its discretion later use the funds for other purposes. Designated funds are reflected in noncurrent cash and investments.

NOTE 3 NET PATIENT SERVICE REVENUE

The Hospital and the nursing facility have entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. The base payment for the nursing facility includes room charges and ancillary services to nursing facility residents. Revenue is recorded at established billing rates, net of contractual adjustments, resulting from agreements with third-party payors.

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicare

By Minnesota Statute, a nursing facility, which participates in the Medicaid program, must also participate in the Medicare program. This program is administered by United States Centers for Medicare and Medicaid Services (CMS).

The Northfield Hospital Long Term Care Center is paid under the Medicare Prospective Payment System (PPS) for residents who are Medicare Part A eligible and meet the coverage guidelines for skilled nursing facility services (SNFs). The PPS is a per diem price-based system. Annual cost reports are required to be submitted to the designated Medicare Administrative Contractor; however, they do not contain a cost settlement. CMS recently finalized the Patient Driven Payment Model (PDPM) to replace the existing Medicare reimbursement system effective October 1, 2019. Under PDPM, therapy minutes are removed as the primary basis for payment and instead uses the underlying complexity and clinical needs of a patient as a basis for reimbursement. In addition, PDPM introduces variable adjustment factors that change reimbursement rates during the resident's length of stay.

Nursing facilities licensed for participation in the Medicare and Medicaid programs are subject to annual surveys. If it is determined that a nursing facility is not in substantial compliance with the requirements of participation, CMS may impose sanctions and penalties during the period of noncompliance, which would have a negative impact on the revenues of the nursing facility.

Inpatient acute care services provided to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Outpatient services provided to Medicare outpatient program beneficiaries are subject to the Ambulatory Payment Classification (APC) method. Medicare reimburses the Hospital a predetermined amount for most outpatient services. The following services are excluded from the APC payment methodology; services already paid on a fee schedule, services to SNF residents which are already included in the SNF's payment, and certain drugs, biologicals and medical devices identified as pass-through items. The APC payments are not based on the provider's annual cost report.

Physician-Based Clinic services are reimbursed using the Medicare Physician Fee Schedule.

Medicaid

The Northfield Hospital Long-Term Care Center participates in the Medicaid program that is administered by the Minnesota Department of Human Services (DHS). Medicaid and private paying residents are classified into one of 48 Resource Utilization Groups (RUG) for purposes of establishing payment rates.

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid (Continued)

Nursing facilities are paid under the Value Based Nursing Facility Reimbursement System (VBR) as approved during the 2015 Minnesota State Legislative Session. Under the VBR system, care related costs are reimbursed at actual cost subject to certain limitations. Other operating costs are reimbursed using a pricing model, which results in the rates of these costs being the same for all nursing facilities in the state. Certain other costs, such as qualifying employer health insurance costs, are reimbursed at an external fixed payment rate and are cost based with no limitations. Reimbursement for historic property related costs is a separate component of the rate that has been frozen since 2010. Additional reimbursement for new property related costs is possible under certain conditions.

The change to the VBR system includes a hold harmless provision which protects nursing home facilities from being paid at rates lower than those in effect December 31, 2015. Nursing facilities are also protected from significant decreases in rates in a single year due to changes in care related costs.

By Minnesota Statute, a nursing facility may not charge private paying residents in multiple occupancy rooms per diem rates in excess of the approved Medicaid rates for similar services.

Hospital inpatient services rendered to Medicaid program beneficiaries are reimbursed under a reimbursement methodology similar to inpatient Medicare. Hospital outpatient and Physician-Based clinic Medicaid services are reimbursed using the Medicaid fee schedule.

Other

The Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates. As of August 1, 2014, the Hospital Blue Cross contract moved to APR-DRG for inpatient acute care services and EAPG for outpatient services.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in estimated settlement amounts resulted in net patient and resident service revenue increasing by approximately $103,000 and decreasing by approximately $2,000 for the years ended December 31, 2020 and 2019, respectively.

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

A summary of patient and resident revenues and contractual adjustments is as follows:

	2020	2019
Total Patient and Resident Revenues	$ 220,656,565	$ 239,207,988
Contractual Adjustments:		
Medicare	(42,775,594)	(46,942,564)
Medicaid	(2,857,354)	(3,555,281)
Commercial/HMOs	(67,084,768)	(70,590,691)
Provision for Bad Debts	(1,577,303)	(2,822,419)
Other	(8,256,105)	(7,563,275)
Total Contractual Adjustments	(122,551,124)	(131,474,230)
Net Patient and Resident Revenues	$ 98,105,441	$ 107,733,758

NOTE 4 DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it in full. The Hospital follows the Minnesota Statutes for deposits. The Hospital does not have a formal policy regarding the holding of securities by counterparties; however, as of December 31, 2020 or 2019, the Hospital did not have any such arrangements.

In accordance with Minnesota Statutes, the Hospital maintains deposits at financial institutions that are authorized by the Hospital's Board of Directors.

Minnesota Statutes require that all Hospital deposits be protected by insurance, surety bond, or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes certain U.S. government securities, state or local government obligations, and other securities authorized by Minn. Stat. 118.A.03. Minnesota Statutes require that securities pledges as collateral be held in safekeeping by the Treasurer or in a financial institution other than that furnishing collateral.

The Hospital's deposits in banks at December 31, 2020 and 2019 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

Publicly owned hospitals can invest funds in a security recommended by an investment advisor, bank, or trust company, provided the funds are invested according to the hospital's written investment policies and procedures. The Hospital has a policy that conforms to these requirements and had the following investments at December 31:

	2020	2019
Federal Home Loan Bank	$ 205,849	$ 1,992,209
Federal National Mortgage Association	11,702,264	8,822,307
Federal Home Loan Mortgage Corp	3,956,238	5,223,925
Federal Farm Credit Bank	999,915	8,531,585
U.S. Treasury Notes	1,922,598	13,924,716
U.S. Government Obligations	5,428,125	-
Collateralized Mortgage Obligations	9,040,133	-
Certificate of Deposit	5,060,234	4,078,898
Corporate Bonds	6,797,225	4,514,482
U.S. Equities	12,749,289	8,646,932
International Equities	5,368,104	5,409,267
Taxable Fixed Income	3,139,705	703,229
Mixed Assets	1,086,920	701,875
Other Assets	2,500,435	2,310,107
Private Equity Investments	200,000	-
Total	$ 70,157,034	$ 64,859,532

- **Federal Home Loan Bank:** Consists of discount notes and notes with interest rates of 1.88% to 2.63% maturing from 2021 to 2023 and have AA+ ratings by Standard & Poor's.
- **Federal National Mortgage Association:** Consists of discount notes and notes with interest rates ranging from 1.50% to 3.50% maturing from 2029 to 2039 and have AA+ ratings by Standard & Poor's.
- **Federal Home Loan Mortgage Corp:** Consists of discount notes with interest rates of 2.50% maturing from 2030 to 2035 and have AA+ ratings by Standard & Poor's.
- **Federal Farm Credit Bank:** Consists of discount notes with interest rates ranging from 0.90% to 2.61% maturing from 2022 to 2027 and have AA+ ratings by Standard & Poor's.
- **U.S. Treasury Notes:** Consists of discount notes with interest rates ranging from 0% to 2.13% maturing from 2021 to 2022 and have AA+ ratings by Standard & Poor's.

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

- **Certificates of Deposits (CD):** Consists of deposits with interest rates ranging from 0.45% to 2.60% maturing from 2021 to 2023.
- **Corporate Bonds:** Consists of discount notes with interest rates ranging from of 0% to 5.50% maturing from 2021 to 2025 and have BBB – AA+ ratings by Standard & Poor's.
- **U.S. Government Obligations:** Consists of discount notes with interest rates ranging from of 0.65% to 5.00% maturing from 2021 to 2028 and have BBB – AA+ ratings by Standard & Poor's.
- **Collateralized Mortgage Obligations:** Consists of discount notes with interest rates ranging from of 3.17% to 3.77% maturing from 2024 to 2028 and have BBB – AA+ ratings by Standard & Poor's.
- **Equity Investments:** Consists of common stocks of U.S. companies, American Depository Receipts, U.S. dollar denominated foreign equity securities and foreign equity securities of foreign companies that are listed on a major domestic stock exchange or traded in the over the counter markets.
- **Complement Investments:** Alternative investments include real estate, commodities, hedging strategies, and private equities.

Fair Value Measurements

The Hospital uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the hospital measures fair value refer to Note 1 – Summary of Significant Accounting Policies. Cash and cash equivalents are stated at cost but are included in the table for comparison purposes to the balance sheet. The following table presents the fair value hierarchy for the balances of the assets and liabilities of the Hospital measured at fair value on a recurring basis as of December 31:

2020 Investment Type	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	$ 7,199,315	$ -	$ -	$ 7,199,315
Certificates of Deposit	5,060,234	-	-	5,060,234
Equities	24,844,453	-	-	24,844,453
U.S. Treasuries	-	1,922,598	-	1,922,598
U.S. Government Agencies	-	22,292,391	-	22,292,391
Collateralized Mortgage Obligations	-	9,040,133	-	9,040,133
Corporate Bonds	-	6,797,225	-	6,797,225
Private Equity	-	-	200,000	200,000
Totals	$ 37,104,002	$ 40,052,347	$ 200,000	$ 77,356,349

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Measurements (Continued)

2019 Investment Type	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	$ 6,340,401	$ -	$ -	$ 6,340,401
Certificates of Deposit	4,078,898	-	-	4,078,898
Equities	17,771,410	-	-	17,771,410
U.S. Treasuries	-	13,924,716	-	13,924,716
U.S. Government Agencies	-	24,570,026	-	24,570,026
Corporate Bonds	-	4,514,482	-	4,514,482
Totals	$ 28,190,709	$ 43,009,224	$ -	$ 71,199,933

Interest Rate Risk

The Hospital has a formal investment policy that addresses permissible investments, portfolio diversification, and instrument maturities. Within these parameters, the liquidity of the investments is a concern maximizing income and the quality of the investment is paramount.

Concentration of Credit Risk

The Hospital does not place a limit on the amount of the total portfolio that may be invested in any one depository or issuer. The Finance Department is responsible for the formulation, documentation and monitoring of investment strategy consistent with the investment policy.

At December 31, 2020 and 2019, deposits and investments are presented in the financial statements as follows:

	2020	2019
Deposits	$ 7,199,315	$ 6,340,401
Federal Home Loan Bank	205,849	1,992,209
Federal National Mortgage Association	11,702,264	8,822,307
Federal Home Loan Mortgage Corp	3,956,238	5,223,925
Federal Farm Credit Bank	999,915	8,531,585
U.S. Treasury Notes	1,922,598	13,924,716
U.S. Treasury Obligations	5,428,125	-
Collateralized Mortgage Obligations	9,040,133	-
Certificate of Deposit	5,060,234	4,078,898
Corporate Bonds	6,797,225	4,514,482
U.S. Equities	12,749,289	8,646,932
International Equities	5,368,104	5,409,267
Taxable Fixed Income	3,139,705	703,229
Mixed Assets	1,086,920	701,875
Other Assets	2,500,435	2,310,107
Private Equity Investments	200,000	-
Total	$ 77,356,349	$ 71,199,933

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)

	2020	2019
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	$ 1,136,029	$ 4,068,712
Noncurrent Cash and Investments:		
Internally Designated for Health Benefits	841,782	929,840
Internally Designated for Capital Improvements	75,089,853	65,912,001
Restricted by Bond Agreement	288,685	289,380
Total	$ 77,356,349	$ 71,199,933

As of December 31, 2020 and 2019, accrued interest of $216,152 and $252,673, respectively, is included in Internally Designated for Capital Improvements in the above schedules.

For the years ended December 31, investment returns are as follows:

	2020	2019
Interest and Dividend Income	$ 1,447,798	$ 1,508,907
Realized and Unrealized Gain on Investments	2,649,557	3,832,604
Total	$ 4,097,355	$ 5,341,511

NOTE 5 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at December 31 consist of the following:

	2020	2019
Receivable from Patients and Their Insurance Carriers	$ 12,715,918	$ 13,573,782
Receivables from Medicare	1,597,889	2,038,088
Receivables from Medicaid	837,584	848,672
Total Patient Receivables	15,151,391	16,460,542
Less: Allowance for Doubtful Accounts	(4,004,000)	(4,354,000)
Patient Receivables, Net	$ 11,147,391	$ 12,106,542

NOTE 6 DEFERRED OUTFLOWS OF RESOURCES

The loss of $605,421 from the refinancing of the 2006 Revenue Bonds is shown net of accumulated amortization. The remaining refunding loss to be amortized is $427,158 at December 31, 2020. Amortization expense was $40,362 for the years ended December 31, 2020 and 2019. The loss is amortized over the life of the bonds.

See details on Pension Related Deferred Outflows in Note 9.

NOTE 7 CAPITAL ASSETS, NET

A summary of capital assets and related accumulated depreciation is as follows:

	January 1, 2020	Additions and Transfers	Retirements	December 31, 2020
Capital Assets				
Land	$ 3,041,307	$ -	$ (73,724)	$ 2,967,583
Land Improvements	1,024,464	994,068	-	2,018,532
Buildings	60,230,014	9,951,245	(101,810)	70,079,449
Building Equipment	3,329,237	169,670	(24,327)	3,474,580
Movable Equipment	32,406,069	1,016,347	(1,720,709)	31,701,707
Leased Equipment	-	498,694	-	498,694
Leased Facilities	-	262,974	-	262,974
Other Real Estate	105,396	-	-	105,396
Construction in Progress	2,315,355	(842,807)	-	1,472,548
Totals	102,451,842	12,050,191	(1,920,570)	112,581,463
Accumulated Depreciation				
Land Improvements	584,669	115,589	-	700,258
Buildings	35,873,160	2,880,596	(25,452)	38,728,304
Building Equipment	1,874,654	237,098	(7,188)	2,104,564
Movable Equipment	25,985,523	2,354,598	(1,715,586)	26,624,535
Leased Equipment	-	131,150	-	131,150
Leased Facilities	-	99,995	-	99,995
Other Real Estate	105,396	-	-	105,396
Totals	64,423,402	$ 5,819,026	$ (1,748,226)	68,494,202
	$ 38,028,440			$ 44,087,261

	January 1, 2019	Additions and Transfers	Retirements	December 31, 2019
Capital Assets				
Land	$ 3,768,084	$ -	$ (726,777)	$ 3,041,307
Land Improvements	916,973	107,491	-	1,024,464
Buildings	59,557,453	672,561	-	60,230,014
Building Equipment	3,309,117	20,120	-	3,329,237
Movable Equipment	30,161,739	2,554,331	(310,001)	32,406,069
Other Real Estate	105,396	-	-	105,396
Construction in Progress	316,948	1,998,407	-	2,315,355
Totals	98,135,710	5,352,910	(1,036,778)	102,451,842
Accumulated Depreciation				
Land Improvements	496,799	87,870	-	584,669
Buildings	33,148,817	2,724,343	-	35,873,160
Building Equipment	1,621,549	253,105	-	1,874,654
Movable Equipment	23,681,412	2,609,073	(304,962)	25,985,523
Other Real Estate	105,396	-	-	105,396
Totals	59,053,973	$ 5,674,391	$ (304,962)	64,423,402
	$ 39,081,737			$ 38,028,440

NOTE 7 CAPITAL ASSETS, NET (CONTINUED)

Construction in progress at December 31, 2020 consists primarily of the remaining construction costs on the birth center expansion. The birth center expansion is expected to be completed in early 2021 with a remaining cost of approximately $500,000. $8,500,000 of the project was completed and capitalized during FY 2020.

NOTE 8 LONG-TERM DEBT

Long-term debt consists of the following as of December 31:

	Balance January 1, 2020	Additions	Payments/ Amortization	Balance December 31, 2020	Amounts Due Within One Year
Hospital Revenue Bonds, Series 2015B	$ 6,515,000	$ -	$ (510,000)	$ 6,005,000	$ 525,000
Hospital Revenue Bonds, Series 2016A	18,111,523	-	(1,349,526)	16,761,997	1,384,482
Hospital Revenue Bonds, Series 2016B	2,124,714	-	(158,357)	1,966,357	162,459
Leased Equipment	-	498,694	(106,619)	392,075	158,422
Leased Facilities	-	262,974	(72,773)	190,201	103,756
Total Long-Term Debt	$ 26,751,237	$ 761,668	$ (2,197,275)	$ 25,315,630	$ 2,334,119

	Balance January 1, 2019	Additions	Payments/ Amortization	Balance December 31, 2019	Amounts Due Within One Year
Hospital Revenue Bonds, Series 2015B	$ 7,010,000	$ -	$ (495,000)	$ 6,515,000	$ 510,000
Hospital Revenue Bonds, Series 2016A	19,426,975	-	(1,315,452)	18,111,523	1,349,526
Hospital Revenue Bonds, Series 2016B	2,279,072	-	(154,358)	2,124,714	158,357
Total Long-Term Debt	$ 28,716,047	$ -	$ (1,964,810)	$ 26,751,237	$ 2,017,883

The following is a summary of the provisions of each major component of long-term debt:

Hospital Revenue Bonds, Series 2015B

These bonds were issued December 29, 2015 in the amount of $8,405,000 to provide funding for construction of the expansion of the surgery center and purchase of the MRI and other diagnostic equipment. The bonds are limited obligations of the City and are payable primarily from the net revenues of the Hospital and are secured by a mortgage and security agreement between the City and Wells Fargo Bank, MN NA as Trustee.

Interest on the bond is 2.98%, and is due each May 1 and November 1, with principal payments due each November 1 through November 1, 2025. The Hospital is required to meet certain financial covenants related to the outstanding bonds.

NOTE 8 LONG-TERM DEBT (CONTINUED)

Hospital Revenue Bonds, Series 2016

These bonds were issued August 5, 2016 in the amount of $25,000,000 to extinguish the Hospital Revenue Bonds Series 2006. The bonds are limited obligations of the City and are payable primarily from the net revenues of the Hospital and are secured by a mortgage and security agreement between the City and Wells Fargo Bank, MN NA as Trustee.

Interest on the bond is 2.56%, and is due monthly from September 2016 through August 2031.

The revenue bonds loan agreement places limits on the incurrence of additional borrowings and requires the Hospital to satisfy certain measures of financial performance. The Hospital is required to meet certain financial covenants related to the outstanding bonds.

The following is a summary of debt service requirements for both the Series 2015 and 2016 to maturity:

	Long-Term Debt	
Year Ending December 31,	Principal	Interest
2021	$ 2,071,941	$ 640,328
2022	2,127,011	584,613
2023	2,188,118	527,414
2024	2,245,291	468,553
2025	5,518,556	408,153
2026-2030	9,257,004	784,596
2031	1,325,433	12,751
Total	$ 24,733,354	$ 3,426,408

NOTE 9 RETIREMENT PLANS

Plan Description

The Hospital participates in the following cost-sharing multiple employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax-qualified plans under Section 401(a) of the Internal Revenue Code (IRC).

All full-time and certain part-time employees of the Hospital are covered by the General Employees Fund. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

NOTE 9 RETIREMENT PLANS (CONTINUED)

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested Terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989.

Under Method 1, the accrual rate for coordinated members is 1.20% of average salary for each of the first 10 years of service and 1.70% of average salary for each additional year. Under Method 2, the accrual rate for coordinated members is 1.70% of average salary for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Beginning January 1, 2019, the postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.00% and a maximum of 1.50%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Contributions

Minnesota Statutes, Chapter 353, sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2019 and the Hospital was required to contribute 7.50% for Coordinated Plan members. The Hospital's contributions to the General Employees Fund for the years ended December 31, 2020 and 2019 were approximately $3,266,000 and $3,594,000, respectively. The Hospital's contributions were equal to the required contributions for each year as set by state statute.

NOTE 9 RETIREMENT PLANS (CONTINUED)

Pension Costs

At December 31, 2020 and 2019, the Hospital reported a liability of $38,904,521 and $36,744,246, respectively, for its proportionate share of the General Employees Fund's net pension liability. The Hospital's net pension liability reflected a reduction due to the state of Minnesota's contribution of $16 million to the fund in 2020 and 2019. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the Hospital totaled $1,199,839 and $1,141,950 for the years ended December 31, 2020 and 2019, respectively. The net pension liability was measured as of June 30, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Hospital's proportion of the net pension liability was based on the Hospital's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019 through June 30, 2020 and July 1, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the Hospital's proportion share was .6489%, which was a decrease of .0157% from its proportion measured as of June 30, 2019.

	2020	2019
Hospital's Proportionate Share of the Net Pension Liability	$ 38,904,521	$ 36,744,246
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the Hospital	1,199,839	1,141,950
Total	$ 40,104,360	$ 37,886,196

There were no benefit provision changes during the measurement period.

For the years ended December 31, 2020 and 2019, the Hospital recognized pension expense of $1,392,211 and $5,636,183, respectively, for its proportionate share of the General Employees Plan's pension expense. In addition, the Hospital recognized an additional $104,422 and $85,521 during the years ended December 31, 2020 and 2019, respectively, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million the General Employees Fund.

NOTE 9 RETIREMENT PLANS (CONTINUED)

Pension Costs (Continued)

At December 31, 2020 and 2019, the Hospital reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

December 31, 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 354,714	$ 147,195
Changes of Assumptions	-	1,442,340
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	672,102	-
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions of Contributions	-	1,061,095
Hospital Contributions Subsequent to the Measurement Date	1,881,860	-
Total	$ 2,908,676	$ 2,650,630

December 31, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 1,018,320	$ -
Changes of Assumptions	-	2,888,122
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	3,724,463
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions of Contributions	422,244	468,195
Hospital Contributions Subsequent to the Measurement Date	1,759,724	-
Total	$ 3,200,288	$ 7,080,780

NOTE 9 RETIREMENT PLANS (CONTINUED)

Pension Costs (Continued)

For the years ended December 31, 2020 and 2019, $1,881,860 and $1,759,724, respectively, were reported as deferred outflows of resources related to pensions resulting from the Hospital's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended December 31, 2021 and 2020, respectively. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	2020	2019
2020	$ -	$ (1,695,170)
2021	(2,613,247)	(3,114,930)
2022	(440,419)	(889,608)
2023	489,625	59,492
2024	940,227	-
Total	$ (1,623,814)	$ (5,640,216)

Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan, 1.0% per year for the Police and Fire Plan, and 2.0% per year for the Correctional Plan.

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effect with the July 1, 2020 actuarial valuation.

NOTE 9 RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions (Continued)

The following changes in actuarial assumptions and plan provisions occurred in 2020:

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

NOTE 9 RETIREMENT PLANS (CONTINUED)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return (Geometric)
Domestic Stocks	35.5 %	5.10%
International Stocks	17.5	5.30%
Bonds	20.0	0.75%
Alternative Investments	25.0	5.90%
Unallocated Cash	2.0	0.00%
Total	100.0 %	

Discount Rate

The discount rate used to measure the total pension liability in 2020 and 2019 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the Hospital's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

December 31, 2020	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Hospital's Proportionate Share of the Net Pension Liability	$ 62,350,452	$ 38,904,521	$ 19,563,511

December 31, 2019	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Hospital's Proportionate Share of the Net Pension Liability	$ 60,405,560	$ 36,744,246	$ 17,207,125

NOTE 9 RETIREMENT PLANS (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 10 LEASES

The Hospital leases facilities and computers for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through 2023 and provide for renewal options ranging from six months to two years.

Certain facility leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases.

Total future minimum lease payments under lease agreements are as follows:

Year Ending December 31,	Principal	Interest
2021	$ 262,178	$ 110,372
2022	272,399	41,826
2023	47,701	1,481
Total	$ 582,278	$ 153,679

Right-to-use assets acquired through outstanding leases are shown in Note 7.

For the year ended December 31, 2020, there were no impairment related losses on the lease assets.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Land Lease

The Hospital leases the land on which the facility is located from a local college. The lease term is for 60 years with two 20-year options. The annual rent expense for the first 20 years of the lease is approximately $6,000. The rent expense in subsequent years will be equal to 5% of the appraised market price for rural agricultural land in the Dakota/Rice County Region. The rent expense would be adjusted to current market rates if certain events were to occur, such as the sale of the Hospital.

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Self-Insurance Plan

The Hospital self-insures their employee health and dental insurance program. The Hospital has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual and aggregate claims and to provide claims processing and other administrative functions. Claims are accrued as incurred. The amounts charged to expense include administrative fees, stop-loss insurance premiums, claims paid, and accruals for claims incurred but not yet paid at year-end. The total health and dental insurance expense for the years ended December 31, 2020 and 2019 was $5,202,971 and $6,104,190, respectively, and are included with Accrued Payroll and Benefits.

Estimates of amounts incurred but not reported at December 31 are as follows:

	2020	2019
Beginning IBNR	$ 929,840	$ 868,890
Claims Paid	(4,274,019)	(5,659,405)
Claims Incurred	4,185,960	5,720,355
Ending IBNR	$ 841,781	$ 929,840

Medical Malpractice Insurance

The Hospital purchases medical malpractice insurance under a “claims made” policy on a fixed-premium basis. The Hospital has coverage for any individual claims exceeding $1,000,000, and for aggregate claims exceeding $3,000,000 for a policy year. Should this policy lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant reduction in insurance coverage from the previous year in any of the Hospital’s policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Healthcare Legislation and Regulation (Continued)

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. During fiscal year 2007, the RAC's identified and corrected a significant amount of improper overpayments to providers in the demonstration states, which did not include Minnesota. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. While the hospital was selected for a RAC audit during 2017 and 2016, they were not materially impacted and appear to have appropriate policies and procedures to mitigate the risks related to RAC reviews.

Management believes that the Hospital is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (UNAUDITED)
DECEMBER 31, 2014 THROUGH 2020

	2020	2019	2018	2017
Hospital's Proportion of the Net Pension Liability	0.6489%	0.6646%	0.6745%	0.6747%
Hospital's Proportionate Share of the Net Pension Liability	$ 38,904,521	$ 36,744,246	$ 37,418,495	$ 43,072,403
Hospital's Covered Payroll	$ 46,274,711	$ 47,616,107	$ 46,735,681	$ 46,735,681
Hospital's Proportionate Share of of the Net Pension Liability as a Percentage of its Covered Payroll	84.07%	77.17%	80.06%	92.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.10%	80.23%	79.53%	75.90%

	2016	2015	2014
Hospital's Proportion of the Net Pension Liability	0.5948%	0.5948%	0.5915%
Hospital's Proportionate Share of the Net Pension Liability	$ 43,072,403	$ 30,825,624	$ 27,785,707
Hospital's Covered Payroll	$ 44,316,610	$ 40,117,088	$ 33,751,616
Hospital's Proportionate Share of of the Net Pension Liability as a Percentage of its Covered Payroll	97.19%	76.84%	82.32%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.91%	78.20%	78.70%

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
SCHEDULE OF THE HOSPITAL'S CONTRIBUTIONS (UNAUDITED)
DECEMBER 31, 2012 THROUGH 2020

	2020	2019	2018	2017
Statutorily Required Contribution	$ 3,266,052	$ 3,593,622	$ 3,458,545	$ 3,311,327
Contributions in Relation to the Statutorily Required Contribution	3,266,052	3,593,622	3,458,545	3,311,327
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Hospital Covered Payroll	$ 46,274,711	$ 47,616,107	$ 46,735,681	$ 46,735,681
Contributions as a Percentage of Covered Payroll	7.06%	7.55%	7.40%	7.09%

	2016	2015	2014	2013	2012
Statutorily Required Contribution	$ 3,118,305	$ 2,877,619	$ 2,327,602	$ 2,135,716	$ 1,956,802
Contributions in Relation to the Statutorily Required Contribution	3,118,305	2,877,619	2,327,602	2,135,716	1,956,802
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Hospital Covered Payroll	$ 44,316,610	$ 40,117,088	$ 33,751,616	$ 31,123,432	$ 29,562,894
Contributions as a Percentage of Covered Payroll	7.04%	7.17%	6.90%	6.86%	6.62%

Note: GASB 68 requires 10 years of information to be presented in the Schedule of the Hospital's Proportionate Share of the Net Pension Liability and Schedule of the Hospital's Contributions. However, until a full ten years is compiled, the Hospital will present information for those years for which information is available.

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO SCHEDULE OF CHANGES IN NET PENSION LIABILITY
DECEMBER 31, 2020

NOTE 1 NOTES TO NET PENSION LIABILITY

2020 Changes in Actuarial Assumptions

The price inflation assumption was decreased from 2.50% to 2.25%.

The payroll growth assumption was decreased from 3.25% to 3.00%.

Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.

Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.

Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.

Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.

The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.

The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.

The assumed spouse age difference was changed from two years older for females to one year older.

The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2020 Changes in Plan Provision

Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 Changes in Actuarial Assumptions

The mortality projection scale was changed from MP-2017 to MP-2018.

NOTE 1 NOTES TO NET PENSION LIABILITY (CONTINUED)

2019 Changes in Plan Provision

The employer supplemental contribution was changed prospectively, decreasing from $31.0 million to $21.0 million per year. The State's special funding contribution was changed prospectively, requiring $16.0 million due per year through 2031.

2018 Changes in Actuarial Assumptions

The mortality projection scale was changed from MP-2015 to MP-2017.

The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

2018 Changes in Plan Provision

The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.

Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.

Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

Contribution stabilizer provisions were repealed.

Postretirement benefit increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, beginning January 1, 2019.

For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.

Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes in Actuarial Assumptions

The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.

The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

NOTE 1 NOTES TO NET PENSION LIABILITY (CONTINUED)

2017 Changes in Plan Provision

The State's contribution for the Minneapolis Employees Retirement Fund equals $16,000,000 in 2017 and 2018, and $6,000,000 thereafter.

The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from $21,000,000 to $31,000,000 in calendar years 2019 to 2031. The state's contribution changed from $16,000,000 to $6,000,000 in calendar years 2019 to 2031.

2016 Changes in Actuarial Assumptions

The assumed postretirement benefit increase rate was changed from 1.0% per year through 2035 and 2.50% per year thereafter to 1.00% per year for all years.

The assumed investment return was changed from 7.90% to 7.50%. The single discount rate was changed from 7.9% to 7.5%.

Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2016 Changes in Plan Provision

There have been no changes since the prior valuation.

2015 Changes in Actuarial Assumptions

The assumed postretirement benefit increase rate was changed from 1.0% per year through 2030 and 2.50% per year thereafter to 1.00% per year through 2035 and 2.50% per year thereafter.

2015 Changes in Plan Provision

On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Northfield Hospital
dba: Northfield Hospital + Clinics
Northfield, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northfield Hospital dba: Northfield Hospital + Clinics (the Hospital), which comprise the statement of financial position as of December 31, 2020, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 16, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

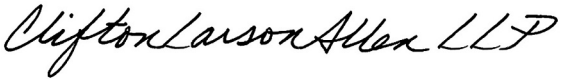
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 16, 2021

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors
Northfield Hospital
dba: Northfield Hospital + Clinics
Northfield, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of Northfield Hospital dba: Northfield Hospital + Clinics (the Hospital), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated March 16, 2021.

In connection with our audit, nothing came to our attention that caused us to believe that Northfield Hospital dba: Northfield Hospital + Clinics failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Hospital's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 16, 2021