NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
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YEARS ENDED DECEMBER 31, 2017 AND 2016

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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, 2017 and 2016, 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. Those standards require that we plan and perform the audits 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, 2017 and 2016, 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.

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 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 15, 2018

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, 2017. 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, 2017 and 2016 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 decreased by $9,555,297 or 6.7% in 2017 and increased by $22,287,667 or 18.5% in 2016.

The Hospital's net position decreased by $1,432,729 or 3.5% in 2017 and increased by $1,073,724 or 2.7% in 2016.

The Hospital reported an operating loss of $2,140,911 in 2017 and positive operating income $432,806 in 2016. This represents an operating income decrease in 2017 of $2,573,717 and a decrease in 2016 of $2,291,022. These decreases in operating income were impacted by additional pension expense of $3,443,255 in 2017 and $4,463,231 in 2016 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 payers, as well as changes in the economic environment of Northfield and the surrounding areas.

Table 1: Assets, Liabilities, and Net Position

	2017	2016	2015
Assets:			
Current Assets	$ 22,351,320	$ 22,598,516	$ 19,195,040
Noncurrent Cash and Investments	55,847,411	54,225,347	50,410,315
Capital Assets, Net	41,692,820	44,385,238	46,433,457
Total Assets	119,891,551	121,209,101	116,038,812
Deferred Outflows of Resources	13,548,698	21,786,445	4,669,067
Total Assets and Deferred Outflows of Resources	$ 133,440,249	$ 142,995,546	$ 120,707,879
Liabilities:			
Total Current Liabilities	$ 13,272,497	$ 14,700,734	$ 13,400,492
Long-Term Debt (Less: Current Maturities)	28,716,047	30,633,748	32,428,168
Total Noncurrent Liabilities	43,072,403	52,533,192	30,825,624
Total Liabilities	85,060,947	97,867,674	76,654,284
Pension Related Deferred Inflows	8,951,414	4,267,255	4,266,702
Net Position:			
Net Investment in Capital Investments	11,059,072	11,884,963	12,540,289
Restricted by Bond Agreement	286,281	1,127,036	3,752,211
Unrestricted	28,082,535	27,848,618	23,494,393
Total Net Position	39,427,888	40,860,617	39,786,893
Total Liabilities and Net Position	$ 133,440,249	$ 142,995,546	$ 120,707,879

The asset category changing significantly during 2017 was Deferred Outflows of Resources and Total Noncurrent Liabilities. Deferred Outflows of Resources decreased by $8,255,927 and Noncurrent Liabilities decreased by $9,460,789. Both 2017 decreases were due to changes in the PERA net pension liability.

The current ratio (current assets divided by current liabilities) increased in 2017 to 1.68 from 1.54 in 2016. It is a measure of liquidity, providing an indication of the Hospital's ability to pay current liabilities.

Financial Analysis of the Hospital (Continued)

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

	2017	2016	2015
Operating Revenue:			
Net Patient and Resident Service Revenue	$ 104,888,792	$ 101,103,618	$ 89,985,659
EHR/Meaningful Use Incentive Payment	55,776	144,422	209,185
Other Revenues	1,031,774	1,249,614	938,744
Total Operating Revenue	105,976,342	102,497,654	91,133,588
Operating Expenses:			
Salaries and Wages	46,735,681	44,316,610	40,117,088
Employee Benefits	15,524,555	14,691,311	10,387,741
Supplies and Drugs	17,724,752	15,728,203	13,114,235
Purchased Services	14,008,161	12,863,673	11,091,551
Utilities	1,235,630	1,172,435	1,116,379
Other	3,959,217	4,031,070	3,968,214
Depreciation and Amortization	5,437,473	5,330,632	4,791,361
Interest	884,199	1,327,414	1,400,204
Taxes and Surcharges	2,607,585	2,603,500	2,422,987
Total Operating Expenses	108,117,253	102,064,848	88,409,760
Operating Income	(2,140,911)	432,806	2,723,828
Nonoperating Revenues (Loss), Net	678,182	531,591	762,133
Excess of Revenues over Expenses	(1,462,729)	964,397	3,485,961
Capital Grants	30,000	109,327	30,000
Net Position - Beginning of Year	40,860,617	39,786,893	36,270,932
Net Position - End of Year	$ 39,427,888	$ 40,860,617	$ 39,786,893

Net patient service revenue made up 99.0% of the Hospital's total operating revenue in 2017 and 98.6% in 2016 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 growth of patient volumes in the Cancer Care and Infusion Center, Surgery, and Emergency Department had the major impact on the net patient service revenue increase during 2017.

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

	2017	2016	2015
Total Patient Service Revenues	$ 237,685,719	$ 221,771,655	$ 197,986,591
Contractual Adjustments and Provisions for Bad Debt	(132,796,927)	(120,668,037)	(108,000,932)
Net Patient Service Revenue	$ 104,888,792	$ 101,103,618	$ 89,985,659
Contractual Adjustments and Bad Debts as a Percent of Revenues	55.87%	54.41%	54.55%

Total operating expenses increased $6,052,405 or 5.9% in 2017 and increased $13,655,088 or 15.4% in 2016. With the additional pension expense of $3,443,255 in accordance with Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (see Note 9) and the increase of hospital and clinic volumes, the expenses for 2017 were well within the inflationary expectations.

The Operating Margin (total operating revenue less total operating expenses divided by total operating revenue) was -2.02% in 2017 down from .42% in 2016. Operating loss in 2017 was $2,140,911 and the operating income in 2016 was $432,806.

EHR/Meaningful Use Incentive Payment decreased by $88,646 in 2017 and had decreased in 2016 by $64,763. The hospital had received all three years of Medicare and Medicaid hospital-based incentives prior to 2016. In 2017, the hospital received settlements of Medicare hospital-based incentives based on final settlement of cost reports as well as the physician incentives from Medicare and Medicaid.

Other Operating Revenue decreased by $217,840 or 17.4% in 2017 after a $310,870 increase in 2016. The State Grant related to PERA was $204,531 of the 2017 decrease. The College Health Program revenue increased $127,193 in 2016 due to a change in the relationship with St. Olaf. In the 2014-2015 collegiate year, the Hospital provided medical direction for the St. Olaf College Health program and now the Hospital provides the services. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	2017	2016	2015
Outside Patient Services	$ 245,572	$ 271,427	$ 260,265
College Health Program	190,518	194,763	67,624
Cafeteria and Coffee Shop	193,988	185,762	157,321
Support Services to Mayo Radiation Clinic	87,924	83,533	75,296
Meals on Wheels	57,293	64,546	61,936
Rent Received	62,452	34,840	89,716
State Grant PERA	-	204,531	-
Other	194,027	210,212	226,586
Total Other Revenues	$ 1,031,774	$ 1,249,614	$ 938,744

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

	2017	2016	2015
Patient Days			
Acute	4,464	4,367	4,213
Swing Bed	6	10	21
Newborn	1,039	1,062	977
Long-Term Care	13,995	14,171	14,265
Total	19,504	19,610	19,476
Admissions			
Acute	1,879	1,887	1,724
Swing Bed	3	7	13
Newborn	541	573	513
Long-Term Care	132	115	103
Total	2,555	2,582	2,353
Discharges			
Acute	1,881	1,884	1,721
Swing Bed	3	7	15
Newborn	542	572	514
Long-Term Care	135	115	103
Total	2,561	2,578	2,353
Average Length of Stay, Acute	2.38	2.31	2.44
Beds			
Acute and Swing	37	37	37
Long-Term Care	40	40	40
Occupancy Percentage			
Acute and Swing, Based on 37 Beds	33.1%	32.3%	31.4%
Long-Term Care, Based on 40 Beds	95.9%	96.8%	97.7%

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, 2017, the Hospital had $41,692,820 invested in capital assets net of accumulated depreciation. The Hospital spent approximately $2,733,000 on building renovations and equipment purchases in 2017.

Long-Term Debt

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

Table 6: Long-Term Debt

	2017	2016	2015
2006 Revenue Bonds	$ -	$ -	$ 24,865,000
2015B Revenue Bonds	7,495,000	7,965,000	8,405,000
2016A Revenue Bonds	20,709,215	21,959,080	-
2016B Revenue Bonds	2,429,533	2,576,195	-
Total Long-Term Debt	$ 30,633,748	$ 32,500,275	$ 33,270,000

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, 2017 AND 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,847,368	$ 5,244,466
Current Portion of Noncurrent Cash and Investments	1,168,496	1,366,185
Patient Receivables, Less Allowance for Uncollectible Accounts (2017, $4,408,000; 2016, $4,375,000)	14,263,682	12,885,459
Accounts Receivable - Other	281,353	131,548
Inventories	1,798,646	2,004,920
Prepaid Expenses	991,775	965,938
Total Current Assets	22,351,320	22,598,516
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Health Benefits	1,168,496	1,366,185
Internally Designated for Capital Improvements	55,561,130	53,098,311
Restricted by Bond Agreement	286,281	1,127,036
Less: Current Portion of Noncurrent Cash and Investments	(1,168,496)	(1,366,185)
Noncurrent Cash and Investments	55,847,411	54,225,347
CAPITAL ASSETS, NET	41,692,820	44,385,238
Total Assets	119,891,551	121,209,101
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	12,977,956	21,197,841
Loss on Refunding	548,242	588,604
Excess Consideration Provided for Acquisition	22,500	-
Total Deferred Outflows of Resources	13,548,698	21,786,445
Total Assets and Deferred Outflows of Resources	$ 133,440,249	$ 142,995,546

See accompanying Notes to Financial Statements.

	2017	2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 1,917,701	$ 1,866,527
Accounts Payable, Trade	2,619,862	2,961,649
Construction Payable	210,576	613,197
Accrued Payroll and Benefits	8,119,835	8,848,162
Accrued Interest Payable	86,588	91,902
Third-Party Payor Settlements Payable	317,935	319,297
Total Current Liabilities	13,272,497	14,700,734
LONG-TERM DEBT, Less Current Maturities	28,716,047	30,633,748
NONCURRENT LIABILITIES		
Net Pension Liability	43,072,403	52,533,192
Total Liabilities	85,060,947	97,867,674
DEFERRED INFLOWS OF RESOURCES		
Pension Related Deferred Inflows	8,951,414	4,267,255
NET POSITION		
Net Investment in Capital Assets	11,059,072	11,884,963
Restricted:		
Expendable Under Bond Agreement	286,281	1,127,036
Unrestricted	28,082,535	27,848,618
Total Net Position	39,427,888	40,860,617
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 133,440,249	$ 142,995,546

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Net Patient and Resident Service Revenue, Net of Provision for Bad Debts of $2,335,223 in 2017 and $2,253,836 in 2016	$ 104,888,792	$ 101,103,618
EHR/Meaningful Use Incentive Payment	55,776	144,422
Other Revenues	1,031,774	1,249,614
Total Operating Revenues	105,976,342	102,497,654
OPERATING EXPENSES		
Salaries and Wages	46,735,681	44,316,610
Employee Benefits	15,524,555	14,691,311
Supplies and Drugs	17,724,752	15,728,203
Purchased Services	14,008,161	12,863,673
Utilities	1,235,630	1,172,435
Other	3,959,217	4,031,070
Depreciation and Amortization	5,437,473	5,330,632
Interest	884,199	1,327,414
Taxes and Surcharges	2,607,585	2,603,500
Total Operating Expenses	108,117,253	102,064,848
OPERATING INCOME (LOSS)	(2,140,911)	432,806
NONOPERATING REVENUES AND EXPENSES		
Investment Income	760,273	761,580
Gifts and Grants	94,917	115,636
Gain (Loss) on the Sale/Disposal of Assets	10,392	(1,603)
Miscellaneous Expenses	(187,400)	(344,022)
Total Nonoperating Revenues and Expenses, Net	678,182	531,591
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(1,462,729)	964,397
Capital Grants	30,000	109,327
INCREASE (DECREASE) IN NET POSITION	(1,432,729)	1,073,724
Net Position - Beginning of Year	40,860,617	39,786,893
NET POSITION - END OF YEAR	$ 39,427,888	$ 40,860,617

See accompanying Notes to Financial Statements.

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third-Party Payors	$ 103,564,983	$ 99,919,233
Cash Paid to Employees	(62,988,563)	(57,986,982)
Cash Paid to Suppliers and Contractors	(36,235,578)	(31,983,471)
Other Receipts and Payments, Net	881,969	1,214,641
Net Cash Provided by Operating Activities	5,222,811	11,163,421
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted Gifts and Grants	94,917	115,636
Miscellaneous Expenses	(187,400)	(344,022)
Net Cash Used by Noncapital Financing Activities	(92,483)	(228,386)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(3,168,092)	(2,953,469)
Proceeds from Sale of Capital Assets	30,808	14,147
Principal Payments on Long-Term Debt	(1,866,527)	(1,369,497)
Interest Payments on Long-Term Debt	(889,513)	(1,482,915)
Capital Contributions	30,000	109,327
Net Cash Used by Capital and Related Financing Activities	(5,863,324)	(5,682,407)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in Noncurrent Cash and Investments	(1,409,824)	(3,213,882)
Investment Income	745,722	726,386
Net Cash Used by Investing Activities	(664,102)	(2,487,496)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,397,098)	2,765,132
Cash and Cash Equivalents - Beginning of Year	5,244,466	2,479,334
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,847,368	$ 5,244,466

See accompanying Notes to Financial Statements.

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	$ (2,140,911)	$ 432,806
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	5,437,473	5,330,632
Interest	884,199	1,327,414
Provision for Bad Debt Expense	2,335,223	2,253,836
Amortization of Deferred Loss on Refinancing	40,362	332,043
(Increase) Decrease in:		
Patient Receivables	(3,713,446)	(3,198,021)
Inventories, Prepaids, and Other Receivables	30,632	(260,115)
Pension Related Deferred Outflow	8,219,885	(17,449,421)
Excess Consideration Provided for Acquisition	(22,500)	-
Increase (Decrease) in:		
Accounts Payable	(341,787)	49,809
Third-Party Payor Settlements Payable	(1,362)	(384,622)
Accrued Expenses	(728,327)	1,020,939
Net Pension Liability	(9,460,789)	21,707,568
Pension Related Deferred Inflow	4,684,159	553
Net Cash Provided by Operating Activities	$ 5,222,811	$ 11,163,421
NONCASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Amortization of Net Premium as a Component of Interest Expense	$ -	$ (23,396)
Construction Payable	$ 210,576	$ 613,197
Long-Term Debt issued to Refund Bonds	$ -	$ 25,000,000

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, Elko New Market, 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 Physician-Based 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, 2017 and 2016, the allowance for uncollectible accounts was $4,408,000 and $4,375,000, 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.

Electronic Health Record Incentive Payments

As discussed in Note 11, the Hospital received funds under the Electronic Health Records (EHR) Incentive Program during 2017 and 2016. The Hospital recognizes revenue at the completion of the EHR reporting period and after all meaningful use objectives and any other specific grant requirements that are applicable are met.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, 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, benefit payments (including refunds or employee contributions) 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*.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

NOTE 2 DESIGNATED FUNDS

For the years ended December 31, 2017 and 2016, the board of directors has designated $55,561,130 and $53,098,072, respectively, for capital expenditures and $1,168,496 and $1,366,185, 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.

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.

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.

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

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.

Effective January 1, 2016, 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 will be 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.

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

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. Net patient and resident service revenue increased for the year ended December 31, 2017 by $13,419 and increased by $63,806 for the year ended December 31, 2016 due to changes in estimated settlement amounts.

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

	2017	2016
Total Patient and Resident Revenues	$ 237,685,719	$ 221,771,655
Contractual Adjustments:		
Medicare	(55,483,263)	(48,221,909)
Medicaid	(4,036,823)	(4,183,924)
Commercial/HMOs	(64,379,588)	(59,638,621)
Provision for Bad Debts	(2,335,223)	(2,253,836)
Other	(6,562,030)	(6,369,747)
Total Contractual Adjustments	(132,796,927)	(120,668,037)
Net Patient and Resident Revenues	$ 104,888,792	$ 101,103,618

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, 2017 or 2016, 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.

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

The Hospital's deposits in banks at December 31, 2017 and 2016 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

Investments

Effective August 1, 2017, 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 had the following investments at December 31:

	2017	2016
Federal Home Loan Bank	$ 8,591,411	$ 10,485,252
Federal National Mortgage Association	5,387,057	4,367,055
Federal Home Loan Mortgage Corp	11,989,517	12,145,898
Federal Agricultural Mortgage Corp	1,075,802	1,071,837
Federal Farm Credit Bank	13,723,654	11,325,925
US Treasury Notes	817,000	4,033,866
Certificate of Deposit	7,562,390	7,927,342
Total	$ 49,146,830	$ 51,357,175

- **Federal Home Loan Bank:** Consists of discount notes and notes with interest rates of 0.75% to 5.375% maturing from 2018 to 2026 and have AA+ to AAA ratings by Standard & Poor's.
- **Federal National Mortgage Association:** Consists of discount notes and notes with interest rates of .875% to 3.5% maturing from 2018 to 2032 and have AA+ ratings by Standard & Poor's.
- **Federal Home Loan Mortgage Corp:** Consists of discount notes with interest rates of .875% to 4.875% maturing from 2018 to 2032 and have AA+ to AAA ratings by Standard & Poor's.
- **Federal Agricultural Mortgage Corp:** Consists of discount notes with interest rates of .93% maturing in 2018 and have AA+ ratings by Standard & Poor's.
- **Federal Farm Credit Bank:** Consists of discount notes with interest rates ranging from 1.36% to 2.69% maturing in 2019 to 2027 and have AA+ ratings by Standard & Poor's.
- **US Treasury Notes:** Consists of discount notes with interest rates of 2.125% maturing in 2021 and have AA+ ratings by Standard & Poor's.
- **Certificates of Deposits (CD):** Consists of deposits with interest rates ranging from .95% to 2.35% maturing in 2018 to 2022.

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

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:

2017 Investment Type	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	$ 11,716,445	$ -	$ -	$ 11,716,445
Certificates of Deposit	7,562,390	-	-	7,562,390
U.S. Treasuries	-	817,000	-	817,000
U.S. Government Agencies	-	40,767,440	-	40,767,440
Totals	$ 19,278,835	$ 41,584,440	$ -	$ 60,863,275

2016 Investment Type	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	$ 9,478,823	$ -	$ -	$ 9,478,823
Certificates of Deposit	7,927,342	-	-	7,927,342
U.S. Treasuries	-	4,033,866	-	4,033,866
U.S. Government Agencies	-	39,395,967	-	39,395,967
Totals	$ 17,406,165	$ 43,429,833	$ -	$ 60,835,998

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.

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

At December 31, 2017 and 2016, deposits and investments are presented in the financial statements as follows:

	2017	2016
Deposits	$ 11,716,445	$ 9,478,823
Federal Home Loan Bank	8,591,411	10,485,252
Federal National Mortgage Association	5,387,057	4,367,055
Federal Home Loan Mortgage Corp	11,989,517	12,145,898
Federal Agricultural Mortgage Corp	1,075,802	1,071,837
Federal Farm Credit Bank	13,723,654	11,325,925
Federal Reserve Note	817,000	4,033,866
Certificate of Deposit	7,562,390	7,927,342
Total	$ 60,863,275	$ 60,835,998

	2017	2016
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	$ 3,847,368	$ 5,244,466
Noncurrent Cash and Investments:		
Internally Designated for Health Benefits	1,168,496	1,366,185
Internally Designated for Capital Improvements	55,561,130	53,098,311
Restricted by Bond Agreement	286,281	1,127,036
Total	$ 60,863,275	$ 60,835,998

As of December 31, 2017 and 2016, accrued interest of $249,916 and $235,365, respectively, is included in Internally Designated for Capital Improvements in the above schedules.

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

	2017	2016
Interest and Dividend Income	$ 922,020	$ 967,594
Realized and Unrealized Loss on Investments	(161,747)	(206,014)
Total	$ 760,273	$ 761,580

NOTE 5 PATIENT RECEIVABLES

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

	2017	2016
Receivable from Patients and Their Insurance Carriers	$ 14,804,247	$ 13,926,046
Receivables from Medicare	2,572,828	2,271,427
Receivables from Medicaid	1,294,607	1,062,986
Total Patient Receivables	18,671,682	17,260,459
Less: Allowance for Doubtful Accounts	(4,408,000)	(4,375,000)
Patient Receivables, Net	$ 14,263,682	$ 12,885,459

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 $548,242 at December 31, 2017. Amortization expense was $40,362 for the year ended December 31, 2017. The loss is amortized over the life of the bonds.

The excess consideration of $45,000 provided for acquisition is being amortized over the same period as the term of the corresponding promissory note. Amortization expense was $22,500 for the year ended December 31, 2017.

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, 2017	Additions and Transfers	Retirements	December 31, 2017
Capital Assets				
Land	$ 3,694,360	$ 73,724	$ -	$ 3,768,084
Land Improvements	761,008	-	(5,875)	755,133
Buildings	59,015,696	101,810	-	59,117,506
Building Equipment	2,003,243	606,036	(3,645)	2,605,634
Movable Equipment	29,941,891	1,249,057	(1,573,856)	29,617,092
Other Real Estate	105,396	-	-	105,396
Construction in Progress	338,752	701,943	-	1,040,695
Totals	95,860,346	2,732,570	(1,583,376)	97,009,540
Accumulated Depreciation				
Land Improvements	366,584	64,772	(5,875)	425,481
Buildings	27,785,806	2,697,643	-	30,483,449
Building Equipment	1,218,798	174,705	(2,403)	1,391,100
Movable Equipment	21,998,524	2,477,841	(1,565,071)	22,911,294
Other Real Estate	105,396	-	-	105,396
Totals	51,475,108	$ 5,414,961	$ (1,573,349)	55,316,720
	$ 44,385,238			$ 41,692,820

	January 1, 2016	Additions and Transfers	Retirements	December 31, 2016
Capital Assets				
Land	$ 3,694,360	$ -	$ -	$ 3,694,360
Land Improvements	742,412	18,596	-	761,008
Buildings	58,978,829	36,867	-	59,015,696
Building Equipment	1,927,406	110,285	(34,448)	2,003,243
Movable Equipment	27,850,429	4,117,538	(2,026,076)	29,941,891
Other Real Estate	105,396	-	-	105,396
Construction in Progress	1,316,873	(978,121)	-	338,752
Totals	94,615,705	3,305,165	(2,060,524)	95,860,346
Accumulated Depreciation				
Land Improvements	297,133	69,451	-	366,584
Buildings	25,034,450	2,751,356	-	27,785,806
Building Equipment	1,105,991	147,255	(34,448)	1,218,798
Movable Equipment	21,639,278	2,362,567	(2,003,321)	21,998,524
Other Real Estate	105,396	-	-	105,396
Totals	48,182,248	$ 5,330,629	$ (2,037,769)	51,475,108
	$ 46,433,457			$ 44,385,238

Construction in progress at December 31, 2017 consists of costs related to a surgical video monitor project and a nurse call system upgrade. All projects will be funded using internal funds or construction funds from previous bond proceeds and expect to be completed in 2018.

NOTE 8 LONG-TERM DEBT

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

	Balance January 1, 2017	Additions	Payments/ Amortization	Balance December 31, 2017	Amounts Due Within One Year
Hospital Revenue Bonds, Series 2015B	$ 7,965,000	$ -	$ (470,000)	$ 7,495,000	$ 485,000
Hospital Revenue Bonds, Series 2016A	21,959,080	-	(1,249,865)	20,709,215	1,282,240
Hospital Revenue Bonds, Series 2016B	2,576,195	-	(146,662)	2,429,533	150,461
Total Long-Term Debt	$ 32,500,275	$ -	$ (1,866,527)	$ 30,633,748	$ 1,917,701

	Balance January 1, 2016	Additions	Payments/ Amortization	Balance December 31, 2016	Amounts Due Within One Year
Hospital Revenue Bonds, Series 2006	$ 24,865,000	$ -	$ (24,865,000)	$ -	$ -
Hospital Revenue Bonds, Series 2015B	8,405,000	-	(440,000)	7,965,000	470,000
Hospital Revenue Bonds, Series 2016A	-	22,375,000	(415,920)	21,959,080	1,249,865
Hospital Revenue Bonds, Series 2016B	-	2,625,000	(48,805)	2,576,195	146,662
Bond Premium	623,168	-	(623,168)	-	-
Total Long-Term Debt	$ 33,893,168	$ 25,000,000	$ (26,392,893)	$ 32,500,275	$ 1,866,527

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.

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.

NOTE 8 LONG-TERM DEBT (CONTINUED)

Hospital Revenue Bonds, Series 2016 (Continued)

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 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
2018	$ 1,917,701	$ 798,970
2019	1,964,811	747,407
2020	2,017,883	694,584
2021	2,071,941	640,328
2022	2,127,011	584,613
2023-2027	13,513,382	1,859,343
2028-2031	7,021,019	342,124
Total	$ 30,633,748	$ 5,667,369

NOTE 9 RETIREMENT PLANS

Plan Description

The Hospital participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (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.

All full-time and certain part-time employees of the Hospital are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

NOTE 9 RETIREMENT PLANS (CONTINUED)

Benefits Provided (Continued)

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. 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.

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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year 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.

Contributions

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

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2017. The Hospital was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The Hospital's contributions to the GERF for the plan's fiscal years ended December 31, 2017 and 2016 were $3,312,000 and $3,118,000, 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, 2017 and 2016, the Hospital reported a liability of $43,072,403 and $52,533,192, respectively, for its proportionate share of the GERF's net pension liability. The Hospital's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2017. 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 $541,619. The net pension liability was measured as of June 30, 2017 and 2016, 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, 2016 through June 30, 2017 and July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the Hospital's proportion share was .6747%, which was an increase of .0277% from its proportion measured as of June 30, 2016.

There were no benefit provision changes during the measurement period.

For the years ended December 31, 2017 and 2016, the Hospital recognized pension expense of $6,754,582 and $7,581,536, respectively. These amounts consisted of the Hospital's proportionate share of the GERF's pension expense, plus additional amortized net expenses associated with differences between estimated and actual experience of various actuarial assumptions associated with the plan.

NOTE 9 RETIREMENT PLANS (CONTINUED)

Pension Costs (Continued)

At December 31, 2017 and 2016, the Hospital reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

December 31, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 1,419,537	$ 2,770,667
Changes of Assumptions	7,150,950	4,318,014
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	1,862,733
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions of Contributions	2,759,429	-
Hospital Contributions Subsequent to the Measurement Date	1,648,040	-
Total	$ 12,977,956	$ 8,951,414

December 31, 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 155,479	$ 4,267,255
Changes of Assumptions	11,330,144	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	5,864,967	-
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions of Contributions	2,258,424	-
Hospital Contributions Subsequent to the Measurement Date	1,588,827	-
Total	$ 21,197,841	$ 4,267,255

NOTE 9 RETIREMENT PLANS (CONTINUED)

Pension Costs (Continued)

$1,648,040 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 year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30,	Amount
2016	$ 955,085
2017	3,644,892
2018	(393,423)
2019	(1,828,052)
2020	-
Thereafter	-

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using 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 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 for retirees are assumed to be: 1% per year for the General Employees Plan through 2044.

Actuarial assumptions used in the June 30, 2017 and 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2015, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2017:

- 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 postretirement 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 9 RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions (Continued)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 arithmetic 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
Domestic Stocks	39%	5.10 %
International Stocks	19	5.30
Bonds	20	0.75
Alternative Investments	20	5.90
Cash	2	-

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Hospital's Proportionate Share of the Net Pension Liability	$ 66,808,497	$ 43,072,403	$ 23,640,098

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 9 RETIREMENT PLANS (CONTINUED)

Voluntary Plans

The Hospital offers a voluntary salary deferral plan under IRC Section 457(b). All employees are eligible to participate in the plan; approximately $9,030,210 and $7,689,993 has been deferred as of December 31, 2017 and 2016, respectively, based on elections made by the participants. The hospital made no contributions to, nor received any benefit payments from the plan for the years ended December 31, 2017 and/or 2016.

NOTE 10 OPERATING LEASES

The Hospital leases equipment and facilities under operating leases expiring at various dates through February 2022. The leases have been classified as operating leases and, accordingly, all rents are charged to expenses as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2017, that have initial or remaining lease terms in excess of one year.

Year Ending December 31,	Amount
2018	$ 139,358
2019	107,517
2020	56,825
2021	52,200
2022	8,700
Total	$ 355,900

NOTE 11 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals and providers that demonstrate meaningful use of certified EHR technology.

The Hospital initially demonstrated meaningful use in 2011. Incentive payments of $55,776 and $144,422 were received in the fiscal years ended December 31, 2017 and 2016, respectively. This amount is recognized as other operating revenue in the statement of revenues, expenses, and changes in net position. The final amount of the payment related to the hospital's attestation of Meaningful Use will be determined based on information from the organization's Medicare cost report for the year ended December 31, 2014. Events could occur that would cause the final payment to differ materially upon final settlement, therefore the hospital has estimated a 10% reserve for a potential payback of the incentive dollars for the hospital.

NOTE 12 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.

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, 2017 and 2016 was $5,475,506 and $3,997,262, respectively, and are included with Accrued Payroll and Benefits.

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

	2017	2016
Beginning IBNR	$ 1,366,185	$ 1,932,141
Claims Paid	(6,434,788)	(5,598,184)
Claims Incurred	6,237,098	5,032,228
Ending IBNR	$ 1,168,495	$ 1,366,185

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.

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

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, 2017 AND 2016

	2017	2016
Hospital's Proportion of the Net Pension Liability	0.6747%	0.6470%
Hospital's Proportionate Share of the Net Pension Liability	$ 43,072,403	$ 52,533,192
Hospital's Covered-Employee Payroll	$ 46,735,681	$ 44,316,610
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	92.16%	118.54%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	68.91%

NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
SCHEDULE OF THE HOSPITAL'S CONTRIBUTIONS (UNAUDITED)
DECEMBER 31, 2017 AND 2016

	2017	2016	2015	2014
Statutorily Required Contribution	$ 3,311,327	$ 3,118,305	$ 2,877,619	$ 2,327,602
Contributions in Relation to the Statutorily Required Contribution	3,311,327	3,118,305	2,877,619	2,327,602
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Hospital Covered-Employee Payroll	$ 46,735,681	$ 44,316,610	$ 40,117,088	$ 33,751,616
Contributions as a Percentage of Covered-Employee Payroll	7.09%	7.04%	7.17%	6.90%

	2013	2012
Statutorily Required Contribution	$ 2,135,716	$ 1,956,802
Contributions in Relation to the Statutorily Required Contribution	2,135,716	1,956,802
Contribution Deficiency (Excess)	$ -	$ -
Hospital Covered-Employee Payroll	$ 31,123,432	$ 29,562,894
Contributions as a Percentage of Covered-Employee Payroll	6.86%	6.62%

Note: GASB 68 requires ten years of information to be presented in this table. However, until a full ten years is compiled, the Hospital will present information for those years for which information is available.

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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, the financial statements of Northfield Hospital dba: Northfield Hospital + Clinics (the Hospital), as of and for the year ended December 31, 2017, 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 15, 2018.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions,* promulgated by the State Audit pursuant to Min. Stat. § 6.65, identifies six categories of compliance to be tested in connection with the audit of a Northfield Hospital's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

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 Minnesota Legal Compliance Audit Guide for Political Subdivisions. 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 Northfield 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 15, 2018

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