

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	9
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	11
STATEMENTS OF CASH FLOWS	12
NOTES TO FINANCIAL STATEMENTS	14
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)	37
SCHEDULE OF THE HOSPITAL'S CONTRIBUTIONS (UNAUDITED)	38
NOTES TO SCHEDULE OF CHANGES IN NET PENSION LIABILITY	39
COMPLIANCE LETTER	
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	40



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, 2019 and 2018, 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 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.

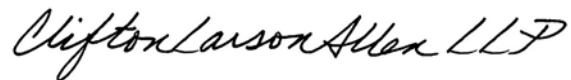
Board of Directors
Northfield Hospital
dba: Northfield Hospital + Clinics

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, 2019 and 2018, 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 and supplemental pension liability information on pages 37 through 39 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

Minneapolis, Minnesota
March 13, 2020

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2019 AND 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, 2019. 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, 2019 and 2018 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 \$75,435 or 0.1% in 2019 and decreased by \$4,442,283 or 3.3% in 2018.

The Hospital's net position increased by \$3,518,386 or 8.5% in 2019 and increased by \$2,113,663 or 5.4% in 2018.

The Hospital reported an operating loss of \$1,830,896 in 2019 and an operating income of \$2,388,987 in 2018. This represents an operating income decrease in 2019 of \$4,219,883 and an increase in 2018 of \$4,529,898. The decrease in operating income was negatively impacted by additional pension expense of \$1,957,040 in 2019 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.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

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

	2019	2018	2017
Assets:			
Current Assets	\$ 20,298,125	\$ 18,093,234	\$ 22,351,320
Noncurrent Cash and Investments	66,201,381	63,435,666	55,847,411
Real Estate Held for Investment	726,777	-	-
Capital Assets, Net	38,028,440	39,081,737	41,692,820
Total Assets	<u>125,254,723</u>	<u>120,610,637</u>	<u>119,891,551</u>
Deferred Outflows of Resources	<u>3,667,808</u>	<u>8,387,329</u>	<u>13,548,698</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 128,922,531</u></u>	<u><u>\$ 128,997,966</u></u>	<u><u>\$ 133,440,249</u></u>
Liabilities:			
Total Current Liabilities	\$ 15,304,214	\$ 14,158,033	\$ 13,272,497
Long-Term Debt (Less: Current Maturities)	24,733,354	26,751,236	28,716,047
Total Noncurrent Liabilities	36,744,246	37,418,495	43,072,403
Total Liabilities	<u>76,781,814</u>	<u>78,327,764</u>	<u>85,060,947</u>
Pension Related Deferred Inflows	7,080,780	9,128,651	8,951,414
Net Position:			
Net Investment in Capital Investments	10,892,063	10,241,908	10,848,496
Restricted by Bond Agreement	289,380	287,492	286,281
Unrestricted	33,878,494	31,012,151	28,293,111
Total Net Position	<u>45,059,937</u>	<u>41,541,551</u>	<u>39,427,888</u>
Total Liabilities and Net Position	<u><u>\$ 128,922,531</u></u>	<u><u>\$ 128,997,966</u></u>	<u><u>\$ 133,440,249</u></u>

The asset categories changing significantly during 2019 was Deferred Outflows of Resources and Noncurrent Cash and Investments. Deferred Outflows of Resources decreased by \$4,719,521 due to the changes in the net pension liability. Noncurrent cash and investments increased by \$2,765,715 due to positive investment gains (see Note 4).

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

Financial Analysis of the Hospital (Continued)

The current ratio (current assets divided by current liabilities) increased in 2019 to 1.33 from 1.28 in 2018. 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

	2019	2018	2017
Operating Revenue:			
Net Patient and Resident Service Revenue	\$ 107,733,758	\$ 108,376,210	\$ 104,888,792
EHR/Meaningful Use Incentive Payment	-	43,217	55,776
Other Revenues	1,147,252	1,289,404	1,031,774
Total Operating Revenue	<u>108,881,010</u>	<u>109,708,831</u>	<u>105,976,342</u>
Operating Expenses:			
Salaries and Wages	50,053,652	48,630,870	46,735,681
Employee Benefits	15,306,874	13,498,027	15,524,555
Supplies and Drugs	16,653,417	17,141,244	17,724,752
Purchased Services	13,868,153	13,729,701	14,008,161
Utilities	1,149,187	1,194,695	1,235,630
Other	4,464,534	4,093,162	3,959,217
Depreciation and Amortization	5,674,391	5,466,714	5,437,473
Interest	782,175	833,867	884,199
Taxes and Surcharges	2,759,523	2,731,564	2,607,585
Total Operating Expenses	<u>110,711,906</u>	<u>107,319,844</u>	<u>108,117,253</u>
Operating Income (Loss)	(1,830,896)	2,388,987	(2,140,911)
Nonoperating Revenues (Expenses), Net	<u>5,286,362</u>	<u>(305,671)</u>	<u>678,182</u>
Excess (Deficit) of Revenues over Expenses	3,455,466	2,083,316	(1,462,729)
Capital Grants	62,920	30,347	30,000
Net Position - Beginning of Year	<u>41,541,551</u>	<u>39,427,888</u>	<u>40,860,617</u>
Net Position - End of Year	<u>\$ 45,059,937</u>	<u>\$ 41,541,551</u>	<u>\$ 39,427,888</u>

Net patient service revenue made up 98.9% of the Hospital's total operating revenue in 2019 and 99.0% in 2018 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 of inpatient volumes in the hospital had a major impact on the net patient service revenue decrease during 2019.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

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

	2019	2018	2017
Total Patient Service Revenues	\$ 239,207,988	\$ 239,908,925	\$ 237,685,719
Contractual Adjustments and Provisions for Bad Debt	(131,474,230)	(131,532,715)	(132,796,927)
Net Patient Service Revenue	<u>\$ 107,733,758</u>	<u>\$ 108,376,210</u>	<u>\$ 104,888,792</u>
Contractual Adjustments and Bad Debts as a Percent of Revenues	<u>54.96%</u>	<u>54.83%</u>	<u>55.87%</u>

Total operating expenses increased \$3,392,062 or 3.2% in 2019 and decreased \$797,409 or 0.7% in 2018. With the increase in pension expense of \$2,269,585 from prior year in accordance with Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (see Note 9) and the remaining increase for 2019 was well within the inflationary expectations.

The Operating Margin (total operating revenue less total operating expenses divided by total operating revenue) was -1.68% in 2019 down from 2.18% in 2018. Operating loss in 2019 was \$1,830,896 and the operating income in 2018 was \$2,388,987.

Other Operating Revenue decreased by \$142,152 or 11.0% in 2019 after increasing \$257,630 or 25.0% in 2018. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	2019	2018	2017
Outside Patient Services	\$ 212,097	\$ 210,861	\$ 245,572
College Health Program	205,543	169,785	190,518
Cafeteria and Coffee Shop	191,197	194,523	193,988
Support Services to Mayo Radiation Clinic	105,949	92,436	87,923
Meals on Wheels	71,269	67,003	57,293
Rent Received	50,990	80,026	62,452
State Grant PERA	85,521	286,241	-
Other	224,686	188,529	194,028
Total Other Revenues	<u>\$ 1,147,252</u>	<u>\$ 1,289,404</u>	<u>\$ 1,031,774</u>

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

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

	2019	2018	2017
Patient Days			
Acute	3,725	4,667	4,464
Swing Bed	27	40	6
Newborn	979	990	1,039
Long-Term Care	13,615	13,646	13,995
Total	<u>18,346</u>	<u>19,343</u>	<u>19,504</u>
Admissions			
Acute	1,675	1,930	1,879
Swing Bed	7	13	3
Newborn	505	550	541
Long-Term Care	120	129	132
Total	<u>2,307</u>	<u>2,622</u>	<u>2,555</u>
Discharges			
Acute	1,677	1,929	1,881
Swing Bed	7	12	3
Newborn	508	549	542
Long-Term Care	114	132	135
Total	<u>2,306</u>	<u>2,622</u>	<u>2,561</u>
Average Length of Stay, Acute	<u>2.22</u>	<u>2.42</u>	<u>2.38</u>
Beds			
Acute and Swing	37	37	37
Long-Term Care	40	40	40
Occupancy Percentage			
Acute and Swing, Based on 37 Beds	27.8%	34.9%	33.1%
Long-Term Care, Based on 40 Beds	93.3%	93.5%	95.9%

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, 2019, the Hospital had \$38,028,440 invested in capital assets net of accumulated depreciation. The Hospital spent approximately \$5,379,000 on building renovations and equipment purchases in 2019.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

Long-Term Debt

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

Table 6: Long-Term Debt

	2019	2018	2017
2015B Revenue Bonds	\$ 6,515,000	\$ 7,010,000	\$ 7,495,000
2016A Revenue Bonds	18,111,523	19,426,975	20,709,215
2016B Revenue Bonds	2,124,714	2,279,072	2,429,533
Total Long-Term Debt	<u>\$ 26,751,237</u>	<u>\$ 28,716,047</u>	<u>\$ 30,633,748</u>

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, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,068,712	\$ 2,331,558
Current Portion of Noncurrent Cash and Investments	929,840	868,890
Patient Receivables, Less Allowance for Uncollectible Accounts (2019, \$4,354,000; 2018, \$4,066,000)	12,106,542	11,671,867
Accounts Receivable - Other	153,645	195,164
Inventories	1,895,084	1,938,935
Prepaid Expenses	<u>1,144,302</u>	<u>1,086,820</u>
Total Current Assets	20,298,125	18,093,234
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Health Benefits	929,840	868,890
Internally Designated for Capital Improvements	65,912,001	63,148,174
Restricted by Bond Agreement	289,380	287,492
Less: Current Portion of Noncurrent Cash and Investments	<u>(929,840)</u>	<u>(868,890)</u>
Noncurrent Cash and Investments	66,201,381	63,435,666
REAL ESTATE HELD FOR INVESTMENT	726,777	-
CAPITAL ASSETS, NET	<u>38,028,440</u>	<u>39,081,737</u>
Total Assets	125,254,723	120,610,637
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	3,200,288	7,879,448
Loss on Refunding	<u>467,520</u>	<u>507,881</u>
Total Deferred Outflows of Resources	<u>3,667,808</u>	<u>8,387,329</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 128,922,531</u></u>	<u><u>\$ 128,997,966</u></u>

See accompanying Notes to Financial Statements.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 2,017,883	\$ 1,964,811
Accounts Payable, Trade	3,830,270	3,379,974
Construction Payable	385,140	123,782
Accrued Payroll and Benefits	8,478,031	8,050,374
Accrued Interest Payable	75,529	81,122
Third-Party Payor Settlements Payable	517,361	557,970
Total Current Liabilities	<u>15,304,214</u>	<u>14,158,033</u>
LONG-TERM DEBT, Less Current Maturities	24,733,354	26,751,236
NONCURRENT LIABILITIES		
Net Pension Liability	<u>36,744,246</u>	<u>37,418,495</u>
Total Liabilities	76,781,814	78,327,764
DEFERRED INFLOWS OF RESOURCES		
Pension Related Deferred Inflows	7,080,780	9,128,651
NET POSITION		
Net Investment in Capital Assets	10,892,063	10,241,908
Restricted:		
Expendable Under Bond Agreement	289,380	287,492
Unrestricted	<u>33,878,494</u>	<u>31,012,151</u>
Total Net Position	<u>45,059,937</u>	<u>41,541,551</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 128,922,531</u>	<u>\$ 128,997,966</u>

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Net Patient and Resident Service Revenue, Net of Provision for Bad Debts of \$2,822,419 in 2019 and \$1,662,874 in 2018	\$ 107,733,758	\$ 108,376,210
EHR/Meaningful Use Incentive Payment	-	43,217
Other Revenues	<u>1,147,252</u>	<u>1,289,404</u>
Total Operating Revenues	108,881,010	109,708,831
OPERATING EXPENSES		
Salaries and Wages	50,053,652	48,630,870
Employee Benefits	15,306,874	13,498,027
Supplies and Drugs	16,653,417	17,141,244
Purchased Services	13,868,153	13,729,701
Utilities	1,149,187	1,194,695
Other	4,464,534	4,093,162
Depreciation and Amortization	5,674,391	5,466,714
Interest	782,175	833,867
Taxes and Surcharges	<u>2,759,523</u>	<u>2,731,564</u>
Total Operating Expenses	<u>110,711,906</u>	<u>107,319,844</u>
OPERATING INCOME (LOSS)	(1,830,896)	2,388,987
NONOPERATING REVENUES AND EXPENSES		
Investment Income (Loss)	5,341,511	(262,334)
Gifts and Grants	153,140	155,348
Loss on the Sale/Disposal of Assets	(5,039)	(5,515)
Miscellaneous Expenses	<u>(203,250)</u>	<u>(193,170)</u>
Total Nonoperating Revenues and Expenses, Net	<u>5,286,362</u>	<u>(305,671)</u>
EXCESS OF REVENUES OVER EXPENSES	3,455,466	2,083,316
Capital Grants	<u>62,920</u>	<u>30,347</u>
INCREASE IN NET POSITION	3,518,386	2,113,663
Net Position - Beginning of Year	<u>41,541,551</u>	<u>39,427,888</u>
NET POSITION - END OF YEAR	<u><u>\$ 45,059,937</u></u>	<u><u>\$ 41,541,551</u></u>

See accompanying Notes to Financial Statements.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third-Party Payors	\$ 107,258,474	\$ 111,251,277
Cash Paid to Employees	(64,932,869)	(62,198,358)
Cash Paid to Suppliers and Contractors	(36,460,748)	(38,703,390)
Other Receipts and Payments, Net	1,188,771	1,375,593
Net Cash Provided by Operating Activities	<u>7,053,628</u>	<u>11,725,122</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted Gifts and Grants	153,140	155,348
Miscellaneous Expenses	(203,250)	(193,170)
Net Cash Used by Noncapital Financing Activities	<u>(50,110)</u>	<u>(37,822)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(5,091,552)	(2,925,540)
Proceeds from Sale of Capital Assets	-	100
Principal Payments on Long-Term Debt	(1,964,810)	(1,917,701)
Interest Payments on Long-Term Debt	(787,768)	(839,333)
Capital Contributions	62,920	30,347
Net Cash Used by Capital and Related Financing Activities	<u>(7,781,210)</u>	<u>(5,652,127)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in Noncurrent Cash and Investments	(2,804,393)	(7,308,164)
Investment Income (Loss)	5,319,239	(242,819)
Net Cash Provided (Used) by Investing Activities	<u>2,514,846</u>	<u>(7,550,983)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,737,154	(1,515,810)
Cash and Cash Equivalents - Beginning of Year	<u>2,331,558</u>	<u>3,847,368</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,068,712</u>	<u>\$ 2,331,558</u>

See accompanying Notes to Financial Statements.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (1,830,896)	\$ 2,388,987
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	5,674,391	5,444,214
Interest	782,175	833,867
Provision for Bad Debt Expense	2,822,419	1,662,874
Amortization of Deferred Loss on Refinancing	40,361	40,361
(Increase) Decrease in:		
Patient Receivables	(3,257,094)	928,941
Inventories, Prepaids, and Other Receivables	27,888	(149,145)
Pension Related Deferred Outflow	4,679,160	5,098,508
Excess Consideration Provided for Acquisition	-	22,500
Increase (Decrease) in:		
Accounts Payable	450,296	760,112
Third-Party Payor Settlements Payable	(40,609)	240,035
Accrued Expenses	427,657	(69,461)
Net Pension Liability	(674,249)	(5,653,908)
Pension Related Deferred Inflow	(2,047,871)	177,237
Net Cash Provided by Operating Activities	<u>\$ 7,053,628</u>	<u>\$ 11,725,122</u>
NONCASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction Payable	<u>\$ 385,140</u>	<u>\$ 123,782</u>

See accompanying Notes to Financial Statements.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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, 2019 and 2018, the allowance for uncollectible accounts was \$4,354,000 and \$4,066,000, 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.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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, 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*.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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.

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 has been reclassified from property, plant, and equipment to real estate held for investment at December 31, 2019.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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, 2019 and 2018, the board of directors has designated \$65,912,001 and \$63,148,174, respectively, for capital expenditures and \$929,840 and \$868,890, 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.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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. 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.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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.

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.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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. Changes in estimated settlement amounts resulted in immaterial changes in net patient and resident service revenue for the years ended December 31, 2019 and 2018.

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

	2019	2018
Total Patient and Resident Revenues	\$ 239,207,988	\$ 239,908,925
Contractual Adjustments:		
Medicare	(46,942,564)	(54,737,674)
Medicaid	(3,555,281)	(3,494,392)
Commercial/HMOs	(70,590,691)	(66,805,679)
Provision for Bad Debts	(2,822,419)	(1,662,874)
Other	(7,563,275)	(4,832,096)
Total Contractual Adjustments	(131,474,230)	(131,532,715)
Net Patient and Resident Revenues	<u>\$ 107,733,758</u>	<u>\$ 108,376,210</u>

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, 2019 or 2018, 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 pledged as collateral be held in safekeeping by the Treasurer or in a financial institution other than that furnishing collateral.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

The Hospital's deposits in banks at December 31, 2019 and 2018 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. During the year ended December 31, 2018, the Hospital updated its policies to increase the type of investments they can invest in.

The Hospital had the following investments at December 31:

	2019	2018
Federal Home Loan Bank	\$ 1,992,209	\$ 3,997,723
Federal National Mortgage Association	8,822,307	2,688,691
Federal Home Loan Mortgage Corp	5,223,925	6,415,983
Federal Farm Credit Bank	8,531,585	13,639,856
US Treasury Notes	13,924,716	7,978,614
Certificate of Deposit	4,078,898	6,468,145
Corporate Bonds	4,514,482	5,260,578
U.S. Equities	8,646,932	6,216,924
International Equities	5,409,267	4,133,062
Taxable Fixed Income	703,229	686,583
Mixed Assets	701,875	610,276
Other Assets	2,310,107	367,873
Total	<u>\$ 64,859,532</u>	<u>\$ 58,464,308</u>

- **Federal Home Loan Bank:** Consists of discount notes and notes with interest rates of 1.63% to 2.63% maturing from 2020 to 2026 and have AA+ ratings by Standard & Poor's.
- **Federal National Mortgage Association:** Consists of discount notes and notes with interest rates ranging from 2.00% to 3.50% maturing from 2020 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 1.36% to 2.69% maturing from 2020 to 2027 and have AA+ ratings by Standard & Poor's.
- **US Treasury Notes:** Consists of discount notes with interest rates ranging from 0% to 2.63% maturing from 2020 to 2021 and have AA+ ratings by Standard & Poor's.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

- **Certificates of Deposits (CD):** Consists of deposits with interest rates ranging from 1.50% to 2.80% maturing from 2020 to 2022.
- **Corporate Bonds:** Consists of discount notes with interest rates ranging from of 2.40% to 4.10% maturing from 2023 to 2025 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:

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	<u>\$ 28,190,709</u>	<u>\$ 38,494,742</u>	<u>\$ -</u>	<u>\$ 71,199,933</u>

2018				
Investment Type	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 8,171,806	\$ -	\$ -	\$ 8,171,806
Certificates of Deposit	6,468,145	-	-	6,468,145
Equities	12,014,718	-	-	12,014,718
U.S. Treasuries	-	7,978,614	-	7,978,614
U.S. Government Agencies	-	26,742,253	-	26,742,253
Corporate Bonds	-	5,260,578	-	5,260,578
Totals	<u>\$ 26,654,669</u>	<u>\$ 39,981,445</u>	<u>\$ -</u>	<u>\$ 66,636,114</u>

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2019 and 2018, deposits and investments are presented in the financial statements as follows:

	2019	2018
Deposits	\$ 6,340,401	\$ 8,171,806
Federal Home Loan Bank	1,992,209	3,997,723
Federal National Mortgage Association	8,822,307	2,688,691
Federal Home Loan Mortgage Corp	5,223,925	6,415,983
Federal Farm Credit Bank	8,531,585	13,639,856
Federal Reserve Note	13,924,716	7,978,614
Certificate of Deposit	4,078,898	6,468,145
Corporate Bonds	4,514,482	5,260,578
U.S. Equities	8,646,932	6,216,924
International Equities	5,409,267	4,133,062
Taxable Fixed Income	703,229	686,583
Mixed Assets	701,875	610,276
Other Assets	2,310,107	367,873
Total	<u>\$ 71,199,933</u>	<u>\$ 66,636,114</u>
	2019	2018
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 4,068,712	\$ 2,331,558
Noncurrent Cash and Investments:		
Internally Designated for Health Benefits	929,840	868,890
Internally Designated for Capital Improvements	65,912,001	63,148,174
Restricted by Bond Agreement	289,380	287,492
Total	<u>\$ 71,199,933</u>	<u>\$ 66,636,114</u>

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

As of December 31, 2019 and 2018, accrued interest of \$252,673 and \$230,401, respectively, is included in Internally Designated for Capital Improvements in the above schedules.

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

	2019	2018
Interest and Dividend Income	\$ 1,508,907	\$ 1,267,138
Realized and Unrealized Gain (Loss) on Investments	3,832,604	(1,529,472)
Total	<u>\$ 5,341,511</u>	<u>\$ (262,334)</u>

NOTE 5 PATIENT RECEIVABLES

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

	2019	2018
Receivable from Patients and Their Insurance Carriers	\$ 13,573,782	\$ 12,655,407
Receivables from Medicare	2,038,088	2,192,621
Receivables from Medicaid	848,672	889,839
Total Patient Receivables	16,460,542	15,737,867
Less: Allowance for Doubtful Accounts	(4,354,000)	(4,066,000)
Patient Receivables, Net	<u>\$ 12,106,542</u>	<u>\$ 11,671,867</u>

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 \$467,520 at December 31, 2019. Amortization expense was \$40,361 for the years ended December 31, 2019 and 2018. The loss is amortized over the life of the bonds.

See details on Pension Related Deferred Outflows in Note 9.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 7 CAPITAL ASSETS, NET

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

	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
	<u>\$ 39,081,737</u>			<u>\$ 38,028,440</u>
	January 1, 2018	Additions and Transfers	Retirements	December 31, 2018
Capital Assets				
Land	\$ 3,694,360	\$ -	\$ 73,724	\$ 3,768,084
Land Improvements	755,133	163,519	(1,679)	916,973
Buildings	59,015,696	439,947	101,810	59,557,453
Building Equipment	2,588,494	703,483	17,140	3,309,117
Movable Equipment	29,617,092	2,255,538	(1,710,891)	30,161,739
Other Real Estate	105,396	-	-	105,396
Construction in Progress	1,040,695	(723,747)	-	316,948
Totals	96,816,866	2,838,740	(1,519,896)	98,135,710
Accumulated Depreciation				
Land Improvements	425,481	72,997	(1,679)	496,799
Buildings	30,479,533	2,665,368	3,916	33,148,817
Building Equipment	1,390,243	230,449	857	1,621,549
Movable Equipment	22,911,294	2,475,400	(1,705,282)	23,681,412
Other Real Estate	105,396	-	-	105,396
Totals	55,311,947	\$ 5,444,214	\$ (1,702,188)	59,053,973
	<u>\$ 41,504,919</u>			<u>\$ 39,081,737</u>

Construction in progress at December 31, 2019 consists primarily of construction costs for a clinic remodel and birth center expansion. The clinic remodel is expected to be completed in 2020 with a total cost of approximately \$3 million and the birth center expansion is expected to be completed in early 2021 with a total cost of approximately \$10 million. Both projects are expected to be paid for using internal funds.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 LONG-TERM DEBT

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

	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	<u>\$ 28,716,047</u>	<u>\$ -</u>	<u>\$ (1,964,810)</u>	<u>\$ 26,751,237</u>	<u>\$ 2,017,883</u>
	Balance January 1, 2018	Additions	Payments/ Amortization	Balance December 31, 2018	Amounts Due Within One Year
Hospital Revenue Bonds, Series 2015B	\$ 7,495,000	\$ -	\$ (485,000)	\$ 7,010,000	\$ 495,000
Hospital Revenue Bonds, Series 2016A	20,709,215	-	(1,282,240)	19,426,975	1,315,453
Hospital Revenue Bonds, Series 2016B	2,429,533	-	(150,461)	2,279,072	154,358
Total Long-Term Debt	<u>\$ 30,633,748</u>	<u>\$ -</u>	<u>\$ (1,917,701)</u>	<u>\$ 28,716,047</u>	<u>\$ 1,964,811</u>

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.

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.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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 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:

<u>Year Ending December 31,</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 2,017,883	\$ 694,584
2021	2,071,941	640,328
2022	2,127,011	584,613
2023	2,188,118	527,414
2024	2,245,291	468,553
2025-2029	12,828,278	1,131,711
2030-2031	3,272,715	73,790
Total	<u>\$ 26,751,237</u>	<u>\$ 4,120,993</u>

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.

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.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Benefits Provided (Continued)

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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be 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 calendar 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, 2019 and 2018 were approximately \$3,594,000 and \$3,459,000, respectively. The Hospital's contributions were equal to the required contributions for each year as set by state statute.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Pension Costs

At December 31, 2019 and 2018, the Hospital reported a liability of \$36,744,246 and \$37,418,495, 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 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 \$1,141,950. The net pension liability was measured as of June 30, 2019 and 2018, 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, 2018 through June 30, 2019 and July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the Hospital's proportion share was .6646%, which was a decrease of .0099% from its proportion measured as of June 30, 2018.

	<u>2019</u>	<u>2018</u>
Hospital's Proportionate Share of the Net Pension Liability	\$ 36,744,246	\$ 37,418,495
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the Hospital	<u>1,141,950</u>	<u>1,227,350</u>
Total	<u><u>\$ 37,886,196</u></u>	<u><u>\$ 38,645,845</u></u>

There were no benefit provision changes during the measurement period.

For the years ended December 31, 2019 and 2018, the Hospital recognized pension expense of \$5,636,183 and \$3,366,598, respectively, for its proportionate share of the General Employees Plan's pension expense. In addition, the Hospital recognized an additional \$85,521 during the year ended December 31, 2019, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million the General Employees Fund.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Pension Costs (Continued)

At December 31, 2019 and 2018, 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:

<u>December 31, 2019</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
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	<u>\$ 3,200,288</u>	<u>\$ 7,080,780</u>
 <u>December 31, 2018</u>	 <u>Deferred Outflows of Resources</u>	 <u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 990,409	\$ 1,091,050
Changes of Assumptions	3,574,415	4,204,368
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	3,823,579
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions of Contributions	1,571,460	9,654
Hospital Contributions Subsequent to the Measurement Date	1,743,164	-
Total	<u>\$ 7,879,448</u>	<u>\$ 9,128,651</u>

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Pension Costs (Continued)

For the years ended December 31, 2019 and 2018, \$1,759,724 and \$1,743,164, 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, 2020 and 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>2019</u>	<u>2018</u>
2019	\$ -	\$ 2,432,540
2020	(1,695,170)	(1,604,793)
2021	(3,114,930)	(3,039,411)
2022	(889,608)	(780,703)
2023	59,492	-
Total	<u>\$ (5,640,216)</u>	<u>\$ (2,992,367)</u>

The total pension expense recognized by the Hospital for the years ended December 31, 2019 and 2018 was \$5,636,183 and \$3,366,598, respectively.

Actuarial Assumptions

The total pension liability in the June 30, 2019, 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 disability 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, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The most recent four-year experience study for Police and Fire Plan was completed in 2016. The five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2019:

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.
- The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

Changes in Plan Provisions:

- 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.

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:

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

Discount Rate

The discount rate used to measure the total pension liability in 2019 and 2018 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, the Police and Fire Fund, and the Correctional 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.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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:

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
<u>December 31, 2019</u>			
Hospital's Proportionate Share of the Net Pension Liability	\$ 60,405,560	\$ 36,744,246	\$ 17,207,125
 <u>December 31, 2018</u>	 <u>1% Decrease (6.5%)</u>	 <u>Discount Rate (7.5%)</u>	 <u>1% Increase (8.5%)</u>
Hospital's Proportionate Share of the Net Pension Liability	\$ 60,809,844	\$ 37,418,495	\$ 18,109,603

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.

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 \$10,877,410 and \$8,741,138 has been deferred as of December 31, 2019 and 2018, 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, 2019 and/or 2018.

NOTE 10 OPERATING LEASES

The Hospital leases equipment and facilities under operating leases expiring at various dates through January 2023. 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, 2019, that have initial or remaining lease terms in excess of one year.

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 190,178
2021	156,808
2022	99,093
2023	5,053
Total	<u>\$ 451,132</u>

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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.

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, 2019 and 2018 was \$6,104,190 and \$6,657,609, respectively, and are included with Accrued Payroll and Benefits.

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

	2019	2018
Beginning IBNR	\$ 868,890	\$ 1,168,496
Claims Paid	(5,659,405)	(7,389,512)
Claims Incurred	5,720,355	7,089,906
Ending IBNR	<u>\$ 929,840</u>	<u>\$ 868,890</u>

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.

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 11 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, 2019 THROUGH 2014**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Hospital's Proportion of the Net Pension Liability	0.6646%	0.6745%	0.6747%	0.5948%
Hospital's Proportionate Share of the Net Pension Liability	\$ 36,744,246	\$ 37,418,495	\$ 43,072,403	\$ 43,072,403
Hospital's Covered Payroll	\$ 47,616,107	\$ 46,735,681	\$ 46,735,681	\$ 46,735,681
Hospital's Proportionate Share of of the Net Pension Liability as a Percentage of its Covered Payroll	77.17%	80.06%	92.16%	92.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.23%	79.53%	75.90%	68.91%
	<u>2015</u>	<u>2014</u>		
Hospital's Proportion of the Net Pension Liability	0.5948%	0.5915%		
Hospital's Proportionate Share of the Net Pension Liability	\$ 30,825,624	\$ 27,785,707		
Hospital's Covered Payroll	\$ 40,117,088	\$ 33,751,616		
Hospital's Proportionate Share of of the Net Pension Liability as a Percentage of its Covered Payroll	76.84%	82.32%		
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%	78.70%		

**NORTHFIELD HOSPITAL
DBA: NORTHFIELD HOSPITAL + CLINICS
SCHEDULE OF THE HOSPITAL'S CONTRIBUTIONS (UNAUDITED)
DECEMBER 31, 2019 THROUGH 2012**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily Required Contribution	\$ 3,593,622	\$ 3,458,545	\$ 3,311,327	\$ 3,118,305
Contributions in Relation to the Statutorily Required Contribution	<u>3,593,622</u>	<u>3,458,545</u>	<u>3,311,327</u>	<u>3,118,305</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital Covered Payroll	\$ 47,616,107	\$ 46,735,681	\$ 46,735,681	\$ 44,316,610
Contributions as a Percentage of Covered Payroll	7.55%	7.40%	7.09%	7.04%
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily Required Contribution	\$ 2,877,619	\$ 2,327,602	\$ 2,135,716	\$ 1,956,802
Contributions in Relation to the Statutorily Required Contribution	<u>2,877,619</u>	<u>2,327,602</u>	<u>2,135,716</u>	<u>1,956,802</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital Covered Payroll	\$ 40,117,088	\$ 33,751,616	\$ 31,123,432	\$ 29,562,894
Contributions as a Percentage of Covered Payroll	7.17%	6.90%	6.86%	6.62%

Note: GASB 68 requires ten 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, 2019**

NOTE 1 NOTES TO NET PENSION LIABILITY

2019 Changes in Actuarial Assumptions

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

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.

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.

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.

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.



CliftonLarsonAllen LLP
CLAconnect.com

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, 2019, 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 13, 2020.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Audit pursuant to Min. Stat. § 6.65, identifies seven 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, tax incremental financing, 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

Minneapolis, Minnesota
March 13, 2020