

# North Memorial Health Care

Consolidated Financial Statements as of and for  
Years Ended December 31, 2020 and 2019,  
Supplemental Schedule Information as of and for  
the Year Ended December 31, 2020, and  
Independent Auditors' Report

# NORTH MEMORIAL HEALTH CARE

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**Deloitte & Touche LLP**  
50 South 6th Street  
Suite 2800  
Minneapolis, MN 55402-1538  
USA

Tel: +1 612 397 4000  
Fax: +1 612 397 4450  
[www.deloitte.com](http://www.deloitte.com)

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
North Memorial Health Care  
Minneapolis, Minnesota

We have audited the accompanying consolidated financial statements of North Memorial Health Care and its subsidiaries ("North Memorial"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to North Memorial's preparation and fair presentation of the consolidated 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 North Memorial'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 consolidated financial statements.

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Memorial and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations, changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Supplemental Schedules**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules on pages 44–49 are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and are not a required part of the consolidated financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the 2020 consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the 2020 consolidated financial statements or to the 2020 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the 2020 consolidated financial statements as a whole.

*Deloitte & Touche LLP*

April 20, 2021

# NORTH MEMORIAL HEALTH CARE

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2020 AND 2019 (In thousands)

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	2020	2019
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 143,419	\$ 31,746
Patient accounts receivable, less allowances	97,331	105,590
Other receivables	21,386	21,136
Other current assets	23,514	23,216
Current assets held for sale	<u>-</u>	<u>31,105</u>
Total current assets	285,650	212,793
LONG TERM INVESTMENTS	360,653	339,044
ASSETS LIMITED AS TO USE	24,382	21,924
LAND, BUILDINGS, AND EQUIPMENT—Net	262,672	259,600
OPERATING LEASE “RIGHT TO USE” ASSETS	37,861	45,047
OTHER ASSETS	<u>35,396</u>	<u>33,293</u>
TOTAL	<u>\$ 1,006,614</u>	<u>\$ 911,701</u>

(Continued)

## NORTH MEMORIAL HEALTH CARE

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2020 AND 2019 (In thousands)

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	2020	2019
<b>LIABILITIES</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 44,479	\$ 38,242
Current maturities of long-term debt	13,095	13,275
Current operating lease liability	8,374	7,789
Current liabilities held for sale	-	3,590
Other current liabilities	14,899	16,000
Accrued compensation and benefits	49,788	43,553
CMS advance and FICA deferral	65,374	-
Other accrued expenses	<u>10,741</u>	<u>4,375</u>
 Total current liabilities	 206,750	 126,824
 OTHER LONG-TERM LIABILITIES	 21,867	 23,510
 NONCURRENT OPERATING LEASE LIABILITY	 41,592	 42,449
 LONG-TERM DEBT—Less current maturities	 <u>196,497</u>	 <u>209,300</u>
 Total liabilities	 <u>466,706</u>	 <u>402,083</u>
 NET ASSETS:		
Without donor restrictions	519,409	494,186
With donor restrictions	<u>7,870</u>	<u>7,058</u>
 Total net assets attributable to North Memorial	 527,279	 501,244
 Noncontrolling interest in joint ventures	 <u>12,629</u>	 <u>8,374</u>
 Total net assets	 <u>539,908</u>	 <u>509,618</u>
 TOTAL	 <u>\$ 1,006,614</u>	 <u>\$ 911,701</u>

See notes to consolidated financial statements.

(Concluded)

# NORTH MEMORIAL HEALTH CARE

## CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In thousands)

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	2020	2019
UNRESTRICTED REVENUE:		
Net patient service revenue	\$ 718,439	\$ 902,584
Other operating revenue	<u>139,384</u>	<u>60,296</u>
Total unrestricted revenue	<u>857,823</u>	<u>962,880</u>
EXPENSES:		
Salaries and benefits	485,427	562,800
Supplies and purchased services	230,210	244,805
Utilities and maintenance	44,366	45,305
Other operating expenses	51,427	57,655
Depreciation and amortization	35,494	40,591
Interest	<u>8,475</u>	<u>9,125</u>
Total expenses	<u>855,399</u>	<u>960,281</u>
INCOME FROM OPERATIONS	2,424	2,599
NONOPERATING INCOME:		
Investment income—net	33,456	51,807
Other nonoperating income	<u>392</u>	<u>1,231</u>
Total nonoperating income	<u>33,848</u>	<u>53,038</u>
EXCESS OF REVENUE OVER EXPENSES	36,272	55,637
LESS AMOUNTS ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>(8,255)</u>	<u>(8,821)</u>
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NORTH MEMORIAL	<u>\$ 28,017</u>	<u>\$ 46,816</u>

See notes to consolidated financial statements.

## NORTH MEMORIAL HEALTH CARE

### CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In thousands)

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	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTION:		
Excess of revenues over expenses	\$ 28,017	\$ 46,816
Net assets released from restrictions	4	611
Defined benefit pension plans and other liability changes	<u>(2,798)</u>	<u>2,222</u>
Increase in net assets without donor restrictions	25,223	49,649
NET ASSETS WITH DONOR RESTRICTION:		
Contributions	1,577	1,409
Investment return	267	353
Net assets released from restriction	(1,072)	(1,305)
Other	<u>40</u>	<u>306</u>
Increase in net assets with donor restriction	812	763
NET ASSETS, NONCONTROLLING INTEREST IN JOINT VENTURES:		
Excess of revenues over expenses	8,255	8,821
Distribution paid to noncontrolling interests	<u>(4,000)</u>	<u>(6,625)</u>
Increase in net assets, noncontrolling interest in joint ventures	<u>4,255</u>	<u>2,196</u>
INCREASE IN NET ASSETS	30,290	52,608
NET ASSETS BEGINNING OF YEAR	<u>509,618</u>	<u>457,010</u>
NET ASSETS END OF YEAR	<u>\$ 539,908</u>	<u>\$ 509,618</u>



# NORTH MEMORIAL HEALTH CARE

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 30,290	\$ 52,608
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	35,494	39,202
Change in assets held for sale	15,303	-
Pension and other postretirement liability adjustments	2,799	(2,222)
Change in realized and unrealized gains on investments, net	(19,942)	(55,508)
Distributions paid to noncontrolling interest	4,000	6,625
Other changes in net assets	115	4,104
Changes in assets and liabilities:		
Patient accounts receivable	8,259	(4,432)
CMS advance and FICA deferral	65,374	-
Other assets	19,036	(4,178)
Other liabilities	12,109	914
Net cash provided by operating activities	<u>172,837</u>	<u>37,113</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land, buildings, and equipment	(38,706)	(32,909)
Proceeds from sale of buildings and equipment	82	77
Purchases of investments	(93,047)	(134,813)
Proceeds from sales of investments	103,147	135,646
Purchase of assets limited as to use	-	(177)
Deposit liability	-	16,000
Capital contributions to joint ventures—net of returns of capital	(16,317)	223
Net cash used in investing activities	<u>(44,841)</u>	<u>(15,953)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(12,334)	(12,762)
Payments on line of credit	-	(1,500)
Distributions paid to noncontrolling interest	(4,000)	(6,625)
Other	11	138
Net cash used in financing activities	<u>(16,323)</u>	<u>(20,749)</u>
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	111,673	411
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of year	<u>33,754</u>	<u>33,343</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of year	<u>\$145,427</u>	<u>\$ 33,754</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for income taxes paid—net	<u>\$ 86</u>	<u>\$ 340</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION		
Capital expenditures funded through accounts payable	<u>\$ 536</u>	<u>\$ 327</u>

See notes to consolidated financial statements.

# NORTH MEMORIAL HEALTH CARE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Dollars in thousands)

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### 1. ORGANIZATION AND BASIS OF PRESENTATION

North Memorial Health Care (“North Memorial”) is a nonprofit, tax-exempt Minnesota health services corporation. North Memorial offers a broad continuum of health care services and owns and operates two hospitals, an ambulance and air care division, a foundation, and various subsidiaries. North Memorial employs over 60 providers in various specialties, with a medical staff of over 1,500 providers. North Memorial has relationships across numerous other healthcare activities, including Blaze Health, LLC (“Blaze Health”), a joint venture of primary and specialty care clinics formed in partnership with Blue Cross and Blue Shield of Minnesota (“Blue Cross Blue Shield”).

North Memorial Health Hospital (“NMHH”) in Robbinsdale, MN, is an acute care hospital that has a licensed capacity of 518 beds and offers a broad range of inpatient and outpatient services, including emergency and Level I trauma care, obstetrical care, high-risk maternity services, Level III neonatal intensive care, cardiovascular services, acute psychiatric, and rehabilitation services, as well as general medical and surgical care.

Maple Grove Hospital Corporation (“MGH”) in Maple Grove, MN, is a Minnesota nonprofit, tax-exempt corporation, which owns and operates a hospital with a licensed capacity of 130 beds. MGH provides emergency, obstetrical care, high-risk maternity services, Level II neonatal intensive care, and general medical and surgical care. MGH is jointly owned by North Memorial (75%) and Fairview Health Services (25%).

North Memorial’s ambulance and air care division serves regions across Minnesota and western Wisconsin. This service currently has more than 125 vehicles servicing 9 regions with 25 bases and 9 helicopters based out of 7 locations.

On January 1, 2020, North Memorial officially formed a joint venture, Blaze Health, LLC, with Blue Cross Blue Shield of Minnesota (“Blue Cross Blue Shield”) after transferring 49% of the membership interests of Blaze Health to Blue Cross Blue Shield and retaining 51% of the membership interests. The goal of this joint venture, which comprises North Memorial’s former primary care and specialty clinics, is to make health care more accessible, more affordable, and less complicated. North Memorial accounts for this joint venture under the equity method of accounting due to Blaze Health having substantive participating rights that overcome the presumption of consolidation by North Memorial.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and include all accounts of North Memorial, its wholly owned subsidiaries; Oakdale Health Enterprises, Inc. (OHE); Oakdale Medical Center, LLC (OMC); Associated Health Assurance Ltd. (AHAL); North Memorial Clinics, LLC; Minnetonka Ambulatory Surgery Center, LLC (“Minnetonka ASC”); and the North Memorial Foundation. In addition, the consolidated financial statements include the accounts of Maple Grove Hospital Corporation. All significant intercompany balances and transactions have been eliminated in consolidation.

**Use of Estimates**—The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimated amounts in the consolidated financial statements include accruals for contractual allowances, allowances for uncollectible accounts receivable, employee health and dental insurance, pension obligations, and other items measured at fair value, including certain investments. Actual results could differ from these estimates.

**COVID-19 Pandemic**—In March 2020, the World Health Organization declared the outbreak of COVID-19, a disease caused by this coronavirus, a pandemic. The resulting measures to contain the spread and impact of COVID-19 and other developments related to COVID-19 have materially affected the Company's results of operations during 2020. As a result of the COVID-19 pandemic, federal and state governments have passed legislation, promulgated regulations and taken other administrative actions intended to assist healthcare providers in providing care to COVID-19 and other patients during the public health emergency. Sources of relief include the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), which was enacted on March 27, 2020, the Paycheck Protection Program and Health Care Enhancement Act (the "PPHCE Act"), which was enacted on April 24, 2020, and the Consolidated Appropriations Act, 2021 (the "CAA"), which was enacted on December 27, 2020.

For the year ended December 31, 2020, North Memorial evaluated the impact resulting from the COVID-19 pandemic, including updated assessments of the recoverability of assets and evaluation of potential credit losses. For the year ended December 31, 2020, North Memorial was a beneficiary of the CARES Act stimulus measures, including the Medicare Accelerated and Advance Payment Program. The Company's accounting policies for the recognition of these stimulus monies is as follows:

**CMS Medicare Accelerated and Advance Payment Cash Advances**—Accelerated Medicare payments requested by the Company for its acute care hospitals were received in April 2020, and were provided through CARES Act. After 365 days past receipt of the advance payments, claims for services provided to Medicare beneficiaries will be applied against these cash advances at a specific rate for eleven months and at a higher rate for six months on any remaining balances. Any unapplied advance payment amounts must be paid in full. CMS cash advances are included in current liabilities CMS advance and FICA deferral in the consolidated statements of financial position.

**Deferred Employer FICA Taxes**—The CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due no later than December 31, 2021 and the remaining 50% due no later than December 31, 2022. As of December 31, 2020, North Memorial is planning to pay the full deferred amount during 2022, therefore the full amount is classified as a current liability. Deferred employer FICA taxes are included in current liabilities CMS advance and FICA deferral in the consolidated statements of financial position.

**Grant Income.** During the year ended December 31, 2020, we received cash payments of \$69,193 from the Provider Relief Fund ("PRF") and state and local grant programs. In addition, \$1,671 was obtained and passed through to an unconsolidated affiliate as a subrecipient grant. Payments from the PRF are not loans and, therefore, they are not subject to repayment. However, as a condition to receiving distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for lost revenues and unreimbursed COVID-related costs as defined by the U.S. Department of Health and Human Services ("HHS"), and that the providers will not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have

otherwise been required to pay if the care had been provided by an in-network provider. All recipients of PRF payments are required to comply with the reporting requirements described in the terms and conditions and as determined by HHS. We recognize grant payments as income when there is reasonable assurance that we have complied with the conditions associated with the grant. Our estimates could change materially in the future based on our operating performance or COVID-19 activities, as well as the government’s evolving grant compliance guidance. Grant income recognized is presented in Other operating revenue in the accompanying Consolidated Statements of Operations for the year ended December 31, 2020. During the year ended December 31, 2020, we recognized grant income of \$65 million. We have deferred \$3.9 million of payments, which amount is recorded in Other current liabilities on our Consolidated Balance Sheet at December 31, 2020.

**Cash, Cash Equivalents, and Restricted Cash**—Cash and cash equivalents include currency on hand, demand deposits with banks or other financial institutions, and short-term maturities of 90 days or less from the date of purchase that have not otherwise been classified as long-term assets due to a designation for long-term purposes. North Memorial’s cash investments are placed with high-quality financial institutions and may exceed federal depository insurance limits. Restricted cash and cash equivalents include amounts described above that are included within assets limited as to use. Restricted cash balance was \$840 and \$838 as of December 31, 2020 and 2019, respectively.

	2020	2019
Cash and cash equivalents, unrestricted	\$ 142,579	\$ 30,908
Cash and cash equivalents, restricted	840	838
Restricted cash limited as to use, current portion	<u>2,008</u>	<u>2,008</u>
Total cash and cash equivalents	<u>\$ 145,427</u>	<u>\$ 33,754</u>

**Other Receivables**—Other receivables consist primarily of other nonpatient accounts receivable and the estimated uncollectable patient receivable amount.

**Inventories of Supplies**—Inventories consist principally of medical and surgical supplies and pharmaceuticals and are stated at the lower of cost (using the average-cost method) or net realizable value. Inventory of supplies is included in other current assets in the consolidated statements of financial position.

**Investments**—North Memorial’s investments include money market, fixed income and equity securities, which are carried at fair value based upon quoted market prices in active markets or other observable inputs and are classified as trading securities. Investments in alternative investments and real estate are reported at net asset value (NAV) of the respective fund, which approximates fair value. Purchases and sales of securities are reflected on a trade-date basis, and dividends are recorded on the ex-dividend date.

Investment income is recorded on the accrual basis. Realized investment income on investments held by the insurance subsidiary is recorded in other operating revenue. Investment return (including realized and unrealized gains and losses, interest, and dividends) from all other investments and unrealized income on funds held by the insurance subsidiary are recorded and nonoperating gains or losses, unless restricted by donor or law.

**Land, Buildings, and Equipment**—Land and improvements, buildings, and equipment are carried at cost. Donated items are recorded at fair value on the date of the contribution. Depreciation is calculated over the estimated useful lives of the assets using the straight-line method and is recorded as follows:

Land improvements	3–25 years
Buildings and improvements	10–40 years
Equipment and fixtures	3–20 years

Interest cost (net of interest income on investments held by trustee under bond indenture agreement) incurred on borrowed funds during the construction of capital assets is capitalized as a component of the cost of acquiring those assets.

North Memorial capitalizes costs associated with software purchases (included within equipment and fixtures) and amortizes the costs using the straight-line method over the software’s useful life.

**Goodwill and Intangible Assets** - Goodwill and intangible assets are recorded in the consolidated balance sheets. During 2020 and 2019, North Memorial recorded \$4,107 and \$4,232 respectively, of goodwill and intangible assets. Goodwill and intangible assets are included within other current assets in the consolidated statements of financial position. North Memorial annually evaluates the carrying values of goodwill for potential impairment by qualitative assessment.

**Asset Impairment**—North Memorial annually evaluates the carrying values of long-lived assets, and intangible assets for potential impairment by comparing the carrying value of these assets to the estimated undiscounted future cash flows expected to result from the use of these assets. Should the sum of the expected future net cash flows be less than the carrying value, an impairment loss would be recognized within operating income at the time the impairment is identified.

**Right-of-Use Asset and Operating Lease Liability**—North Memorial leases various facilities and equipment under noncancelable operating leases expiring at various dates through the year 2040 and records the corresponding right-of-use assets and operating lease liabilities on the consolidated balance sheets. Right-of-use assets are calculated as the lease liabilities, plus any prepaid lease payments and initial direct costs, less any lease incentives. Renewal options to extend the lease term that are reasonably certain to be exercised are included in the measurement of leases. North Memorial does not separate lease and non-lease components for all current lease classes. Operating lease liabilities are calculated as the present value of the remaining lease payments, discounted in a range of 2.4% to 5.0% for facilities and 2.0% for equipment. North Memorial excludes operating leases with terms of 12 months or less and includes any fixed non-lease components in lease measurement.

**Net Assets**—Net assets not subject to donor-imposed stipulations are reflected as net assets without donor restrictions and may be used at the discretion of management and the board of directors of North Memorial. Net assets with donor restrictions are those whose use has been limited by donors and grantors to a specific purpose, passage of time, or that must be maintained in perpetuity. Gifts and other resources with restrictions are recorded as direct additions to net assets with donor restrictions.

When a restriction is met, or a donor-imposed restriction changes, net assets are reclassified and reported as net assets released from restrictions within other operating revenue, nonoperating expense, or releases for acquisitions of property and equipment. Donor-restricted gifts whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

**Net Patient Service Revenue**—North Memorial is a participating provider with Medicare and Medicaid and has contractual arrangements with other third-party commercial payors that provide payments to North Memorial at amounts different from its established rates. Payments for services are based on prospectively determined rates per discharge, reimbursed costs, discounted charges, or per diem payments, negotiated between North Memorial and certain managed care organizations. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services provided, 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 provided and adjusted in future periods as final settlements are determined.

**Other Operating Revenue**—Other operating revenue primarily consists of rent revenue, pharmacy revenue, contract services, and funds received from federal, state and other grants. Revenue is recognized upon delivery of service. Income on health care-related joint ventures is recorded as other operating revenue in the consolidated statements of operations. Grant revenue is recognized upon North Memorial's satisfaction of program requirements.

**Charity and Uncompensated Care**—North Memorial provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because North Memorial does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The estimated cost of providing charity care was \$7,615 and \$9,000 during 2020 and 2019, respectively. This amount is estimated by applying an overall cost-to-charge ratio to charges incurred.

**Performance Indicator**—The performance indicator is the excess of revenue over expenses. Excess of revenue over expenses includes all changes in unrestricted net assets except for assets acquired using contributions, which were restricted by the donors; income from restricted investments; pension-related changes other than net periodic pension costs; and distributions or contributions with non-controlling interests.

**Investment in Non-Controlling Interests**—Investment in entities in which North Memorial has the ability to exercise significant influence over operating and financial policies, but does not have operational control, are recorded under the equity method of accounting.

The consolidated financial statements also include entities in which North Memorial has less than 100% ownership but otherwise controls in accordance with applicable guidance. Non-controlling interests represent the portion of excess of revenues over expenses and net assets without donor restrictions not attributable to North Memorial.

**Tax Status**—North Memorial, including its wholly owned subsidiaries (except OHE), and MGH have been determined by the Internal Revenue Service to be tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the "Code"). AHAL, under current Bermuda law, is not required to pay taxes in Bermuda on either income or capital gains. AHAL has received an undertaking from the Bermuda government that, in the event of income or capital gains taxes being imposed, AHAL will be exempted from such taxes until the year 2035.

North Memorial is engaged in certain activities that result in unrelated business income. North Memorial recorded an income tax expense of approximately \$445 and \$97 in 2020 and 2019, respectively, which is included with other operating expenses in the consolidated statements of operations. North Memorial recognizes all tax positions when it is more likely than not that, based on technical merits, the position

will be sustained upon examination. North Memorial evaluates its uncertain positions on an annual basis, and there have been no uncertain tax positions recorded in the consolidated balance sheets as of December 31, 2020 or 2019.

**Concentration of Risk**—North Memorial has 10 labor contracts covering 34% of its labor force.

**Recently Adopted Accounting Guidance**—In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-04, *“Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting.”* This ASU provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria that reference the London Interbank Offered Rate (“LIBOR”) or another rate that is expected to be discontinued. The optional amendments in the ASU are effective for all entities as of March 12, 2020 through December 31, 2022. The adoption of this guidance does not have a material impact on the Company’s financial statements and disclosures.

### **3. LIQUIDITY AND AVAILABILITY OF FUNDS**

North Memorial’s working capital can fluctuate moderately during the year due to timing of payment received on accounts receivable from certain payors, timing of cash inflows and outflows related to various agreements, and timing of cash outflows, including payments on long-term debt, capital expenditures and timing of employee payments. As part of North Memorial’s liquidity management, financial assets are structured to be available as its general expenditures, liabilities, and other obligations come due. In addition, North Memorial invests cash in excess of daily requirements in short-term investments. To help management with unexpected liquidity needs, North Memorial has a \$50,000 line of credit with a bank that can be drawn upon.

As of December 31, 2020, cash and equivalents were \$143,419 and long-term investments were \$360,653. As of December 31, 2020, \$50,000 remained available on North Memorial’s line of credit.

Due to the COVID-19 pandemic, CMS paid an advance to North Memorial of \$52,804. Starting in April 2021, CMS will use this advance in lieu of claim payments until the funds are depleted. Any remaining funds that are not recouped by CMS at March 31, 2022 will be remitted back. North Memorial also participated in the FICA employer tax deferral. North Memorial deferred a total of \$12,570 of FICA taxes in the current year and will pay 50% of the tax by December 31, 2021 and remaining 50% by December 31, 2022.

North Memorial has long term investments, which are available for general expenditure within one year in the normal course of operations, and donor restricted assets. Accordingly, these assets have been included in the quantitative information below for financial assets to meet general expenditures within one year. North Memorial has other assets limited to use for donor-restricted purposes, debt service, and for the professional and general liability captive insurance program. Additionally, certain assets are designated for future capital expenditures and an operating reserve. Assets limited to use, which are more fully described in notes below, are not available for general expenditure within the next year; however, the long term investment amounts could be made available, if necessary.

	<b>2020</b>	<b>2019</b>
Financial assets at year-end:		
Cash and cash equivalents	\$ 143,419	\$ 31,746
Accounts receivable—net	97,331	105,590
Other receivables	21,386	21,136
Long term investments	360,653	339,043
Assets limited as to use:		
Funds held by trustee	2,890	2,833
Assets limited as to use—current portion	2,008	2,008
Investments held for professional liability claims	10,190	9,678
Restricted investments	<u>11,302</u>	<u>9,413</u>
 Total financial assets	 <u>649,179</u>	 <u>521,448</u>
 Less amounts not available to be used within one year:		
Restricted cash	(840)	(838)
Assets limited as to use—current portion	(2,008)	(2,008)
Assets limited as to use	<u>(24,382)</u>	<u>(21,924)</u>
 Financial assets not available to be used within one year	 <u>(27,230)</u>	 <u>(24,770)</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 621,949</u>	 <u>\$ 496,678</u>

#### **4. NET PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE**

Net patient service revenue is reported at estimated net realizable amounts from patients, residents, third-party payors, and others that North Memorial expects to receive in exchange for providing patient care. North Memorial determines performance obligations based on the nature of the services provided. Revenue is recognized when those services are rendered, and the patient or third-party payor is billed usually within several days of service or discharge. For services provided over a period of time, such as inpatients receiving acute care services, revenue recognition begins when the patient is admitted and concludes at the time of discharge. Remaining performance obligations relating to inpatient acute care services as of December 31, 2020, will be satisfied in full in 2021. As a result, North Memorial has applied the optional exemption provided in Accounting Standards Codification (ASC) 606-10-50-14(a) and is not required to disclose these amounts.

The initial estimate of net patient service revenue is determined by reducing the gross charge by contractual adjustments arising from various reimbursement arrangements with third-party payors and implicit price concessions (bad debts) provided to self-pay patients for their respective patient



responsibility. As a practical expedient, North Memorial has elected to account for third-party payor and patient contracts as collective groups rather than individual contracts. The financial statement effects of using this practical expedient are not materially different than an individual contract approach.

North Memorial grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. North Memorial participates in Medicare, Medicaid, and other third-party payor programs. Contractual adjustments are accrued on an estimated basis in the period in which the services are rendered based on the respective contractual agreements and historical experience. Certain reimbursement arrangements are subject to retroactive audit, and as a result, there is a reasonable possibility that recorded estimates could change upon audit. Differences between amounts estimated and final settlements are included in operations in the year in which the differences become known.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which North Memorial estimates the corresponding ability to collect based on historical experience, current market conditions, and information gathered based on the patient's ability to pay. Subsequent changes as a result of adverse changes in the patient's ability to pay are recorded as bad debt expense within operating expenses. Subsequent changes to the allowance for bad debts estimates for the years ended December 31, 2020 and 2019, were not material.

North Memorial recognizes that revenues and receivables from government agencies are significant to its operations but does not believe there are significant credit risks associated with these government agencies. Net patient service revenue and receivables net of contractual allowances for the year ended December 31, 2020, are as follows:

	<b>Net Patient Service Revenue</b>	<b>Net Patient Receivables</b>
Medicare	33 %	26 %
Medicaid	15	14
Commercial/other	51	46
Self-pay	<u>1</u>	<u>14</u>
Total	<u>100 %</u>	<u>100 %</u>

## 5. LONG TERM INVESTMENTS

Investments in marketable securities are generally carried at fair value based on quoted market prices and net unrealized gains and losses on investments are included in investment income—net in the consolidated statements of operations. Realized gains and losses on sales of investments are recorded using the average cost method. The investments in the alternative investment, the real estate investment trust (REIT), and the collective bond fund are recorded at fair value based on the NAV per share. Net earnings on these investments are included in investment income—net in the consolidated statements of operations.

North Memorial invests in various securities, including equity securities, US government and agency securities, corporate and foreign bonds, mutual funds, and derivatives, such as futures contracts. These derivative positions are not designated as hedges for accounting purposes. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in

the value of investment securities could occur and such changes could materially affect the value of investments.

Investments at fair value as of December 31, 2020 and 2019, were as follows:

	<b>2020</b>	<b>2019</b>
Marketable securities:		
Cash and cash equivalents	\$ 2,665	\$ 1,939
Equity securities	35,153	33,382
Equity mutual funds	122,630	106,380
Bond mutual funds	102,224	101,604
Other Investments	332	-
Alternative investments	68,431	65,939
REIT	28,922	29,464
Pending investment settlements receivable	296	332
Accrued interest	<u>-</u>	<u>3</u>
 Total	 <u>\$ 360,653</u>	 <u>\$ 339,043</u>

## 6. ASSETS LIMITED AS TO USE

Assets limited as to use include assets held by trustees under provisions of certain bond indentures, assets related to restricted net assets, assets held for professional liability claims, and collateral held for securities lending. These investments are primarily cash and cash equivalents, equity securities, and mutual funds.

Investments at fair value as of December 31, 2020 and 2019, were as follows:

	<b>2020</b>	<b>2019</b>
Marketable securities:		
Cash and cash equivalents	\$ 4,149	\$ 6,726
Equity mutual funds	15,400	12,245
Bond mutual funds	6,837	4,857
Accrued interest	<u>4</u>	<u>104</u>
 Total	 <u>\$ 26,390</u>	 <u>\$ 23,932</u>
 Reported as:		
Other current assets	\$ 2,008	\$ 2,008
Assets limited as to use		
Held by trustee under bond indenture agreement	2,890	2,833
Investments held for professional liability claims	10,190	9,678
Restricted investments	<u>11,302</u>	<u>9,413</u>
 Total assets limited as to use	 <u>24,382</u>	 <u>21,923</u>
 Total assets limited as to use	 <u>\$ 26,390</u>	 <u>\$ 23,931</u>

## 7. ASSETS AND LIABILITIES OF BUSINESS HELD FOR SALE AND DEPOSIT LIABILITY

On January 1, 2020, North Memorial entered into a definitive agreement to form Blaze Health with Blue Cross Blue Shield. As part of the agreement, North Memorial contributed assets of certain clinics to Blaze Health as of December 31, 2019, and received from Blue Cross Blue Shield the agreed upon purchase price of \$16,000, which represented a deposit liability recorded in other current liabilities on the statements of consolidated financial position. North Memorial aggregated and classified the assets and liabilities directly associated with the agreement as held for sale and has reported them separately on its consolidated balance sheet as of December 31, 2019. As of December 31, 2020, there is \$0 of assets and liability to be reported separately. The 2019 assets and liabilities held for sale were as follows:

<b>Assets</b>	<b>December 31, 2019</b>
Current assets:	
Patient accounts receivable, less allowances	\$ 8,022
Other receivables	4,555
Prepaid expenses	<u>883</u>
Total current assets	13,460
Land, buildings, and equipment	15,304
Other assets	<u>2,341</u>
Total assets held for sale	<u>\$ 31,105</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 770
Accrued expenses	<u>2,820</u>
Total liabilities held for sale	<u>\$ 3,590</u>

## 8. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment as of December 31, 2020 and 2019, consisted of the following:

	<b>2020</b>	<b>2019</b>
Land and land improvements	\$ 37,415	\$ 24,284
Buildings and improvements	378,407	370,496
Equipment and fixtures	<u>408,845</u>	<u>385,637</u>
Total land, buildings, and equipment	824,667	780,417
Less accumulated depreciation	<u>(568,651)</u>	<u>(534,242)</u>
Land, buildings, and equipment—net	256,016	246,175
Construction in progress	<u>6,656</u>	<u>13,425</u>
Total	<u>\$ 262,672</u>	<u>\$ 259,600</u>

North Memorial recorded depreciation expense of \$34,886 and \$39,065 for the years ended December 31, 2020 and 2019, respectively.

## 9. OTHER ASSETS

Other assets as of December 31, 2020 and 2019, consisted of the following:

	<b>2020</b>	<b>2019</b>
Investments in joint ventures	\$ 24,139	\$ 22,048
Cash surrender value of life insurance policies and deferred compensation plan assets	33	180
Investment in land	1,692	1,692
Goodwill	3,607	3,607
Intangible assets	500	625
Beneficial interest in remainder trust	705	801
Insurance security deposit	<u>4,721</u>	<u>4,340</u>
Total	<u>\$ 35,396</u>	<u>\$ 33,293</u>

Deferred compensation plan assets consist of mutual funds and are recorded at fair value, which is based on quoted market prices.

## 10. JOINT VENTURES

North Memorial maintains investments in various entities, which are being accounted for under the equity method of accounting. These entities are generally involved in health care and insurance-related activities. Selected financial information of North Memorial's aggregate equity investments as of and for the years ended December 31, 2020 and 2019, is summarized as follows:

	<b>2020</b>	<b>2019</b>
Revenue	\$ 233,093	\$ 110,110
Operating expenses and other	249,635	94,768
Net (loss) income	(16,542)	15,342
Total assets	112,214	57,711
Total liabilities	57,508	25,063

North Memorial's pro-rata share of Net Income from the various entities is included as a component of other operating revenue. The joint venture formed on January 1, 2020 creating Blaze Health is also reported under the equity method of accounting and included within other operating revenue.

In 2020, North Memorial terminated its sponsorship agreement with the Institute of Athletic Medicine. The company also terminated its membership interest in the Center for Diagnostic Imaging—Roseville.

## 11. OTHER LONG-TERM LIABILITIES

Other long-term liabilities as of December 31, 2020 and 2019, consisted of the following:

	<b>2020</b>	<b>2019</b>
Professional liability and other accrued claims—long term (Note 11)	\$ 6,327	\$ 6,972
Pension and benefit obligation, including net benefit pension obligation—long term	15,472	15,937
All other	<u>68</u>	<u>601</u>
Total	<u>\$ 21,867</u>	<u>\$ 23,510</u>

## 12. LONG-TERM DEBT

Long-term debt as of December 31, 2020 and 2019, consisted of the following:

	2020	2019
Maple Grove Hospital Healthcare Facilities Revenue Bonds, Series 2017, 3.0% to 5.0%	\$ 107,585	\$ 111,650
City of Robbinsdale Series 2017A, 2.9%, maturing in variable installments from \$2,310 to \$5,010 through 2026	26,030	30,395
City of Robbinsdale Series 2017B, 2.9%, maturing in variable installments from \$1,080 in 2019 to \$1,370 in 2026	7,560	8,675
Bremer OMC Mortgage, 3.00%	9,862	10,802
Minnetonka ASC Equipment Note, 4.35%, maturing in increasing monthly installments through 2020	-	212
Minnetonka ASC Equipment Note, 0.00%, maturing in 2021 in 2023	152	-
Health care facilities revenue bonds, Series 2015, 4.0% to 5.0%, maturing in increasing installments from \$1,175 in 2019 to \$3,725 in 2035	39,270	40,480
OMC Maple Grove Mortgage, 3.25%	10,440	11,020
Unamortized premium on Series 2015 bonds	2,761	2,949
Unamortized premium on MG Series 2017 bonds	7,718	8,188
Deferred financing costs	<u>(1,786)</u>	<u>(1,797)</u>
<b>Total long-term debt</b>	<b>209,593</b>	<b>222,574</b>
Less current maturities of long-term debt	<u>(13,095)</u>	<u>(13,275)</u>
<b>Long-term portion, less unamortized discount and debt issuance costs</b>	<b><u>\$ 196,497</u></b>	<b><u>\$ 209,300</u></b>

North Memorial, through a master trust indenture originally dated in 1993, created the Obligated Group, which consists solely of North Memorial Health Hospital. The Obligated Group has pledged and assigned revenue, accounts receivable, and all proceeds therefrom, whether cash or noncash, for payment of all obligations of the Obligated Group issued under this master indenture and all supplemental indentures. The Obligated Group must meet a certain financial ratio covenant and is limited in the amount of additional debt it may incur. North Memorial was in compliance with the financial ratio covenant within this agreement as of December 31, 2020 and 2019.

The City of Robbinsdale, Minnesota on behalf of North Memorial, issued a private placement for Health Care Facilities Revenue Bonds, Series 2017A and B, in the amounts of \$38,870 and \$10,830, respectively. The proceeds of the Series 2017A and B bonds were loaned to North Memorial pursuant to a loan agreement with the City of Robbinsdale dated December 5, 2017. The proceeds were used to refund the Series 2011A and B bonds, of which the Series 2011A was due in full on May 1, 2018. The Series 2017A and B matched the maturities of the Series 2011A and B issue and no new funds were borrowed other than cost of issuance. The Series 2011A and B bonds were issued at \$60,000 and \$15,000, respectively, and had maturities up to 15 years with an effective interest rate of 4.53% and 4.74%, respectively. The Series 2017A and B bonds mature on May 1, 2026, with an effective interest rate of 2.89%.

In May 2017, the City of Maple Grove, Minnesota, issued Health Care Facilities Revenue bonds, Series 2017 on behalf of MGH in the aggregate amount of \$119,390. The proceeds of the Series 2017 bonds were loaned to MGH pursuant to a loan agreement dated May 25, 2017, with the City of Maple Grove. The 2017 issue proceeds were used to refund the Series 2007 bonds, which were secured by a pledge of revenues of MGH, and the guarantees of North Memorial and Fairview Health Services, who had guaranteed 75% and 25%, respectively, of MGH’s obligations under the bonds. The 2017 issue matched the maturities of the 2007 issue and no new funds were borrowed other than cost of issuance. The 2007 Series bonds were issued at \$143,605 and had maturities up to 30 years with an effective interest rate of 5.12%. The 2017 Series bonds have maturities up to 20 years with an effective interest rate of 3.57%.

In May 2006, OMC entered into a \$17,200 taxable mortgage. The proceeds, along with other available funds, were used to build a medical office building in Maple Grove, Minnesota. The interest rate is reset each 60 months at the five-year US Constant Maturity Treasury Index, plus 212.5 basis points. Principal payments are amortized based on the initial interest rate over a period of 25 years. The interest rate was reset during 2018 to 4.745% which was the rate throughout 2019 and into 2020. In November 2020 the Note was amended and restated. Interest is a fixed annual rate of 3.25% with a 20 year amortization and a 10 year balloon as of November 2020

During 2015, North Memorial opened a revolving \$25,000 line of credit to be used for backup liquidity needs and general working capital. The line of credit was increased to \$50,000 in 2020. The line of credit bears interest at the London Inter-Bank Offered Rate (LIBOR), plus 0.9% and is secured by gross revenue and property. The amount outstanding was \$0 and \$0 as of December 31, 2020 and 2019, respectively. As of the date of this report, outstanding borrowings totaled \$0.

During September 2016, OMC entered into a \$12,000 promissory note (the “Note”). The proceeds were requested against the Note to fund the costs of renovation and improvements of medical office buildings located in Robbinsdale. Borrowings on the Note occurred as draw requests and were submitted to the lender for work completed to date. In October 2020 the Note was amended and restated. The interest rate is fixed annual rate of 3.00% over a period of 10 years.

Interest paid, net of amounts capitalized was \$9,061 and \$9,640 during 2020 and 2019, respectively.

Scheduled maturities on long-term debt, net as of December 31, 2020, are as follows:

<b>Years Ending December 31</b>	
2021	\$ 12,453
2022	12,830
2023	13,283
2024	13,777
2025	14,311
Thereafter	<u>134,246</u>
<b>Total</b>	<b><u>\$ 200,900</u></b>

**North Radiation Therapy Center, LLC**—North Memorial has a 50% interest in North Radiation Therapy Center, LLC, which has debt outstanding of \$714 as of December 31, 2020. North Memorial has guaranteed 50% of the payments on this debt.

### 13. LEASES

North Memorial lease agreements are primarily related to the occupancy of office space, garages, hangars, and equipment. As of December 31, 2020, all North Memorial leases were classified as operating leases. The exercise of a lease renewal option is at North Memorial's sole discretion. The lease term includes the initial contractual term as well as any options to extend the lease when it is reasonably certain that North Memorial will exercise that option. North Memorial lease agreements do not contain any residual value guarantees or material restrictive covenants.

North Memorial recognizes a lease liability for the obligation to make lease payments arising from the lease and a related asset for the right to use the underlying asset for the lease term. The lease liability is measured based on the present value of lease payments over the lease term, and the asset is measured based on the value of the lease liability, less any unamortized tenant improvement allowance balances. As the implicit interest rate in North Memorial lease agreements are not readily identifiable, North Memorial used its estimated incremental borrowing rate in determining the present value of lease payments.

Operating lease payments are expensed on a straight-line basis over the lease term. Variable payments are not included in the measurement of the lease liability or asset and are expensed as incurred.

Lease cost includes both the fixed and variable expenses recorded for leases. The components of lease cost were as follows for the year ended December 31, 2020:

Operating lease cost (cost resulting from lease payments)	\$ 5,007
Variable lease cost (cost excluded from lease payments)	2,845
Operating cash paid (principal reduction of lease liability)	7,909

The weighted-average remaining lease term and the weighted-average discount rate associated with North Memorial leases, as of December 31, 2020, were as follows:

Weighted-average remaining lease term—operating leases	6.8 years
Weighted-average remaining discount rate—operating	4.8 %

Future maturities of operating lease liabilities as of December 31, 2020, were as follows:

2021	\$ 9,761
2022	9,066
2023	8,202
2024	7,447
2025	6,467
Thereafter	<u>13,026</u>
Total lease payments	53,969
Less effects of discounting	<u>7,956</u>
Total lease obligations	46,013
Less current lease obligations	<u>7,717</u>
Long-term lease obligations	<u>\$ 38,296</u>



North Memorial impaired three leases in the current year. Impairment expense was recognized at the time impairment was identified. Impairment expense recorded as a result of impairing the ROU assets was \$3,418. In addition, the future expense of \$3,953 related to the leases was also recognized at the time of impairment.

Future maturities of impaired operating lease liabilities as of December 31, 2020, were as follows:

2021	\$ 657
2022	651
2023	645
2024	637
2025	516
Thereafter	<u>847</u>
 Total	 3,953
 Less current lease obligations	 <u>657</u>
 Long-term lease obligations	 <u><u>\$ 3,296</u></u>

Total Rental expense on cancelable and noncancelable leases was approximately \$18,704 and \$20,511 in 2020 and 2019, respectively. Rental income from subleases for the year ended December 31, 2020, was approximately \$5,114.

#### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

**Level 1 Inputs**—Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

**Level 2 Inputs**—Inputs include directly or indirectly observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that are considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves that are observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Level 3 Inputs**—Inputs include unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets, liabilities, or related observable inputs that can be corroborated at the measurement date. Unobservable inputs reflect North Memorial’s own judgment about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets include financial instruments whose values are determined using pricing models, discounted cash flow

methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, common stocks, equity mutual funds, and fixed-income mutual funds. Level 2 investments represent pooled funds invested primarily in debt securities and collateral received under securities lending agreements invested primarily in debt securities. The fair value of such pooled funds is generally based on NAV per fund share (the unit of account), derived from the quoted prices in active market of the underlying securities.

Financial assets and liabilities measured at fair value on a recurring basis, by type of inputs applicable to the fair value measurements, as of December 31, 2020 and 2019, consisted of the following:

Description	2020			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value investments:				
Cash and cash equivalents	\$ 6,814	\$ 6,814	\$ -	\$ -
Equity securities:				
Small- and mid-cap equities	35,153	35,153	-	-
Equity mutual funds:				
Large-cap equities	80,068	80,068	-	-
International equities	57,962	57,962	-	-
Bond mutual funds	109,061	109,061	-	-
Other investments	333	333	-	-
Pending investment settlements receivable	<u>296</u>	<u>296</u>	<u>-</u>	<u>-</u>
Total recurring fair value investments	<u>\$289,687</u>	<u>\$289,687</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued interest	4			
Assets valued at NAV <sup>(a)</sup>	<u>97,352</u>			
Total investments	<u>\$387,043</u>			

<sup>(a)</sup> In accordance with Subtopic 820-10, *Fair Value Measurements and Disclosures*, certain investments that are measured at fair value using the NAV (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

Description	2019			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value investments:				
Cash and cash equivalents	\$ 8,665	\$ 8,665	\$ -	\$ -
Equity securities:				
Small- and mid-cap equities	33,382	33,382	-	-
Equity mutual funds:				
Large-cap equities	68,251	68,251	-	-
International equities	50,374	50,374	-	-
Bond mutual funds	106,461	106,461	-	-
Pending investment settlements receivable	<u>332</u>	<u>332</u>	-	-
Total recurring fair value investments	267,465	<u>\$ 267,465</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued interest	107			
Assets valued at NAV <sup>(a)</sup>	<u>95,402</u>			
Total investments	<u>\$ 362,974</u>			
Deferred compensation assets/liabilities	<u>\$ 138</u>	<u>\$ 138</u>	<u>\$ -</u>	<u>\$ -</u>

<sup>(a)</sup> In accordance with Subtopic 820-10, *Fair Value Measurements and Disclosures*, certain investments that are measured at fair value using the NAV (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

North Memorial's investments do not have redemption or other restrictions, with the exception of the investments in the alternative investment and REIT.

For the years end December 31, 2020 and 2019, there were no transfers in or out of Levels 1, 2, or 3.

North Memorial holds interest in an alternative investment and an REIT where the fair value of the investments held is estimated based on the NAV of the fund. The following discloses the unfunded commitment, redemption frequency, and redemption noted period for each applicable investment class as of December 31, 2020 and 2019, for which fair value is measured based on NAV:

<b>Fair Value Estimated Using Net Asset Value per Share</b>				
<b>December 31, 2020</b>				
<b>Investment</b>	<b>Fair Value *</b>	<b>Unfunded Commitment</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Alternative investments	\$ 68,431	\$ -	Monthly	5 days
REIT	<u>28,922</u>	<u>-</u>	Quarterly	30 days
Total	<u>\$ 97,353</u>	<u>\$ -</u>		

<b>Fair Value Estimated Using Net Asset Value per Share</b>				
<b>December 31, 2019</b>				
<b>Investment</b>	<b>Fair Value *</b>	<b>Unfunded Commitment</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Alternative investments	\$ 65,939	\$ -	Monthly	5 days
REIT	<u>29,464</u>	<u>-</u>	Quarterly	30 days
Total	<u>\$ 95,403</u>	<u>\$ -</u>		

\* The fair values of the investments have been estimated using the NAV of the investment.

The alternative investments are managed as two collective funds by Parametric Portfolio Associates (Parametric). One investment consists of 50% short-term treasuries, Standard and Poor's 500 (S&P 500) index futures with a notional value equal to 50% of the investment, and puts and calls around the S&P 500 index. The other investment consists of 50% short-term treasuries, All Country World Index excluding USA futures (ACWI ex USA) with a notional value equal to 50% of the investment, and puts and calls around the ACWI ex USA. The 50% not invested in treasuries is used as a margin fund for the futures positions and purchasing puts. Additional cash is raised by selling calls. The goal of each fund is to equal or exceed the return of the fund's respective benchmark over a full market cycle with 40% lower volatility. The individual treasuries, index futures, puts, and calls are marked to market daily. The investments are highly liquid. The NAV of the fund is determined by Parametric and is calculated at the close of business on the last business day of each month by adding the value of the fund's assets, less the fund's liabilities.

North Memorial's investment in an REIT is valued at estimated fair value based on the proportionate share of the REIT's fair value as recorded in the REIT's audited fair value financial statements. The REIT invests primarily in real estate. The REIT allocates gains, losses, and expenses to the partners based on the ownership percentage as described in the partnership agreement.

The estimated fair value of the Series 2017 A and B bonds and the OMC mortgage approximates carrying value at December 31, 2020 and 2019. The estimated fair value of the Series 2015 bonds at December 31,

2020 and 2019, was \$44,361 and \$45,811, respectively. The estimated fair value of the Series 2017 bonds at December 31, 2020 and 2019, was \$122,576 and \$126,383, respectively. The estimated fair value of North Memorial's debt is based on discounted cash flows at current market rates for similar debt at December 31, 2020 and 2019. The estimated fair value of the capital lease obligations was approximately \$0 and \$0 at December 31, 2020 and 2019, respectively. The estimated fair value is determined based on current borrowing rates available to management for similar type of debt issues.

North Memorial has elected the fair value option for its debt and equity securities to improve financial reporting. The election of the fair value option results in these securities being recorded at fair value, with unrealized gains and losses being recorded in investment income—net in the consolidated statements of operations.

Total return on unrestricted investments and its classification in the consolidated statements of operations and changes in net assets for the years ended December 31, 2020 and 2019, are summarized as follows:

	2020	2019
Return on investments:		
Other operating revenue	\$ 1,400	\$ 1,300
Nonoperating income:		
Dividend and interest income	4,385	5,611
Earnings on other investments	287	162
Net realized gains on sales of investments	3,858	9,401
Net change in unrealized gains on investments	<u>23,943</u>	<u>35,608</u>
Total nonoperating income	<u>32,473</u>	<u>50,782</u>
Total gain on unrestricted investments	<u>\$ 33,873</u>	<u>\$ 52,082</u>

Investment income—net in the consolidated statements of operations is net of investment management fees of \$930 and \$771 during 2020 and 2019, respectively.

Total operating income in the consolidated statements of operations includes the Foundation's change in unrealized gain on investments of \$983 and \$1,025 during 2020 and 2019, respectively.

## 15. EMPLOYEE BENEFIT PLANS

North Memorial sponsors a number of pension plans covering most of its employees who met certain eligibility requirements.

**Defined Benefit Pension Plans**—North Memorial has a qualified defined benefit pension plan covering substantially all employees as of February 28, 1999, except those covered by bargaining agreements and seasonal or part-time employees. The plan provides pension benefits based on years of service and the employee's highest compensation during five consecutive years of employment. It is the policy of North Memorial to contribute annually the amount necessary to prevent a deficiency in the plan's funding standard account. Effective February 28, 1999, the qualified defined benefit pension plan was amended to suspend the accrual of additional benefits for future service. North Memorial's employees will retain their vested benefits, which will be paid according to the provisions of the plan.

North Memorial has a nonqualified defined benefit pension plan covering certain current and former executives. The Supplemental Plan (SERP) benefit is payable as a lump sum or an annuity when the vesting date is reached.

The information for the defined benefit pension plans as of and for the years ended December 31, 2020 and 2019, is as follows:

	Qualified Plan		Nonqualified Plans	
	2020	2019	2020	2019
Change in projected benefit obligation:				
Projected benefit obligation—beginning of year	\$59,338	\$ 58,340	\$ 3,682	\$ 3,679
Service cost	150	150	-	-
Interest cost	1,790	2,210	111	144
Actuarial gain (loss)	4,599	5,013	315	270
Benefits paid	(3,197)	(3,796)	(409)	(411)
Settlements	(1,969)	(2,579)	-	-
	<u>60,711</u>	<u>59,338</u>	<u>3,699</u>	<u>3,682</u>
Change in plan assets:				
Fair value of assets—beginning of year	49,131	45,735	-	-
Actual return on assets	4,374	7,897	-	-
Employer contribution	2,500	1,875	409	411
Benefits and settlements paid	(5,165)	(6,375)	(409)	(411)
	<u>50,840</u>	<u>49,132</u>	<u>-</u>	<u>-</u>
Funded status—end of year	<u>\$ (9,871)</u>	<u>\$ (10,206)</u>	<u>\$ (3,699)</u>	<u>\$ (3,682)</u>
Amounts recognized in the consolidated statements of financial position:				
Current liabilities	\$ -	\$ -	\$ (395)	\$ (397)
Noncurrent liabilities	(9,871)	(10,206)	(3,304)	(2,185)
Net amount recognized	<u>\$ (9,871)</u>	<u>\$ (10,206)</u>	<u>\$ (3,699)</u>	<u>\$ (2,582)</u>
Amounts recognized in change in net assets—net gain (loss)	<u>\$ (920)</u>	<u>\$ 2,704</u>	<u>\$ (181)</u>	<u>\$ (161)</u>
Components of net periodic pension cost:				
Service cost	\$ 150	\$ 150	\$ -	\$ -
Interest cost	1,790	2,210	111	144
Expected return on assets	(2,781)	(2,778)	-	-
Amortization of unrecognized net loss	2,087	2,598	-	-
Amortization of unrecognized prior service benefit	-	-	134	109
Net periodic pension cost	<u>\$ 1,246</u>	<u>\$ 2,180</u>	<u>\$ 245</u>	<u>\$ 253</u>

	Qualified Plan		SERP	
	2020	2019	2020	2019
Weighted-average assumptions:				
Used to determine benefit obligation at December 31:				
Discount rate	2.59 %	3.38 %	2.24 %	3.19 %
Rate of increase in compensation	N/A	N/A	N/A	N/A
Used to determine net periodic benefit cost for the year ended December 31:				
Discount rate	3.38	4.33	3.19	4.15
Long-term rate of return on assets	6.10	6.80	N/A	N/A

To determine the expected long-term rate of return on assets assumption, North Memorial considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The qualified defined benefit pension plan weighted-average asset allocations for cash equivalents, mutual funds, common stocks, and real estate/property and alternatives as of December 31, 2020 and 2019 were as follows:

	2020	2019
Cash equivalents	0.21 %	0.27 %
Mutual funds	56.48	56.88
Common stocks	11.29	10.14
Real estate/property and alternatives	32.02	32.71

The asset allocation strategy contains guideline percentages, at market value, of the total plan assets invested in various asset classes and includes ranges for each class. Asset classes are allowed to fluctuate within the approved ranges and are rebalanced when a class falls outside the acceptable range. The Pension Committee may also make tactical decisions to overweight certain asset classes within the approved ranges. The current asset allocation is as follows:

Asset Class	Strategic Target	Target Range
US equities	24 %	19–29 %
International equities	16	11–21
Fixed-income securities	30	25–35
Alternative investments	20	15–25
Private equity real estate	10	5–15

Financial assets of the qualified plan measured at fair value on a recurring basis, by type at December 31, 2020 and 2019, are set forth by level within the fair value hierarchy. The assets of qualified plan exclude net unsettled funds of \$464 and \$614 for 2020 and 2019, respectively.

<b>2020</b>				
<b>Description</b>	<b>Total</b>	<b>Quoted Prices</b>		
		<b>in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Cash and cash equivalents	\$ 108	\$ 108	\$ -	\$ -
Mutual funds	28,454	28,454	-	-
Common Stocks	<u>5,686</u>	<u>5,686</u>	<u>-</u>	<u>-</u>
Total recurring fair value measurements	34,248	<u>\$ 34,248</u>	<u>\$ -</u>	<u>\$ -</u>
Assets valued at NAV <sup>(a)</sup>	<u>16,128</u>			
Total pension plan assets	<u>\$ 50,376</u>			

<sup>(a)</sup> In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of changes in net assets.

<b>2019</b>				
<b>Description</b>	<b>Total</b>	<b>Quoted Prices</b>		
		<b>in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Cash and cash equivalents	\$ 133	\$ 133	\$ -	\$ -
Mutual funds	27,596	27,596	-	-
Common Stocks	<u>4,920</u>	<u>4,920</u>	<u>-</u>	<u>-</u>
Total recurring fair value measurements	32,649	<u>\$ 32,649</u>	<u>\$ -</u>	<u>\$ -</u>
Assets valued at NAV <sup>(a)</sup>	<u>15,868</u>			
Total pension plan assets	<u>\$ 48,517</u>			

<sup>(a)</sup> In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value



hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of changes in net assets.

For the years ended December 31, 2020 and 2019, there were no transfers in or out of Levels 1, 2, or 3.

The Plan's investments do not have redemption or other restrictions, with the exception of the investments in the alternative investment and REIT.

A summary of the plan's investments at December 31, 2020 and 2019, in which fair value is estimated based on the NAV is as follows:

<b>Fair Value Estimated Using Net Asset Value per Share</b>				
<b>December 31, 2020</b>				
<b>Investment</b>	<b>Fair Value *</b>	<b>Unfunded Commitment</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Alternative investment	\$ 10,355	\$ -	Monthly	5 days
REIT	<u>5,773</u>	<u>-</u>	Quarterly	30 days
Total	<u>\$ 16,128</u>	<u>\$ -</u>		

<b>Fair Value Estimated Using Net Asset Value per Share</b>				
<b>December 31, 2019</b>				
<b>Investment</b>	<b>Fair Value *</b>	<b>Unfunded Commitment</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Alternative investment	\$ 9,987	\$ -	Monthly	5 days
REIT	<u>5,881</u>	<u>-</u>	Quarterly	30 days
Total	<u>\$ 15,868</u>	<u>\$ -</u>		

\* The fair values of the investments have been estimated using the NAV of the investment.

The alternative investments are managed as two collective funds by Parametric. One investment consists of 50% short-term treasuries, S&P 500 index futures with a notional value equal to 50% of the investment and puts and calls around the S&P 500 index. The other investment consists of 50% short-term treasuries, ACWI ex USA futures with a notional value equal to 50% of the investment and puts and calls around the ACWI ex USA futures. The 50% not invested in treasuries is used as a margin fund for the futures positions and purchasing puts. Additional cash is raised by selling calls. The goal of each fund is to equal or exceed the return of the fund's respective benchmark over a full market cycle with 40% lower volatility. The individual treasuries, index futures, puts, and calls are marketed to market daily. The investments are highly liquid. New investments/redemptions are limited biweekly. The NAV of the fund is determined by Parametric and is calculated at the close of business on the last business day of each month by adding the value of the fund's assets, less the fund's liabilities.

The plan's investment in an REIT is valued at estimated fair value based on the proportionate share of the REIT's fair value as recorded in the REIT's audited fair value financial statements based on discounted

cash flows of property income adjusted for terminal capitalization rates, discount rates, rental data, capital expenditures and other lease incentives, and growth assumptions, which are derived from market transactions, as well as other financial and industry market data. The REIT invests primarily in real estate. The REIT allocates gains, losses, and expenses to the partners based on the ownership percentage as described in the partnership agreement.

Contributions to the qualified and nonqualified pension plans are expected to be \$2,500 and \$400 respectively, in 2021. Benefit payments for the qualified and nonqualified plans, which reflect expected future service, as appropriate, as of December 31, 2021, are expected to be paid as follows:

<b>Years Ending December 31</b>	<b>Qualified Plan</b>	<b>Nonqualified Plans</b>
2021	\$ 7,952	\$ 400
2022	5,337	382
2023	5,056	363
2024	4,556	343
2025	4,341	323
2026–2030	18,146	1,283

#### **Defined Contribution Plans—**

**401(k).** Effective January 1, 2012, North Memorial adopted a Safe Harbor 401(k) Plan. Under the safe harbor provisions, North Memorial matches 100% of employee contributions on the first 3% of covered compensation and 50% of the contributions between 3% to 5% of covered compensation, subject to certain Code limitations. Certain eligible employees are included under the Safe Harbor provisions.

- The applicable union contract determines the amount of matching contribution for contract employees who participate in the 401(k) plan.
- North Memorial contributed \$9,593 and \$11,815 in 2020 and 2019, respectively, to the 401(k) plan.

**Money Purchase Pension Plan (MPP).** North Memorial had a defined contribution money purchase pension plan (MPP) for certain eligible employees are covered under a collective bargaining agreement.

MPP benefit accruals were frozen effective July 20, 2020 for all participants in the above-described groups, except for Professional Employee Pharmacists of Minnesota (PEPOM) which was frozen to accruals under the MPP effective November 23, 2020. To remain consistent with the terms of the PEPOM union contract, North Memorial began making a fixed contribution to the North Memorial Health Care 401(k) Plan based on the MPP formula.

Prior to the MPP plan freeze, North Memorial contributed a certain percentage of an eligible employee's wages to the plan, which would be held in an account until paid to the employee upon retirement or termination.

Effective December 15, 2020, the 401(k) and MPP plan recordkeeper changed and MPP balances were subsequently moved into a separate source within the 401(k) Plan.

North Memorial contributed \$3,537 and \$6,397 in 2020 and 2019, respectively, to the defined contribution Money Purchase Pension plan.

**Multiemployer Pension Plan**—North Memorial contributes to a union-sponsored multiemployer pension plan under the terms of a collective bargaining agreement. Contributions are determined in accordance with the provisions of the negotiated labor contract and generally are based on salary and the number of hours worked. The risks of participating in a multiemployer plan are different from a single-employer plan in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If North Memorial chooses to stop participating in its multiemployer plan, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

North Memorial’s participation in the plan for the year ended December 31, 2020, is outlined in the table below. The “EIN/Pension Plan Number” column provides the Employee Identification Number (EIN) and the three-digit plan number. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2021 and 2020 is for the plan’s year-end at December 31, 2020 and 2019, respectively. The zone status is based on information that North Memorial received from the plan. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The Minnesota Nurses Association plan was in the green zone based on the 2019 Form 5500, Forms 5500 were not available for the plan year ended in 2020. The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective bargaining agreement to which the plan is subject. There have been no significant changes that affect the comparability of 2020 and 2019 contributions.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status <sup>(a)</sup>		FIP/RP Status Pending/ Implemented	Contributions for the Years Ended		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		January 1,			December 31,			
		2020	2019		2020	2019		
Twin Cities Hospitals— Minnesota Nurses Association	41-6184922			N/A	<u>\$8,898</u>	<u>\$7,810</u>	No	5/31/2022

<sup>(a)</sup> The plan’s funding level on January 1, 2020, is determined based on the actual December 31, 2019, asset values and projected liabilities as of January 1, 2020, that are a rollforward of liabilities from the previous valuation date of January 1, 2019, assuming no actuarial gains/losses occur during the period.

In January 2021, North Memorial contributed approximately \$9,450 to the Twin City Hospitals—Minnesota Nurses Association Pension Plan for 2020, which is North Memorial’s proportionate share of the minimum contribution requirement according to the collective bargaining agreement. North Memorial may be contingently liable for its share of the plan’s unfunded vested liabilities. North Memorial’s estimated withdrawal liability as of December 31, 2020, was approximately \$26,400. The plan has not been terminated, nor has North Memorial undertaken to withdraw from participation; therefore, no liability is recorded in the consolidated financial statements.

North Memorial was listed in the Twin City Hospitals—Minnesota Nurses Association Pension Plan Form 5500 as providing more than 5% of the total contributions for the plan year ended December 31,

2019. At the date the consolidated financial statements were issued, Forms 5500 were not available for the plan year ended in 2020.

**Postretirement Health Care Plan**—North Memorial has postretirement medical benefit plans for certain retired nurses between the ages of 55 and 65, with 10 years or more of service, and select employees offered early retirement during 1997. North Memorial offers continuation of the current medical insurance benefits to these retirees at 100% of the active Consolidated Omnibus Budget Reconciliation Act (COBRA) rate. The amounts recognized in the consolidated statements of operations for the years ended December 31, 2020 and 2019, were \$152 and \$87, respectively.

The accumulated postretirement benefit obligation was \$2,839 and \$1,941 as of December 31, 2020 and 2019, respectively, and is included in accrued salaries and other liabilities in the consolidated statements of financial position. The postretirement health care benefit plans are unfunded.

For measurement purposes, a 3.15% discount rate in 2020 and 4.15% in 2019 was assumed. The annual health care cost increase assumed 6.5% per year for the three years from 2020 through 2022, then reducing 0.5%, per year for three years, reaching 5.0% in 2025 and after.

**Other Plans**—North Memorial offers certain key executives and employed physicians a deferred compensation plan created in accordance with applicable provisions of the Code. The plans permit qualifying employees to defer a portion of their salary until future years. The accumulated deferred compensation balance is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plans and all income attributable to those amounts (until paid or made available to the employee or other beneficiary) are solely the property and rights of North Memorial (not restricted to the payment of benefits under the plan), subject only to the claim of general creditors. Participants' rights under the plans are equal to those of general creditors of North Memorial in an amount equal to the fair market value of the deferred account for each participant. The related assets and liabilities, totaling \$0 and \$138 as of December 31, 2020 and 2019, respectively, are reported at contract value, which approximates fair value, and are included in other liabilities—pension and benefit obligation.

Health and welfare, medical, dental, long-term disability, and life insurance benefits are provided for certain employees and are funded by employer and employee contributions. North Memorial's contribution to the plans was approximately \$45,030 and \$49,620 for 2020 and 2019, respectively.

## 16. COMMITMENTS AND CONTINGENCIES

**Insurance**—North Memorial purchases primary professional liability coverage on a first-dollar basis from AHAL, North Memorial's wholly owned captive insurance company domiciled in Bermuda. The consolidated financial statements include the investments held for professional liability claims, claims payments, and estimated professional liability reserves. The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on past experience and an actuarial report, for future development of reported losses. These estimates are continually reviewed and are subject to the impact of future changes in such factors as claim severity and frequency. Although management has made its best estimate of the liability for losses and loss adjustment expenses using the available information, ultimate settlement could vary significantly from such liability. Any adjustments to recorded liabilities will be reflected in the periods in which they become known.

North Memorial also purchases professional liability primary and excess coverage for employed physicians, general liability and umbrella coverage, auto, insurance, property and business interruption insurance, directors' and officers' liability, and helicopter liability coverage from commercial carriers.

North Memorial was self-insured for workers' compensation prior to November 30, 1997, up to the Workers' Compensation Reinsurance Association retention limit, which varied at levels up to \$580. North Memorial has secured its obligation to the state of Minnesota with a restricted deposit account totaling \$575 and \$573 at December 31, 2020 and 2019, respectively, and is included in cash and cash equivalents in the consolidated statements of financial position.

North Memorial purchases workers' compensation insurance from a commercial carrier, which then reinsured the risk with AHAL. Under this arrangement, AHAL has a maximum per-claim loss of \$750 and a maximum annual loss of \$13,600. MGH purchases worker's compensation from a commercial carrier with a \$250 per-claim limit and a maximum annual loss of \$2,500.

**Litigation**—North Memorial is involved in certain litigation arising during the normal course of conducting business. Management does not believe any material adverse financial impact will result from these legal proceedings.

**Regulatory Environment**—The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, which represent a total of 48% and 47% of total net patient service revenue for 2020 and 2019, respectively, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal and state government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues for patient services. Management believes that North Memorial is in substantial compliance with current laws and regulations.

## 17. NET ASSETS WITH DONOR RESTRICTIONS

	2020	2019
Net assets subject to expenditures for specific purposes:		
Maple Grove Hospital	\$ 1,006	\$ 395
Team Member Assistance & Bereavement	745	167
Oncology	710	745
COVID Response	659	-
Women and Children	497	392
Mental Health	295	493
Other	<u>1,292</u>	<u>1,332</u>
	<u>5,204</u>	<u>3,524</u>
Net assets to be held in perpetuity:		
Endowments, income restricted by donors	1,771	2,422
Endowments, income not restricted by donors	<u>895</u>	<u>1,112</u>
	<u>2,666</u>	<u>3,534</u>
Net assets with donor restrictions	<u>\$ 7,870</u>	<u>\$ 7,058</u>

Changes in net assets with donor restrictions that are to be held in perpetuity for the year ended December 31, 2020, were as follows:

	2020	2019
Beginning of year	\$ 3,534	\$ 2,920
Contributions	2	7
Investment gains	307	659
Net assets released from restrictions	<u>(1,176)</u>	<u>(52)</u>
End of year	<u>\$ 2,666</u>	<u>\$ 3,534</u>

Available endowment earnings are appropriated in accordance with donor restrictions. There are no deficiencies reported in net assets with donor restrictions as of December 31, 2020.

Net assets are released from restrictions by incurring expenses or acquiring property and equipment that meet the requirements of donor restriction. Net assets released from restriction for the years ended December 31, 2020 and 2019, for the various purposes are as follows:

	2020	2019
Operating expenses	\$ 1,068	\$ 693
Capital items	<u>4</u>	<u>612</u>
	<u>\$ 1,072</u>	<u>\$ 1,305</u>

## 18. FUNCTIONAL EXPENSES

North Memorial provides health services to residents within the communities it serves. Expenses related to providing these services included in the consolidated statements of operations are segregated into Health Care Services expense, which relate to direct patient care, and General and Administrative expense, which relate to supporting services. North Memorial also provides support services for Blaze Health captured within the 2020 General and Administrative column and offset through a Management Service Agreement (MSA) with Blaze Health reported within other operating revenues, and not as an offset to the underlying expenses supporting Blaze Health. Applying the value of this MSA to 2020 would reduce the General and Administrative % to total expenses from 14.3% to 11.5%. The breakdown and totals for December 31, 2020 and 2019 are as follows:

	2020		
	Health Care Services	General and Administrative	Total
Salaries and benefits	\$ 404,240	\$ 81,187	\$ 485,427
Supplies and services	227,747	2,463	230,210
Utilities and maintenance	24,332	20,034	44,366
Other operating expenses	41,191	10,236	51,427
Depreciation and amortization	26,761	8,733	35,494
Interest	8,475	-	8,475
Total expense	<u>\$ 732,746</u>	<u>\$ 122,653</u>	<u>\$ 855,399</u>
	2019		
	Health Care Services	General and Administrative	Total
Salaries and benefits	\$ 480,906	\$ 81,894	\$ 562,800
Supplies and services	242,740	2,065	244,805
Utilities and maintenance	26,118	19,187	45,305
Other operating expenses	46,205	11,450	57,655
Depreciation and amortization	30,452	10,139	40,591
Interest	9,125	-	9,125
Total expense	<u>\$ 835,546</u>	<u>\$ 124,735</u>	<u>\$ 960,281</u>

## 19. SUBSEQUENT EVENTS

North Memorial has evaluated subsequent events through April 20, 2021, the date this report was issued, and note no material events have been identified.

\* \* \* \* \*

## **SUPPLEMENTAL SCHEDULES**



# NORTH MEMORIAL HEALTH CARE

## SUPPLEMENTAL CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION AS OF DECEMBER 31, 2020 (In thousands)

	North Memorial Health Care	Maple Grove Hospital Corporation	Eliminations	2020
<b>ASSETS</b>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 73,884	\$ 69,535	\$ -	\$ 143,419
Patient accounts receivable, less allowances	70,894	26,437	-	97,331
Other receivables	21,424	3,836	(3,874)	21,386
Other current assets	<u>20,187</u>	<u>3,327</u>	<u>-</u>	<u>23,514</u>
Total current assets	<u>186,389</u>	<u>103,135</u>	<u>(3,874)</u>	<u>285,650</u>
LONG TERM INVESTMENTS	347,645	13,008	-	360,653
ASSETS LIMITED AS TO USE	<u>22,267</u>	<u>2,115</u>	<u>-</u>	<u>24,382</u>
LAND, BUILDINGS, AND EQUIPMENT—Net	<u>184,942</u>	<u>78,126</u>	<u>(396)</u>	<u>262,672</u>
OPERATING LEASE “RIGHT TO USE” ASSETS	<u>37,830</u>	<u>31</u>	<u>-</u>	<u>37,861</u>
OTHER ASSETS	<u>31,209</u>	<u>4,187</u>	<u>-</u>	<u>35,396</u>
TOTAL	<u>\$810,282</u>	<u>\$200,602</u>	<u>\$(4,270)</u>	<u>\$1,006,614</u>

# NORTH MEMORIAL HEALTH CARE

## SUPPLEMENTAL CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION AS OF DECEMBER 31, 2020 (In thousands)

	North Memorial Health Care	Maple Grove Hospital Corporation	Eliminations	2020
<b>LIABILITIES</b>				
CURRENT LIABILITIES:				
Accounts payable	\$ 38,444	\$ 8,644	\$(2,609)	\$ 44,479
Current maturities of long-term debt	8,395	4,700	-	13,095
Current operating lease liability	8,364	10	-	8,374
Other current liabilities	14,346	553	-	14,899
Accrued compensation and benefits	41,360	8,428	-	49,788
CMS advance and FICA deferral	54,677	10,697	-	65,374
Other	<u>9,946</u>	<u>2,060</u>	<u>(1,265)</u>	<u>10,741</u>
Total current liabilities	175,532	35,092	(3,874)	206,750
OTHER LONG-TERM LIABILITIES	21,867	-	-	21,867
NONCURRENT OPERATING LEASE LIABILITY	41,572	20	-	41,592
LONG-TERM DEBT—Less current maturities	<u>86,732</u>	<u>109,765</u>	<u>-</u>	<u>196,497</u>
Total liabilities	325,703	144,877	(3,874)	466,706
NET ASSETS:				
Without restrictions	464,080	55,725	(396)	519,409
With restrictions	<u>7,870</u>	<u>-</u>	<u>-</u>	<u>7,870</u>
Total net assets attributable to North Memorial	471,950	55,725	(396)	527,279
Noncontrolling interest in joint ventures	12,629	-	-	12,629
Total net assets	<u>484,579</u>	<u>55,725</u>	<u>(396)</u>	<u>539,908</u>
TOTAL	<u>\$810,282</u>	<u>\$200,602</u>	<u>\$(4,270)</u>	<u>\$1,006,614</u>

## NORTH MEMORIAL HEALTH CARE

### SUPPLEMENTAL CONSOLIDATING SCHEDULE OF OPERATIONS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2020 (In thousands)

	North Memorial Health Care	Maple Grove Hospital Corporation	Eliminations	2020
UNRESTRICTED REVENUE:				
Net patient service revenue	\$518,394	\$201,027	\$ (982)	\$718,439
Other operating revenue	<u>184,986</u>	<u>11,635</u>	<u>(57,237)</u>	<u>139,384</u>
Total unrestricted revenue	<u>703,380</u>	<u>212,662</u>	<u>(58,219)</u>	<u>857,823</u>
EXPENSES:				
Salaries and benefits	399,606	85,821	-	485,427
Supplies and purchased services	187,436	71,424	(28,650)	230,210
Utilities and maintenance	40,214	4,274	(122)	44,366
Other operating expenses	47,315	8,796	(4,684)	51,427
Depreciation and amortization	28,562	6,728	204	35,494
Interest	<u>4,039</u>	<u>4,436</u>	<u>-</u>	<u>8,475</u>
Total expenses	<u>707,172</u>	<u>181,479</u>	<u>(33,252)</u>	<u>855,399</u>
INCOME FROM OPERATIONS	(3,792)	31,183	(24,967)	2,424
NONOPERATING INCOME:				
Investment income—net	31,623	1,833	-	33,456
Other nonoperating income	<u>392</u>	<u>-</u>	<u>-</u>	<u>392</u>
Total nonoperating income	<u>32,015</u>	<u>1,833</u>	<u>-</u>	<u>33,848</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 28,223</u>	<u>\$ 33,016</u>	<u>\$(24,967)</u>	<u>\$ 36,272</u>

# NORTH MEMORIAL FOUNDATION

## SUPPLEMENTAL SCHEDULE OF FINANCIAL POSITION INFORMATION AS OF DECEMBER 31, 2020 (In thousands)

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### ASSETS

#### ASSETS:

Cash	\$ 350
Investments	11,302
Beneficial interest in remainder trust	705
Other receivables	<u>6</u>

TOTAL ASSETS \$12,363

### LIABILITIES AND NET ASSETS

#### LIABILITIES:

Amounts held for others	\$ 10
Accounts payable	<u>25</u>

Total liabilities 35

#### NET ASSETS:

Without restrictions	4,458
With restrictions	<u>7,870</u>

Total net assets 12,328

TOTAL LIABILITIES AND NET ASSETS \$12,363

## NORTH MEMORIAL FOUNDATION

### SUPPLEMENTAL SCHEDULE OF ACTIVITIES INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2020 (In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT:			
Contributions	\$ 69	\$ 1,025	\$ 1,094
In-kind contributions	826	552	1,378
Cost of direct benefits to donors	-	(112)	(112)
Investment income	285	5	290
Net change in interest in beneficial trust	-	40	40
Net assets released from restrictions	<u>960</u>	<u>(960)</u>	<u>-</u>
Total revenues, gains, and other support	<u>2,140</u>	<u>550</u>	<u>2,690</u>
EXPENSES:			
Program services	1,275	-	1,275
Management and general	206	-	206
Fund-raising	<u>411</u>	<u>-</u>	<u>411</u>
Total expenses	<u>1,892</u>	<u>-</u>	<u>1,892</u>
EXCESS OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	248	550	798
NET CHANGE IN UNREALIZED GAINS ON INVESTMENT	<u>982</u>	<u>262</u>	<u>1,244</u>
CHANGE IN NET ASSETS	1,230	812	2,042
NET ASSETS—Beginning of year	<u>3,228</u>	<u>7,058</u>	<u>10,286</u>
NET ASSETS—End of year	<u>\$ 4,458</u>	<u>\$ 7,870</u>	<u>\$ 12,328</u>

# NORTH MEMORIAL HEALTH CARE

## NOTE TO SUPPLEMENTAL FINANCIAL SCHEDULE INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

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### 1. BASIS OF REPORTING

**North Memorial Health Care (“North Memorial”) Information**—The supplemental consolidating schedule of financial position information as of December 31, 2020, and the supplemental consolidating schedule of operations information for the year then ended presents North Memorial and its wholly owned subsidiaries, but excludes the effects of consolidating the results of Maple Grove Hospital Corporation (MGH) (which became a controlled affiliate effective September 1, 2011) and the balance of North Memorial’s investment in MGH.

**MGH Information**—The supplemental schedule of financial position information as of December 31, 2020, and the supplemental consolidating schedule of operations information for the year then ended presents MGH financial information on a stand-alone basis.

**North Memorial Foundation Information**—The supplemental schedule of financial position information as of December 31, 2020, and the supplemental schedule of activities information for the year then ended present the North Memorial Foundation financial information on a stand-alone basis.

**Eliminations**—The eliminations shown in the supplemental consolidating schedule of financial position information as of December 31, 2020, and the supplemental consolidating schedule of operations information for the year then ended reflect the elimination of intercompany balances and transactions.

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