



**DATE:** February 24, 2022  
**TO:** Bond Investors  
**FROM:** Eric Lohn, Co-President & CEO, Chief Financial Officer  
**SUBJECT:** 4th Quarter, 2021 Certification & Supplementary Information

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I hereby certify that the financial statements provided for the twelve month period ending December 31, 2021 are in accordance with Section 414(a) of the St. Luke's Hospital of Duluth Obligated Group (the "Obligated Group"), Series 2012 Mortgage and Master Trust Indenture. The Obligated Group includes St. Luke's Hospital of Duluth, St. Luke's Foundation, and Lake View Memorial Hospital. The attached statements represent the Consolidated Statements of the St. Luke's Health System and are in all material respects reflective of the Obligated Group performance.

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Following is a brief analysis of the factors impacting results of the 2021 Fiscal Year.

Please be aware that the following and attached financial statements are Pre-Audit results and may change pending audit adjustments or reclassifications.

#### **Statement of Revenues & Expenses**

##### **Revenue/Volumes**

For the twelve months ended December 31, 2021 St. Luke's generated excess revenue over expenses of \$22.1 million compared to \$11.7 million in 2020. Net patient service revenues for the twelve month period were \$42.5 million or 9.0% higher than the same period a year ago.

Patient volumes in most categories were materially higher when compared to 2020. Admissions were down 4.8% when compared to 2020, while patient days were up 2.3%. This resulted in an increased Average Length of Stay of 5.6 days versus 5.2 days in 2020. Inpatient surgeries were down 10.5% when compared to 2020, while Outpatient surgeries were up 7.1%. Clinic visits were up 5.2% over prior year.

##### **Operating Expenses**

Operating expenses increased by \$31.2 million or 6.2% from 2020. People costs, supplies, depreciation and other expenses were the areas with largest variances: Supplies (including Drugs) were up \$6.1 million or 6.4% driven by higher volumes and patient acuity. Depreciation was up \$2.1 million or 12.5% over 2020 due to assets placed in service including the new ED/Cath Lab (August, 2020). Other Expense was up \$2.9 million or 9.2% due to increases in software maintenance and cost associated with the MRI joint venture related to volume increases. Salaries & wages and employee benefits account for 58.1% of total

expenses and are up \$16.6 million or 5.7% from prior year levels. Staffing costs were reduced in 2020 as a response to COVID-19. Staff productivity continues to be a major focus of management.

#### **Financial Ratios/Additional Information**

Twelve-month rolling days cash on hand (excluding Accelerated Payments) was 105.8 days at quarter-end versus 101.5 days at December 31, 2020. The twelve-month rolling debt service coverage ratio was 4.8x at quarter-end.

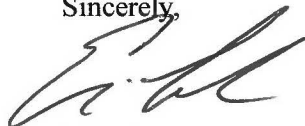
St. Luke's accepted \$57.4 million in Medicare Advanced Payments in April of 2020 as a precaution for cash-flow disruptions associated with COVID-19. These funds have not been utilized and under revised guidance, began to be paid back beginning in the second quarter of 2021. As of December 31, 2021 \$23.2 million of these funds had been paid back to CMS. The advanced payments show up in cash and deferred revenue on the balance sheet. These funds are excluded from the calculation of days cash on hand.

On September 9, 2021, St. Luke's completed debt refunding with a Par value of \$63.7 million. \$49.0 million of this amount was in the form a forward refund with a close date of March 17, 2022. The reduced cost of capital resulting from this transaction will save the system over \$16 million on a NPV basis over the life of the debt.

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Should you have any questions, please contact Eric Lohn at (218) 249-5475.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Lohn', written over a horizontal line.

Eric Lohn  
Co-President & CEO, Chief Financial Officer

**ST. LUKE'S CONSOLIDATED**  
**Comparative Balance Sheet**  
**As of December 31, 2021 - Pre-Audit Statements**  
(in thousands)

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
<b>ASSETS</b>		
<b><u>Current Assets</u></b>		
<b>Cash and Cash Equivalents*</b>	<b>\$ 162,640</b>	<b>\$ 173,926</b>
<b>Net Patient Receivables</b>	<b>57,418</b>	<b>61,951</b>
Other Receivables	3,546	3,672
Current Portion of Assets Limited as to Use	2,215	2,693
Inventory	14,436	13,273
Prepaid Expenses	4,985	4,044
<b>Total Current Assets</b>	<b>245,240</b>	<b>259,559</b>
<b><u>Assets Limited as to Use</u></b>		
Funded Depreciation	20,995	18,243
Donor Restricted Investments	8,249	6,095
Assets Held in Trust	5,033	5,017
<b>Total Assets Limited as to Use</b>	<b>34,277</b>	<b>29,355</b>
<b>Property and Equipment, Net</b>	<b>155,589</b>	<b>153,905</b>
<b>Other Assets</b>	<b>47,903</b>	<b>41,440</b>
<b>Total Assets</b>	<b>\$ 483,009</b>	<b>\$ 484,259</b>
<b>LIABILITIES &amp; NET ASSETS</b>		
<b><u>Current Liabilities</u></b>		
Borrowings under Line of Credit	\$ -	\$ -
Current Portion Long Term Debt	5,306	6,224
Accounts Payable	21,470	20,481
Third Party Payor Settlements	9,116	569
Accrued Salaries & Empl. Benefits	32,292	30,514
Deferred Revenue*	40,790	66,708
Other Accrued Liabilities	578	1,798
<b>Total Current Liabilities</b>	<b>109,552</b>	<b>126,294</b>
<b>Employee Benefit Obligations</b>	<b>56,748</b>	<b>76,474</b>
<b>Other Liabilities</b>	<b>2,532</b>	<b>5,694</b>
<b>Long Term Debt</b>	<b>133,989</b>	<b>138,969</b>
<b>Total Liabilities</b>	<b>302,821</b>	<b>347,431</b>
<b><u>Net Assets</u></b>		
Without Donor Restrictions	171,939	130,733
With Donor Restrictions	8,249	6,095
<b>Total Net Assets</b>	<b>180,188</b>	<b>136,828</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 483,009</b>	<b>\$ 484,259</b>

\* Cash and Deferred Revenue include \$57.4M of MAAP as of 12/31/20 and \$34.2M as of 12/31/21

**ST. LUKE'S CONSOLIDATED**  
**Statement of Revenues and Expenses - Pre-Audit Statements**  
(in thousands)

**YEAR-TO-DATE**

	<u>December 31, 2021</u>	<u>December 31, 2020</u>	<u>Increase / (Decrease)</u>		<u>2021</u>
			<u>Amount</u>	<u>Percent</u>	<u>Budget</u>
<b><u>REVENUE</u></b>					
Net Patient Service Revenue	\$ 513,414	\$ 470,914	\$ 42,500	9.0 %	\$ 516,555
Provision for Bad Debts	8,115	9,366	(1,251)	(13.4)	10,808
Net Patient Revenue Less Bad Debt	505,299	461,548	43,751	9.5	505,747
Other Revenue	40,477	41,303	(826)	(2.0)	31,352
<b>Total Revenues</b>	<b>545,776</b>	<b>502,851</b>	<b>42,925</b>	<b>8.5</b>	<b>537,099</b>
<b><u>EXPENSES</u></b>					
Salaries and Wages	250,009	238,219	11,790	4.9	246,565
Employee Benefits	60,029	55,228	4,801	8.7	58,190
Supplies	101,560	95,424	6,136	6.4	101,015
Physician and Professional Fees	33,606	31,921	1,685	5.3	33,774
Depreciation and Amortization	18,457	16,401	2,056	12.5	18,054
Occupancy Costs	28,627	27,835	792	2.8	28,130
Interest	6,891	5,849	1,042	17.8	6,852
Other Expense	34,408	31,512	2,896	9.2	32,894
<b>Total Expenses</b>	<b>533,587</b>	<b>502,389</b>	<b>31,198</b>	<b>6.2</b>	<b>525,474</b>
<b>Operating Gain/(Loss)</b>	<b>12,189</b>	<b>462</b>	<b>11,727</b>	<b>(2,538.3)</b>	<b>11,625</b>
Non-Operating Revenue	8,274	14,956	(6,682)	(44.7)	2,454
Unrealized Gains on Investments	1,623	(3,687)			
<b>Excess Revenue / (Expenses)</b>	<b>\$ 22,086</b>	<b>\$ 11,731</b>	<b>\$ 10,355</b>	<b>(88.3) %</b>	<b>\$ 14,079</b>

**ST. LUKE'S CONSOLIDATED**  
**Comparative Statement of Cash Flows - Pre-Audit Statements**  
(in thousands)

	<u>Twelve Months Ended December 31, 2021</u>	<u>Twelve Months Ended December 31, 2020</u>
<b><u>Cash Flow from Operating Activities</u></b>		
Excess Revenue	\$ 20,463	\$ 15,418
Depreciation and amortization	18,457	16,401
(Increase) decrease in:		
Receivables	4,659	642
Other current assets	(1,626)	2,520
Increase (decrease) in:		
Accounts Payable	989	(7,963)
Accrued salaries, wages and employee benefits	1,778	4,779
Other	(26,668)	60,012
<b>Net Cash provided by (used in) Operating Activities</b>	<b><u>18,052</u></b>	<b><u>91,809</u></b>
<b><u>Cash flows from Investing Activities</u></b>		
Purchases of property and equipment	(20,141)	(44,103)
(Increase) decrease in investments	(2,170)	22,928
Unrealized gains on investments	1,623	(3,687)
<b>Net Cash used in Investing Activities</b>	<b><u>(20,688)</u></b>	<b><u>(24,862)</u></b>
<b><u>Cash flows from Financing Activities</u></b>		
Advance (Reduction) in line of credit	0	0
Addition (Reduction) of long term debt	(5,898)	383
<b>Net Cash used in Financing Activities</b>	<b><u>(5,898)</u></b>	<b><u>383</u></b>
<b>Net (increase) decrease in Cash and Equivalents</b>	<b><u>(8,534)</u></b>	<b><u>67,330</u></b>
<b>Cash &amp; Equivalents, beginning of period</b>	<b><u>192,169</u></b>	<b><u>124,839</u></b>
<b>Cash &amp; Equivalents, end of period*</b>	<b><u>\$ 183,635</u></b>	<b><u>\$ 192,169</u></b>

\* Cash and Deferred Revenue include \$57.4M of MAAP as of 12/31/20 and \$34.2M as of 12/31/21

**ST. LUKE'S CONSOLIDATED**  
**Statistics and Financial Ratios - Pre-Audit Statements**

	YEAR TO DATE		Increase / (Decrease)		2021 Budget
	December 31, 2021	December 31, 2020	Amount	Percent	
<b><u>OPERATING STATISTICS</u></b>					
Admissions - Adult / Peds / Rehab	9,668	10,159	(491)	-4.8%	11,193
Patient Days - Adult / Peds / Rehab	56,621	55,332	1,289	2.3%	58,490
Avg. Length of Stay (Excl. Rehab.)	5.63	5.23	0	7.8%	5.05
Average Acute Daily Census - Total	164.6	152.6	12	7.8%	169.9
Inpatient Surgeries	2,515	2,810	(295)	-10.5%	3,626
Outpatient Surgeries	4,790	4,472	318	7.1%	5,443
Surgeries - Total	7,305	7,282	23	0.3%	9,069
Emergency / Urgent Care - Main					
Campus & Lake View	36,190	33,099	3,091	9.3%	34,915
Outpatient Registrations	168,778	149,769	19,009	12.7%	184,184
Clinic Visits	700,812	666,415	34,397	5.2%	694,852
Observation Patients	2,010	2,394	(384)	-16.0%	3,845

	<u>As of December 31, 2021</u>	<u>As of 31-Dec-20</u>	<u>Increase / (Decrease)</u>	<u>Bond Covenants/Restrictions</u>
<b><u>BALANCE SHEET STATISTICS</u></b>				
Days Cash on Hand*	105.8	101.5	4.3	40.0 or greater
Debt Service Coverage	4.8	3.1	1.7	1.2 or greater

\* *Days Cash on Hand excludes \$57.4M of MAAP as of 12/31/20 and \$34.2M as of 12/31/21*