Consolidated Financial Statements and Supplementary Information

Fairview Health Services
Years Ended December 31, 2021 and 2020
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

Fairview Health Services

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2021 and 2020

Contents

Report of Independent Auditors....1

Consolidated Financial Statements

Consolidated Balance Sheets....3
Consolidated Statements of Operations and Changes in Net Assets....5
Consolidated Statements of Cash Flows....7
Notes to Consolidated Financial Statements....8

Supplementary Information

Report of Independent Auditors on Supplementary Information....48
Consolidating Balance Sheet at December 31, 2021....49
Consolidating Statement of Operations and Changes in Net Assets for the Year Ended December 31, 2021....51

Ernst & Young LLP
Suite 500
700 Nicollet Mall
Minneapolis, MN 55402

Tel: +1 612 343 1000
ey.com

Report of Independent Auditors

The Board of Directors
Fairview Health Services

Opinion

We have audited the consolidated financial statements of Fairview Health Services (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and changes in net assets, and consolidated statements of cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

April 14, 2022

Fairview Health Services

Consolidated Balance Sheets

(Dollars in Thousands)

	December 31 2021	December 31 2020
Assets		
Current assets:		
Cash and cash equivalents *(Note 4)*	**$ 77,934**	$ 94,029
Short-term investments	**521,439**	709,188
Accounts receivable for medical services	**653,910**	756,477
Receivable under third-party payor contracts	**20,624**	7,230
Current portion of contributions receivable	**6,345**	8,777
Inventories	**132,430**	126,836
Other current assets	**184,358**	180,407
Total current assets	**1,597,040**	1,882,944
Investments	**2,168,825**	2,141,352
Assets limited as to use:		
Held by insurance subsidiaries	**61,109**	68,246
Restricted fund investments	**24,159**	47,176
Other assets limited as to use	**211**	10,812
Total assets limited as to use	**85,479**	126,234
Other long-term assets:		
Contributions receivable	**12,835**	10,798
Investments in related parties	**73,527**	50,070
Right-of-use operating lease assets	**116,459**	139,921
Goodwill and intangible assets	**53,993**	87,810
Other long-term assets	**98,457**	78,560
Total other long-term assets	**355,271**	367,159
Land, buildings, and equipment, net	**1,278,024**	1,233,167
Total assets	**$ 5,484,639**	$ 5,750,856

	December 31	
	2021	**2020**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 297,707**	$ 366,905
Accrued compensation and benefits	**366,130**	426,541
Payable under third-party payor contracts	**9,653**	31,656
Right-of-use operating lease obligations	**19,070**	23,993
Current maturities of long-term debt	**26,615**	80,666
Other current liabilities	**334,457**	313,900
Total current liabilities	**1,053,632**	1,243,661
Other liabilities:		
Insurance subsidiaries claims reserves	**36,396**	34,220
Workers' compensation claims reserves	**40,792**	41,930
Right-of-use operating lease obligations	**111,957**	131,737
Derivative financial instruments	**18,684**	38,658
Other long-term liabilities	**102,033**	353,492
Total other liabilities	**309,862**	600,037
Long-term debt	**1,571,473**	1,393,323
Total liabilities	**2,934,967**	3,237,021
Net assets:		
Without donor restrictions:		
Fairview Health Services (Fairview)	**2,452,084**	2,411,062
Non-controlling interests	**54,012**	52,347
Total net assets without donor restrictions	**2,506,096**	2,463,409
Net assets with donor restrictions	**43,576**	50,426
Total net assets	**2,549,672**	2,513,835
Total liabilities and net assets	**$ 5,484,639**	$ 5,750,856

See accompanying notes.

Fairview Health Services

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended December 31	
	2021	**2020**
Operating revenues:		
Patient service revenue	**$ 5,784,608**	$ 5,236,783
Other operating revenue	**631,457**	830,630
Net assets released from donor restrictions	**11,242**	8,203
Total operating revenues	**6,427,307**	6,075,616
Expenses:		
Salaries and benefits	**2,885,477**	2,797,277
Supplies	**1,882,480**	1,671,258
Purchased services	**1,146,200**	1,175,254
Utilities and maintenance	**215,617**	205,760
Insurance and rent	**78,977**	83,146
State and local taxes	**98,632**	101,766
Other operating expenses	**57,712**	58,017
Depreciation and amortization	**146,725**	142,302
Interest	**48,081**	49,588
Total operating expenses	**6,559,901**	6,284,368
Operating loss before non-recurring expenses	**(132,594)**	(208,752)
Non-recurring revenue (expenses):		
Gain on sale of business and other strategic transactions, net	**3,819**	72,132
Impairment of land, buildings, and equipment	**–**	(13,706)
Total non-recurring revenue	**3,819**	58,426
Operating loss after non-recurring expenses	**(128,775)**	(150,326)
Nonoperating gains (losses):		
Investment income	**166,536**	165,713
Gains (losses) on interest rate swaps, net	**6,961**	(22,376)
Other nonoperating losses, net	**(13,509)**	(13,085)
Total nonoperating gains	**159,988**	130,252
Excess (deficit) of revenues over expenses	**31,213**	(20,074)
Less amounts attributable to non-controlling interests	**(4,764)**	(620)
Excess (deficit) of revenues over expenses attributable to Fairview	**26,449**	(20,694)

	Year Ended December 31 2021	2020
Net assets without donor restrictions, Fairview:		
Excess (deficit) of revenues over expenses	**$ 26,449**	$ (20,694)
Pension and other postretirement liability adjustments	**7,676**	2,475
Other changes, net	**6,897**	4,182
Increase (decrease) in net assets without donor restrictions, Fairview	**41,022**	(14,037)
Net assets without donor restrictions, non-controlling interests:		
Excess of revenues over expenses	**4,764**	620
Distributions to non-controlling interests and other changes	**(3,099)**	(1,672)
Increase (decrease) in net assets without donor restrictions, non-controlling interests	**1,665**	(1,052)
Donor-restricted net assets:		
Contributions and other changes, net	**4,392**	4,934
Net assets released from restrictions	**(11,242)**	(8,203)
Decrease in donor-restricted net assets	**(6,850)**	(3,269)
Total increase (decrease) in net assets	**35,837**	(18,358)
Net assets at beginning of year	**2,513,835**	2,532,193
Net assets at end of year	**$ 2,549,672**	$ 2,513,835

See accompanying notes.

Fairview Health Services

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31	
	2021	**2020**
Operating activities		
Increase (decrease) in net assets	**$ 35,837**	$ (18,358)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	**146,725**	142,254
Impairment of land, building, and equipment	**–**	13,706
Pension and other postretirement liability adjustments	**(7,676)**	(2,475)
Net realized and unrealized gains on trading investments	**(132,844)**	(132,774)
Change in fair value of interest and basis rate swaps	**(13,869)**	15,940
Other, net	**(402)**	(15,343)
Changes in assets and liabilities:		
Accounts receivable for medical services	**102,567**	(59,880)
Other current assets	**(48,506)**	(34,496)
Current liabilities	**(60,781)**	269,263
Other assets and liabilities, net	**(241,096)**	275,290
Net cash (used in) provided by operating activities before change in trading and alternative investments	**(220,045)**	453,127
Change in trading and alternative investments	**(343,235)**	123,489
Net cash (used in) provided by operating activities	**(563,280)**	576,616
Investing activities		
Purchases of land, buildings, and equipment, net	**(197,469)**	(136,423)
Other investing activities including net proceeds from sale of business	**134,289**	52,846
Net cash used in investing activities	**(63,180)**	(83,577)
Financing activities		
Proceeds from issuance of debt	**202,820**	50,000
Principal payments on long-term debt	**(76,913)**	(39,644)
Collateral posted on derivative financial instruments	**(6,100)**	(60,067)
Other financing activities, net	**(1,886)**	2,939
Net cash provided by (used in) financing activities	**117,921**	(46,772)
(Decrease) increase in cash and cash equivalents	**(508,539)**	446,267
Cash, cash equivalents, and restricted cash at beginning of year	**795,674**	349,407
Cash, cash equivalents, and restricted cash at end of year *(Note 4)*	**$ 287,135**	$ 795,674
Supplemental disclosure of noncash investing and financing activities		
Accruals for purchases of buildings and equipment	**$ 10,273**	$ 11,316

See accompanying notes.

1. Organization and Basis of Presentation

Fairview Health Services, an integrated health system, along with its affiliates and subsidiaries (collectively referred to as Fairview) is a nonprofit corporation headquartered in Minnesota and is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (the IRC).

Fairview serves the entire twelve-county Greater Minneapolis-St. Paul metro area (the Metro Area), as well as communities throughout greater Minnesota and portions of Northern Iowa and Western Wisconsin. Fairview offers a broad continuum of healthcare services and owns and operates eleven hospitals, including the M Health Fairview University of Minnesota Medical Center, with the University of Minnesota Masonic Children's Hospital (collectively, UMMC), which is the adult and pediatric teaching hospital of the University of Minnesota (the University). UMMC and eight of Fairview's community hospitals are located in the Metro Area. Fairview's other two community hospitals are located in Northern Minnesota. Together, Fairview also operates more than 80 primary and specialty care clinics, seven ambulatory care centers, 36 retail and specialty pharmacies, pharmacy benefit management services, rehabilitation centers, a physician network, senior care housing and long-term care facilities, medical transportation services, and a health plan.

In August 2021, Fairview sold its ownership in its health plan business to UnitedHealthcare. Employees of the health plan are now employed by UnitedHealthcare. Fairview recorded the sale of the health plan business during the period, which is recorded as non-recurring revenue (expense) within the consolidated statement of operations and changes in net assets. Fairview does not consider the sale a significant shift in operations.

In November 2020, Fairview sold its ownership in its hospice and home care business to AccentCare, Inc., a national leader in post-acute healthcare. Within the transaction, Fairview purchased a 20% non-controlling interest in the new post-acute joint venture for home health and hospice services that is controlled by AccentCare, Inc. Fairview recorded a gain on the sale of hospice and home care business of $53,600 which is recorded as a non-recurring revenue (expenses) within the consolidated statement of operations and changed in net assets.

Fairview, through its integrated care model, serves the Metro Area and greater Minnesota, aiming to deliver the benefits of academic medicine to more patients and families across the state by expanding care, research, and education through access to a greater pool of physicians and patients, while seeking to reduce the total cost of care for patients.

1. Organization and Basis of Presentation (continued)

The consolidated financial statements include the accounts of Fairview, comprising both tax-exempt and taxable entities. All significant intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain assets, liabilities, revenues, and expenses reported in the consolidated financial statements and accompanying notes. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include currency on hand, demand deposits with banks or other financial institutions, and short-term investments with 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. Fairview'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.

Inventories

Inventories, consisting primarily of drugs and medical supplies, are recorded at the lower of cost or net realizable value on a first-in, first-out basis.

2. Summary of Significant Accounting Policies (continued)

Investments

Fairview's investments include money market, fixed-income, and equity securities, which are carried at fair value, based on quoted market prices, and classified as trading securities. Investments in commingled funds are recorded at net asset value as a practical expedient to fair value. Investments in companies that hold interests in hedge funds, private capital funds, and real estate funds (collectively, alternative investments) are recorded using the equity method of accounting, with the change in value of these investments recorded as investment return on the consolidated statements of operations and changes in net assets. Values of some of the underlying investments may be based on estimates that require varying degrees of judgment, and consequently, these estimates may differ from the values at which investments may be sold. Values for fund of hedge funds are primarily based on financial data supplied by the underlying investee funds. Values for real estate funds are based on the fair value of the underlying real estate.

Realized investment income on investments held by insurance subsidiaries is recorded in other operating revenue on the consolidated statements of operations and changes in net assets. Investment return (including realized and unrealized gains and losses, interest, and dividends) from all other investments and unrealized investment income on funds held by insurance subsidiaries are recorded as nonoperating gains or losses, unless restricted by donor or law.

Derivative Financial Instruments

Derivative financial instruments are recognized as either assets or liabilities based on the net fair value in accordance with the netting provisions in the counterparty agreement. Fairview uses pricing models for various types of derivative instruments that take into account the present value of estimated future cash flows and credit valuation adjustments.

Gains or losses resulting from changes in the fair values of derivative financial instruments are reflected within the consolidated statements of operations and changes in net assets as nonoperating gains or losses, as none of the derivative financial instruments are designated as an accounting hedge. Any differences between interest received and paid under swap agreements are reported as nonoperating gains or losses.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Investments in Related Parties

Investments in entities in which Fairview 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. Equity method investments are recorded as investments in related parties on the consolidated balance sheets.

Goodwill and Intangible Assets

Goodwill and intangible assets related to acquisitions are recorded on the consolidated balance sheets. During 2021 and 2020, Fairview did not acquire any goodwill or intangible assets. During 2021, Fairview removed $31,503 of goodwill and intangible assets, due to the divestiture of the health plan.

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost and depreciated over estimated useful lives using the straight-line method. The following estimated useful lives are used in calculating depreciation:

Land improvements	5–20 years
Buildings	30–40 years
Building additions and improvements	17–25 years
Equipment	2–20 years

Interest cost, net of related interest income, incurred on funds used during the period for construction of capital assets is capitalized as part of the cost of acquiring those assets.

2. Summary of Significant Accounting Policies (continued)

Asset Impairment

Fairview annually evaluates the carrying values of long-lived assets, goodwill, and intangible assets for impairment. Whenever events or changes in circumstances indicate that the carrying values may not be recoverable, impairment tests are performed to determine whether the carrying values are appropriate using estimated future undiscounted cash flow analyses. If undiscounted cash flows are insufficient to recover the carrying value of the long-lived asset, such asset is written down to fair value. Impairment losses are recognized within operating income at the time the impairment is identified. During 2021 and 2020, Fairview recorded $0 and $13,706, respectively, in non-recurring expenses related to the impairment of land, building, and equipment on select hospital, clinic, and pharmacy sites where sustained operating losses indicated that the net book value would not be recovered. The fair value of the sites was based on prices for similar assets, which represents a Level 3 fair value measure.

Leases

Fairview determines whether an arrangement is a lease at inception. Operating leases are included in other long-term assets, current liabilities, and other liabilities on the consolidated statement of financial position. Finance leases are included in land, building, and equipment; current maturities of long-term debt; and long-term debt on the consolidated statements of financial position.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date, based on the present value of lease payments over the lease term. When a lease does not provide an implicit rate, Fairview uses an incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The implicit rate is used when readily determinable. The ROU asset also includes any lease payments made and excludes lease incentives. The lease term may include options to extend or terminate the lease when it is reasonably certain Fairview will exercise the option. Operating fixed lease expense and finance lease depreciation expense are recognized on a straight-line basis over the lease term.

2. Summary of Significant Accounting Policies (continued)

Fairview defines a short-term lease as any lease arrangement with a lease term of 12 months or less that does not include an option to purchase the underlying asset. Short-term lease payments are recognized as expense on a straight-line basis over the lease term and variable lease payments in the period in which the obligation is incurred.

Fairview has lease arrangements with lease and non-lease components, which are generally accounted for separately, except Fairview has elected the practical expedient to not separate non-lease components for real estate leases. Additionally, for certain equipment leases, Fairview applies a portfolio approach to effectively account for the ROU assets and liabilities.

Net Assets

Net assets without donor restrictions are used to account for all transactions related to medical services and other operating and nonoperating activities for which there are no donor-imposed restrictions and may be used at the discretion of management and the board of directors of Fairview. Net assets with donor restrictions are those assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions are met by passage of time or actions of Fairview. Other donor restrictions are perpetual in nature whereby the donor has stipulated the funds be maintained in perpetuity.

Non-Controlling Interests

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

Patient Service Revenue and Accounts Receivable for Medical Services

Patient service revenue is reported at the amount that reflects the consideration to which Fairview expects to be entitled in exchange for providing patient care.

2. Summary of Significant Accounting Policies (continued)

Charity and Uncompensated Care

Under Fairview's charity care policy, patients who have no insurance or are underinsured and are ineligible for any government assistance program have their bill reduced to no more than the amount generally billed to individuals who have insurance for emergency or medically necessary care using a look-back method for reimbursement received from all commercial and Medicare accounts for the previous fiscal year.

The estimated cost of providing charity care was $39,278 and $39,520 during 2021 and 2020, respectively. This total cost is estimated by applying an overall cost-to-charge ratio to the charges incurred. Total cost includes wages and salaries, supplies, building maintenance, equipment, and administrative expenses.

Other Operating Revenue

Other operating revenue primarily consists of grants, health insurance services revenue, pharmacy benefit management (PBM) revenue, income from investments in related parties recorded on the equity basis, contributions without donor restrictions, and other miscellaneous revenue.

In March 2020, the World Health Organization designated COVID-19 as a global pandemic. The pandemic had a significant negative impact on patient volumes in both 2021 and 2020. The related revenue for most services was most significantly impacted during the early months of the pandemic as various policies were implemented by federal, state, and local governments in response to the COVID-19 pandemic, such as stay-at-home orders and the suspension of elective and nonemergent procedures across Fairview beginning in mid-March 2020 and ending in May 2020. After this initial period, inpatient volumes and related revenue have continued to be impacted during COVID-19 inpatient surges which have required reduced scheduled elective procedures to allow capacity to care for patients with critical needs. In addition to experiencing volume disruptions because of the COVID-19 pandemic, certain operating expenses also increased. Supplies, such as personal protective equipment, lab costs, and specialized pharmaceuticals, were utilized at a higher rate and purchased at elevated prices. Fairview also needed to bring in high-cost temporary and premium labor to supplement existing staff resources that were strained by the surge of patients and additional infection prevention protocols.

2. Summary of Significant Accounting Policies (continued)

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), was enacted on March 27, 2020. The CARES Act authorizes funding to hospitals and other healthcare providers through the Public Health and Social Services Emergency Fund (Provider Relief Fund) and authorized funding to state and local governments through the Coronavirus Relief Fund. Grant payments from the Provider Relief Fund are intended to reimburse healthcare providers for healthcare related expenses and/or lost revenue attributable to the COVID-19 pandemic. Additionally, grants from the State of Minnesota, local government subawards from the Coronavirus Relief Fund, and private grant awards have been made available to assist in reimbursing healthcare providers for healthcare-related expenses. Fairview has recognized grant awards related to COVID-19 of approximately $71,000 and $165,700 as other revenue on the accompanying consolidated statement of operations and changes in net assets, for the years ended December 31, 2021 and 2020, respectively. Grant awards are recognized as income when there is reasonable assurance that the grant conditions are met. The unrecognized amount of COVID-19 grant awards that have already been received of $0 and $56,300 is included in other current liabilities on the accompanying consolidated balance sheets as of December 31, 2021 and 2020, respectively. The U.S. Department of Health and Human Services' interpretation of the underlying terms and conditions of such Provider Relief Fund payments, including auditing and reporting requirements, continues to evolve. Additional guidance or new and amended interpretations of existing guidance on the terms and conditions of such Provider Relief Fund payments may result in changes in Fairview's estimate of amounts for which the terms and conditions are reasonably assured of being met, and any such changes may be material. Additionally, any such changes may result in Fairview's inability to recognize additional Provider Relief Fund payments or may result in the derecognition of amounts previously recognized, which (in any such case) may be material.

The CARES Act provides for an expansion of the Medicare Accelerated and Advance Payment Program (Accelerated Payment Program), which allows inpatient acute care hospitals to request accelerated payments of up to 100% of their Medicare payment amount for a six-month period. In 2020, Fairview received approximately $329,400 from the Accelerated Payment Program of which $114.0 million was repaid during 2021. As of December 31, 2021, the remaining amount owed is included in other current liabilities on the accompanying consolidated balance sheet and repayment will occur in 2022 based upon the terms and conditions of the program.

2. Summary of Significant Accounting Policies (continued)

The CARES Act also allowed for deferred payment of $86,300 of employer portion of certain payroll taxes between March 27, 2020 and December 31, 2020, with 50% due December 31, 2021, and the remaining 50% due December 31, 2022. Fairview had repaid the first 50% and has $43,000 in deferred payroll tax payments in accrued compensation and benefits on the accompanying consolidated balance sheet as of December 31, 2021.

Fairview continues to consider other federal, state, and local sources of grants for qualifying expenses. Due to the evolving nature of the COVID-19 pandemic, the ultimate impact to Fairview and its financial condition is presently unknown.

Health insurance services revenue consists of health premium revenue, administrative service revenue, and management fees. Health premium revenue is recognized in the period for which services are covered. Membership contracts are generally established on a yearly basis and are subject to cancellation by the employer group upon 30 to 90 days' written notice. After the divesture of the Health Plan in August 2021, only an immaterial amount of health insurance services revenue was recorded.

Administrative service revenue consists of third-party administrative fees from self-insured employer groups and network access fees from other insurance companies and third-party administrators. Third-party administrative fees are recognized as revenue during the period in which there is an obligation to provide services to the self-insured employer groups. Network access fees are recognized as revenue during the period in which there is an obligation to reprice provider claims to discounted rates for the insurance companies and third-party administrators. Both types of administrative service revenue are primarily calculated on a per-employee, per-month basis and are due monthly.

Administrative service revenue is recorded net of certain related fees, which primarily consist of national network access fees, employee assistance program and wellness fees, and pharmacy benefit administrative fees, which are added to the monthly administrative fee billed.

2. Summary of Significant Accounting Policies (continued)

Services provided to PBM clients include plan setup, claims adjudication with network pharmacies, formulary management, and reimbursement services. The PBM contractually assumes credit risk when administering pharmacy reimbursement contracts; therefore, revenue is recognized at the cost of the claim in addition to the administrative fees earned for providing the PBM services, except for claims fulfilled at Fairview pharmacies. For claims fulfilled at Fairview pharmacies, claims revenue is not recognized within the PBM as that revenue has been recognized within Fairview pharmacy.

Rebates received under arrangements with manufacturers or third-party intermediaries are recorded as liabilities to be paid to the PBM clients, less applicable administrative fees.

Under the PBM's pharmacy network contracts, the pharmacy is solely obligated to collect the co-payments from the members. Under client contracts, the PBM does not assume liability for member co-payments in pharmacy transactions. As such, the PBM does not include member co-payments to retail pharmacies in revenue.

For administrative services revenue and PBM revenue, performance obligations are satisfied over time. Revenue is therefore recognized pro rata over the time-bound performance obligation as Fairview transfers service over the period in which the member is entitled to the services. Performance obligations for contracts that are greater than one year were not material. Incremental costs of obtaining a contract are treated as an expense when incurred as the time period of most contracts with customers is one year.

Contributions

Contributions are reported as donor-restricted support if they are received with donor stipulations that limit the use of the donated assets. When donor restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported within the consolidated statements of operations and changes in net assets either as net assets released from restriction if the purpose relates to operations or as contributions of long-lived assets if the purpose relates to capital. Donor-restricted contributions whose restrictions or conditions are met within the same fiscal year as the revenue is recognized are received are reported as support within net assets without donor restriction in the accompanying consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give are reported at fair value when the gift is received, and all conditions have been satisfied. All unrestricted contributions are reported within other operating revenue on the consolidated statements of operations and changes in net assets.

Contributions receivable are recorded in the period that the contributions are made and represent unconditional promises to give for various operating and capital purposes. Contributions that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. An allowance for uncollectible pledges receivable is determined based on a review of estimated collectability.

Amounts receivable directly from donors are generally expected to be collected within one year. Fairview also records assets related to contributions raised through the University of Minnesota Foundation on Fairview's behalf, which are expected to be received within one to five years. The University of Minnesota Foundation releases funds to Fairview as the donor restrictions, if any, are satisfied.

Operating and Performance Indicator

The operating indicator, Operating loss after non-recurring expenses, includes all revenue, gains, and unrestricted contributions to offset operating expense, and equity income or loss of unconsolidated ventures derived from providing healthcare services. Those operating revenue and expenses that are unusual in nature or not expected to recur as part of operations are classified as nonoperating revenues or expenses to improve the comparability of the operating indicator.

The performance indicator is excess of revenues over expenses and includes operating income and nonoperating income. The performance indicator excludes pension and other postretirement liability adjustments, contributions of long-lived assets, non-controlling interests, and distributions to non-controlling interests.

Reclassifications

Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the 2021 presentation. These reclassifications had no effect on the change in net assets or net assets as previously reported.

3. Affiliations

Fairview, the University, and the University of Minnesota Physicians (UMP), a multi-specialty group practice of over 1,200 physicians, affirmed their affiliation and approved a new affiliation agreement (M Health Fairview Agreement) effective December 2018. While the parties maintain separate governance, the M Health Fairview Agreement further integrates operations across the clinical delivery system and enhances research and education by creating a joint clinical enterprise among the parties. The M Health Fairview Agreement reshaped the previous affiliation to bring together not only UMMC and its related service lines, but also Fairview's other hospitals, clinics, and services. All are part of a shared care delivery system that is led by a single structure that includes academic physician leadership. The M Health Fairview Agreement furthers the opportunity to create a nationally renowned academic health system. The delivery system is united under a single brand, M Health Fairview. The M Health Fairview Agreement expires in 2026, with an option for a ten-year extension in 2023. Fairview and UMP also entered into a Master Professional Services Agreement to facilitate payment from Fairview to UMP for all professional, clinical, and management services.

Fairview's bylaws authorize a board of directors of up to 21 members. Four of the 21 members of Fairview's board of directors were appointed by and/or held positions at the University. Through the M Health Fairview Agreement and board representation, the University participates in capital funding decisions for the delivery system.

The M Health Fairview Agreement provides for fixed and variable financial support based on the financial performance of Fairview to the University and UMP. The minimum variable academic support commitment to the University is 0.15% of patient service revenue through 2026. The minimum fixed annual academic support commitment to the University was $45,000 in 2020, $50,000 in 2021 and is $50,000 in 2022 and increasing thereafter through 2026 in accordance with the consumer price index (CPI). The minimum fixed annual academic support commitment to UMP was $31,360 in 2021 increasing annually thereafter in accordance with the CPI.

(Dollars in Thousands)

3. Affiliations (continued)

Revenue and expenses on a gross basis under all of Fairview's agreements, including academic support, with the University were, respectively, $15,920 and $114,418 for 2021, and $16,571 and $104,450 for 2020. These amounts were recorded within other operating revenue and the related expense categories on the consolidated statements of operations and changes in net assets. Amounts receivable from and payable to the University were, respectively, $13,949 and $31,582 at December 31, 2021, and $14,044 and $49,635 at December 31, 2020. These amounts were recorded within other current assets and accounts payable on the consolidated balance sheets.

Revenue and expenses on a gross basis under all of Fairview's agreements with UMP, including academic support were, respectively, $8,153 and $574,601 for 2021, and $5,799 and $570,506 for 2020. These amounts were recorded primarily within other operating revenue and purchased services on the consolidated statements of operations and changes in net assets. Amounts receivable from and payable to UMP were, respectively, $1,689 and $74,736 at December 31, 2021, and $3,518 and $92,758 at December 31, 2020. These amounts were recorded within other current assets and accounts payable on the consolidated balance sheets.

4. Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows as of December 31:

	2021	**2020**
Cash and cash equivalents	**$ 77,934**	$ 94,029
Cash and cash equivalents included in investments	**200,311**	676,614
Restricted cash included in assets limited as to use within:		
Held by insurance subsidiaries	**2,056**	–
Restricted fund investments	**6,622**	14,258
Other assets limited as to use	**212**	10,773
Total cash, cash equivalents, and restricted cash shown on the consolidated statements of cash flows	**$ 287,135**	$ 795,674

(Dollars in Thousands)

5. Liquidity and Availability of Resources

Fairview's working capital can fluctuate moderately during the year due to timing of payment received on accounts receivable for medical services from certain payors, timing of cash inflows and outflows related to the affiliation agreements, and timing of cash outflows, including payments on long-term debt, capital expenditures for land building and equipment, and timing of employee payments.

Fairview's financial assets available within one year of the consolidated balance sheet as of December 31 for general expenditure are as follows:

	2021	2020
Financial assets:		
Cash and cash equivalents	**$ 77,934**	$ 94,029
Short-term investments	**521,439**	709,188
Accounts receivable for medical services	**653,910**	756,477
Investments	**2,168,825**	2,141,352
Assets limited to use	**85,479**	126,234
Total financial assets	**3,507,587**	3,827,280
Liquidity resource:		
Line of credit	**100,000**	50,000
Less amounts not designated for general expenditure or not available within one year:		
Private capital funds	**(55,021)**	(30,060)
Investments that could be contractually held back at liquidation	**(13,374)**	(10,349)
Hedge fund liquidity > 1 year	**(33,341)**	(24,563)
Committed for capital expenditure	**(250,000)**	(196,053)
Financial assets not available for use within one year	**(351,736)**	(261,025)
Less assets limited to use	**(85,479)**	(126,234)
Total financial assets and liquidity resources available within one year for general expenditure	**$ 3,170,372**	$ 3,490,021

5. Liquidity and Availability of Resources (continued)

As part of Fairview's liquidity management, management structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Fairview invests cash in excess of daily requirements in short-term investments. To help management with unexpected liquidity needs, Fairview has a $100,000 line of credit with a bank that can be drawn upon.

6. Patient Service Revenue and Accounts Receivable for Medical Services

Patient service revenue is reported at the amount that reflects the consideration to which Fairview expects to be entitled in exchange for providing patient care. Patient services revenue includes amounts due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of ongoing and future audits and reviews. Generally, Fairview bills patients and third-party payors within days after the services are performed or discharged.

Patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by Fairview. Patient service revenue for performance obligations satisfied over time is recognized based on estimated expected payment at that point in time. Fairview believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services, including transplant services. Fairview measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of the discharge. Outpatient services are performance obligations satisfied at a point in time, and revenue is recognized when goods or services are provided, and Fairview does not believe it is required to provide additional goods or services.

As substantially all of its performance obligations relate to contract with a duration of less than one year, Fairview has elected to apply the optional exemption provided in ASU 2014-09, Revenue from Contracts with Customers, and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the

6. Patient Service Revenue and Accounts Receivable for Medical Services (continued)

reporting period for patients who remain admitted at that time (in-house patients) or transplant patients who receive follow-up care. The performance obligations for these contracts are generally completed when the patients are discharged, which for the majority of Fairview's in-house patients occurs within days or weeks of the reporting period.

Fairview uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios primarily consist of major payor classes for inpatient, outpatient, and other patient revenue. Based on historical collection trends and other analysis, Fairview believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

Fairview's initial estimate of the transaction price is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to Fairview's standard charges. Fairview determines the transaction price associated with services provided to patients who have third-party payor coverage based on reimbursement terms per contractual agreements, Fairview's discount policies, and historical experience. Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. For patients with deductibles and coinsurance, or uninsured and underinsured patients who do not apply or do not meet the qualifications for charity care, Fairview determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on Fairview's historical collection experience for applicable patient portfolios.

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2021 and 2020, changes in Fairview's estimates of implicit price concessions, discounts, contractual adjustment, or other reductions to expected payments for performance obligations satisfied in prior periods were not significant. Portfolio collection estimates are updated monthly based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2021 and 2020, was not significant.

6. Patient Service Revenue and Accounts Receivable for Medical Services (continued)

Settlements with third-party payors for total cost of care payor contracts, cost report filings, and retroactive adjustments due to ongoing and future contract provisions, audits, or reviews are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Fairview's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to audit or review. Adjustments arising from a change in the transaction price related to these contracts were increases of $8,849 and $6,529 in 2021 and 2020, respectively, which represented 0.2% and 0.1%, respectively, of patient service revenue.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of or revisions to healthcare reform that has been enacted by the federal government, cannot be determined presently. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on Fairview.

Fairview has established estimates, based on information presently available, of amounts due to or from Medicare and other payors for adjustments to current and prior years' payment rates, based on industry-wide and Fairview-specific data. The current Medicaid, Medicare, and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount. Additionally, noncompliance with such laws and regulations could result in fines, penalties, and exclusion from such programs. Fairview is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance with all applicable laws and regulations.

(Dollars in Thousands)

6. Patient Service Revenue and Accounts Receivable for Medical Services (continued)

The composition of patient service revenue based on lines of business is summarized below for the years ended December 31:

	2021	2020
Hospital services	**$ 3,270,552**	$ 3,126,489
Pharmacy services	**1,525,241**	1,316,090
Physician services	**790,517**	571,497
Senior services	**30,859**	106,952
Other	**167,439**	115,755
	$ 5,784,608	$ 5,236,783

Hospital revenue includes a variety of services mainly covering inpatient procedures requiring overnight stays or outpatient operations that require anesthesia or use of complex diagnostic and surgical equipment as well as emergency care. Pharmacy services include services provided outside of hospital services, including retail and specialty pharmacies. Physician services include services primarily focused on the care of outpatients covering primary and specialty healthcare needs. Senior services include care provided at long-term senior care facilities, home care, and hospice services.

Patient service revenue by major payor source is summarized below for the years ended December 31:

	2021	2020
Medicare	**$ 1,505,734**	$ 1,427,547
Medicaid	**943,470**	838,933
Negotiated contracts, commercial, and other	**3,289,129**	2,933,122
Self-pay	**46,275**	37,181
	$ 5,784,608	$ 5,236,783

Deductibles, co-payments, and coinsurance under third-party payment programs that are the patient’s responsibility are included within the primary payor category in the table above.

(Dollars in Thousands)

6. Patient Service Revenue and Accounts Receivable for Medical Services (continued)

Fairview does not adjust the promised amount of consideration from patients or third-party payors for the effects of a significant financing component due to Fairview's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, Fairview does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Fairview grants credit without collateral to its patients, most of whom are residents in the communities served by Fairview and are insured under third-party payor agreements. The mix of accounts receivable for medical services at December 31 consists of the following:

	2021	2020
Medicare	**$ 117,704**	$ 167,181
Medicaid	**71,930**	90,021
Negotiated contracts, commercial, and other	**398,885**	446,322
Self-pay	**65,391**	52,953
	$ 653,910	$ 756,477

At December 31, 2021, one negotiated contract payor accounted for 17% of patient service revenue and two negotiated contract payors accounted for 13% and 10% of accounts receivable for medical services. At December 31, 2020, one negotiated contract payor accounted for 17% of patient service revenue and 13% of accounts receivable for medical services.

7. Other Operating Revenue

For the years ended December 31, other operating revenue consisted of the following:

	2021	2020
Health insurance services	**$ 247,314**	$ 408,187
Pharmacy benefit management	**120,050**	88,397
COVID-19 relief grants	**70,578**	165,737
Other	**204,757**	176,512
	$ 642,699	$ 838,833

(Dollars in Thousands)

8. Land, Buildings, and Equipment

Land, buildings, and equipment at December 31 consist of the following:

	2021	2020
Land and improvements	**$ 119,093**	$ 119,428
Buildings and improvements	**1,836,271**	1,692,764
Equipment	**879,986**	813,327
Finance leased facilities and equipment	**68,946**	71,254
	2,904,296	2,696,773
Accumulated depreciation and amortization	**(1,688,600)**	(1,582,036)
	1,215,696	1,114,737
Construction-in-progress	**62,328**	118,430
	$ 1,278,024	$ 1,233,167

Depreciation expense, including amortization of assets under capital leases, was $143,961 and $136,851 for 2021 and 2020, respectively. Fairview recorded $0 and $13,706 in non-recurring expenses related to the impairment of land, building, and equipment on select hospital, clinic, and pharmacy sites where sustained operating losses indicated that the net book value would not be recovered for 2021 and 2020, respectively.

(Dollars in Thousands)

9. Investments

The composition of Fairview's investments, including those with limited uses, at December 31 is summarized as follows:

	2021	2020
Cash and cash equivalents	**$ 209,201**	$ 701,645
Asset-backed securities	**76,329**	52,927
Corporate debt securities	**327,425**	256,773
Equity mutual funds	**546,448**	718,967
Equity securities	**159,775**	85,517
Fixed-income mutual funds	**239,028**	269,022
Mortgage-backed securities	**58,413**	40,004
Municipal debt securities	**37,527**	67,041
U.S. government agency and mortgage-backed securities	**163,382**	188,595
U.S. treasury debt securities	**297,681**	228,234
Sovereign debt	**–**	1,350
Equity commingled funds	**152,038**	48,714
Hedge funds	**452,887**	287,284
Private capital funds	**55,021**	30,061
Real estate investment trusts	**588**	640
	$ 2,775,743	$ 2,976,774

(Dollars in Thousands)

9. Investments (continued)

Alternative investments accounted for using the equity method of accounting and investments in certain entities that calculate net asset value (NAV) per share (or its equivalent), including restricted and unrestricted assets, are as follows:

	December 31 2021	December 31 2020	Unfunded Commitments at December 31, 2021	Redemption Frequency	Redemption Notice Period
Equity commingled funds	**$ 152,038**	$ 48,714	**$ –**	**Monthly**	**10 days**
Equity long/short hedge funds	**120,327**	85,989	**–**	**Monthly/ Quarterly/ Bi-Annual**	**30–90 days**
Fixed-income hedge fund	**174,197**	96,069	**–**	**Quarterly**	**60 days**
Other hedge fund	**158,363**	105,226	**–**	**Monthly/ Quarterly**	**120 days**
Real estate investment trust	**588**	640	**–**	**Monthly/ Quarterly**	**0–20 days**
Private capital funds	**55,021**	30,061	**54,564**	**7–9 years**	**N/A**
Total	**$ 660,534**	$ 366,699	**$ 54,564**		

Fairview's investments are exposed to various types and levels of risk. Equity securities and equity mutual funds expose Fairview to market risk, performance risk, and liquidity risk for both domestic and international investments. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with a company's operating performance. Fixed-income securities and fixed-income mutual funds expose Fairview to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed-income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell particular securities. Liquidity risk tends to be higher for equities related to small capitalization companies and certain alternative investments, such as private capital funds, and hedge funds. Through Fairview's investments in hedge funds, Fairview is indirectly involved in investment activities, such as securities lending, trading in futures and forward contracts, and other derivative products. Derivatives are used to adjust underlying manager portfolio risk exposure. While these financial instruments may contain varying degrees

(Dollars in Thousands)

9. Investments (continued)

of risk, Fairview's risk with respect to such transactions is limited to its capital balance in each investment. Due to the volatility in the capital markets, there is a reasonable possibility of subsequent changes in fair value resulting in additional gains and losses in the near term.

Investment return is summarized and reported on the consolidated statements of operations and changes in net assets as follows for the years ended December 31:

	2021	**2020**
Dividends and interest	**$ 45,810**	$ 46,115
Investment expenses, net	**(5,968)**	(4,941)
Net realized gains	**162,437**	122,788
Unrealized (losses) gains	**(29,593)**	9,998
	$ 172,686	$ 173,960
Other operating revenue	**$ 4,455**	$ 8,084
Nonoperating gains	**166,536**	165,713
Contributions and other changes, net, in donor-restricted net assets	**1,695**	163
	$ 172,686	$ 173,960

(Dollars in Thousands)

10. Leases

Fairview leases facilities, vehicles, and equipment under lease agreements, which include both monthly and long-term arrangements.

Assets and liabilities arising from leases as of December 31 are as follows:

	Classification	2021	2020
Right-of-use assets:			
Operating	ROU operating lease assets	**$ 116,459**	$ 139,921
Finance	Land, building, and equipment	**68,947**	71,254
Total right-of-use assets		**$ 185,406**	$ 211,175

	Classification	2021	2020
Current lease liabilities:			
Operating	ROU operating lease obligations	**$ 19,070**	$ 23,993
Finance	Current maturities of long-term debt	**1,580**	3,026
Non-current lease liabilities:			
Operating	ROU operating lease obligations	**111,957**	131,737
Finance	Long-term debt	**43,622**	45,203
Total lease liabilities		**$ 176,229**	$ 203,959

Finance lease assets are recorded net of accumulated amortization of $41,018 and $42,980 as of December 31, 2021 and 2020, respectively.

Lease cost for the years ended December 31 was as follows:

	2021	2020
Short-term rentals	**$ 33,515**	$ 36,363
Operating leases	**28,102**	31,276
Finance leases:		
Amortization of leased assets	**345**	1,001
Interest on lease liabilities	**2,255**	2,757
	$ 64,217	$ 71,397

(Dollars in Thousands)

10. Leases (continued)

The maturity of lease liabilities at December 31, 2021, was as follows:

	Operating Leases	Financing Leases	Total
Undiscounted cash flows due within:			
2022	$ 26,847	$ 3,704	$ 30,551
2023	22,667	3,704	26,371
2024	20,163	3,713	23,876
2025	16,980	3,726	20,706
2026	15,658	3,726	19,384
2027 and thereafter	63,293	50,918	114,211
Total undiscounted cash flows	165,608	69,491	235,099
Impact of present value discount	34,581	24,289	58,870
Amount reported on balance sheet	$ 131,027	$ 45,202	$ 176,229

Other disclosures as of or for the year ended December 31, 2021, are as follows:

	Operating	Financing
Cash flows for leases	**$ 31,627**	**$ 2,253**
ROU assets obtained in exchange for new lease liabilities	**3,305**	**–**
Weighted average term (years)	**8.2**	**19.9**
Weighted average discount rate	**3.62%**	**5.98%**

Other disclosures as of or for the year ended December 31, 2020, are as follows:

	Operating	Financing
Cash flows for leases	$ 36,688	$ 4,375
ROU assets obtained in exchange for new lease liabilities	7,488	–
Weighted average term (years)	8.6	18.1
Weighted average discount rate	3.61%	5.24%

(Dollars in Thousands)

11. Debt

Fairview's long-term debt is summarized as follows:

	Annual Interest Rates	Final Scheduled Maturity	Amount Outstanding at December 31 2021	2020
Health Care System Revenue Bonds:				
Series 2021 10-Year Taxable	2.558%	2031	**$ 100,925**	$ –
Series 2021 30-Year Taxable	3.456%	2051	**100,945**	–
Series 2018A Tax-Exempt	4.00%–5.00%	2049	**263,890**	263,890
Series 2018B Taxable	Variable	2048	**113,015**	113,015
Series 2018C Taxable	Variable	2048	**110,510**	110,510
Series 2017A Tax-Exempt	2.00%–5.00%	2047	**181,975**	187,430
Series 2017B Taxable	3.13%	2031	**95,415**	95,415
Series 2017C Taxable	2.79%	2024	**95,410**	95,410
Series 2015A Tax-Exempt	2.00%–5.00%	2044	**97,400**	99,935
Series 2015 Taxable	4.16%	2043	**303,630**	316,190
Senior housing revenue bonds and notes	Various fixed rate	Various	**50,686**	50,194
Finance lease obligations	Various fixed rate	Various	**45,202**	48,229
Other	Various fixed rate	Various	**7,237**	59,107
			1,566,240	1,439,325
Net unamortized premium			**41,741**	44,344
Unamortized debt issuance costs			**(9,893)**	(9,680)
Current maturities of long-term debt			**(26,615)**	(80,666)
			$ 1,571,473	$ 1,393,323

In September 2015, the City of Minneapolis, on behalf of Fairview, issued Series 2015A tax-exempt bonds in the aggregate principal amount of $111,255 to refund the principal amount of previously outstanding revenue bonds and provide new money to fund facility expansion. The Series 2015A bonds were issued at a premium of $11,808. At the same time, Fairview also issued Series 2015 taxable private placement bonds in the aggregate principal amount of $352,440 to refund the principal amount of previously outstanding revenue bonds.

11. Debt (continued)

In August 2017, the Housing and Redevelopment Authority of the City of Saint Paul, on behalf of Fairview, issued Series 2017A tax-exempt bonds in the aggregate principal amount of $202,100 to refund existing debt. The Series 2017A bonds were issued at a premium of $22,628. At the same time, Fairview also entered into Series 2017B and Series 2017C taxable term loans with two financial institutions for a total of $190,825 to refund existing taxable direct placement debt.

In October 2018, the City of Minneapolis, on behalf of Fairview, issued the Series 2018A fixed-rate tax-exempt bonds in the aggregate principal amount of $263,890 to refund outstanding revenue bonds and provide $100,000 in new money to fund facility improvements. The Series 2018A bonds were issued at a premium of $16,009.

The City of Minneapolis, on behalf of Fairview, also issued the Series 2018BC variable-rate demand bonds (VRDBs) in the aggregate principal amount of $223,525 to refund previously outstanding private placement bonds. In conjunction with the issuance of the VRDBs, Fairview has entered into various standby purchase and credit agreements in the amount of $227,420 that expire at various dates, commencing with $112,436 in October 2023 and $114,984 in October 2025. Under the terms of the agreements, the bank will make liquidity loans to Fairview in the amount necessary to purchase all or a portion of the VRDBs and pay up to 53 days of interest in the event of a failed remarketing. Principal payments on the liquidity loans would be generally payable beginning 367 days after a failed remarketing in quarterly installments over a three- or four-year amortization period. If the amortization period extends beyond the one-year anniversary of the stated maturity date of the letter of credit, full prepayment of the remaining balance would be required.

In October 2021, Fairview closed on the issuance of $201,870 of fixed rate taxable Series 2021 Bonds. Approximately half of the Series 2021 Bonds have a 10-year term with the remaining having a 30-year term. The Series 2021 Bonds were issued for general corporate purposes including reimbursement of prior capital expenditures, repayment of a $50,000 fixed rate short-term term loan, and payment of the cost of issuance related to the Series 2021 Bonds.

(Dollars in Thousands)

11. Debt (continued)

The Fairview Obligated Group (Obligated Group) is defined under the Master Trust Indenture dated September 1, 2015, between Fairview and U.S. Bank National Association, as amended and supplemented from time to time (the MTI). Under the terms of the MTI, members of the Obligated Group are jointly and severally liable for the debts and other obligations of each other and subject to various restrictive covenants, including limitations on incurring additional debt, sale of assets, and the maintenance of certain ratios, including days cash on hand, debt to capitalization, and debt service coverage. The Obligated Group consists of Fairview Health Services, Fairview Pharmacy Services, Range Regional Healthcare Services, HealthEast, HealthEast St. Joseph's Hospital, HealthEast St. John's Hospital, HealthEast Woodwinds Hospital, and Grand Itasca Clinic and Hospital (collectively, Obligated Affiliates).

The Obligated Group accounted for 83% of Fairview's consolidated total operating revenue for 2021, and 90% of Fairview's total consolidated assets at December 31, 2021.

Fairview paid interest, net of capitalized interest, of $51,551 and $52,561 for the years ended 2021 and 2020, respectively.

The following are aggregate maturities and sinking fund requirements of long-term debt for each of the next five years, assuming no early redemption or other changes to variable-rate debt:

2022	$ 26,615
2023	29,848
2024	29,993
2025	32,140
2026	37,352

11. Debt (continued)

In October 2005, Fairview and North Memorial Medical Center (NMMC) formed Maple Grove Hospital Corporation (MGHC) to construct and operate the Maple Grove Hospital. Fairview and NMMC are the only two members of MGHC, and Fairview holds a 25% equity interest in MGHC, which is recorded within investments in related parties on the consolidated balance sheets. Fairview has guaranteed 25% of the principal and interest obligations associated with the Health Care Facilities Revenue Bonds, Series 2007, issued on behalf of MGHC, in the event of MGHC's default. The bonds have an outstanding principal balance of $103,355 as of December 31, 2021 and are payable in installments through May 2037 at annual interest rates ranging from 3.0% to 5.0% Fairview has not recorded a liability related to the guarantee as it has been deemed not probable that MGHC will default on the debt.

Fairview maintained a credit arrangement for short-term borrowing during 2021 and 2020. At December 31, 2021, Fairview had $100,000 in credit available for short-term borrowing at a variable interest rate through October 27, 2023. There were no amounts outstanding at December 31, 2021 or 2020.

12. Derivative Financial Instruments

Fairview uses various derivative financial instruments, including interest rate swaps, as part of its risk management strategy to manage exposure to fluctuation in interest rates and to manage the overall cost of its debt. Derivatives are used to manage identified and approved exposures and are not used for speculative purposes.

Interest rate swaps between Fairview and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index, the Interbank Offered Rate (IBOR), and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for Fairview's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. Fairview does not anticipate nonperformance by its counterparties.

(Dollars in Thousands)

12. Derivative Financial Instruments (continued)

The following is a summary of the outstanding positions under these interest rate swaps at December 31, 2021:

Instrument Type	Notional Amount	Maturity Date	Rate Paid	Rate Received
Floating-to-fixed rate swap	$ 74,880	November 15, 2047	3.50%	62.4% of 1-month LIBOR and 0.29%
Floating-to-fixed rate swap	147,620	November 15, 2047	3.60	62.4% of 1-month LIBOR and 0.29%

The fair value of interest rate swaps of $(84,851) and $(98,725) at December 31, 2021 and 2020, respectively, is recorded as a liability on the consolidated balance sheets.

None of the derivative financial instruments are designated as hedging instruments. Accordingly, nonoperating (losses) gains are recorded on the consolidated statements of operations and changes in net assets. The losses on interest rate swaps are $6,962 and $(22,376) for the years ended December 31, 2021 and 2020, respectively.

Fairview offsets the fair value amounts recognized for the derivative instruments and the fair value amounts recognized for the right to reclaim cash collateral (a receivable) based on the terms of the master netting agreement with the counterparty. Fairview's master netting agreements contain provisions that require Fairview to post collateral with the counterparty when the net liability of the derivative instruments is greater than the predetermined threshold. Collateral of $66,167 and $60,067 was required to be posted and reduced the outstanding liability recorded at December 31, 2021 and 2020, respectively.

Fairview has authorized certain investment managers to purchase financial derivative instruments on its behalf. Specifically, equity and fixed-income futures are used to invest cash in equities and/or obtain equity market exposure. Fairview's derivative instruments involve varying degrees of risk of loss in excess of the amount recognized in the consolidated financial statements arising from potential changes in market prices. The market value of the total notional derivative contracts was $30,313 as of December 31, 2021, and $25,195 as of December 31, 2020 and included in investments. Realized gains for the derivatives were $2,262 during 2021, and $5,515 during 2020. In addition, Fairview, through its investment activities, is indirectly involved in such activities

12. Derivative Financial Instruments (continued)

as trading in futures, forward contracts, and other derivative products. While these instruments may contain varying degrees of risk, Fairview's risk with respect to such transactions is limited to its respective share in each investment pool.

13. Fair Value Measurements

Fairview's investments include money market, fixed-income, and equity securities, which are carried at fair value, based on quoted market prices, and are classified as trading securities. Investments designated for use within one year are classified as short-term investments on the consolidated balance sheets. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. In addition, Fairview invests in commingled funds, which are accounted for at NAV as a practical expedient to fair value, and other alternative investments, which are accounted for using the equity method of accounting.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurements and disclosures section of the FASB's Accounting Standards Codification establishes a framework for measuring fair value. The framework consists of a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or a liability as of the measurement date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy in ASC Topic 820, Fair Value Measurement, are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and liabilities.

13. Fair Value Measurements (continued)

- Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

  – Quoted prices for similar assets and liabilities in active markets or for identical or similar assets or liabilities in markets that are not active
  – Observable inputs other than quoted prices that are used in the valuation of the asset or liability
  – Inputs that are derived principally from or corroborated by observable market data by correlation or other means

- Level 3 – Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

Fairview utilizes a discounted cash flow methodology for valuing derivative financial instruments. The valuations reflect a credit spread adjustment to the IBOR discount curve in order to reflect the credit value adjustment for nonperformance risk. The credit spread adjustment is derived from other comparably rated entities' bonds priced in the market. The credit spread adjustment recorded was $6,853 and $11,661 at December 31, 2021 and 2020, respectively. Fair value for Level 3 is based on unobservable market data. There were no financial instruments recorded at fair value classified as Level 3 at December 31, 2021 or 2020.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Fairview believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The carrying values of cash and cash equivalents, accounts receivable for medical services, accounts payable, and receivables and payables under third-party reimbursement contracts are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

(Dollars in Thousands)

13. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value on a recurring basis as of December 31, 2021, based on the definition of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ **209,201**	$ **–**	$ **–**	$ **209,201**
Asset-backed securities	**–**	**76,329**	**–**	**76,329**
Mortgage-backed securities	**–**	**58,413**	**–**	**58,413**
Corporate debt securities	**–**	**327,425**	**–**	**327,425**
Equity mutual funds	**546,448**	**–**	**–**	**546,448**
Equity securities	**159,775**	**–**	**–**	**159,775**
Fixed-income mutual funds	**239,028**	**–**	**–**	**239,028**
Municipal debt securities	**–**	**37,527**	**–**	**37,527**
U.S. government agency debt securities	**–**	**163,382**	**–**	**163,382**
U.S. treasury debt securities	**297,681**	**–**	**–**	**297,681**
Total investments at fair value	$ **1,452,133**	$ **663,076**	$ **–**	**2,115,209**
Equity commingled funds at NAV[1]				**152,038**
Investments not at fair value				**508,496**
Total investments				$ **2,775,743**
Liabilities				
Derivative financial instruments	$ **–**	$ **(18,684)**	$ **–**	$ **(18,684)**

[1]In accordance with ASC 820-10, Fair Value Measurement, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

(Dollars in Thousands)

13. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value on a recurring basis as of December 31, 2020, based on the definition of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 701,645	$ –	$ –	$ 701,645
Asset-backed securities	–	52,927	–	52,927
Mortgage-backed securities	–	40,004	–	40,004
Corporate debt securities	–	256,773	–	256,773
Equity mutual funds	718,967	–	–	718,967
Equity securities	85,517	–	–	85,517
Fixed-income mutual funds	269,022	–	–	269,022
Municipal debt securities	–	67,041	–	67,041
Sovereign debt	–	1,350	–	1,350
U.S. government agency debt securities	–	188,595	–	188,595
U.S. treasury debt securities	228,234	–	–	228,234
Total investments at fair value	$ 2,003,385	$ 606,690	$ –	2,610,075
Equity commingled funds at NAV[1]				48,714
Investments not at fair value				317,985
Total investments				$ 2,976,774
Liabilities				
Derivative financial instruments	$ –	$ (38,658)	$ –	$ (38,658)

[1]In accordance with ASC 820-10, Fair Value Measurement, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

14. Commitments and Contingencies

Fairview is insured with external insurance carriers for professional and general liability claims in excess of amounts self-insured through its insurance subsidiary. Fairview self-insures a portion of its professional and general liability risk through its wholly owned captive insurance subsidiary. Premiums paid to its captive insurance subsidiary are based on the cost of comparable coverage with commercial insurance companies and are eliminated in consolidation. Fairview also maintains coverage for losses in excess of certain limits with an outside insurance carrier under a risk-sharing program with certain other healthcare providers. Premiums are based on the experience of Fairview and the other healthcare providers and could result in a retrospective adjustment.

Fairview manages its professional and general liability insurance programs through its captive insurance company and its employee health insurance through self-funded plans. The provision for claims against these programs includes an estimate of the ultimate cost for reported claims and claims incurred but not reported. The estimate for professional and general liability, workers' compensation, and employee health insurance claims is based on actual claims to date and actuarial studies of Fairview's estimated future liability for such claims.

The estimated undiscounted liability for outstanding employee health insurance claims was \$30,682 and \$31,228 at December 31, 2021 and 2020, respectively. The estimated discounted liability for professional, general, and workers' compensation claims totaled \$93,973 and \$92,423 at December 31, 2021 and 2020, respectively, and is included in other current liabilities and insurance subsidiaries claims reserves. Valuation of these liabilities is based on historical data.

Fairview is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material adverse effect on Fairview's consolidated financial condition or operations. However, there can be no assurance that this will be the case.

Approximately 27% of Fairview's employees are represented by various collective bargaining arrangements that expire within one to four years.

(Dollars in Thousands)

15. Employee Benefit Plans

Fairview sponsors a number of defined contribution pension plans covering most of its employees who meet certain eligibility requirements. Fairview's contribution expense for the plans was $84,371 and $64,553 for the years ended December 31, 2021 and 2020, respectively, and is reported on the consolidated statements of operations and changes in net assets within salaries and benefits expense.

Fairview had several defined benefit plans, participation in which is frozen, and postretirement plans. In 2020, Fairview finalized the termination of two defined benefit plans and fully distributed the remaining plan assets and fully satisfied all remaining obligations. The remaining plans provide pension and postretirement benefits to approximately 9% of Fairview's employees. Net periodic benefit costs totaled $2,898 and $3,315 for 2021 and 2020, respectively. At December 31, 2021 and 2020, the net accrued benefit costs are recorded within other long-term liabilities on the consolidated balance sheets and totaled $15,626 and $24,577, respectively. The change to Fairview's unrestricted net assets arising from changes in plan assets and benefit obligations was $(7,676) and $(2,475) in 2021 and 2020, respectively. The weighted average discount rate and expected long-term rate of return on plan assets used to estimate the net periodic benefit cost were 2.43% and 5.25% for 2021, and 3.20% and 5.28% for 2020, respectively. The weighted average discount rate used to estimate the accrued benefit cost at December 31, 2021 and 2020, was 2.77% and 1.61%, respectively. The projected benefit obligation for the plans totaled $66,418 and $70,871 at December 31, 2021 and 2020, respectively.

The fair value of pension plan assets was determined using the fair value hierarchy as defined in Note 13. Fair value methodologies for Level 1 are consistent with the inputs described in Note 13. Fair value of pooled separate accounts is based on the net asset value of shares held by the plans at year-end and is classified as Level 2. Fair value of the guaranteed investment contract is calculated by the annuity provider based on unobservable market data and is classified as Level 3.

The following analysis of the pension plan assets, measured at fair value on a recurring basis, is based on the definition of the fair value hierarchy at December 31, 2021:

	Level 1	Level 2	Level 3	Total
Assets				
Pooled separate accounts	$ –	$ 56,481	$ –	$ 56,481
Guaranteed investment contract	–	–	1,111	1,111
	$ –	$ 56,481	$ 1,111	$ 57,592

(Dollars in Thousands)

15. Employee Benefit Plans (continued)

The following analysis of the pension plan assets, measured at fair value on a recurring basis, is based on the definition of the fair value hierarchy at December 31, 2020:

	Level 1	Level 2	Level 3	Total
Assets				
Pooled separate accounts	$ –	$ 52,493	$ –	$ 52,493
Guaranteed investment contract	–	–	941	941
	$ –	$ 52,493	$ 941	$ 53,434

Fairview also participates in union-sponsored multiemployer plans to which contributions are made in accordance with collective bargaining agreements. The risks of participation in these multiemployer plans are different from single-employer plans 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; and (c) if Fairview chooses to stop participating in some of its multiemployer plans and if the plan is underfunded, Fairview may be required to pay those plans an amount based on the underfunded status of the plan, referred to as the withdrawal liability.

Fairview's participation in these plans is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. The most recent Pension Protection Act zone status available is for the plan's year-end at December 31, 2021 and 2020. The zone status is based on information that Fairview received from the plan and is certified by the plan's actuary. 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 "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 plans are subject.

(Dollars in Thousands)

15. Employee Benefit Plans (continued)

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status 2021	Pension Protection Act Zone Status 2020	FIP/ RP Status Pending/ Implemented	Contributions of Fairview for the Plan Year Ended 2021	Contributions of Fairview for the Plan Year Ended 2020	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
Twin City Hospitals Minnesota Nurses Association Pension Plan	41-6184922 – 001		Green	N/A	**$ 34,021**	$ 30,148	No	May 31, 2022
Other					**2,530**	2,487		
Total contributions					**$ 36,551**	$ 32,635		

Total amounts expensed under the union-sponsored multiemployer plans were $36,551 and $32,635 for 2021 and 2020, respectively, and were recorded within salaries and benefits on the consolidated statements of operations and changes in net assets. Fairview contributes more than 5% of the total contributions to all of the plans in which it participated for the plan years 2021 and 2020. Fairview is required to make a minimum contribution of $34,074 in 2022. The funding improvement plan for the Twin City Hospitals Minnesota Nurses Association Pension Plan requires no contribution or benefit changes from the currently bargained amounts to achieve the funding improvement plan goals. The Plans did not require a surcharge payment. At the date Fairview's consolidated financial statements were issued, Forms 5500 were not available for the plans' year ended in 2021.

(Dollars in Thousands)

16. Functional Expenses

Fairview provides health-related services to patients and operates a health insurance services organization providing health insurance services to subscribers in the communities it serves. Recurring and non-recurring expenses related to providing these services, included on the consolidated statements of operations and changes in net assets, are as follows:

	Health Care Services	Health Insurance Services	General and Administrative	Total
Year ended December 31, 2021				
Salaries and benefits	**$ 2,400,007**	**$ 25,175**	**$ 460,295**	**$ 2,885,477**
Supplies	**1,869,848**	**–**	**12,632**	**1,882,480**
Purchased services	**857,427**	**193,218**	**95,555**	**1,146,200**
Depreciation and amortization	**99,027**	**119**	**47,579**	**146,725**
Interest	**44,874**	**–**	**3,207**	**48,081**
Other	**311,532**	**1,584**	**137,822**	**450,938**
	$ 5,582,715	**$ 220,096**	**$ 757,090**	**$ 6,559,901**

	Health Care Services	Health Insurance Services	General and Administrative	Total
Year ended December 31, 2020				
Salaries and benefits	$ 2,320,897	$ 38,136	$ 438,244	$ 2,797,277
Supplies	1,658,624	–	12,634	1,671,258
Purchased services	808,546	303,643	63,065	1,175,254
Depreciation and amortization	92,283	258	49,761	142,302
Interest	45,634	–	3,954	49,588
Other	307,591	2,329	138,769	448,689
	$ 5,233,575	$ 344,366	$ 706,427	$ 6,284,368

17. Income Taxes

Most of Fairview's controlled affiliates are tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code. These organizations are subject to income tax on any income from unrelated business activities. Fairview also owns or controls certain taxable affiliates. Fairview files income tax returns in the U.S. federal jurisdiction and in various state and local jurisdictions. With few exceptions, Fairview is no longer subject to U.S. federal, state, and local, or non-U.S. income tax examinations by tax authorities for years before 2017. Fairview is currently undergoing an audit being conducted by the Internal Revenue Service which could result in adjustments to income taxes payable for years under audit or on estimates for uncertain tax positions.

Fairview has made reasonable estimates of the provision for income taxes and on existing deferred tax balances based on accounting guidance included in ASC 740, *Income Taxes*. Deferred tax assets and liabilities are recognized in the consolidated financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized. Valuation allowances are established when necessary, to reduce deferred tax assets to the amount expected to be realized.

Fairview recognizes all tax positions, including those positions in a previously filed tax return or a position expected to be taken in a future tax filing that is reflected in measuring current or deferred income tax assets and liabilities, when it is more likely than not (likelihood of greater than 50%) that, based on technical merits, the position will be sustained upon examination. There are \$14,540 and \$0 uncertain tax positions recorded on the consolidated balance sheets as of December 31, 2021 and 2020, respectively. Fairview has made reasonable estimates of the provision for income taxes and on existing deferred tax balances based on accounting guidance included in ASC 740, *Income Taxes*.

Fairview does not expect that there will be a significant change in the total amount of unrecognized tax benefits within the next 12 months.

18. Subsequent Events

Fairview evaluated events and transactions occurring subsequent to December 31, 2021 through April 14, 2022, the date of issuance of the accompanying consolidated financial statements. During this period, there were no other subsequent events requiring recognition or disclosure in the consolidated financial statements.

Supplementary Information

Ernst & Young LLP
Suite 500
700 Nicollet Mall
Minneapolis, MN 55402

Tel: +1 612 343 1000
ey.com

Report of Independent Auditors on Supplementary Information

The Board of Directors
Fairview Health Services

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Fairview Health Services consolidating balance sheet and consolidated statement of operations and changes in net assets are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

April 14, 2022

Fairview Health Services

Consolidating Balance Sheet

(Dollars in Thousands)

December 31, 2021

	Obligated Group[1]	Non-Obligated Group	Eliminations and Reclassifications	Consolidated Totals
Assets				
Current assets:				
Cash and cash equivalents	$ 38,790	$ 39,144	$ –	$ 77,934
Short-term investments	515,901	5,538	–	521,439
Accounts receivable for medical services	531,108	122,802	–	653,910
Receivable under third-party payor contracts	20,624	–	–	20,624
Current portion of contributions receivable	5,795	550	–	6,345
Inventories	129,167	3,263	–	132,430
Other current assets	150,078	43,741	(9,461)	184,358
Total current assets	1,391,463	215,038	(9,461)	1,597,040
Investments	2,140,937	27,888	–	2,168,825
Assets limited as to use:				
Held by insurance subsidiaries	–	61,109	–	61,109
Restricted fund investments	195	23,964	–	24,159
Other assets limited as to use	53	158	–	211
Total assets limited as to use	248	85,231	–	85,479
Other long-term assets:				
Contributions receivable	12,835	–	–	12,835
Investments in related parties	70,564	2,963	–	73,527
Right-of-use assets	66,939	49,520	–	116,459
Goodwill and intangible assets	55,043	(1,050)	–	53,993
Other long-term assets	109,328	2,311	(13,182)	98,457
Total other long-term assets	314,709	53,744	(13,182)	355,271
Land, buildings, and equipment, net	1,091,936	186,088	–	1,278,024
Total assets	$ 4,939,293	$ 567,989	$ (22,643)	$ 5,484,639

	Obligated Group[1]	Non-Obligated Group	Eliminations and Reclassifications	Consolidated Totals
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 237,412	$ 60,295	$ –	$ 297,707
Accrued compensation and benefits	338,498	27,632	–	366,130
Payable under third-party payor contracts	7,498	2,155	–	9,653
Current maturities of operating leases	11,953	7,117	–	19,070
Current maturities of long-term debt	24,674	1,941	–	26,615
Other current liabilities	316,233	20,398	(2,174)	334,457
Total current liabilities	936,268	119,538	(2,174)	1,053,632
Other liabilities:				
Insurance subsidiaries claims reserves	15,268	21,128	–	36,396
Workers' compensation claims reserves	40,793	(1)	–	40,792
Long-term operating lease liabilities	62,053	49,904	–	111,957
Derivative financial instruments	18,684	–	–	18,684
Other long-term liabilities	100,445	22,057	(20,469)	102,033
Total other liabilities	237,243	93,088	(20,469)	309,862
Long-term debt	1,520,054	51,419	–	1,571,473
Total liabilities	2,693,565	264,045	(22,643)	2,934,967
Net assets:				
Without donor restrictions:				
Fairview Health Services	2,178,043	274,041	–	2,452,084
Non-controlling interests	46,945	7,067	–	54,012
Total net assets without donor restrictions	2,224,988	281,108	–	2,506,096
Net assets with donor restrictions	20,740	22,836	–	43,576
Total net assets	2,245,728	303,944	–	2,549,672
Total liabilities and net assets	$ 4,939,293	$ 567,989	$ (22,643)	$ 5,484,639

[1] The Fairview Obligated Group (Obligated Group) was created under the Master Trust Indenture dated November 1, 1985, between the Obligated Group and U.S. Bank National Association. As of December 31, 2021, the Obligated Group consists of Fairview Health Services; Fairview Pharmacy Services, LLC; Range Regional Healthcare Services; HealthEast; HealthEast St. Joe's Hospital; HealthEast St. John's Hospital; HealthEast Woodwinds Hospital; and Grand Itasca Clinic and Hospital. The Master Trust Indenture mandates that members of the Obligated Group be jointly and severally liable for the debts and other obligations of each member.

Fairview Health Services

Consolidating Statement of Operations and Changes in Net Assets
(Dollars in Thousands)

Year Ended December 31, 2021

	Obligated Group[1]	Non-Obligated Group	Eliminations and Reclassifications	Consolidated Totals
Operating revenues:				
Patient service revenue	$ 4,904,225	$ 974,632	$ (94,249)	$ 5,784,608
Other operating revenue	475,382	347,001	(190,926)	631,457
Net assets released from donor restrictions	3,400	7,842	–	11,242
Total operating revenues	5,383,007	1,329,475	(285,175)	6,427,307
Expenses:				
Salaries and benefits	2,329,965	561,068	(5,556)	2,885,477
Supplies	1,836,003	109,114	(62,637)	1,882,480
Purchased services	545,853	653,060	(52,713)	1,146,200
Utilities and maintenance	202,197	13,420	–	215,617
Insurance and rent	43,715	52,575	(17,313)	78,977
State and local taxes	74,532	24,100	–	98,632
Other operating expenses	51,108	153,560	(146,956)	57,712
Depreciation and amortization	127,558	19,167	–	146,725
Interest	40,074	8,007	–	48,081
Total operating expenses	5,251,005	1,594,071	(285,175)	6,559,901
Operating loss before non-recurring expenses	132,002	(264,596)	–	(132,594)
Non-recurring expenses:				
Gain (loss) on sale of business and other strategic transactions, net	3,853	(34)	–	3,819
Total non-recurring expenses	3,853	(34)	–	3,819
Operating income (loss)	135,855	(264,630)	–	(128,775)
Nonoperating (losses) gains:				
Investment return	160,910	5,626	–	166,536
Losses on interest and basis rate swaps, net	6,961	–	–	6,961
Other nonoperating losses	(11,418)	(2,091)	–	(13,509)
Total nonoperating gains	156,453	3,535	–	159,988
Excess (deficit) of revenues over expenses	292,308	(261,095)	–	31,213
Less amounts attributable to non-controlling interests	(2,208)	(2,556)	–	(4,764)
Excess (deficit) of revenues over expenses attributable to Fairview Health Services	290,100	(263,651)	–	26,449

	Obligated Group[1]	Non-Obligated Group	Eliminations and Reclassifications	Consolidated Totals
Net assets without donor restrictions, Fairview Health Services:				
Excess (deficit) of revenues over expenses	$ 290,100	$ (263,651)	$ –	$ 26,449
Capital contribution	(115,032)	115,032	–	–
Pension and other postretirement liability adjustments	7,676	–	–	7,676
Other changes, net	11,670	8,396	(13,169)	6,897
Increase (decrease) in net assets without donor restrictions, Fairview Health Services	194,414	(140,223)	(13,169)	41,022
Net assets without donor restrictions, non-controlling interests:				
Excess of revenues over expenses	2,208	2,556	–	4,764
Distributions to non-controlling interests and other changes	(226)	(2,873)	–	(3,099)
Increase in net assets without donor restrictions, non-controlling interests	1,982	(317)	–	1,665
Donor-restricted net assets:				
Contributions and other changes, net	3,256	1,136	–	4,392
Net assets released from restrictions	(3,400)	(7,842)	–	(11,242)
Decrease in donor-restricted net assets	(144)	(6,706)	–	(6,850)
Total (decrease) increase in net assets	196,252	(147,246)	(13,169)	35,837
Net assets at beginning of year	2,049,476	451,190	13,169	2,513,835
Net assets at end of year	$ 2,245,728	$ 303,944	$ –	$ 2,549,672

[1] The Fairview Obligated Group (Obligated Group) was created under the Master Trust Indenture dated November 1, 1985, between the Obligated Group and U.S. Bank National Association. As of December 31, 2021, the Obligated Group consists of Fairview Health Services; Fairview Pharmacy Services, LLC; Range Regional Healthcare Services; HealthEast; HealthEast St. Joe's Hospital; HealthEast St. John's Hospital; HealthEast Woodwinds Hospital; and Grand Itasca Clinic and Hospital. The Master Trust Indenture mandates that members of the Obligated Group be jointly and severally liable for the debts and other obligations of each member.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

ey.com