



**Continuing Disclosure Statement  
for the Year Ended December 31, 2022**



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Note: The attached information is provided for the benefit of registered or beneficial bondholders and other issuers of credit and credit enhancement to Fairview Health Services and the Fairview Obligated Group. Questions and/or requests for additional information should be directed to Kim Faust, Vice President and Treasurer at: [kim.faust@fairview.org](mailto:kim.faust@fairview.org). Additional information about Fairview can be found at: [fairview.org](http://fairview.org).

**FAIRVIEW HEALTH SERVICES** is filing this Continuing Disclosure Statement to comply with contractual commitments made in connection with the issuance of securities to provide specified information. Descriptions of the securities, the source of payment and security for the securities, and risks associated with an investment in the securities at the time of issuance are described in the Official Statements related to the securities, copies of which are on file with the Municipal Securities Rulemaking Board or available through the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (“EMMA”) website. This report is not made in connection with a purchase or sale of securities by Fairview Health Services and accordingly does not contain all information material to a decision to purchase or sell securities.

Any statement in this Continuing Disclosure Statement that includes a matter of opinion, whether or not expressly stated, is intended as such, and not as a representation of fact.

The information contained in this Continuing Disclosure Statement is provided as of the respective dates and for the periods specified herein and is subject to change without notice, and the filing of this Continuing Disclosure Statement does not, under any circumstances, imply that there has been no change in the affairs of Fairview Health Services since the specified dates as of which such information is provided. The dates as of and periods for which information is provided occurred during the worldwide 2019 Novel Coronavirus (“COVID-19”) pandemic. These effects are continuing to impact Fairview Health Services, but the duration and magnitude of the impact cannot be fully predicted but could be material. Accordingly, the historical information set forth in this Continuing Disclosure Statement is not indicative of future results or performance due to these and other factors, including those discussed in the Official Statements referred to above. Any statements made in this Continuing Disclosure Statement that are not historical or current facts are “forward-looking statements.” The forward-looking statements generally can be identified with words or phrases such as “anticipates,” “believes,” “intends,” “expects,” “estimates,” “foresees,” “could,” “may,” “should,” “will,” “plans,” “predicts,” or other words or phrases of similar import. These statements are based on assumptions and analyses made by Fairview Health Services in light of its experience and perception of historical trends of the organization, current conditions, expected future developments, and other factors it believes are appropriate in the circumstances. However, whether actual results and developments conform to expectations and predictions is subject to several known and unknown risks and uncertainties, as well as additional factors beyond Fairview Health Services’ control. There can be no assurance that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences to or effects on Fairview Health Services’ business or operations. All forward-looking statements made herein are qualified by these cautionary statements.





# SECTION ONE

## Overview of Fairview Health Services



## GENERAL

Fairview Health Services (“Fairview”) is an integrated academic health system located in Minneapolis, Minnesota, and, along with its affiliates and subsidiaries, is one of the leading health care providers in Minnesota with \$6.7 billion in operating revenue for 2022. Fairview offers a broad continuum of health care services through its hospitals, clinics, and other health care related operations and is a Minnesota nonprofit corporation that is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (the “IRC”).

Fairview serves the entire twelve-county Minneapolis/St. Paul Metro Area (the “Metro Area”), as well as communities throughout greater Minnesota and portions of Northern Iowa and Western Wisconsin and is one of the most comprehensive and geographically accessible systems in Minnesota. The Fairview System consists of ten hospitals, including M Health Fairview University of Minnesota Medical Center and M Health Fairview Masonic Children’s Hospital (collectively, “UMMC”), which is the adult and pediatric teaching hospital of the University of Minnesota (the “University”). UMMC and seven of Fairview’s other hospitals are in the Metro Area. Fairview’s other two hospitals are located in northern Minnesota. Fairview operates over 80 primary and specialty care clinics, seven ambulatory care centers, 36 retail and specialty pharmacies, pharmacy benefit management (“PBM”) services, rehabilitation centers, physician network, senior care housing and long-term care facilities and medical transportation.

Fairview, through its integrated care model, aims to deliver the benefits of academic medicine to more patients and families by expanding care, research, and education by offering access to a greater pool of physicians and patients, while seeking to reduce the total cost of care for patients.

Based on September 30, 2022, inpatient discharge statistics compiled by the Minnesota Hospital Association, Fairview is the second largest health care delivery system in the Metro Area with a 27.1% market share.

## RELATIONSHIP WITH THE UNIVERSITY OF MINNESOTA

Fairview, the University, and the University of Minnesota Physicians (“UMPhysicians”) approved an agreement which became effective in late 2018 (the “M Health Fairview Agreement”).

While the parties maintain their separate governance, the M Health Fairview Agreement further integrated 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 brings together UMMC and its related service lines, and Fairview’s other hospitals and primary care clinics. All are part of a shared care delivery system that is led by a single structure that includes academic physician leadership. The goal of the joint clinical enterprise is to create a nationally-renowned academic health system. This care system was united in 2020 under a single brand, M Health Fairview, which is inclusive of the Fairview Hospitals and Clinics (“M Health Fairview”).



The M Health Fairview Agreement, which is additive to the academic affiliation relationship entered into by Fairview, the University, and UMPhysicians in 1997, continues through December 31, 2026, with an option for a 10-year extension in 2023 by mutual agreement. The Agreement includes financial support from Fairview to the University of Minnesota Medical School (the “Medical School”) to support mutual goals to achieve top decile status for the Medical School and to support nation leading research and education and practice aimed at improving health throughout the communities and individuals served by the delivery system. The M Health Fairview Agreement provides for fixed and variable financial support based on the financial performance of Fairview to the Medical School. The minimum fixed annual academic support commitment to the University in 2022 was \$50 million, or \$12.5 million per quarter, and increases thereafter through 2026 in accordance with the consumer price index (“CPI”). The minimum variable academic support commitment to the University is 0.15% of patient service revenue through 2026, which was \$9.4 million in 2022. The contract also includes the opportunity for additional variable support payments based on the financial performance of Fairview, which was not achieved in 2022. Finally, there is also a minimum fixed annual academic support commitment that is paid to UMPhysicians and then contributed to the Medical School of \$33.6 million in 2022 or \$8.4 million per quarter, increasing annually thereafter in accordance with the CPI. Goals for this support align with the programs of distinction envisioned for growth in the System along with additional benefits such as better synergies between the organizations, alignment of patient care objectives, and expanded academic reach within the Metro Area. A significant component of the M Health Fairview relationship includes simplification of previous funds flow practices through a Master Professional and Related Services Agreement, which provides a single agreement and a streamlined framework to facilitate payment from Fairview to UMPhysicians for clinical and professional services provided by UMPhysicians to Fairview in the joint clinical enterprise.

## STRATEGY

Fairview’s strategic plan for achieving its mission and vision is to drive M Health Fairview to become a nationally-renowned, high performing academic health system, comprised of academic and community resources serving patients and communities in a coordinated manner.

Fairview’s approach includes intentional actions to meet the demands and the challenges of a rapidly-changing health care marketplace. M Health Fairview will:

- Grow targeted service lines
- Manage total cost of care
- Continue investment and focus delivering value and high-quality care
- Design customer experiences and solutions that are integrative of both the physical and the digital by leveraging process excellence and digital capabilities to enable outcomes
- Focus on its people and culture



**FAIRVIEW’S MISSION:**  
Fairview is driven to heal,  
discover and educate for  
longer, healthier lives.

**OUR VISION:**  
Fairview is driving a  
healthier future.

## HEALTH CARE SERVICES

### HOSPITALS

Fairview owns and operates the following hospitals: (i) UMMC, (ii) M Health Fairview Southdale Hospital, (iii) M Health Fairview Ridges Hospital, (iv) M Health Fairview Lakes Medical Center, (v) M Health Fairview Northland Medical Center, (vi) Fairview University Medical Center – Mesabi (“Range”), (vii) Grand Itasca Clinic and Hospital (“Grand Itasca”), (viii) M Health Fairview St. John’s Hospital (“St. John’s”), (ix) M Health Fairview Woodwinds Hospital (“Woodwinds”) and (x) M Health Fairview Bethesda Hospital (“Bethesda”),<sup>1</sup> and collectively the “System Hospitals”. As of December 31, 2022, the System Hospitals had a total of 3,529 licensed beds and 1,824 staffed beds.

### CLINICS, AMBULATORY CARE, PHARMACY AND OTHER SERVICES

**Clinic Services.** Fairview operates more than 80 primary and specialty care clinics throughout the Metro Area, greater Minnesota and western Wisconsin. These clinics offer services in over 70 medical specialties, including family medicine, pediatrics, obstetrics, gynecology, heart care, cancer care, otolaryngology, transplant care, and orthopedics.

**Ambulatory Surgery Centers.** As of December 30, 2022, Fairview owned all or a portion of seven ambulatory surgery centers located in the Metro Area, described below:

- Fairview owns and operates M Health Fairview Maple Grove Surgery Center, an ambulatory surgery center located in Maple Grove, Minnesota that provides multispecialty adult and pediatric outpatient surgical care, including colonoscopy, otolaryngology, eye, gastroenterology, obstetrics and gynecology, orthopedics, plastic and reconstructive surgery, podiatry, endoscopy, urology, and vascular services. M Health Fairview Maple Grove Surgery Center is included in Fairview’s consolidated financial statements.
- 
- M Health Fairview Maple Grove Surgery Center – Maple Grove
- Fairview is a 50% owner of Crosstown Surgery Center LLC (with CSC Physician Investors, LLC owning the remaining interest), an ambulatory surgery center located in Edina, Minnesota that specializes in orthopedic surgery through advanced technology. Fairview accounts for the Crosstown Surgery Center as an equity method joint venture.
  - Fairview is a 51% owner of Ridges Surgery Center LLC (with independent physician partners owning the remaining interest), an ambulatory surgery center located in Burnsville, Minnesota that provides multispecialty outpatient surgical care, including gynecology, orthopedics, podiatry, otolaryngology, ophthalmology, spine, anesthesia, and general surgery services. Ridges Surgery Center LLC is included in Fairview’s consolidated financial statements.

<sup>1</sup>“HealthEast Care System’s” legal name changed to “Fairview Bethesda Hospital” as of June 29, 2022.



- Fairview, through a joint venture with UMPHysicians, has a 50% membership interest in the University of Minnesota Health Clinics and Surgery Center (the “M Health CSC Joint Venture”). The M Health CSC Joint Venture leases space from the University and operates clinics within the building that provide outpatient clinic and surgical care for thirty seven medical specialties including primary care, neurology, cardiology, dermatology, orthopedics, hepatology, solid organ transplant, ear, nose and throat, endoscopy, urology, and vascular services. Fairview accounts for the M Health CSC Joint Venture using the equity method of accounting. Fairview Clinics also operates hospital-based services in the same location.
- Fairview is a 51% owner of Maplewood Surgery Center, LLC (with independent physician partners owning the remaining interest), a freestanding surgery center located in Maplewood, Minnesota. The Maplewood Surgery Center is a multi-specialty center offering services in orthopedics, podiatry, otolaryngology, gynecology, and general surgery that is managed by Surgical Care Affiliates, Inc. The Maplewood Surgery Center is included in Fairview’s consolidated financial statements.
- Fairview is a 20% owner of Vadnais Heights Surgery Center, LLC, an ambulatory surgery center located in Vadnais Heights, Minnesota, with the remaining 80% owned by Summit Orthopedics, an orthopedic practice. The Vadnais Heights Surgery Center is focused exclusively on providing orthopedic surgical care. Fairview accounts for the Vadnais Heights Surgery Center, LLC using the equity method of accounting.
- Fairview is a 51% owner of South Health Ambulatory Surgery Center (“SHASC”) joint venture located in Edina, Minnesota doing business as Edina Specialty Surgery Center, with the remaining 49% owned by Edina Multispecialty Surgical Care Associates, LLC. SHASC provides multi-specialty surgical care and has the capability to perform nearly all same-day surgery procedures in six surgery suites and one procedure room. Fairview accounts for the SHASC using the equity method of accounting.

**Pharmacy Services.** Fairview and Fairview Pharmacy Services (“FPS”) own and operate pharmacies at 36 locations, including a network of retail pharmacies, oncology pharmacies, two home infusion pharmacies (Minneapolis and Duluth, Minnesota), and a specialty pharmacy. The specialty pharmacy provides drugs and a variety of clinical management services for specialty diseases and chronic conditions including: cancer, cystic fibrosis, fertility treatment, growth hormone deficiency, hemophilia, hepatitis C, HIV, inflammatory conditions (Crohn’s disease, psoriasis, psoriatic arthritis, and rheumatoid arthritis), multiple sclerosis, pulmonary hypertension, metabolic disorders, and respiratory syncytial virus. In addition to operating retail and specialty pharmacies, Fairview also provides mail order pharmacy, PBM services, retail merchandising, clinical trial services, medication therapy management, long-term care pharmacy services, a dedicated hemophilia pharmacy, which is located within the University Hemophilia Treatment Center, 503a and 503b compounding pharmacies, hospice pharmacy, and physician office drug and supply services.

**M Health Fairview Rehabilitation Services.** M Health Fairview Rehabilitation Services (“MHFRS”) provides a full continuum of inpatient and outpatient rehabilitation services for pediatric and adult patients as well as an inpatient rehabilitation facility, a hospital based skilled nursing facility and an adult day program. In addition to providing inpatient services in nine hospitals (Grand Itasca and Range are not included), MHFRS has 58 outpatient hospital based and free-standing clinics that serve pediatric and adult patients. Specialty services include rehabilitation in the following areas: Cardiac and Pulmonary rehabilitation, Audiology, Orthopedic, Sports related injuries, Neurological, Vestibular, and Cancer Rehab. Hand therapy services are also provided in seven locations. MHFRS serves about 700,000 patient visits/year.

**M Health Fairview Emergency Medical Services.** M Health Fairview Emergency Medical Services offers emergency medical services and scheduled transportation across the Metro Area and supports the community by responding to more than 50,000 calls annually.





## SENIOR HOUSING, LONG-TERM CARE FACILITIES AND SENIOR SERVICES

Ebenezer, a non-profit subsidiary of Fairview, provides long-term senior care facilities, senior housing, adult, and child-care services. Ebenezer's goal is to provide a supportive environment where older adults can pursue longer, healthier, and more meaningful lives.

Through Ebenezer, Fairview operates four long-term and two transitional care senior care facilities. Ebenezer through its wholly owned for profit subsidiary, Ebenezer Management Services, also operates over 100 senior housing facilities (nine of which are owned and operated) in the Metro Area and greater Minnesota, Iowa, Nebraska, Wisconsin, and Florida.

In addition to Ebenezer, Fairview has a 50% non-consolidated minority ownership interest in Cerenity Senior Care, which provides senior living care facilities and services in the Metro Area.

## PHYSICIAN NETWORK AND OTHER STRATEGIC ALLIANCES

**Employed and Staffed Physicians.** Fairview has a large physician network which includes both employed and affiliated physicians. As of December 31, 2022, Fairview employed over 1,000 clinicians.

**University of Minnesota Physicians.** Since 1997, Fairview has partnered with the University and UMPHysicians on providing patient care services to the Metro Area. UMPHysicians is a nonprofit organization of more than 1,200 physicians that operates as the clinical practice of the Medical School. Physicians affiliated with UMPHysicians primarily practice within UMMC and other System facilities. Fairview, the University, and UMPHysicians currently collaborate further under the M Health Fairview Agreement described earlier.

The Academic Affiliate Agreement provides that the principal site for clinical practice for UMPHysicians will be the System's hospitals including UMMC. In addition, as part of the M Health Agreement, UMPHysicians has agreed to use UMMC as the principal venue for educational and new research opportunities when appropriate.

**Fairview Partners.** Fairview Partners is an integrated health care network providing on-site primary care and care coordination to seniors through risk-sharing insurance products. As of December 31, 2022, Fairview Partners had 4,400 members enrolled in two different health plans, including 3,400 members with UCare and 1,000 members with Medica. Fairview Partners' members are enrolled in Medicare Advantage and Special Needs Plans and live-in partner nursing homes and assisted livings as well as in their own homes in the community. As of December 31, 2022, there were 31 nursing homes and 40 assisted living facilities (including 20 Ebenezer owned or managed facilities) participating in the Fairview Partners program.

**Fairview Physician Associates Network.** Fairview Physician Associates Network ("FPA"), is a Minnesota nonprofit tax-exempt corporation, of which Fairview is the sole corporate member. FPA is an integrated practice network of over 4,600 providers, of which more than 3,100 are physicians, including Fairview's employed physicians. As a physician led nonprofit organization, FPA works to advance community health by improving the quality, patient experience, and total cost of care of services delivered to patients. FPA, as a large, multi-specialty group, contracts with health plans to establish agreements with the payers that are aligned in the interests of improving quality and reducing member costs of care. By helping its providers reach quality goals, FPA manages clinical risk for patient populations to enhance excellence of care. FPA also offers services to support clinical care, patient safety, and to enhance clinical integration.

Fairview is committed to delivering on the Triple Aim goals of improving the patient experience, improving the health of populations, and reducing the cost of healthcare. To accomplish this objective, Fairview has entered into various agreements with payers to manage quality, risk, and cost across the full continuum of reimbursement models. For total cost of care contracts, Fairview participates in a hybrid payment model that incorporates at risk elements based on quality, patient satisfaction, and management of the total cost of care of a population, with health plan members attributed to the primary care clinics within Fairview based on utilization. These products create a mechanism by which Fairview is rewarded for reductions in total cost of care and improved quality through enhanced relationships with patients served.

Fairview has also entered limited network products with select health plans. In these products, the members enroll in a product that has lower premiums or member cost, but carry a significant out of pocket penalty for out of network utilization. Because the members are enrolled, the provider network can identify each member upon enrollment and, as a result, can proactively design plans of care. In these limited network products, Fairview shares both in the margin and loss of the product. For 2023 Fairview has limited network products with Medica, PreferredOne, and UnitedHealthcare for the commercial group market, with Medica, PreferredOne, and UCARE for the commercial individual market, a limited network product with UCARE, and a tiered product with UnitedHealthcare for the Medicare Advantage market.

Fairview and North Memorial Health have a clinically integrated network known as the Relevant Network (“Relevant”). Relevant’s purpose is to share best practices, improve outcomes, enhance patient satisfaction, and advance total cost of care savings by establishing product offerings that are differentiated in the market. Relevant’s member organizations align under an accountable care model and share governance responsibilities. As of December 31, 2022, Relevant network products had about 100,000 members.

Through FPA, Fairview participates in the State of Minnesota’s Medicaid Integrated Health Partnership 2.0 program. In this program, Fairview accepts risk for total cost of care outcomes and receives a care management payment. In 2022, through FPA, Fairview has returned to the Medicare fee-for-service risk arena by joining the Direct Contracting model and has continued participation in the program under its new model, ACO Reach, for 2023. Fairview selected the primary care capitation option with a small portion of primary care fee-for-service revenue moving to a capitation payment. This model does include upside and downside risk related to total cost of care performance. There are about 25,000 members in this product.

In 2022, Fairview entered the Kidney Care Choices incentive model with CMS through a joint venture with DaVita and several local nephrology practices. In this product, DaVita is assuming any downside risk and gains are shared with the nephrology practices.

In total, these agreements have established quality outcomes and/or shared savings incentives or limited risk contracts with commercial and governmental payers that now cover over 500,000 lives. With the proliferation of both public and private insurance exchanges, a continued increase in this financial model is anticipated, and Fairview is well positioned to take advantage of that market shift.

**Other Strategic Alliances.** Fairview has many other strategic alliances in place with other health care providers and payers and is periodically engaged in discussions with both existing partners about the expansion of current relationships and various other parties regarding possible new alliances. These alliances are expanded or established to provide more comprehensive patient care and services. Future alliances could take the form of affiliations, partnerships, joint ventures, acquisitions, mergers, divestitures or other arrangements.

## INFORMATION TECHNOLOGY

Fairview's hospitals and clinics are utilizing the EPIC electronic health record system. The EPIC system assists caregivers in providing care to all patients at the hospital and clinic care locations by improving patient safety, enhancing care coordination between medical professionals, and ensuring the timeliness and accuracy of the revenue cycle processes.

Fairview has also invested in virtual care throughout the entire organization—from hospitals, emergency departments and clinics to home care and hospice, pharmacy, senior living community, and home-based settings. Many virtual care initiatives expand access in rural communities to specialty care, providing video appointments and consultations with a wide range of specialists in areas such as maternal fetal medicine, cardiology, psychiatry, infectious disease, and dermatology. Fairview's tele ICU offers remote monitoring by intensivists certified in critical care, registered nurses, and advanced practice providers. Similarly, its tele-stroke program provides remote triage and optimal treatment of patients with acute neurologic symptoms equitably across rural and urban sites. Fairview offers convenient remote diagnosis and treatment capabilities via EPIC's MyChart (patient portal) for conditions that do not require a clinic office visit including advanced video visit capabilities, e-Visit capabilities, and remote patient monitoring programs for managing patients with chronic conditions. Video consultation with Medication Therapy Management pharmacists brings their expertise to a variety of clinic, assisted living, and home-based settings. Fairview also has several programs to monitor patient health status in their homes

Fairview offers convenient remote diagnosis and treatment capabilities via EPIC's MyChart (patient portal) for conditions that do not require a clinic office visit. Additionally, Fairview has developed advanced video visit capabilities within EPIC to support expanded virtual care offerings.

Fairview has a robust cyber security and risk management function, which is managed by a Chief Information Security Officer. Key functional areas include policy, governance/risk/compliance, identity and access governance, Payment Card Industry compliance (information security standard for organizations that handle credit cards), Health Insurance Portability and Accountability Act of 1996 compliance, security controls, architecture and design (including backup plans and redundancy for critical systems), compliance and technical security oversight; detecting anomalous events; security awareness training, and providing information technology guidance on containing, eradicating, and recovering from security incidents. Due to the increased threat landscape impacting healthcare organizations, Fairview's cyber security function has taken additional steps to mitigate the risk of email phishing, ransomware, medical device vulnerabilities, loss or theft of equipment or data, and insider threats. These include increased controls such as email protection and isolation, extended detection and response, multifactor authentication, application development code security reviews, access management systems, data loss prevention, asset management, network segmentation and access control, and cyber risk quantification. The Executive Leadership Team and the Board of Director's Audit and Compliance Committee provide direction, oversight, and counsel regarding all aspects of information technology strategy and risks.



## COMMUNITY COMMITMENT

Through its mission and its role as an anchor institution, Fairview is in a unique position to be a catalyst for progress and change. Fairview continues to invest heavily in the health and wellness of its communities in which it operates. This commitment includes education, training, community programs and research, as well as significant investments in care delivery.

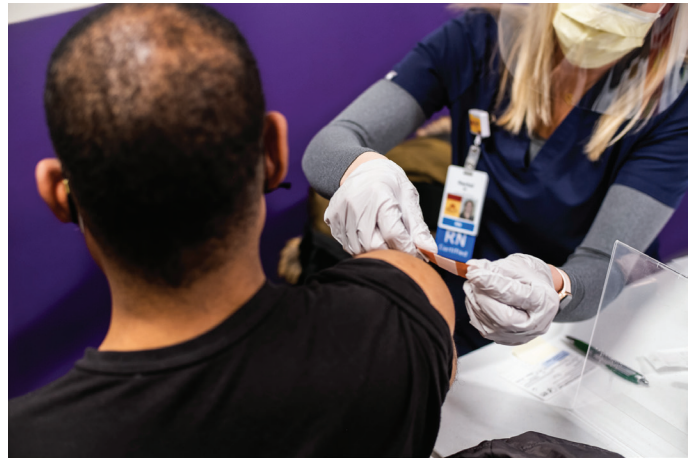
The COVID-19 pandemic exposed persistent health inequities for communities of color and has exacerbated racial disparities. Communities of color experienced statistically higher rates of COVID-19, including higher rates of hospitalization and death.

To reduce the impact on Black, Indigenous, or people of color (“BIPOC”), vaccinations must be accessible, free and provided within a trusted space with appropriate language and cultural considerations. Fairview has led a multi-cultural mobile vaccination program for the past 15 years, which excels at reaching BIPOC communities facing barriers to immunization. Based on this established and successful model, Fairview was able to quickly adapt and partner with public health agencies for its COVID-19 response, including testing and vaccination clinics.

Further, Fairview’s longstanding relationship with local public health agencies and community partners has allowed Fairview to provide staffing, coordination, and outreach for mobile vaccination clinics at schools, public high rises, community centers, churches, and other locations, increasing vaccine access to those in the area. As of December 31, 2022, Fairview has worked with over 135 partners to provide 998 vaccination clinics in community settings, administering 55,329 free COVID-19 vaccine doses and 11,011 free flu shots.

In 2020, Fairview established the Healing, Opportunity, People, and Equity Commission (“HOPE Commission”) to build a system where all members of its community are treated with dignity and respect and all patients receive the highest levels and quality of care. To drive more equitable health care outcomes and inclusive environments, as part of its HOPE Commission work, Fairview has started a multi- year journey to become an anti-racist organization.

Fairview is committed to advancing health equity and improving the health and wellbeing of our neighbors. Research and our own experience show that about 20 percent of health happens in the hospital or clinic; the other 80 percent is influenced by health behaviors, socioeconomic factors, and our physical environment. That’s why, as an anchor institution rooted in community, Fairview is committed to increasing access to culturally responsive programs and care, furthering medical research, providing education and training, and addressing the social determinants of health. In 2021, the System’s investments totaled approximately \$1.06 billion. Fairview anticipates similar contributions in the future.



Shiloh Temple COVID-19 vaccination clinic.

## RECENT ACQUISITIONS, DIVESTITURES, EXPANSION PROJECTS AND OTHER KEY UPDATES

**Fairview and Sanford Health Letter of Intent.** Fairview and Sanford Health (“Sanford”), a North Dakota nonprofit corporation, announced a non-binding letter of intent to combine and create a new health system. Together, the combined system would bring together Sanford’s experience serving rural populations with Fairview’s experience in serving urban populations across complementary geographic footprints. The combined system would be uniquely positioned to provide more people access to high-quality, equitable health care, accelerate population health and value-based care, and drive clinical innovation to benefit rural, urban and indigenous communities across the Midwest. The governing boards of both health systems have approved proceeding with necessary steps, such as due diligence and review processes, with the goal of organizing Fairview and Sanford under a single integrated health system. Fairview anticipates a definitive agreement to be signed, and the closing of the transaction in the second half of 2023, pending antitrust and other necessary reviews and closing conditions.

Fairview’s current agreement with the University and UMPHysicians is effective until 2026 and Fairview and Sanford are committed to honoring that agreement after the combination. Fairview President and CEO, James Hereford, and Sanford President and CEO, Bill Gassen, believe that a continued partnership with the University will benefit the System’s patients and care in Minnesota and there are ongoing conversations about the potential academic affiliation between the University, UMPHysicians, and the combined system. Fairview remains supportive of the University and UMPHysicians vision for the future, and conversations continue about potential alternatives, including the ownership of the current UMMC campus buildings.

**Public Health Emergency.** President Biden signed a bill on April 10, 2023, immediately ending the Federal Public Health Emergency (“PHE”) originally declare in March 2020. When the transition to back traditional coverage occurs later this year, many Americans will continue to pay nothing for out of pocket for Covid-19 vaccine, this includes preventative coverage by private insurance plans, Medicare Part B and Medicaid. Out of pocket expenses for certain treatments may change, depending on individual health care coverage. The Food and Drug Administration’s Emergency Use Authorization for COVID-19 products including tests, vaccines and treatments, major Medicare telehealth, Medicaid telehealth flexibilities will not be affected.

Fairview is preparing for people, process and technology changes as appropriate for the end of certain Medicare and Medicaid waivers, including financial analysis to forecast the financial impact for the remainder of 2023 and forward. Fairview Revenue Cycle Management has assembled a formal project team to align to its enterprise governance structure to ensure organizational preparation and adherence to changes introduced with the ending of the PHE. Dedicated teams have begun working with clinical and business constituents in areas of payer changes, billing and coding, finances and service lines to achieve compliance with, and smooth transition as expected. Patient specific impacts related to coverage and cost sharing will have dedicated action plans to ensure full awareness, services and support through these changes.

**Chief Financial Officer.** In October 2022 Joe Gaylord, System Vice President, Finance, was named as Fairview’s Executive Vice President and Chief Financial Officer, replacing Hayes Batson, who departed Fairview in August. Mr. Gaylord is an accomplished finance executive with decades of executive experience in the private and health care sectors leading finance teams. During his three plus years at Fairview he has built a strong enterprise-wide finance operations team and played key roles with our revenue cycle, supply chain, and EPMO teams.



**Divestiture of Preferred One.** In August 2021, Fairview sold Preferred One to United HealthCare. As a result of the sale, the assets of about \$242.0 million and liabilities of \$66.8 million of Preferred One were removed from the Consolidated Balance Sheet during the quarter ended September 30, 2021. No material gain or loss resulted from the transaction.

**Coronavirus Disease Response.** Since March 2020, Minnesota experienced several surges of COVID-19, which have had varying impacts on health care organizations in the state. While the COVID-19 surges declined in the second half of 2022, the national and state-wide staffing shortages that were driven partially by COVID-19 medical staff burnout, are driving up the cost to care for patients and the need to carefully manage the volume of elective procedures to allow staff capacity to care for patients with critical needs. Fairview has needed to bring in high cost temporary and premium labor to supplement existing staff resources that have been strained by the surge of patients, as well as to replace open positions that have not yet been filled. Fairview is actively hiring for all open position to address the staffing capacity challenges and continues to take all appropriate actions to retain existing staff.

Fairview has been awarded both federal and state grants to help offset the lost revenue and associated costs to treat patients with COVID-19. The System has recognized a total of \$287 million in COVID-19 grant funding, including \$49.5 million in the year ending December 31, 2022. The System continues to pursue additional grants and other funding to offset expenses and lost revenue due to COVID-19.

Fairview participated in the Medicare accelerated payments program and received \$329 million of advanced payments during 2020. As of December 31, 2022, the majority of the funds had been repaid, with a remaining balance of \$4.2 million, which will be repaid by March 31, 2023. In addition, Fairview took advantage of the CARES Act Federal Insurance Contributions Act ("FICA") deferral program for an additional \$81 million in cash flow relief. Fifty percent of FICA deferral was repaid at the end of 2021, with the balance repaid in December 2022.

**Organizational Transformation and Update.** Fairview's goal is to reduce costs and increase value for its patients and communities, to ensure Fairview is providing the services its community needs in the optimal care settings, from virtual care to clinics and hospitals as health care delivery rapidly transforms. Fairview continues to implement changes that align costs, simplify the patient experience, deepen community partnerships, and accelerate the system's digital investments to prioritize healthcare affordability and health equity for all Minnesotans.

- Fairview entered into a joint venture with Acadia Healthcare, a national leader in mental health and addiction care, to construct and operate a new 144 bed state-of-the-art mental health hospital in the Twin Cities' East Metro to meet the region's growing mental health needs. Acadia will be the managing partner and will own about 85% of the joint venture. Construction of the new hospital is expected to start in mid-2023, and open in the first quarter of 2025.
- M Health Fairview St. Joseph's Hospital ceased operations on June 30, 2022 with the closure of its remaining inpatient mental health units.

- A portion of the St. Joseph's Hospital campus now operates as the Fairview Community Health and Wellness Hub (“Wellness Hub”) with several new and expanding partnerships and programs, which opened in July 2022, with additional expansion continuing into 2023. These plans represent Fairview’s intentional, holistic approach to health and well-being, and commitment to serving all in its community, especially those who have been traditionally underserved. Services in the Wellness Hub include no- to-low cost primary care, other supportive services and patient education (provided by Minnesota Community Care, a federally qualified health center), expanded outpatient mental health and addiction services, an enhanced adult day program operated by Ebenezer, a food distribution partnership with Second Harvest Heartland, and long-term acute care services. The site also includes M Health Fairview Bethesda Hospital, the System’s long-term acute care facility.
- A newly established Fairview Center for Community Health Equity will serve as an incubator for the next generation of community-based health and wellness programs focused on prevention and addressing the social determinants of health. The Wellness Hub will also have a new community education space featuring conference and meeting facilities for community convenings, outreach programs, and wellness services, such as mobile vaccination and food access programs.



**Rating Agencies Update.** In January 2023, Moody’s Investors Service downgraded the credit rating on Fairview’s outstanding revenue bonds from an A3 to Baa1 with a negative outlook, and in February 2023 Standard & Poor’s downgraded the credit rating on the bonds from an A to BBB+ with a stable outlook.



## AWARDS AND RECOGNITION

**Newsweek – America’s Best Ambulatory Surgery Centers.** In October 2022, four M Health Fairview Clinics and Surgery Centers earned statewide honors, including Maple Grove at #4, Minneapolis at #5, Maplewood at #8 and Burnsville at #10. Newsweek’s Best Ambulatory Surgery Center 2023 list highlights the nation’s top ambulatory centers based on quality of care, performance data and peer recommendations, relative to in-state competition.

**Newsweek – America’s Best Rehabilitation Centers.** In October 2022, M Health Fairview Acute Rehabilitation Center in Minneapolis was ranked the #1 best rehabilitation center in the Midwest region. Newsweek and the data firm Statista Inc. based the results on an online survey of over 4,400 experts on physical rehabilitation, awarding top rankings to 255 rehabilitation centers nationwide.

**U.S. News & World Report – Best Senior Living.** In July 2022, M Health Fairview Southdale Hospital and M Health Fairview University of Minnesota Medical Center were ranked among the top 10 hospitals in Minnesota, and among the top five hospitals in the Twin Cities. U.S. News & World Report evaluated the performance of more than 4,500 hospitals nationwide across 15 medical specialties and 20 specific procedures or conditions. “Best Hospital” rankings are based on objective measurements including patient satisfaction scores, hospital volume, quality of nursing, and risk-adjusted survival and discharge-to-home rates. Cancer Care at M Health Fairview University of Minnesota Medical Center was also recognized nationally, ranked 45th in the nation this year.



## OBLIGATED GROUP AND OTHER FAIRVIEW SUBSIDIARIES

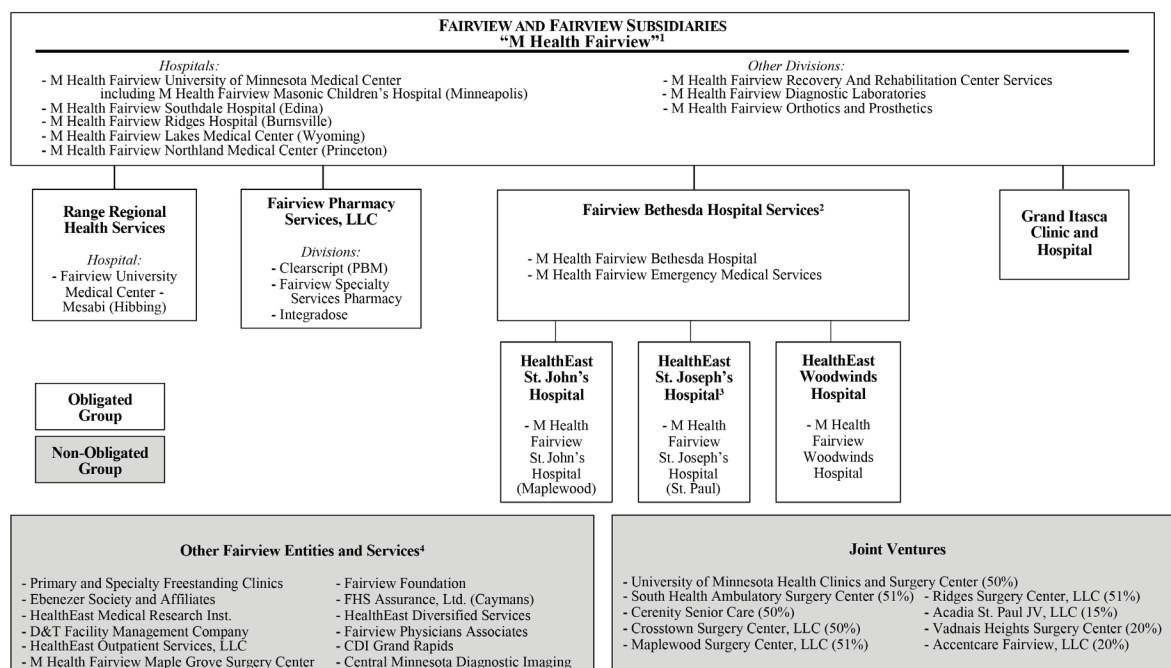
Members of the Obligated Group currently include Fairview, Range Regional Health Services (“RRHS”), Fairview Pharmacy Services (“FPS”), Fairview Bethesda Hospital<sup>2</sup>, HealthEast St. Joseph’s Hospital (“St. Joseph’s”), HealthEast St. John’s Hospital (“St. John’s Hospital”), HealthEast Woodwinds Hospital (“Woodwinds Hospital”) and Grand Itasca Clinic and Hospitals, together the (“Obligated Affiliates”). Fairview owns and operates UMMC and four other hospitals in the Metro Area and is the sole member of FPS and Fairview Bethesda Hospital. Fairview is the sole member of RRHS which owns and operates Fairview Range Medical Center, located in northern Minnesota. Fairview is the sole member of Grand Itasca Hospital.

Fairview Bethesda Hospital, owns and operates M Health Fairview Bethesda Long Term Acute Care Hospital (“Bethesda Hospital”) and M Health Fairview Emergency Medical Services, an ambulance and medical transportation service, which operations are all part of the Obligated Group, and is also the sole member of St. Joseph’s Hospital, St. John’s Hospital and Woodwinds Hospital.

None of the remaining Fairview subsidiaries, affiliates, joint ventures or partnerships in which Fairview has an interest are members of the Obligated Group (the “Non-Obligated Subsidiaries”).

<sup>2</sup> “HealthEast Care System’s” legal name changed to “Fairview Bethesda Hospital” as of June 29, 2022.

The Obligated Affiliates accounted for approximately \$5.7 billion (approximately 86%) of Fairview's total consolidated unrestricted revenue for the year ending December 31, 2022 and approximately \$4.2 billion (approximately 89%) of Fairview's total consolidated assets as of December 31, 2022. Together, the Obligated Affiliates had an operating loss of \$20.2 million, and operating income after non-recurring revenue of \$10.5 million for the year ending December 31, 2022. The following exhibit illustrates the significant entities comprising Fairview and indicates whether each entity is a member of the Obligated Group as of December 31, 2022.



<sup>1</sup> Fairview, the University of Minnesota and UMPhysicians operate under the M Health Fairview Agreement to create a nationally-renowned academic health and shared care delivery system under a single brand, "M Health Fairview."

<sup>2</sup> "HealthEast Care System" legal name changed to Fairview Bethesda Hospital" as of June 29, 2022.

<sup>3</sup> "HealthEast St. Joseph's Hospital" merged with and into Fairview Health Services as of January 1, 2023.

<sup>4</sup> Legal organization clean up eliminated some small non-Obligate Group entities with immaterial activity, which were removed from this chart

## ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

### ENVIRONMENTAL

M Health Fairview has a cross functional team that is currently focused on environmental sustainability that is supported by an executive sponsor.

M Health Fairview applies best practices for sustainable design whether remodeling existing spaces or new construction. Projects are assessed to determine sustainable products and systems that can be integrated to improve overall building performance. Products include LED lighting, occupancy sensors, variable frequency drives along with sustainable finishes where appropriate. In addition to new products and systems, projects are evaluated to determine what opportunities exist to re-use or repurpose existing fixtures, furnishings, and equipment. M Health Fairview is a member of the Healthcare Anchor Network, a group of healthcare systems across the country that are committed to building more inclusive and sustainable local economies as anchor institutions. The network has outlined initiatives and benchmarks for member organizations to work toward achieving, including sustainable purchasing to address community health needs. M Health Fairview teams are currently exploring opportunities to move 20% of food purchases to meet Practice Green Health's healthier food purchasing standards, and reduce 30% of annual furnishings purchases to meet healthy interiors criteria that would eliminate the use of formaldehyde, per and poly-fluorinated compounds (PFAS), polyvinyl chloride (PVC), antimicrobials, and flame retardants. Additional, sustainability efforts focus on reducing waste (e.g. recycling, single use device reprocessing, paper utilization and food waste), greening of the operating rooms and energy conservation. System Facilities teams are utilizing Energy Star Portfolio Manager, a program run by the US Environmental Protection Agency and US Department of Energy, to benchmark similar environments to reduce gas, electrical, water and steam use over the next five years.

In partnership with healthcare organizations throughout the state, M Health Fairview is a steering committee member of HEARRT (Healthcare Environmental Awareness and Resource Reduction Team) Midwest – an organization supporting actions that improve environmental and community health while reducing costs.

### SOCIAL

**Safety and High Reliability.** In furtherance of the M Health Fairview's work to eliminate preventable harm, the Quality and Safety Team is working across the system on a high reliability plan encompassing risk reduction and establishing system wide safety processes. This plan applies across the care continuum and in both clinical and non-clinical areas. M Health Fairview's high reliability plan includes initiatives, such as:

- Safety Always is the cultural foundation of care. The Patient Safety teams work with leadership and front-line teams to prevent as many adverse patient events as possible. Their goal is to get M Health Fairview to zero preventable harm and to make it the safest healthcare system possible for its patients. In pursuit of this goal, staff is trained on Safety Always Behaviors within the first 90 days of employment. As of March 31, 2023, 84% of all staff have completed, or are in the process of completing, the System's Safety Always training curriculum. Of the 1259 new hires in the fourth quarter, 902 have completed or are in the process of completing the content within the 30/90 day-of-hire timeline. Of the 18,897 staff across our acute care facilities, 95.7% have completed (16,643) or are in the process of completing the content. Of the 2224 staff across our ambulatory clinics and surgery centers, 89.4% have completed (1855) or are in the process of completing the content. In the first quarter of 2023, lagging acute care departments were contacted and special sessions were scheduled to mass enroll and educate staff. These departments included: Food & Nutrition services, Linen services, and Environmental services. Their combined completion rate now stands at 90.2% of staff in those departments having completed and/or being in the process of completing the education.

Outreach to specific departments will continue in the second quarter of 2023 and be augmented by additional targeted email messaging from our learning management system to employees and their leaders across the system who have fallen behind on this requirement.

- Teach leaders to lead to safety. Leaders are taught to define and demonstrate Safety Always as part of the overall patient experience, to find problems and fix causes in systems and processes, and reinforce and build accountability for high reliability behaviors. New Leader Onboarding occurs in 10-week rotational cohorts, and includes Leadership Methods for Safety Always training. Participation for the fourth quarter cohort sessions was 55%.
- Empower and support the frontline care givers to address safety issues. Frontline care givers are encouraged and trained to engage in high reliability behaviors including speak up, practice a questioning attitude, communicate clearly, and check details to help with eliminating preventable harm and keeping patients safe.
- A commitment to transparency with patients and their families designed to enable strong partnerships and collaboration to learn from and prevent safety events.

**Human Capital and Inclusion.** Fairview believes attracting, educating, and retaining diverse local talent is essential to carry out the system’s values of dignity, integrity, service, compassion, and innovation. This collaborative effort spans across the system and includes a variety of programs that support Fairview’s approximately 34,000 employees physical, cognitive, social, and professional development Some of these programs include employee assistance, tuition reimbursement, nursing burnout, employee resource groups, new leader onboarding, ongoing educational opportunities and training, and more to create a holistic approach of supporting well-being and development of each person. Fairview also evaluates its policies and practices ensure a diverse and equitable workforce that represents and serves all team members and patients within local communities.

In 2022, two Fairview hospitals were recognized as on the Healthcare Equality Index Survey (“HEI”) from the Human Rights Campaign (“HRC”), which recognizes institutions that lead in adopting policies and practices in LGBTQ care. An ambitious goal has been set forth to have all Fairview hospitals certified by the HRC HEI. In 2020, Ridges Hospital was only one of four facilities in Minnesota - and one of fewer than 500 nationwide - to receive a perfect score on the HEI. Some of the updated practices recently launched pronoun badges for employees and a Physician Gender Identity Designation on the patient facing directory, with additional projects in-progress. M Health Fairview is home to a comprehensive gender care team that provides transformative care for transgender and gender non-binary patients during all stages of their transition.

Fairview is also working towards becoming a Beyond the Yellow Ribbon certified organization. This designation represents efforts made in all levels of an organization towards actively supporting, recognizing, and retaining Veterans and military families. In 2021, Fairview Health Services signed the Employer Support of the Guard and Reserve Statement of Support.

**Socially Responsible Investment.** Fairview measures the diversity of ownership and employee base of its investment managers, and actively seeks to increase the diversity profile of its investment managers over time through discussions with existing managers and seeking to hire diverse new managers. Fairview annually surveys its investment managers’ diversity status and efforts and seeks to use this information in conversations with the managers to influence their efforts in this area.

**Addressing Health Inequities.** Fairview is committed to increasing health equity and quality of care and provides charitable care and services to its communities including: charity and other uncompensated care, care that is subsidized or without full reimbursement from Medicare, Medicaid and other government-sponsored programs; subsidized health services; education to train health care professionals; community health improvement activities that respond to local community health inequities; volunteer time provided by staff who donate time to support their local community; language assistance and interpreter services; contributions of equipment, supplies and other in-kind assistance to community organizations.

In 2021 Fairview acted to address health inequities in many ways. All members of the Fairview Board of Directors completed the Intercultural Development Inventory; there was targeted recruitment to increase Board representation of underrepresented groups with new members added; and a Health Equity Committee of the Board was established. Although pockets of health inequity metrics exist, Fairview is currently building out its baseline, tracking tools and processes.

## GOVERNANCE

**Governance.** The Board of Directors of Fairview (the “Board”) is a high performing, skill set based Board that governs the Fairview system and is responsible for, among other matters, organizational strategy, clinical care/operations, quality and safety, the organization’s people strategy, diversity equity and inclusion, research and education, enterprise risk and its overall business and financial performance. Fairview’s bylaws authorize up to 21 directors: who are largely independent directors, with three ex officio directors. The three ex officio directors are the President and CEO of Fairview, the Vice President for Health Sciences of the University and the dean of the Medical School or senior leader appointed by the University. Board members are identified based on skill sets necessary to oversee the system shaped from diverse personal and professional experiences, with recruitment activities managed by the Board Governance Committee and full Board. The President and CEO of Fairview is the only Fairview employee who may serve on the Board. The Fairview Board, which is currently comprised of 20 members, come from a variety of diverse experiences, age and backgrounds, including academic medicine and health care executive leadership, business, innovation and information technology, legal and risk, human resources and government/policy. Their expertise supports Fairview’s commitment to heal discover and educate for longer, healthier lives and to improve the health of the communities it serves. Board Committee membership is chosen based on Board members’ interests and skills and the needs of the Committees.

Current Board Committees include:

- Finance
- Patient Quality and Safety and its subcommittee the Credentialing and Privileging Sub Committee
- Governance
- Health Equity
- People Strategy
- Research and Education
- Audit and Compliance
- Patient Experience

The Board is committed to sound and effective corporate governance practices. The Governance Committee regularly reviews and adopts “best practices” in corporate governance and recommends changes to Fairview’s corporate governance policies or processes as appropriate.



Fairview has a conflict-of-interest policy that applies to all members of the Board and requires disclosure of any conflict of interest or potential conflict of interest and includes a process for review and decision making relative to such disclosures.

MANAGEMENT

**Executive Management.** The names, titles, ages and professional backgrounds of the executive officers of Fairview are set forth below.



**James Hereford (63), Fairview President and Chief Executive Officer.** Mr. Hereford was appointed President and Chief Executive Officer in 2016. Mr. Hereford joined Fairview after serving as Chief Operations Officer at Stanford Health Care where he was responsible for all inpatient and ambulatory operations as well as various administrative functions. Prior to his role at Stanford, he was Chief Operations Officer at the Palo Alto Medical Foundation where he was responsible for operations serving more than 800,000 people in the San Francisco Bay area. He also served as the Executive Vice President responsible for the Group Health care delivery system in Seattle, Washington, an integrated health maintenance organization that served the state of Washington and northern Idaho. Mr. Hereford holds bachelor’s and master’s degrees in mathematics from Montana State University. He has taught courses with Stanford University’s Graduate School of Business, University of Washington’s Master of Health Administration program and The Ohio State University’s Master of Business Operations Excellence Program.



**Sameer Badlani (48), MD, FACP, Chief Digital Officer.** Dr. Badlani joined Fairview in April 2019 from Sutter Health where he served as Chief Health Information Officer and System Vice President of Enterprise Data Management and Analytics. Before that, he was Chief Health Information Officer at Intermountain and Chief Medical Information Officer at University of Chicago Medical Center and School of Medicine. After he received his medical degree from the University of Delhi in India, Dr. Badlani completed his internal medicine residency training and served as chief resident at the University of Oklahoma. He also received training in biomedical informatics at the University of Utah in Salt Lake City. A national speaker, educator, and consultant on topics in digital medicine, clinical informatics, analytics, and innovation, Dr. Badlani sits on the board of DirectTrust and Carnegie Mellon’s Center for Machine Learning and Health. Recently, he was named to the Becker’s 2019 list of top Health System CIOs.



**Bob Beacher (67), Executive Vice President and Chief of Shared Clinical Services.** Mr. Beacher has administrative responsibility for Fairview’s laboratory, radiology, rehabilitation, and pharmacy teams. In addition, he serves as president of Fairview Pharmacy Services and provides executive leadership over Fairview’s ambulatory surgery centers and joint ventures. Mr. Beacher is a registered pharmacist and earned his bachelor’s degree from the University of Minnesota. Mr. Beacher is a member of several state and national pharmacy associations and serves on Fairview’s Ethics Committee.



**Joe Gaylord (55), Executive Vice President and Chief Financial Officer.** Mr. Gaylord served for three years as System Vice President for finance before stepping into his role as Chief Financial Officer for Fairview. He brings over three decades of professional finance experience, having launched his career at PricewaterhouseCoopers after graduating from Marquette University. Mr. Gaylord has served as Chief Financial Officer at multiple organizations including Capella University and Regency Corporation. Since joining Fairview, Mr. Gaylord has built an operationally-focused finance support function aligned with hospital, service line, and functional leaders. He has also held significant leadership roles in systemwide transformation projects. He has served on multiple boards in the Twin Cities with a focus on education. Mr. Gaylord earned his bachelor's degree in accounting from Marquette University.



**Andrea Mokros (45), Executive Vice President and Chief Public Affairs Officer.** Ms. Mokros leads Fairview's Communications, Government Relations, and Community Advancement teams. Prior to joining Fairview, Ms. Mokros served as Senior Vice President at Weber Shandwick, a Public Relations consultancy; and as Vice President of Communications and Events for the Minnesota Super Bowl Host Committee. Ms. Mokros has served in a number of leadership roles in state and federal government, including at the White House as Special Assistant to the President and Director of Strategic Planning for the First Lady; and as Deputy Chief of Staff to both Minnesota Governor Mark Dayton and U.S. Senator Amy Klobuchar. Ms. Mokros earned her bachelor's degree from the University of Minnesota.



**Taj (Mumtaz) Mustapha (49) Chief Equity Strategy Officer.** Dr. Mustapha joined Fairview in August 2020 from University of Minnesota, where she served as the Associate Program Director of the Med-Peds Residency Program and the Director of Clinical Coaching. After she received her medical degree from the University of California San Francisco School of Medicine, she completed her internal medicine and pediatric residency training at the University of Minnesota, and served as chief resident for the Pediatrics Residency Program. Dr. Mustapha speaks nationally and serves as a consultant on the topics of Health Care Equity, Population Health and Data Analytics for Equity, Medical Education. Dr. Mustapha is an active member of the Medical Executive Committee of the University of Minnesota Medical Center, serving as the Chief of Staff elect, sits on the board of the Bigelow Foundation, and serves as a faculty member for the Institute for Healthcare Improvement.



**Mary Nease (57), Executive Vice President and Chief People Officer.** Ms. Nease joined Fairview in December 2019 as Chief People Officer. Prior to joining Fairview, Ms. Nease served as Senior Vice President and Chief Human Resource Officer at Thrivent Financial, a not-for-profit serving more than 2.3 million members. She also spent ten years advancing the mission of American Public Media in progressive leadership roles. Ms. Nease also held roles as Vice President of Human Resources at Travelers and US Bancorp Piper Jaffray. She has a bachelor of business administration degree from the University of Wisconsin-Madison and has also completed executive programs from the University of Michigan and the University of Minnesota – Carlson School of Management.





**Laura Reed, RN, DNP (61), Executive Vice President and Chief Operating Officer and Chief Nursing Executive.** Ms. Reed rejoined Fairview in 2017 as Chief Nursing Executive and in 2018 also became Fairview's Chief Operating Officer. Prior to rejoining Fairview, Ms. Reed was with ThedaCare where she served as Chief Nurse Executive and Chief Operating Officer. Previously Ms. Reed held several leadership positions including Chief Nurse Executive for University of Minnesota Health. She also had a prior position of Senior Vice President patient care services and Chief Nursing Officer for Mercy Medical Center in Cedar Rapids, Iowa. She holds an executive master's degree in business administration and a master's degree in nursing from the University of Iowa. She received her bachelor's degree in nursing from Coe College and a diploma in nursing from the Finley Hospital School of Nursing.



**Trudi Noel Trysla (55), Executive Vice President, Chief Administrative Officer and General Counsel.** Ms. Trysla develops Fairview's overall legal strategy, leads Fairview's legal and ethical adherence to federal and state law and health care public policy, and oversees Fairview's legal and risk management functions. Ms. Trysla was named general counsel in 2014 after serving six years as associate general counsel. In January 2021, Ms. Trysla also assumed the role of Chief Administrative Officer, reflecting her expanded role leading strategic projects key to Fairview's future vision. Prior to joining Fairview, Ms. Trysla served as senior legal counsel at Medtronic, Inc., as legal counsel for Mayo Foundation in Rochester, Minnesota, and as an attorney in private practice. Ms. Trysla earned her law degree from the University of Minnesota and her bachelor's degree from the University of Nebraska.



**Mark Welton, MD (66), Executive Vice President and Chief Medical Officer.** Dr. Welton became Chief Medical Officer of Fairview in July 2017. Prior to joining Fairview, Dr. Welton was the Harry A. Oberhelman Jr. Professor of Surgery and Chief of Colon and Rectal Surgery in the Stanford University School of Medicine and Chief of Staff for Stanford Hospital and Clinics for ten years. He is board certified in general surgery and colon and rectal surgery. He serves on the American Board of Surgery, the American Board of Colon and Rectal Surgeons and the American Society of Colon and Rectal Surgeons Research Foundation. He received his medical degree and completed his surgical residency at University of California, Los Angeles before completing a fellowship in Colon and Rectal Surgery at Washington University.



# SECTION TWO

Year-to-date financial statements



## Fairview Health Services

### CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	December 31, 2022	December 31, 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 78,219	\$ 77,934
Short-term investments	298,727	521,439
Accounts receivable for medical services	669,193	653,910
Receivable under third-party payor contracts	19,816	20,624
Current portion of contributions receivable	6,710	6,345
Inventories	156,597	132,430
Other current assets	207,743	184,358
Total current assets	1,437,005	1,597,040
Investments	1,636,699	2,168,825
Assets limited as to use:		
Held by insurance subsidiaries	55,958	61,109
Restricted fund investments	18,687	24,370
Total assets limited as to use	74,645	85,479
Other long-term assets:		
Contributions receivable	12,328	12,835
Investments in related parties	46,694	73,527
Right-of-use operating lease assets	124,875	116,459
Goodwill and intangible assets	52,958	53,993
Other long-term assets	80,615	98,457
Total other long-term assets	317,470	355,271
Land, buildings, and equipment, net	1,293,942	1,278,024
<b>Total assets</b>	<b>\$4,759,761</b>	<b>\$5,484,639</b>

## Fairview Health Services

### CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Dollars in Thousands)

	December 31, 2022	December 31, 2021
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 349,519	\$ 297,707
Accrued compensation and benefits	302,186	366,130
Payable under third-party payor contracts	13,715	9,653
Right-of-use operating lease obligations	21,824	19,070
Current maturities of long-term debt	31,216	26,615
Other current liabilities	114,016	334,457
Total current liabilities	832,476	1,053,632
Other liabilities:		
Insurance subsidiaries claims reserves	33,586	36,396
Workers' compensation claims reserves	39,165	40,792
Right-of-use operating lease obligations	117,260	111,957
Derivative financial instruments	18,321	18,684
Other long-term liabilities	84,612	102,033
Total other liabilities	292,944	309,862
Long-term debt	1,553,668	1,571,473
Total liabilities	2,679,088	2,934,967
Net assets:		
Without donor restrictions:		
Fairview Health Services ("Fairview")	1,991,404	2,452,084
Non-controlling interests	50,850	54,012
Total net assets without donor restrictions	2,042,254	2,506,096
Net assets with donor restrictions	38,419	43,576
Total net assets	2,080,673	2,549,672
<b>Total liabilities and net assets</b>	<b>\$4,759,761</b>	<b>\$ 5,484,639</b>

## Fairview Health Services

### CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(Dollars in Thousands)

	December 31,		Three months ended December 31,	
	2022	2021	2022	2021
<b>Operating revenues:</b>				
Patient service revenue	\$ 6,256,948	5,784,608	1,658,376	1,506,769
Other operating revenue	396,051	631,457	97,443	167,394
Net assets released from donor restrictions	8,758	11,242	2,652	4,722
<b>Total operating revenues</b>	<b>6,661,757</b>	<b>6,427,307</b>	<b>1,758,471</b>	<b>1,678,885</b>
<b>Expenses:</b>				
Salaries and benefits	3,166,866	2,885,477	828,733	761,100
Supplies	2,052,581	1,882,480	543,196	499,779
Purchased services	1,090,644	1,146,200	287,617	258,788
Utilities and maintenance	232,100	215,617	61,475	58,045
Insurance and rent	80,956	78,977	13,435	13,077
State and local taxes	96,302	98,632	23,774	20,983
Other operating expenses	58,308	57,712	14,434	19,725
Depreciation and amortization	145,458	146,725	38,478	37,555
Interest	53,986	48,081	14,260	12,939
<b>Total operating expenses</b>	<b>6,977,201</b>	<b>6,559,901</b>	<b>1,825,402</b>	<b>1,681,991</b>
<b>Operating loss before non-recurring revenue (expenses)</b>	<b>(315,444)</b>	<b>(132,594)</b>	<b>(66,931)</b>	<b>(3,106)</b>
Non-recurring revenue (expenses):				
Gain on disposals and other strategic transactions, net	58,001	3,819	(2,067)	(4,800)
Labor strike expense	(24,527)	-	793	-
<b>Total non-recurring revenue, net</b>	<b>33,474</b>	<b>3,819</b>	<b>(1,274)</b>	<b>(4,800)</b>
<b>Operating loss after non-recurring revenue (expenses)</b>	<b>(281,970)</b>	<b>(128,775)</b>	<b>(68,205)</b>	<b>(7,906)</b>
Non-operating (losses) gains:				
Unrealized investment (losses) gains	(284,084)	(29,593)	53,179	12,159
Realized investment gains	59,643	196,129	36,816	29,098
<b>Total investment (losses) gains</b>	<b>(224,441)</b>	<b>166,536</b>	<b>89,995</b>	<b>41,257</b>
Unrealized gains (losses) on interest rate swaps, net	57,263	13,869	2,975	(1,002)
Realized loss on interest rate swaps, net	(4,447)	(6,908)	(426)	(1,751)
<b>Total gains (losses) on interest rate swaps, net</b>	<b>52,816</b>	<b>6,961</b>	<b>2,549</b>	<b>(2,753)</b>
Other non-operating losses, net	(9,191)	(13,509)	(3,881)	(9,061)
<b>Total non-operating (losses) gains</b>	<b>(180,816)</b>	<b>159,988</b>	<b>88,663</b>	<b>29,443</b>
(Deficit) excess of revenues over expenses	(462,786)	31,213	20,458	21,537
Amounts attributable to non-controlling interests	(3,702)	(4,764)	(401)	(1,304)
<b>(Deficit) excess of revenues over expenses attributable to Fairview</b>	<b>\$(466,488)</b>	<b>\$26,449</b>	<b>\$20,057</b>	<b>\$20,233</b>

## Fairview Health Services

### CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)

(Dollars in Thousands)

	December 31,		Three months ended December 31,	
	2022	2021	2022	2021
<b>Net assets without donor restrictions, Fairview</b>				
(Deficit) excess of revenues over expenses	\$(466,488)	\$26,449	\$20,057	\$20,233
Pension and other postretirement liability adjustments	4,026	7,676	4,026	7,676
Other changes, net	1,782	6,897	675	8,245
(Decrease) increase in net assets without donor restrictions, Fairview	(460,680)	41,022	24,758	36,154
<b>Net assets without donor restrictions, non-controlling interests:</b>				
Excess of revenues over expenses	3,702	4,764	401	1,304
Distributions to non-controlling interests and other changes	(6,864)	(3,099)	(859)	(320)
(Decrease) increase in net assets without donor restrictions, non-controlling interests	(3,162)	1,665	(458)	984
<b>Donor-restricted net assets:</b>				
Contributions and other changes, net	3,601	4,392	1,159	685
Net assets released from restrictions	(8,758)	(11,242)	(2,652)	(4,722)
Decrease in donor-restricted net assets	(5,157)	(6,850)	(1,493)	(4,037)
Total (decrease) increase in net assets	(468,999)	35,837	22,807	33,101
Net assets at beginning of period	2,549,672	2,513,835	2,057,866	2,516,571
<b>Net assets at end of period</b>	<b>\$2,080,673</b>	<b>\$2,549,672</b>	<b>\$2,080,673</b>	<b>\$2,549,672</b>

## Fairview Health Services

### CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	Year Ended December 31,	
	2022	2021
<b>Operating activities:</b>		
(Decrease) increase in net assets	\$(468,999)	35,837
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	145,458	146,725
Pension and other post retirement liability adjustment	(4,026)	(7,676)
Net realized and unrealized losses (gains) on trading investments	258,064	(132,844)
Change in fair value of interest and basis rate swaps	(57,263)	(13,869)
Other, net	(992)	(402)
Changes in assets and liabilities:		
Accounts receivable for medical services	(13,569)	102,567
Other current assets	(46,418)	(48,506)
Current liabilities	(222,669)	(60,781)
Other assets and liabilities, net	(44,749)	(241,096)
Net cash used in operating activities before changes in trading and alternative investments	(455,163)	(220,045)
Change in trading and alternative investments	459,411	(343,235)
Net cash provided by (used in) operating activities	4,248	(563,280)
<b>Investing activities:</b>		
Purchases of land, buildings, and equipment, net	(141,473)	(197,469)
Other investing activities including net proceeds from sale of business	71,001	134,289
Net cash used in investing activities	(70,472)	(63,180)
<b>Financing activities:</b>		
Proceeds from issuance of debt	-	202,820
Principal payments on long-term debt	(36,227)	(76,913)
Change in collateral posted on derivative financial instruments	57,167	(6,100)
Other financing activities, net	(2,660)	(1,886)
Net cash provided by financing activities	18,280	117,921
Decrease in cash and cash equivalents	(47,944)	(508,539)
Cash, cash equivalents, and restricted cash at beginning of year	287,135	795,674
<b>Cash, cash equivalents, and restricted cash at end of year</b>	<b>\$ 239,191</b>	<b>\$287,135</b>



## Fairview Health Services

### CONSOLIDATING BALANCE SHEETS, DECEMBER 31, 2022

(Dollars in Thousands)

	Obligated Group	Non- Obligated Group	Eliminations and Reclasses	Consolidated Total
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents	\$ 43,611	\$ 34,608	\$ -	\$ 78,219
Short-term investments	293,370	5,357	-	298,727
Accounts receivable for medical services	558,983	110,210	-	669,193
Receivable under third-party payor contracts	17,595	2,221	-	19,816
Current portion of contributions receivable	6,315	395	-	6,710
Inventories	150,587	6,010	-	156,597
Other current assets	172,730	45,996	(10,983)	207,743
Total current assets	1,243,191	204,797	(10,983)	1,437,005
<b>Investments</b>	1,611,942	24,757	-	1,636,699
<b>Assets limited as to use:</b>				
Held by insurance subsidiaries	-	55,958	-	55,958
Restricted fund investments	249	18,438	-	18,687
Total assets limited as to use	249	74,396	-	74,645
<b>Other long-term assets:</b>				
Contributions receivable	12,328	-	-	12,328
Investments in related parties	42,281	4,413	-	46,694
Right-of-use operating lease assets	40,129	84,746	-	124,875
Goodwill and intangible assets	54,008	(1,050)	-	52,958
Other long-term assets	98,205	1,589	(19,179)	80,615
Total other long-term assets	246,951	89,698	(19,179)	317,470
Land, buildings, and equipment, net	1,118,914	175,028	-	1,293,942
<b>Total assets</b>	<b>\$4,221,247</b>	<b>\$568,676</b>	<b>\$(30,162)</b>	<b>\$4,759,761</b>

## Fairview Health Services

### CONSOLIDATING BALANCE SHEETS, DECEMBER 31, 2022 (CONTINUED)

(Dollars in Thousands)

	Obligated Group	Non- Obligated Group	Eliminations and Reclasses	Consolidated Total
<b>Liabilities and net assets:</b>				
Current liabilities:				
Accounts payable	\$ 307,916	40,408	1,195	\$ 349,519
Accrued compensation and benefits	281,257	20,929	-	302,186
Payable under third-party payor contracts	13,715	-	-	13,715
Right-of-use operating lease obligations	7,457	14,367	-	21,824
Current maturities of long-term debt	29,292	1,924	-	31,216
Other current liabilities	85,973	32,457	(4,414)	114,016
Total current liabilities	725,610	110,085	(3,219)	832,476
<b>Other liabilities:</b>				
Insurance subsidiaries claims reserves	17,039	16,547	-	33,586
Workers' compensation claims reserves	38,916	249	-	39,165
Right-of-use operating lease obligations	38,043	79,217	-	117,260
Derivative financial instruments	18,321	-	-	18,321
Other long-term liabilities	84,822	26,733	(26,943)	84,612
Total other liabilities	197,141	122,746	(26,943)	292,944
<b>Long-term debt</b>	1,504,763	48,905	-	1,553,668
Total liabilities	2,427,514	281,736	(30,162)	2,679,088
<b>Net assets:</b>				
Without donor restrictions				
Fairview Health Services	1,727,804	263,600	-	1,991,404
Non-controlling interests	45,041	5,809	-	50,850
Total net assets without donor restrictions	1,772,845	269,409	-	2,042,254
Net assets with donor restrictions	20,888	17,531	-	38,419
Total net assets	1,793,733	286,940	-	2,080,673
<b>Total liabilities and net assets</b>	<b>\$4,221,247</b>	<b>\$568,676</b>	<b>\$(30,162)</b>	<b>\$4,759,761</b>

## Fairview Health Services

### STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS, TWELVE MONTHS ENDED DECEMBER 31, 2022

(Dollars in Thousands)

	Obligated Group	Non- Obligated Group	Eliminations and Reclasses	Consolidated Total
<b>Operating revenues:</b>				
Patient service revenue	\$5,296,478	\$ 1,045,329	\$ (84,859)	\$ 6,256,948
Other operating revenue	431,893	115,071	(150,913)	396,051
Net assets released from donor restrictions	2,095	6,663	-	8,758
Total operating revenues	5,730,466	1,167,063	(235,772)	6,661,757
<b>Expenses:</b>				
Salaries and benefits	2,603,866	563,805	(805)	3,166,866
Supplies	2,006,019	115,082	(68,520)	2,052,581
Purchased services	561,320	531,427	(2,103)	1,090,644
Utilities and maintenance	219,028	13,072	-	232,100
Insurance and rent	45,022	50,810	(14,876)	80,956
Provider, use and property taxes	75,236	21,066	-	96,302
Other operating expenses	66,682	141,094	(149,468)	58,308
Depreciation and amortization	127,474	17,984	-	145,458
Interest	46,052	7,934	-	53,986
Total operating expenses	5,750,699	1,462,274	(235,772)	6,977,201
<b>Operating loss before non-recurring revenue (expenses)</b>	(20,233)	(295,211)	-	(315,444)
Non-recurring revenue (expenses):				
Gain on disposals and other transactions, net	55,278	2,723	-	58,001
Labor strike expenses	(24,527)	-	-	(24,527)
Total non-recurring revenue	30,751	2,723	-	33,474
Operating revenue (loss) after non-recurring revenue (expenses)	10,518	(292,488)	-	(281,970)
Non-operating losses:				
Unrealized investment losses, net	(275,015)	(9,069)	-	(284,084)
Realized investment gains, net	58,940	703	-	59,643
Total investment losses	(216,075)	(8,366)	-	(224,441)
Unrealized gains on interest rate swaps, net	57,263	-	-	57,263
Realized losses on interest rate swaps, net	(4,447)	-	-	(4,447)
Total gains on interest rate swaps, net	52,816	-	-	52,816
Other non-operating losses, net	(4,975)	(4,216)	-	(9,191)
Total non-operating losses	(168,234)	(12,582)	-	(180,816)
Deficit of revenues over expenses	(157,716)	(305,070)	-	(462,786)
Amounts attributable to non-controlling interests	(1,832)	(1,870)	-	(3,702)
<b>Deficit of revenues over expenses attributable to Fairview</b>	<b>\$(159,548)</b>	<b>\$(306,940)</b>	<b>\$ -</b>	<b>\$(466,488)</b>

## Fairview Health Services

### STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)

TWELVE MONTHS ENDED DECEMBER 31, 2022

(Dollars in Thousands)

	Obligated Group	Non- Obligated Group	Eliminations and Reclasses	Consolidated Total
<b>Net assets without donor restrictions, Fairview:</b>				
Deficit of revenues over expenses	(\$159,548)	\$(306,940)	\$ -	\$(466,488)
Capital contribution	(296,276)	296,276	-	-
Pension and other post retirement liability adjustments	4,026	-	-	4,026
Other changes, net	1,559	223	-	1,782
Decrease in net assets without donor restrictions, Fairview	(450,239)	(10,441)	-	(460,680)
<b>Net assets without donor restrictions, non-controlling interests:</b>				
Excess of revenues over expenses	1,832	1,870	-	3,702
Distributions to non-controlling interests and other changes	(3,736)	(3,128)	-	(6,864)
Decrease in net assets without donor restrictions, non-controlling interests	(1,904)	(1,258)	-	(3,162)
<b>Donor-restricted net assets:</b>				
Contributions and other changes, net	2,243	1,358	-	3,601
Net assets released from restrictions	(2,095)	(6,663)	-	(8,758)
Increase (decrease) in donor-restricted net assets	148	(5,305)	-	(5,157)
Total decrease in net assets	(451,995)	(17,004)	-	(468,999)
Net assets at beginning of period	2,245,728	303,944	-	2,549,672
<b>Net assets at end of period</b>	<b>\$ 1,793,733</b>	<b>\$ 286,940</b>	<b>\$ -</b>	<b>\$2,080,673</b>



# SECTION THREE

Key performance indicators



	December 31, 2022	December 31, 2021
<b>Hospitals and surgery centers:</b>		
Medical/Surgical staffed beds	1,800	1,807
Long-term acute care staffed beds	24	15
Total staffed beds	1,824	1,822
Medical/surgical inpatient admissions	77,421	82,339
Long-term acute care inpatient admissions	145	158
Behavioral inpatient admissions	5,840	7,775
Skilled nursing inpatient admissions	303	419
Total inpatient admissions	83,709	90,691
Outpatient registrations	1,160,927	1,056,715
Emergency room visits	286,310	287,686
Observation days	41,719	29,942
Deliveries	13,304	12,926
Hospital inpatient surgeries	24,569	23,547
Hospital outpatient surgeries	37,717	37,985
Ambulatory care centers surgeries	16,167	15,062
Total surgeries	78,453	76,594
Medical/surgical patient days	439,422	411,519
Long-term acute care patient days	5,584	4,612
Behavioral patient days	57,561	67,448
Skilled nursing patient days	7,418	7,044
Total patient days	509,985	490,623
Occupancy %	76.7%	73.8%
Case mix index	1.77	1.73
Medical/surgical average length of stay	5.7	5.0
Long-term acute care length of stay	38.5	29.2
Behavioral average length of stay	9.9	8.7
Skilled Nursing average length of stay	24.5	16.8
Total average length of stay	6.1	5.4

	December 31, 2022	December 31, 2021
<b>Clinics and other ambulatory care:</b>		
Clinic work RVUs <sup>1</sup>	7,824,959	6,357,136
Virtual clinic visits	235,151	345,449
On-site clinic visits	1,707,142	1,577,053
Rehabilitation services	142,344	162,074
Orthotics & Prosthetics procedures	16,978	17,381
<b>Long-term senior care facilities:</b>		
Beds in service	537	545
Skilled nursing patient days	166,106	172,417
Skilled nursing admissions	2,113	2,359
Occupancy %	84.7%	86.7%
<b>Other statistics:</b>		
Total provider FTEs	1,167	1,242
Pharmacy unit sales	2,213,529	2,303,145

<sup>1</sup> On January 1, 2022 Fairview adopted the 2021 CMS RVU weights. The change was designed to increase wRVU values for physician office visits, but in order to maintain budget neutrality, there was not an increase in ambulatory net revenue per wRVU. On average, the weight changes resulted in a 10% increase in Work RVUs for the system.



	December 31, 2022	December 31, 2021
<b>Profitability ratios:</b>		
EBIDA margin	(1.7%)	1.0%
Operating margin before non-recurring revenue and expenses	(4.7%)	(2.1%)
Operating margin after non-recurring expenses revenue and expenses	(4.2%)	(2.0%)
Total margin	(6.9%)	(0.5%)
<b>Liquidity ratios:</b>		
Days Cash on Hand	107.6	157.5
Days Cash on Hand (Obligated Group)	126.5	192.0
Days in Accounts Receivable – Hospitals	48.7	55.9
Days in Accounts Receivable – Clinics	57.9	62.0
Cash to Debt	127.1%	173.2%
<b>Capital structure ratios:</b>		
Debt to Capitalization	43.7%	38.9%
Debt to Capitalization (Obligated Group)	47.1%	41.7%

Below is a calculation of the debt service coverage of the Obligated Group based on the rolling 12-month period ending December 31, 2022:

Excess of revenue over expenses attributable to Fairview Obligated Group	(\$159,548)
Interest expense	46,052
Depreciation and amortization	127,474
Unrealized swap gains	(57,263)
Other non-operating losses	264
Unrealized investment gains	275,015
<b>Net income available to pay debt service</b>	<b>\$231,994</b>
Maximum annual debt service	\$90,858
Coverage of historical maximum annual debt service	2.6



# SECTION FOUR

Management's discussion  
and analysis of financial condition  
and results of operations



# Management's discussion and analysis of financial condition and results of operations for the period ended December 31, 2022

## FOURTH QUARTER FINANCIAL RESULTS

For the three months ended December 31, 2022, Fairview's total operating revenue of \$1,758.5 million increased \$79.6 million or 4.7% over the comparable period in 2021.

- Hospital and clinic patient revenue increased \$136 million or 12.3%, due primarily to growth in UMMC and community hospitals because of increased surgeries and less of a COVID surge as compared to 2021.
- Value based care revenue decreased \$21.8 million, compared to the same quarter in the prior year due to change in performance on a number of total cost of care contracts.
- Pharmacy Services revenue increased \$43.2 million or 9.7% due to increase in volume and increase in provider benefit management services.
- Grant revenue Hospital revenue was bolstered in the period by uncompensated care favorability and by a Medicare 340B rebilling netting an additional \$7.0 million
- Offset by decreased \$69.4 million as Provider Relief Grants were received and recorded in fourth quarter in 2021.

For the three months ended December 31, 2022, Fairview's total operating expenses of \$1,825.4 million increased \$143.4 million or 8.5%.

- Salaries and benefits increased \$67.6 million or 8.9% driven by hospital service mix, wage inflation, and continued increases in premium pay and temporary pay for clinical workers.
- Supplies increased \$43.4 million or 8.7% due to increased pharmaceutical expenses related to revenue growth in Pharmacy Services and because of increasing inflationary pressure.
- Purchased services increased \$28.8 million or 11.1% due to increases in provider purchased service expense and pharmacy benefit manager expenses.

The net operating loss before non-recurring revenue and expense was (\$66.9) million and (\$3.1) million for the quarter ended December 31, 2022 and 2021, respectively, driving a net operating margin of (3.8%) and (0.2%), for the respective periods. Earnings before interest, depreciation, and amortization margin ("EBIDA") was (0.8%) compared to 2.8% the previous period.

Non-recurring expenses \$1.3 million and \$4.8 million were recorded in the quarter ended December 31, 2022 and 2021, respectively. Including non-recurring revenue (expense), the operating loss was (\$68.2) million and (\$7.9) million for the quarter ended December 31, 2022 and 2021, respectively.

Investment gains were \$90 million and \$41.3 million for the quarter ended December 31, 2022 and 2021, respectively, which was in-line with overall financial market performance. The gain (loss) on interest rate swaps was \$2.5 million and (\$2.8) million for the quarter ended December 31, 2022 and 2021, respectively, due to changing interest rates during the quarters. Fairview's consolidated excess of revenues over expenses was \$20.5 million compared to \$21.5 million in the same period from 2021.

## YEAR-TO-DATE FINANCIAL RESULTS

For the year ended December 31, 2022, Fairview's total operating revenue of \$6,661.7 million increased \$234.4 million or 3.6% over the comparable period in 2021.

- Hospital and clinic patient revenue improved \$339.5 million or 7.9%, due to improvement in outpatient and clinic volume, increased complexity of inpatient admissions, and improvement in net revenue collections.
- Pharmacy Services revenue increased \$154.7 million or 9.2% due to volume growth, increase in higher priced therapies, and growth of pharmacy benefit manager services.
- Grant revenue decreased \$22.1 million due to decline in COVID-19 due to finalization of Provider Relief Funding.
- Health Plan revenue decreased \$247.4 million due to the divestiture of Preferred One in August 2021.

For the year ended December 31, 2022, Fairview's total operating expenses of \$6,977.2 million increased \$417.3 million or 6.4%.

- Salaries and benefits increased \$281.4 million or 9.8% driven by hospital and clinic service mix and complexity which increased labor, wage inflation, and increased premium pay and temporary pay for clinical workers.
- Supplies increased \$170.1 million or 9.0% due to inflationary pressures in pharmaceuticals and medical supplies, and because of revenue growth in Pharmacy Services.
- Purchased services decreased \$80.8 million or 6.9% due to a \$190.4 million decrease in claims expense due to the divestiture of Preferred One, offset partially by increased provider purchased service expense and pharmacy benefit manager expenses.

The net operating (loss) income before non-recurring revenue and expense was (\$315.4) million and (\$132.6) million for the year ended December 31, 2022 and 2021, respectively, driving a net operating margin of (4.7%) and (2.1%), for the respective periods. Earnings before interest, depreciation, and amortization margin ("EBIDA") was (1.7%) compared to 1.0% the previous period.

Non-recurring revenue (expenses) of \$33.5 million and \$3.8 million were recorded in the year ended December 31, 2022 and 2021, respectively. In 2022, non-recurring revenue was due to strategic transactions including the sale of the ownership in the Maple Grove Hospital joint venture offset by labor strike expense. In 2021, non-recurring revenue was due to strategic transaction related to a joint venture. Including non-recurring revenue (expense), the operating loss was (\$282.0) million and (\$128.8) million for the period ended December 31, 2022 and 2021, respectively.

Investment (losses) gains were (\$224.4) million and \$166.5 million for the year ended December 31, 2022 and 2021, respectively, which was in-line with overall financial market performance. Gain on interest rate swaps was \$52.8 million and \$7.0 million for the year ended December 31, 2022 and 2021, respectively, due to rising interest rates during both periods. Fairview's consolidated (deficit) excess of revenues over expenses was (\$462.8) million compared to \$31.2 million in the same period from 2021.

## TOTAL OPERATING REVENUES

Total operating revenue of \$4,903.3 million includes inpatient and outpatient hospital revenues, clinic patient revenue, pharmacy services, and other aspects of our diverse care continuum, as well as non-patient revenues including, grants, PBM fees, rental income, management fees, health plan member premiums and administrative fees during 2022, and joint venture earnings, which are components of other operating revenue.

	2022	2021	Variance Favorable (Unfavorable)	% Variance Favorable (Unfavorable)
<i>\$ in millions</i>				
Patient service revenue	\$6,256.9	\$5,784.6	\$472.3	8.2%
Other operating revenue	\$404.9	\$642.7	(\$237.9)	(37.0%)
<b>Total operating revenue</b>	<b>\$6,661.8</b>	<b>\$6,427.3</b>	<b>\$234.4</b>	<b>3.6%</b>

## Patient service revenue

The composition of patient service revenue was as follows:

	2022	2021	Variance Favorable (Unfavorable)	% Variance Favorable (Unfavorable)
Inpatient revenue %	44.0%	44.4%	(0.4%)	(0.9%)
Outpatient revenue %	56.0%	55.6%	0.4%	0.7%

The percentage of gross patient charges by payment source was as follows:

	2022	2021	Variance	% Variance
<b>Governmental:</b>				
Medicare	38.6%	37.0%	1.6%	4.3%
Medicaid	20.5%	20.4%	0.1%	0.5%
Other	1.4%	1.4%	0.0%	0.0%
	60.5%	58.8%	1.7%	2.9%
<b>Commercial:</b>				
Blue Cross Blue Shield	11.5%	12.2%	(0.7%)	(5.7%)
HealthPartners	6.4%	7.0%	(0.6%)	(8.8%)
PreferredOne	5.7%	5.9%	(0.2%)	(3.4%)
United Health Care	4.2%	4.0%	0.2%	5.0%
Medica	3.8%	3.9%	(0.1%)	(2.6%)
Other	6.6%	6.8%	(0.2%)	(2.9%)
	38.2%	39.8%	(1.6%)	(4.0%)
Self-pay	1.3%	1.4%	(0.1%)	(7.1%)
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>		

	2022	2021	Variance Favorable (Unfavorable)	% Variance Favorable (Unfavorable)
<b>Unit pricing metrics:<sup>1</sup></b>				
Net inpatient rev per admission	\$25,558	\$23,098	\$2,460	10.7%
Net inpatient rev per patient day	\$4,224	\$4,268	(\$44)	(1.0%)
Net outpatient rev per registration	\$1,365	\$1,407	(\$42)	(3.0%)
Clinic net patient rev per wRVU	\$120	\$138	(\$18)	(13.0%)
<b>Other key revenue elements:</b>				
Prior period revenue (millions)	(\$10.2)	\$8.9	(\$19.1)	(100%)
Quality/TCOC revenue (millions)	\$16.7	\$47.6	(\$30.9)	(64.9%)

Net inpatient revenue per admission was 10.7% higher than the prior year and largely attributable to higher acuity and service mix including outlier volume. On January 1, 2022 Fairview adopted the 2021 CMS relative value weights (“wRVU”). The change was designed to increase wRVU values for physician office visits, in order to maintain budget neutrality, there was not a change to ambulatory net revenue per wRVU. On average, the weight changes resulted in a 10% increase in work RVUs for the system.

<sup>1</sup>Excludes quality incentives and total-cost-of-care (“TCOC”) shared savings revenue



## PATIENT ACTIVITY

The following table provides details on 2022 patient activity levels compared to the prior year:

	2022	2021	Variance Favorable (Unfavorable)	% Variance Favorable (Unfavorable)
Inpatient admissions	83,709	90,691	(6,982)	(7.7%)
Hospital patient days	509,985	490,623	19,362	3.9%
Average length of stay	6.1	5.4	(0.7)	(13.0%)
Outpatient registrations	1,160,927	1,056,715	104,212	9.9%
Total surgeries	78,453	76,594	1,859	2.4%
Observation days	41,719	29,942	11,777	39.3%
Emergency room registrations	286,310	287,686	(1,376)	(0.5%)
Hospital case mix index	1.77	1.73	0.04	2.2%
Clinic wRVUs	7,824,959	6,357,136	1,467,823	23.1%

Inpatient admissions were 83,709 or 7.7%, lower compared to the same period last year due to continued level of complex medical admissions, and constraints in available occupancy of discharge locations including transitional care facilities which led to increased length of stay and less available beds for admissions which drove up overall patient days. Physician clinic wRVUs increased 1,467,823 or 23.1%, compared to 2021 due to the CMS change described above and year-over-year primary and specialty service-line revenue growth.

## UNCOMPENSATED CARE

Overall uncompensated care for 2022 totaled \$99.8 million which was \$31.8 million lower than the same period in 2021. The decrease in uncompensated care was partially due to a reclassification of accounts receivable allowances from uncompensated care to payor denials to accurately describe the reason for the reduction in revenue.

	2022	2021	Variance Favorable (Unfavorable)	% Variance Favorable (Unfavorable)
<i>\$ in millions</i>				
<b>Total uncompensated care</b>	<b>\$99.8</b>	<b>\$131.6</b>	<b>\$31.8</b>	<b>24.2%</b>
% of total operating revenue	1.5%	2.0%	0.5%	25.0%

Fairview continues to closely improve the patient's financial journey and monitor collection experience of accounts receivable. These processes align and are in compliance with regulatory and organizational policies and requirements. Patient services and payment options remain patient centered through uncertainty in the macro-economic conditions. Due to the continuing emergency order in 2022, which prohibits the State from terminating participants from Medicaid, the need for uncompensated care for these patients was reduced. Fairview continues to focus on collection initiatives that promote advanced notice regarding cost for care in compliance with Transparency requirements and coverage opportunities for its patients. Fairview continues to enhance process efficiencies to proactively identify patients in need for financial assistance, improve convenience as well as reduce collection costs for these account categories. Additionally, Fairview's coordination of benefits workflow processes changed in April 2022, incorporating additional patient outreach and support to resolve insurance questionnaires, coordination of benefits to resolve insurance claims that previously resulted in patient denials, lowering bad debt. New patient policies also expanded household income levels related to qualifying patients for full and partial charity care. Fairview is dedicated to implementing best practices associated with

the patients' financial journey, enhancing the use of technology to improve the accuracy and timeliness of billing and payment processing. Ongoing investment in staff training throughout the revenue cycle to provide market-leading customer service is engrained in the culture of the department. Fairview believes that doing so will increase patient satisfaction, improve collections and reduce bad debt activities.

Patient advocates from Fairview's financial counseling program assist patients with qualifying them into appropriate programs including governmental coverage, or various financial assistance programs, such as charity care. Receivables from patients who are potentially eligible for Medicaid are classified as such, pending resolution of the associated application with appropriate estimated allowances recorded.

## EFFICIENCY AND EFFECTIVENESS OF OPERATIONS

A summary of key performance metrics is provided in the table below:

	2022	2021	Variance Favorable (Unfavorable)	% Variance Favorable (Unfavorable)
Salaries and benefits % TOR	47.5%	44.7%	(2.8%)	(6.3%)
Hospital FTE per 100 CMI-adj admissions	4.94	4.55	(0.39)	(8.6%)
Total FTEs	26,220	25,397	(823)	(3.2%)
Salaries and benefits per adjusted patient day	\$2,090	\$1,929	(\$161)	(8.3%)
Clinic staff to provider ratio	4.04	3.65	(0.39)	(10.7%)
Supplies % of TOR	30.8%	29.2%	(1.6%)	(5.5%)

Salaries and benefits expense as a percentage of total operating revenue was 47.5%, which was 2.8% unfavorable due to staffing constraints which have led to increases in premium pay and temporary labor, market pay increases which have been greater than revenue increases, and a decrease in health plan revenue which had a lower salary cost component than health care services.

Supplies as a percentage of total operating revenue was 30.8% or unfavorable 1.6% due to the larger increase in Pharmacy Services growth than in total operating revenue this period which has a much higher supply utilization as a percentage.

## INVESTMENT AND INTEREST RATE SWAP RESULTS

For 2022 realized and unrealized investment losses were (\$244.4) million. Investment performance was in line with market conditions. Fairview's long-term and short-term portfolios returned (9.8%) and (1.1%), respectively in 2022. This investment activity does not include earnings on restricted investments, which are returned directly to restricted funds.

	2022 Cash Flow Income	2022 Market Value	Net Swap Change	Mark to Market Valuation
<i>\$ in thousands</i>				
Fixed interest rate swaps	(\$4,447)	\$57,263	\$52,816	(\$22,708)

The total liability of swap contracts decreased from \$30.4 million at December 31, 2021 to \$22.7 million at December 31, 2022. Collateral of \$9.0 million was posted against the interest rate contract as of December 31, 2022. Interest rate swaps have generated a gain of \$52.8 million in 2022, consisting of cash interest expense of (\$4.4) million and non-cash, unrealized mark-to-market gains of \$57.3 million. Although the fixed payer swaps generated negative cash flows, they are structured to synthetically fix the 2018 BC bond interest expense to minimize interest rate volatility. The total notional value of outstanding swaps is \$222.5 million.

## BALANCE SHEET AND CASH FLOW

<i>\$ in millions</i>	<b>December 2022</b>	<b>December 2021</b>	<b>Variance Favorable (Unfavorable)</b>
Total Unrestricted Liquidity Reserves	\$2,013.6	\$2,768.2	(\$754.6)
Average Daily Operating Expense	\$18.7	\$17.6	(\$1.1)
Days Cash on Hand	107.6	157.5	(49.9)
Total Debt Outstanding	\$1,584.9	\$1,598.1	(\$13.2)
Net Assets without Donor Restrictions	\$2,042.3	\$2,506.1	(\$463.8)
Cash to Debt Ratio	136.2%	173.2%	(37.0%)
Debt to Capitalization Ratio	43.7%	38.9%	(4.8%)

## DAYS CASH ON HAND ROLL-FORWARD

	<b>Cash and Investments \$2,768.2</b>	<b>Days Cash on Hand 157.5</b>
<b>Beginning cash and investments - December 31, 2021</b>		
Earnings before interest, depreciation, and amortization	(82.5)	(4.4)
Operating costs per day	0.0	(9.6)
Investment and interest rate swap activity	(167.3)	(8.9)
Capital expenditures	(141.5)	(7.6)
Debt activity, net	(87.4)	(4.7)
CMS advanced repayment	(211.5)	(11.3)
FICA deferral repayment	(43.3)	(2.3)
Working capital, assets held and other changes	(21.1)	(1.1)
<b>Ending cash and investments - December 31, 2022</b>	<b>\$2,013.6</b>	<b>107.6</b>

Accounts receivable for medical services totaled \$669.2 million at December 31, 2022, an increase of \$15.3 million from December 31, 2021. Corresponding patient accounts receivable days outstanding were 50.3 at December 31, 2022 compared to 56.9 days at December 31, 2021. Without Pharmacy, days cash on hand would increase from the current 107.6 to 141.9 as Pharmacy expenses have a dilutive impact on days cash on hand levels due to the associated operating costs, while the costs are variable expenses and covered by revenue.

**CAPITAL EXPENDITURES**

Capital expenditures funded through December 31, 2022 totaled \$141.5 million compared to \$195.0 million in the same period last year. Given the industry-wide challenging operating environment in 2022, Fairview Management has intentionally reduced capital spending this year and will continue to manage approvals and capital spending carefully.

**RESERVES AND DEBT**

Fairview maintains reserves for self-insured liabilities, including workers’ compensation, professional and general liability, and employee health insurance. Fairview continually monitors these reserves, including projected activity and market dynamics, to ensure proper recognition of liabilities and expense throughout the year. The total amount of reserves related to self-insured activity recorded as of December 31, 2022 was \$112.7 million, which is \$12.0 million lower than December 31, 2021.

Fairview’s debt totaled \$1,584.9 million, a \$13.2 million decrease from December 31, 2021. The debt to capitalization ratio as of December 31, 2022 was 43.7% compared to 38.9% as of December 31, 2021.

**FINANCIAL SUMMARY**

Due to inflationary pressures on wages and supplies, operating costs have risen by 6.4% year over year, while revenue only increased 3.6%. That difference is driving intense margin pressure. Fairview is taking decisive and measured actions, to ensure fiscal health and stability and to continue to move the system to the healthcare service model the System is creating as part of M Health Fairview.

Management is taking action to address the current financial challenges, including the following focus areas:

1) Labor Management, 2) UMMC performance and Community Hospital performance, including length of stay, 3) Service Line performance, including access and improving volumes, and 4) Revenue Cycle improvements. There are detailed initiatives behind each of these focus areas and the work is supported by Fairview’s EPMO, which has dedicated team members supporting and driving the success of various improvement and enhancement efforts. The EPMO structure enables faster decision making, includes fully dedicated roles, tools to improve transparency and centralized tracking, and structures to better prioritize across the organization. All EPMO projects fall under one of seven strategically prioritized Pillars. Under these Pillars, EPMO projects, which involve cross-functional coordination, multiple milestones, and support one or more of the performance dimensions, aim to improve the way Fairview works and are explicitly tied to financial or non-financial targets.

Management is committed to improving the financial condition of the organization and getting back to profitability, but expects this will be a multi-year process.





# SECTION FIVE

Investment and debt schedule

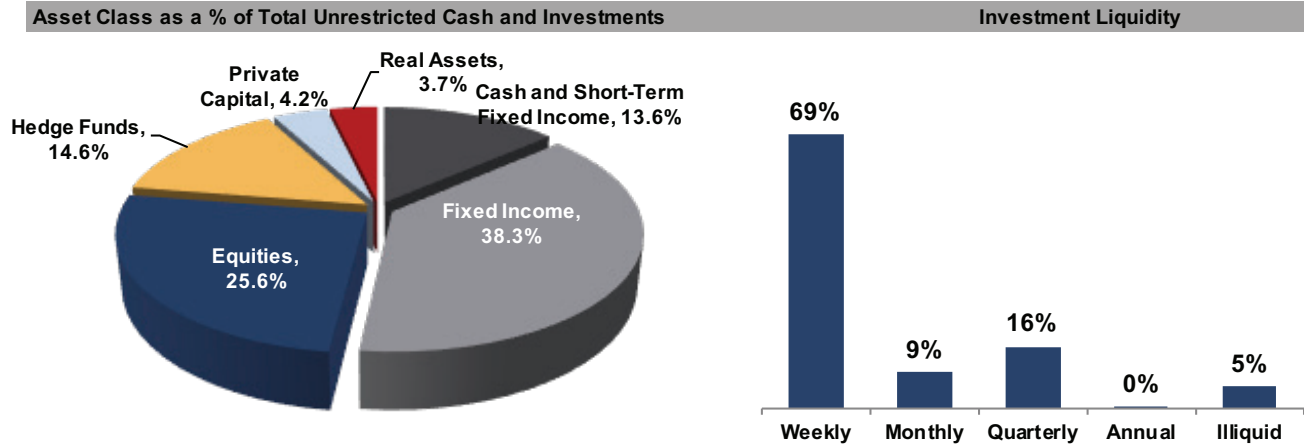


**FAIRVIEW HEALTH SERVICES**  
**INVESTMENT SCHEDULE**  
(000's OMITTED)

**Investment Asset Allocation**

The composition of Fairview's current investment structure, as of December 31, 2022, is summarized below.

Unrestricted Cash and Investments	December 31, 2022		December 31, 2021	
Cash and cash equivalents	\$	78,219 3.9%	\$	77,934 2.82%
Short-term investments	\$	298,727 14.8%	\$	521,439 18.8%
Total short-term cash and investments		<b>376,946 18.7%</b>		<b>599,374 21.7%</b>
Long-term Investments*	\$	1,636,699 81.3%	\$	2,168,825 78.3%
Total unrestricted cash and investments	\$	<b>2,013,645 100.0%</b>	\$	<b>2,768,199 100.0%</b>



The total unrestricted investment allocation by asset class for the System's long-term investments is summarized as follows:

Unrestricted Long-term Investments	Target Allocation	December 31, 2022	December 31, 2021
Cash and Money Market*	0.0%	0.3%	0.6%
Equities	32.0%	29.6%	34.0%
Hedge Funds	15.0%	16.9%	15.3%
Private Capital	4.0%	4.8%	2.5%
Fixed Income	44.0%	44.2%	42.0%
Real Assets	5.0%	4.3%	5.5%
<b>Total Unrestricted Long-Term Investments</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



**FAIRVIEW HEALTH SERVICES**  
**DEBT SCHEDULE**  
(000's OMITTED)

**Debt Structure**

The composition of Fairview's current debt structure, as of December 31, 2022, is summarized below.

Series	Amount Outstanding	Structure	Final Term	Credit Enhancement	YTD Average Int. Rate*
2015A	\$ 94,735	Fixed Rate	2044	None	4.89%
2015 Taxable	\$ 290,500	Fixed Rate	2043	None	4.07%
2017A	\$ 175,940	Fixed Rate	2047	None	4.54%
2017B	\$ 95,415	Fixed Rate	2031	None	3.09%
2017C	\$ 95,410	Fixed Rate	2031	None	2.80%
2018A	\$ 263,890	Fixed Rate	2049	None	4.61%
2018B	\$ 113,015	Variable Rate	2048	JP Morgan Letter of Credit	1.16%
2018C	\$ 110,510	Variable Rate	2048	Wells Fargo Letter of Credit	1.02%
2021 10 Yr	\$ 100,925	Fixed Rate	2031	None	2.56%
2021 30 Yr	\$ 100,945	Fixed Rate	2051	None	3.46%
<b>Fairview Bonds</b>	<b>\$ 1,441,285</b>				<b>FV Weighted Average YTD Interest Rate</b>
Other***	\$ 143,599				
	<b>\$ 1,584,884</b>				<b>3.83%</b>

