

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County,
Minnesota

Financial Report
With Supplemental Schedules
(With Independent Auditor's Report)
December 31, 2019

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Hennepin Healthcare System, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Hennepin Healthcare System, Inc. (the Organization), a component unit of Hennepin County, Minnesota, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2019 and 2018, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

RSM US LLP

Duluth, Minnesota
May 29, 2020

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Statements of Net Position
December 31, 2019 and 2018
(In Thousands)

	2019	2018
Assets and Deferred Outflows		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 31,494	\$ 42,595
Accounts receivable:		
Patient accounts receivable, net of estimated uncollectibles of \$36,036 and \$30,977 in 2019 and 2018, respectively	133,875	118,194
Other	24,952	20,991
Third-party payor settlements	70,113	73,056
Due from related parties, net	4,304	1,218
Inventories	9,322	7,487
Prepaid expenses and other current assets	10,338	9,106
Total current assets	284,398	272,647
Investments	15,209	12,609
Assets limited as to use:		
Cash and cash equivalents	10,462	9,586
Investments	42,719	36,423
Receivables, other	5,929	3,200
Total assets limited as to use	59,110	49,209
Capital assets (Note 4):		
Nondepreciable	38,287	36,568
Depreciable, net of accumulated depreciation	389,762	405,131
	428,049	441,699
Other assets	5,854	5,146
Total assets	792,620	781,310
Deferred outflows (Note 8)	43,476	83,945
Total assets and deferred outflows	\$ 836,096	\$ 865,255

See notes to financial statements.

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Statements of Net Position
December 31, 2019 and 2018
(In Thousands)

	2019	2018
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 7,375	\$ 5,781
Accounts payable	29,641	25,659
Third-party payor settlements	539	373
Accrued expenses:		
Salaries, wages and benefits	72,436	63,171
Other	40,131	44,480
Total current liabilities	150,122	139,464
Employee benefit obligations (Note 9):		
Retiree health care program	28,669	29,909
Other employee benefits	12,977	12,016
Long-term debt, net of current maturities (Notes 1 and 7)	182,816	187,321
Net pension liability (Note 8)	284,583	290,048
Total liabilities	659,167	658,758
Deferred inflows (Note 8)	90,814	118,401
Total liabilities and deferred inflows	749,981	777,159
Commitments and contingencies (Note 11)		
Net position:		
Net investment in capital assets	237,858	248,597
Restricted:		
Expendable	37,128	30,560
Nonexpendable	21,982	18,649
Unrestricted	(210,853)	(209,710)
Total net position	86,115	88,096
Total liabilities, deferred inflows, and net position	\$ 836,096	\$ 865,255

Hennepin Healthcare System, Inc.
d/b/a Hennepin County Medical Center
A Component Unit of Hennepin County, Minnesota

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Operating revenues:		
Net patient service revenue, net of provision for bad debts of \$50,429 and \$44,902 in 2019 and 2018, respectively	\$ 987,664	\$ 950,864
Other operating revenue:		
Grants	71,728	66,249
Other	34,094	30,836
Net operating revenues	1,093,486	1,047,949
Operating expenses:		
Salaries and benefits	772,295	715,564
Supplies and services	241,906	224,668
Depreciation and amortization	43,588	39,892
Utilities and maintenance	31,654	34,851
Taxes and surcharges	18,418	18,868
Other	8,060	6,669
Total operating expenses	1,115,921	1,040,512
(Loss) income from operations	(22,435)	7,437
Nonoperating revenue (expense):		
Interest expense	(4,731)	(3,557)
Contributions, net	302	322
Investment income (loss)	11,502	(1,381)
Other	-	34
Total nonoperating revenue (expense)	7,073	(4,582)
(Loss) income before capital contributions	(15,362)	2,855
Capital contributions from related parties	13,381	10,781
(Decrease) increase in net position	(1,981)	13,636
Total net position, beginning of year	88,096	74,460
Total net position, end of year	\$ 86,115	\$ 88,096

See notes to financial statements.

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Cash flows from operating activities:		
Receipts from third-party payors and patients	\$ 1,000,788	\$ 965,793
Contributions, contracts and grants	71,728	66,249
Other receipts	1,000	9,506
Payments to employees for salaries and benefits	(755,892)	(742,786)
Payments to suppliers	(275,731)	(270,601)
Other payments	(30,827)	(25,196)
Net cash provided by operating activities	11,066	2,965
Cash flows provided by noncapital financing activities, gifts and bequests, net	340	34
Cash flows from capital and related financing activities:		
Contributions from related parties	13,381	10,781
Loan proceeds	-	42,548
Purchases of capital assets	(25,991)	(55,063)
Principal payments on long-term debt	(5,836)	(4,769)
Interest paid on long-term debt	(4,846)	(4,514)
Other	921	930
Net cash used in capital and related financing activities	(22,371)	(10,087)
Cash flows from investing activities:		
Purchase of investments	(1,326)	(4,332)
Sale of investments	102	2,132
Investment earnings received	1,964	2,077
Net cash provided by (used in) investing activities	740	(123)
Net decrease in cash and cash equivalents	(10,225)	(7,211)
Cash and cash equivalents:		
Beginning of year	52,181	59,392
End of year	\$ 41,956	\$ 52,181
Cash and cash equivalents are reported in the accompanying statements of net position as follows:		
Cash and cash equivalents	\$ 31,494	\$ 42,595
Assets limited as to use	10,462	9,586
	\$ 41,956	\$ 52,181

(Continued)

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Reconciliation of income (loss) from operations to net cash provided by operating activities:		
(Loss) income from operations	\$ (22,435)	\$ 7,437
Adjustments to reconcile (loss) income from operations to net cash provided by operating activities:		
Depreciation and amortization	43,588	39,892
Provision for bad debts	50,429	44,902
Capital asset related loss	-	377
Changes in assets and liabilities related to operations:		
Accounts receivable	(72,800)	(42,222)
Prepaid expenses and inventories	(3,775)	(3,149)
Accounts payable	3,982	(2,539)
Due from related parties, net	(3,086)	(5,822)
Deferred inflows, outflows, and net pension liability	7,417	(20,894)
Accrued expenses and estimated third-party settlements	7,746	(15,017)
Net cash provided by operating activities	\$ 11,066	\$ 2,965
Noncash investing, capital and financing activities:		
Capital assets financed through loans and payables	\$ 3,947	\$ 3,541
Capitalized interest	\$ -	\$ 1,122

See notes to financial statements.

**Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota**

**Notes to Financial Statements
(In Thousands)**

Note 1. Nature of Organization, Description of Reporting Entity, and Summary of Significant Accounting Policies

Nature of organization and reporting entity: Hennepin Healthcare System, Inc. (HHS or Organization), is a public corporation and component unit of Hennepin County, Minnesota (the County). The purpose of HHS is to engage in the organization and delivery of health care and related services to the general public, including the indigent as defined by state and federal law as determined by the Hennepin County Board of Commissioners, and to conduct related programs and research. HHS is also recognized as tax-exempt pursuant to Section (501)(c)(3) of the Internal Revenue Code (IRC).

HHS incorporates an integrated network of physicians, hospital and ambulatory care services. The main campus in Minneapolis, Minnesota, includes a Level 1 Adult and Pediatric Trauma Center and is also an academic medical center and public hospital, and operates primary and specialty care clinics. HHS also operates community and convenience care clinics in the surrounding metropolitan area. As of December 31, 2019, HHS operated a hospital with licensed capacity of 894 beds and 65 bassinets, 452 beds and 65 bassinets of which were available, as well as 10 primary care clinics and 32 specialty care clinics, and employed approximately 888 providers, 246 residents and 158 pharmacists in 12 pharmacy locations.

HHS is governed by a 14-member Board of Directors that is responsible for oversight of operating activities. The Hennepin County Board of Commissioners retains certain ownership and governing rights and obligations, including oversight of the safety net mission and the review and approval of the Board members, annual operating budget, health service plan and capital budget. The County is the governing member of HHS.

The Hennepin Health Foundation (HHF), a 501(c)(3) public charity, exists to support the mission of HHS and to raise and administer philanthropic support in the following functional areas: innovations in patient care, trauma and critical care, and educating the workforce of tomorrow. HHF's separately issued and audited financial statements can be obtained from HHS.

The Hennepin Healthcare Research Institute (HHRI), a 501(c)(3) organization, is organized to promote HHS' research and education missions through engaging in charitable, educational and scientific activities. A major portion of HHRI's contributions and support is derived from restricted basic and clinical research grants and contracts from private donors and federal agencies. HHRI's separately issued and audited financial statements can be obtained from HHS.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending requirements for certain component units—an amendment of GASB Statement No. 14*, Hennepin Health Foundation and Hennepin Healthcare Research Institute are included in HHS's financial statements as blended component units. HHS is the sole corporate member and has the final authority to approve voting members of both HHF and HHRI Boards. Hereinafter, the combined entities are referred to as "the Organization."

Accounting basis and standards: The Organization recognizes revenues and expenses on the accrual basis of accounting in accordance with the standards established by the GASB and certain provisions in the *Audit and Accounting Guide for Health Care Organizations*, published by the American Institute of Certified Public Accountants. Revenue is recognized when earned and expenses are recognized when a liability has been incurred. Under this basis of accounting, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the Organization are included in the statements of net position.

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 1. Nature of Organization, Description of Reporting Entity, and Summary of Significant Accounting Policies (Continued)

Management estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows and outflows and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Net patient service revenue and accounts receivable: Gross patient service revenue is recorded when services are provided at HHS' established rates, with contractual adjustments and provision for bad debts deducted to arrive at net patient service revenue. HHS has agreements with third-party payors, which provide for reimbursement to HHS at amounts that differ from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges, per diem payments, and risk-sharing contracts. Net patient service revenue, as reflected in the accompanying statements of revenues, expenses and changes in net position for the years ended December 31, 2019 and 2018, consisted of the following:

	2019	2018
Gross patient charges	\$ 2,724,193	\$ 2,478,036
Deductions from gross patient charges	(1,774,557)	(1,566,862)
Intergovernmental transfers	63,957	58,649
Uncompensated care services, Hennepin County	24,500	25,943
Provision for bad debts	(50,429)	(44,902)
Net patient service revenue	<u>\$ 987,664</u>	<u>\$ 950,864</u>

As a safety net hospital, HHS receives supplemental Medicaid payments, also known as Upper Payment Limit (UPL) payments, for inpatient, outpatient, managed care, physician, dental, CRNA and ambulance services through intergovernmental transfers in accordance with specific state statutes subject to federal regulations and approval. These UPL amounts are recorded as net patient service revenue in the statement of revenues, expenses and changes in net position. Estimated UPL amounts due to HHS at December 31, 2019 and 2018, were approximately \$69.1 million and \$62.5 million, respectively, and are recorded in the statement of net position as third-party payor settlements. The effect of changes in estimates related to prior years is an increase in net patient service revenue of approximately \$15.3 million and \$8.4 million for the years ended December 31, 2019 and 2018, respectively.

HHS has an agreement with the County whereby the County pays HHS for a portion of the services provided to Hennepin County residents that are uninsured and unable to pay.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 1. Nature of Organization, Description of Reporting Entity, and Summary of Significant Accounting Policies (Continued)

Medicare: Payment arrangements under the Medicare program are as follows: inpatient acute care, psychiatric services and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The majority of outpatient services are paid at Ambulatory Payment Classification (APC) rates; certain outpatient services, including kidney acquisition and medical education costs related to Medicare beneficiaries, are paid based on a cost-reimbursement methodology. HHS also receives Disproportionate Share Hospital reimbursement for serving a disproportionate share of indigent patients based on a factor of Medicaid-eligible days to total days, plus a Social Security income percentage applied to Medicare inpatient prospective payments. HHS is reimbursed for cost-reimbursable items at an estimated rate, with final settlement determined after submission of annual cost reports by HHS and audits thereof by the Medicare fiscal intermediary. The net impact from final settlements and changes in estimates related to prior years was an increase in net patient service revenue of approximately \$0.2 million and \$0.1 million for the years ended December 31, 2019 and 2018, respectively. Medicare cost reports have been final-settled through 2013. Various settled cost reports have pending appeals and re-openings to address a variety of issues.

Medicaid: Medicaid payments for inpatient, outpatient and physician services are primarily based on prospective, per-case rates. The inpatient rate is based upon the All-Patient Refined (APR) Diagnostic Related Grouping (DRG) methodology and utilizes the Medicare Cost Report as the base document in determining the statewide Medicaid operation rate and the HHS Disproportionate Population Adjustment. The outpatient rate is based on the Medicare APC methodology, modified by Department of Human Services (DHS) for Medicaid reimbursement. The 2018 and 2019 outpatient payments reflect the fee schedule rates less an 8.5% ratable reduction. The physician services payment is based upon the Medicare Relative Value Units (RVUs). The 2019 physician payments reflect the fee schedule rates less a 7% ratable reduction. Approximately 70% of the Medicaid services at HHS are Prepaid Medical Assistance Program (PMAP) patients. PMAP rates are negotiated directly with insurers, and are generally higher than those paid directly by the State for enrollees not assigned an insurer.

Credit risk from payors: As of and for the years ended December 31, 2019 and 2018, HHS' gross patient charges and related receivables by payor or payor categories as a percent of the totals were approximately as follows:

	Accounts Receivable		Gross Charges	
	2019	2018	2019	2018
Commercial/other	34%	34%	20%	20%
Medicaid	31	35	44	43
Medicare	21	19	30	30
Self pay	14	12	6	7
	100%	100%	100%	100%

HHS provides health care services through its inpatient and outpatient ambulatory care facilities located in Minneapolis and the surrounding metropolitan area. HHS grants credit to patients, a majority of whom are local residents. HHS generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, health maintenance organizations and commercial insurance policies).

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 1. Nature of Organization, Description of Reporting Entity, and Summary of Significant Accounting Policies (Continued)

Patient accounts receivable, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the services provided, adjusted by an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient accounts receivable due directly from the patient are carried at the original charge for the services provided less amounts covered by third-party payors, discounts applied for uninsured patients, and an estimated allowance for doubtful receivables based on a review of outstanding amounts. Management determines the allowance for doubtful receivables by identifying potentially uncollectible accounts, using historical experience applied to an aging of accounts and by taking into account current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad-debt expense when received.

The laws and regulations under which the Medicare and Medicaid programs operate are complex and subject to frequent change and interpretation. As part of operating under these programs, there is a possibility that governmental authorities may review HHS' compliance with these laws and regulations. Such review may result in adjustments to reimbursement previously received and subject HHS to fines and penalties. Although no assurances can be given, management believes they have complied with the requirements of these programs.

Community benefit: In furtherance of its charitable purpose, HHS provides a wide variety of benefits to the community. These services and donations account for a measurable portion of HHS' costs and serve to promote affordable access to care, health education, community development and healthy lifestyles (see Note 2).

Cash and cash equivalents: Cash and cash equivalents include highly liquid investments with a maturity of three months or less and the Organization's share of the cash management pool of Hennepin County. The pool is a cash equivalent (see Note 3).

Investments: Investments are stated at fair value. Interest and dividends, when earned, and realized and unrealized investment gains and losses are recorded as nonoperating revenue in the Organization's statements of revenues, expenses, and changes in net position (see Note 5).

Inventories: Inventories consist of pharmaceuticals, food items, and certain medical supplies. These are reported at the lower of cost or market on a weighted average cost basis.

Capital assets: Purchases in excess of one thousand dollars for HHF and five thousand dollars for HHRI and HHS are capitalized and recorded at cost. It is the policy of the Organization to record depreciation expense based on the estimated useful lives of individual assets, using the straight-line method of depreciation.

Deferred outflows of resources: Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to expense related to the pension and postemployment benefit liabilities.

Deferred inflows of resources: Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows of resources consist of pension related and postemployment benefits related deferrals.

**Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota**

**Notes to Financial Statements
(In Thousands)**

Note 1. Nature of Organization, Description of Reporting Entity, and Summary of Significant Accounting Policies (Continued)

Compensated absences: Compensated absences, which include vacation and sick time, are reported as an expense and an accrued liability as the benefits are earned and expected to be paid.

Net position: The net investment in capital assets consists of capital assets, net of accumulated depreciation and any outstanding borrowings used to finance the purchase or construction of these assets. Restricted expendable net position are amounts that must be used for a particular purpose, as specified by creditors, grantors, donors, or contributors external to the Organization. Restricted nonexpendable net position are amounts that represent donors' fund principal that must be maintained in perpetuity. Unrestricted net position are amounts that do not meet the definition of the other components of net position described above.

Operating revenues and expenses: The Organization's statements of revenues, expenses, and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions for the primary purpose of the Organization, which is to provide health care services. Operating revenues also include educational, research and scientific activities, many of which are funded by grants. Operating expenses are all expenses incurred to provide the mission oriented services including education, research, and health care. All revenue and expenses not meeting these criteria are reported as nonoperating.

Grants and contributions: Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Related-party transactions: HHS is a major provider of health care services for Hennepin Health (HH), an enterprise fund of the County. HHS has an agreement with HH to provide services to enrollees of the Hennepin Health program whereby HHS is reimbursed based upon services performed and program outcomes. Net revenues from HH were approximately \$69.0 million and \$80.1 million for the years ended December 31, 2019 and 2018, respectively. HHS has net receivables from HH of approximately \$6.6 million and \$14.3 million at December 31, 2019 and 2018, respectively.

HHS records amounts received from the County for capital asset additions as capital contributions. During 2019 and 2018, HHS received reimbursements of approximately \$13.1 million and \$10.8 million, respectively, for capital contributions.

HHS provides services to the County residents that are uninsured and indigent for which the County reimburses HHS. HHS reported \$24.5 million and \$25.9 million within net patient service revenue for this reimbursement during the years ended December 31, 2019 and 2018, respectively.

The County provided funding for the construction of a clinic and specialty center building under an agreement with HHS. The County funding was obtained in part by the County issuing General Obligation Bonds and is to be repaid by HHS over a term of 25 years at a blended interest rate of approximately 2.19%. HHS owed the County \$182.9 million and \$187.6 million as of December 31, 2019 and 2018, respectively (see Note 7).

**Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota**

**Notes to Financial Statements
(In Thousands)**

Note 1. Nature of Organization, Description of Reporting Entity, and Summary of Significant Accounting Policies (Continued)

HHS has a \$3.7 million and \$1.2 million net receivable from the County as of December 31, 2019 and 2018, respectively, which are included in due from related parties on the accompanying statements of net position.

HHS is a participant in Hennepin County's central mobile equipment internal service fund, which is used to account for the costs of purchasing, operating and replacing all automotive and other mobile equipment used by HHS and other components and departments of the County. At December 31, 2019 the HHS purchased fleet of approximately 55 vehicles included 35 ambulances. HHS paid \$4.5 million and \$4.3 million during the years ended December 31, 2019 and 2018, respectively, for the use of the fleet. Payments cover funded depreciation to replace the existing fleet, maintenance, fuel, and administrative costs. Increases to the total fleet size require vehicle purchase by HHS and subsequent contribution to the County at the time of addition.

Retiree health benefits: HHS provides retiree health benefits to eligible retired employees. HHS' other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) and amortization expense associated with deferred inflows and outflows, which is actuarially determined in accordance with the parameters of GASB Statement No. 75 (see Note 9).

Pensions: For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Risk management: The Organization purchases commercial insurance to insure its risk of loss related to theft of, damage to and destruction of assets, business interruption, employee injuries and illnesses, natural disasters, cyber threats, and long-term disability benefits. The Organization is self-insured for claims arising from general, medical malpractice, and other professional liability matters, employee health and dental, short-term disability, and workers' compensation. Additionally, HHS and HHRI have obtained a commercial policy for certain professional liability claims (see Note 10).

Reclassifications: Certain prior year amounts on the financial statements have been reclassified to conform to the December 31, 2019 presentation. These reclassifications had no effect on the change in net position or total net position as previously reported.

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 2. Community Benefit

HHS maintains records to identify and monitor the level of community benefit services it provides. Those records include management's estimate of the cost to provide charity care, the cost of services, taxes and supplies furnished for community benefit programs, and costs in excess of program payments for treating Medical Assistance patients. Costs are determined using the cost to charge ratio methodology.

In addition to community benefit costs outlined below, HHS provides additional community contributions, such as services to Medicare patients below the costs for treatment, other uncompensated care, discounted pricing to the uninsured, and payment of taxes and fees and other essential medical services that are not adequately reimbursed.

Community benefit costs for the years ended December 31, were as follows:

	2019	2018
Costs of charity care, including discounts offered to uninsured patients	\$ 18,614	\$ 13,290
Costs in excess of Medicaid payments, net	40,928	36,298
Medicaid surcharge and MinnesotaCare tax	17,320	17,708
Education workforce development and research (1)	23,181	22,132
Community and subsidized health services costs (1)	1,489	1,189
Community building and other community benefit costs (1)	186	13
Total cost of community benefits (2)	101,718	90,630
Other community contributions:		
Costs in excess of Medicare payments	90,796	81,165
Other care provided without compensation (bad-debt expense) (3)	35,793	28,962
Total value of community contributions	\$ 228,307	\$ 200,757

(1) Grant monies of approximately \$11.1 million and \$10.7 million in 2019 and 2018, respectively, are excluded as offsets to costs incurred.

(2) As defined by the CHA/VHA guidelines:

- CHA (Catholic Health Association) is the national membership association of Catholic Health Ministry.
- VHA (VHA, Inc.) is a national cooperative of leading not-for-profit health care corporations.

(3) Excludes County payments for uninsured and indigent care (Note 1).

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 3. Cash and Cash Equivalents

The County's Office of Budget and Finance is responsible for the treasury function of all the County's deposits and investments held by its funds. Cash from all funds is pooled for deposit and investment purposes. HHS and HHF comprised \$42.2 million or 3.0% and \$40.3 million or 3.2% of the County's total cash and investments as of December 31, 2019 and 2018, respectively. As of December 31, 2019, a majority of the pool's investments were invested in U.S. government and agency issues, with the remainder invested in repurchase agreements and money market funds. Detailed information about the County's deposits with financial institutions, repurchase agreements, interest rate risk, credit risk, concentration of credit risk, and custodial credit risk can be obtained directly from the County's 2019 financial statements. Investment earnings and losses are allocated based on average monthly cash balances. HHRI's cash equivalents include highly liquid investments with maturities of three months or less.

Note 4. Capital Assets

Capital asset activity for the years ended December 31, 2019 and 2018 were as follows:

	Balance at December 31, 2018	Additions and Transfers	Retirements and Disposals	Balance at December 31, 2019	Estimated Years
Land	\$ 28,603	\$ -	\$ -	\$ 28,603	
Buildings and improvements	581,300	9,350	-	590,650	5-40
Leasehold improvements	21,762	4,618	-	26,380	3-15
Furniture and equipment	276,482	14,267	(476)	290,273	3-20
Software capital	4,501	18	-	4,519	3-7
Total depreciable capital assets	884,045	28,253	(476)	911,822	
Projects in progress	7,965	1,731	(12)	9,684	
Less accumulated depreciation:					
Buildings	(270,297)	(21,059)	-	(291,356)	
Leasehold improvements	(12,862)	(1,836)	-	(14,698)	
Furniture and equipment	(192,572)	(20,277)	442	(212,407)	
Software capital	(3,183)	(416)	-	(3,599)	
Total accumulated depreciation	(478,914)	\$ (43,588)	\$ 442	(522,060)	
Capital assets, net	\$ 441,699			\$ 428,049	

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 4. Capital Assets (Continued)

	Balance at December 31, 2017	Additions and Transfers	Retirements and Disposals	Balance at December 31, 2018	Estimated Years
Land	\$ 28,603	\$ -	\$ -	\$ 28,603	
Buildings and improvements	382,272	199,028	-	581,300	5-40
Leasehold improvements	22,836	1,499	(2,573)	21,762	3-15
Furniture and equipment	230,026	46,786	(330)	276,482	3-20
Software capital	3,943	578	(20)	4,501	3-7
Total depreciable capital assets	639,077	247,891	(2,923)	884,045	
Projects in progress	196,130	(188,165)	-	7,965	
Less accumulated depreciation:					
Buildings	(251,409)	(18,888)	-	(270,297)	
Leasehold improvements	(13,467)	(1,591)	2,196	(12,862)	
Furniture and equipment	(174,012)	(18,910)	350	(192,572)	
Software capital	(2,680)	(503)	-	(3,183)	
Total accumulated depreciation	(441,568)	\$ (39,892)	\$ 2,546	(478,914)	
Capital assets, net	\$ 422,242			\$ 441,699	

Effective January 1, 2007, substantially all real property was leased from the County, pursuant to a lease agreement between HHS and the County, under which the County retained certain ownership rights.

Note 5. Investments and Assets Limited As to Use

Accounting guidance provides a framework for measuring fair value of certain assets and liabilities and requires certain disclosures about fair value measurements. As defined in GASB Statement No. 72, *Fair Value Measurement and Application* (GASB No. 72), fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB No. 72 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy defined by GASB No. 72 and a description of the valuation methodologies used for instruments measured at fair value are as follows:

- Level 1:** Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.
- Level 2:** Pricing inputs are other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3:** Pricing inputs include those that are significant to the fair value of the financial assets or financial liability and are not observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Hennepin Healthcare System, Inc.
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Notes to Financial Statements
(In Thousands)

Note 5. Investments and Assets Limited As to Use (Continued)

The Organization's assets and liabilities measured at fair value on a recurring basis are limited to investments. The fair values of the Organization's investments in mutual funds are included in Level 1 which were determined through unadjusted, quoted prices in active markets. The Organization did not have any Level 2 or Level 3 investments as of December 31, 2019 and 2018.

As of December 31, 2019, the Organization had the following investments:

	HHS	HHF	HHRI	Total
Mutual funds:				
Domestic equities	\$ 3,889	\$ 6,584	\$ 17,838	\$ 28,311
International	-	1,933	5,674	7,607
Fixed income	1,093	5,240	15,677	22,010
Total investments	<u>\$ 4,982</u>	<u>\$ 13,757</u>	<u>\$ 39,189</u>	<u>\$ 57,928</u>

The investments are included in the accompanying statements of net position as follows:

Investments	\$ 15,209
Assets limited as to use, investments	42,719
Total investments	<u>\$ 57,928</u>

As of December 31, 2018, the Organization had the following investments:

	HHS	HHF	HHRI	Total
Mutual funds:				
Domestic equities	\$ 4,269	\$ 5,187	\$ 14,113	\$ 23,569
International	-	1,554	4,607	6,161
Fixed income	-	4,834	14,468	19,302
Total investments	<u>\$ 4,269</u>	<u>\$ 11,575</u>	<u>\$ 33,188</u>	<u>\$ 49,032</u>

The investments are included in the accompanying statements of net position as follows:

Investments	\$ 12,609
Assets limited as to use, investments	36,423
Total investments	<u>\$ 49,032</u>

Credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. HHF does not have a policy specific to investment credit risk.

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Notes to Financial Statements
(In Thousands)

Note 5. Investments and Assets Limited As to Use (Continued)

As of December 31, 2019 and 2018, the investments as rated by Moody's had the following ratings:

Type of Investment	2019		2018	
	Carrying Amount	Quality Rating	Carrying Amount	Quality Rating
Mutual funds—fixed income	\$ 22,010	AAA - BB	\$ 19,302	AAA - BB
Not rated:				
Mutual funds—domestic equities	28,311		23,569	
Mutual funds—international	7,607		6,161	
Total investment	<u>\$ 57,928</u>		<u>\$ 49,032</u>	

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Organization's investment policies do not limit the Organization's investment choices nor do they have a limit on the amount of any investment which the Organization may invest in, except that HHF's policy does establish asset allocation targets.

As of December 31, 2019 and 2018, not more than 5% of the Organization's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds, and external investment pools or other pooled investments.

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

HHRI's investment policy considers interest rate risk by establishing two investment pools, long-term and intermediate term with established limits on the percentage of funds that can be invested in equities and fixed income funds. HHF's investment policy states there will be a long-term investment pool and near term investment pool which serves as a means of limiting HHF's exposure to interest rate risk.

Note 6. Endowments

HHRI's endowment consists of six individual funds established for a variety of purposes. The entire endowment is classified as restricted nonexpendable. HHRI's endowment reported in restricted nonexpendable net position as of December 31, 2019 and 2018 is \$17.5 million and \$14.9 million, respectively. HHF's restricted nonexpendable net position totaled \$2.6 million and \$1.9 million as of December 31, 2019 and 2018, respectively.

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Notes to Financial Statements
(In Thousands)

Note 7. Long-Term Debt

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

	2019	2018
Notes payable to the County, 2.19% blended interest rate, due in semi-annual interest only installments ranging from \$0.1 million to \$2.1 million and annual principal installments ranging from \$5.8 million to \$11.5 million through December 2041	\$ 182,913	\$ 187,571
Various capital leases, due in monthly installments of \$237, including interest at a rate of 2.0%-5.5%, through September 2024	6,970	5,223
Other, promissory note	308	308
	<u>190,191</u>	<u>193,102</u>
Less current maturities	7,375	5,781
	<u>\$ 182,816</u>	<u>\$ 187,321</u>

Debt service requirements of long-term debt are as follows:

	Principal	Interest	Total
Years ending December 31:			
2020	\$ 7,375	\$ 5,133	\$ 12,508
2021	7,427	4,920	12,347
2022	7,486	4,706	12,192
2023	6,746	4,506	11,252
2024	6,643	4,330	10,973
2025-2029	37,126	18,801	55,927
2030-2034	43,437	13,424	56,861
2035-2039	50,788	7,148	57,936
2040-2041	23,163	871	24,034
	<u>\$ 190,191</u>	<u>\$ 63,839</u>	<u>\$ 254,030</u>

Changes in long-term debt are as follows:

	Balance, Beginning	Borrowings	Payments and Reductions	Balance, Ending
	<u>2019</u>			
Notes payable	\$ 187,879	\$ -	\$ (4,658)	\$ 183,221
Capital leases	5,223	3,947	(2,200)	6,970
	<u>\$ 193,102</u>	<u>\$ 3,947</u>	<u>\$ (6,858)</u>	<u>\$ 190,191</u>
	<u>2018</u>			
Notes payable	\$ 149,560	\$ 42,548	\$ (4,229)	\$ 187,879
Capital leases	2,222	3,541	(540)	5,223
	<u>\$ 151,782</u>	<u>\$ 46,089</u>	<u>\$ (4,769)</u>	<u>\$ 193,102</u>

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 8. Pension Plans

Defined benefit plan description: HHS participates in the following cost-sharing multi-employer defined benefit pension plans administered by the PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the IRC.

1. General Employees Retirement Fund (GERF)

GERF members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

2. Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA. HHS' full-time paramedics are covered by the PEPFF, while part-time paramedics are covered by the GERF.

3. Public Employees Correctional Fund (PECF)

The Local Government Correctional Fund, referred to as the Public Employees Correctional Fund (PECF), was established for correctional officers serving in county and regional corrections facilities. Eligible participants must be responsible for the security, custody, and control of the facilities and their inmates. At HHS, protection officers are covered by the PECF.

Benefits provided: PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Hennepin Healthcare System, Inc.
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Notes to Financial Statements
(In Thousands)

Note 8. Pension Plans (Continued)

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

2. PEPFF Benefits

Benefits for PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be fixed at 1%. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

3. PECF Benefits

Benefits for PECF members first hired after June 30, 2010, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. The annuity accrual rate is 1.9% of average salary for each year of service in that plan. For PECF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, benefit increases after retirement will equal 100% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 2.5%. If the funding status declines to 85% for two consecutive years or 80% for one year, the maximum increase will be lowered to 1.5%. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

Hennepin Healthcare System, Inc.
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Notes to Financial Statements
(In Thousands)

Note 8. Pension Plans (Continued)

Contributions: Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. HHS' contributions to all plans during the years ended December 31, 2019 and 2018 were equal to the required contributions under the statutes.

1. GERS Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in calendar years 2019 and 2018. HHS was required to contribute 7.5% for Coordinated Plan members in calendar years 2019 and 2018. HHS' contributions to the GERS for the years ended December 31, 2019 and 2018 were \$25.9 million and \$25.1 million, respectively.

2. PEPFF Contributions

Plan members were required to contribute 11.3% of their annual covered salary in calendar years 2019 and 2018. HHS was required to contribute 17.0% and 16.2% of pay for PEPFF members in calendar years 2019 and 2018, respectively. HHS' contributions to the PEPFF for the years ended December 31, 2019 and 2018 were \$2.4 million and \$2.2 million, respectively.

3. PECF Contributions

Plan members were required to contribute 5.8% of their annual covered salary in calendar years 2019 and 2018. HHS was required to contribute 8.8% of pay for PECF members in calendar years 2019 and 2018. HHS' contributions to the PECF for the years ended December 31, 2019 and 2018 were \$0.3 million and \$0.2 million, respectively.

Pension liability, pension expense and deferred outflows/inflows of resources related to pensions:

1. GERS Pension Costs

At December 31, 2019 and 2018, HHS reported a liability of \$270.1 million and \$275.8 million, respectively, for its proportionate share of the GERS' net pension liability. HHS' net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16.0 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. At December 31, 2019 and 2018, the State of Minnesota's proportionate share of the net pension liability associated with HHS totaled \$8.1 million and \$9.0 million, respectively. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability and related deferred amounts were determined by actuarial valuations as of those dates. HHS' proportion of the net pension liability was based on the contributions received by PERA during the measurement periods for employer payroll paid dates from July 1, 2018 through June 30, 2019, for 2019 measurement, and July 1, 2017 through June 30, 2018, for 2018 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019 and 2018, HHS' proportionate share was 4.9% and 5.0%, respectively.

For the years ended December 31, 2019 and 2018, HHS recognized pension expense of \$31.8 million and \$7.9 million, respectively, for its proportionate share of the GERS' pension expense. In addition, for the years ended December 31, 2019 and 2018, HHS recognized \$0.6 million and \$2.1 million, respectively, as pension expense and grant revenue for its proportionate share of the State of Minnesota's contributions to the GERS in connection with the plan's special funding situation.

Hennepin Healthcare System, Inc.
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Notes to Financial Statements
(In Thousands)

Note 8. Pension Plans (Continued)

At December 31, 2019 and 2018, HHS reported its proportionate share of the GERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 7,808	\$ -	\$ 7,817	\$ (8,302)
Changes in actuarial assumptions	-	(22,314)	27,165	(32,590)
Net difference between projected and actual investment earnings	-	(29,425)	-	(30,224)
Changes in proportion	4,156	(15,391)	10,115	(17,600)
Contributions subsequent to the measurement date	14,103	-	14,038	-
	<u>\$ 26,067</u>	<u>\$ (67,130)</u>	<u>\$ 59,135</u>	<u>\$ (88,716)</u>

Employer contributions subsequent to the measurement date of approximately \$14.1 million, which are reported as deferred outflows of resources related to pensions, will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Pension Expense</u>
Years ending December 31:	
2020	\$ (18,659)
2021	(30,216)
2022	(6,727)
2023	436
	<u>\$ (55,166)</u>

2. PEPFF Pension Costs

At December 31, 2019 and 2018, HHS reported a liability of \$14.3 and \$14.0 million, respectively, for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability and related deferred amounts were determined by actuarial valuations as of those dates. HHS' proportion of the net pension liability was based on the contributions received by PERA during the measurement periods for employer payroll paid dates from July 1, 2018 through June 30, 2019, for 2019 measurement, and July 1, 2017 through June 30, 2018, for 2018 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019 and 2018, HHS' proportion was 1.3%.

For the years ended December 31, 2019 and 2018, HHS recognized pension expense of \$2.9 million and \$0.8 million, respectively, for its proportionate share of the PEPFF's pension expense. HHS also recognized \$0.2 million and \$0.1 million for the years ended December 31, 2019 and 2018, respectively, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

Hennepin Healthcare System, Inc.
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Notes to Financial Statements
(In Thousands)

Note 8. Pension Plans (Continued)

At December 31, 2019 and 2018, HHS reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 591	\$ (2,068)	\$ 560	\$ (3,332)
Changes in actuarial assumptions	11,325	(15,357)	17,689	(20,112)
Net difference between projected and actual investment earnings	-	(2,869)	-	(2,923)
Changes in proportion	770	(80)	644	(107)
Contributions subsequent to the measurement date	1,254	-	1,290	-
	<u>\$ 13,940</u>	<u>\$ (20,374)</u>	<u>\$ 20,183</u>	<u>\$ (26,474)</u>

Employer contributions subsequent to the measurement date of approximately \$1.3 million, which are reported as deferred outflows of resources related to pensions, will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31:	Pension Expense
2020	\$ (694)
2021	(1,768)
2022	(5,340)
2023	119
2024	50
	<u>\$ (7,633)</u>

3. PECF Pension Costs

At December 31, 2019 and 2018, HHS reported a liability of \$0.2 million for its proportionate share of the PECF's net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. HHS' proportion of the net pension liability was based on the contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, for 2019 measurement, and July 1, 2017 through June 30, 2018, for 2018 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019 and 2018, HHS' proportion was 1.4% and 1.3%, respectively.

For the years ended December 31, 2019 and 2018, HHS recognized pension expense of \$0.4 million and \$(0.4) million, respectively, for its proportionate share of the PECF's pension expense.

Hennepin Healthcare System, Inc.
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Notes to Financial Statements
(In Thousands)

Note 8. Pension Plans (Continued)

At December 31, 2019 and 2018, HHS reported its proportionate share of the PECF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 7	\$ (31)	\$ 11	\$ (23)
Changes in actuarial assumptions	-	(1,615)	1,094	(2,497)
Net difference between projected and actual investment earnings	-	(226)	-	(231)
Changes in proportion	15	(91)	13	(183)
Contributions subsequent to the measurement date	144	-	144	-
	<u>\$ 166</u>	<u>\$ (1,963)</u>	<u>\$ 1,262</u>	<u>\$ (2,934)</u>

Employer contributions subsequent to the measurement date of approximately \$0.1 million, which are reported as deferred outflows of resources related to pensions, will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31:	Pension Expense
2020	\$ (1,049)
2021	(840)
2022	(54)
2023	2
	<u>\$ (1,941)</u>

Actuarial assumptions: The total pension liabilities for all plans in the June 30, 2019 valuations were determined using the following actuarial assumptions:

Inflation	2.50% per year
Active member payroll growth	3.25% per year
Investment rate of return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan, 1.0% per year for the Police and Fire Plan, and 2.0% per year for the Correctional Plan.

**Hennepin Healthcare System, Inc.
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**Notes to Financial Statements
(In Thousands)**

Note 8. Pension Plans (Continued)

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

The following changes in actuarial assumptions occurred specific to each plan's June 30, 2019 valuation:

GERF

- The mortality projection scale was changed from MP-2017 to MP-2018.
- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

PEPFF

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

PECF

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

The State Board of Investment, which manages the investments of PERA, prepares an analysis on a regular basis of the reasonableness of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	35.5%	5.10%
Private markets	25.0%	5.90%
Fixed income	20.0%	0.75%
International equity	17.5%	5.90%
Cash	2.0%	0.00%
	<u>100.0%</u>	

Pension plans, actuarial impact: As described above, the deferred inflows and deferred outflows of resources are amortized into income/expense over a period of time. The amortization component of total pension expense has been presented in the statements of revenues, expenses and changes in net position within salaries and benefits.

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 8. Pension Plans (Continued)

Discount rate: The discount rate used to measure the total pension liability in 2019 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the GERF and PEPFF were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension liability sensitivity: The following presents HHS' proportional share of the net pension liability (NPL) for all plans in which it participates, calculated using the discount rate disclosed in the preceding paragraph, as well as what the HHS proportional share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	June 30, 2019 Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
HHS proportionate share of the GERF NPL	\$ 443,962	\$ 270,059	\$ 126,467
PEPFF discount rate	6.50%	7.50%	8.50%
HHS proportionate share of the PEPFF NPL	\$ 31,322	\$ 14,330	\$ 277
PECF discount rate	6.50%	7.50%	8.50%
HHS proportionate share of the PECF NPL	\$ 2,066	\$ 194	\$ (1,304)

Pension plan fiduciary net position: Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Defined contribution plans: Effective January 1, 2009, HHS established a 401(a) retirement plan, as a PERA alternative, for certain employees hired on or after that date. The plan requires a 6% employer contribution, which totaled approximately \$3.2 million and \$3.0 million in 2019 and 2018, respectively. Effective January 1, 2012, a 401(a) retirement plan was made available to certain physicians. Contributions are based upon a percentage of eligible employees' compensation and totaled approximately \$7.9 million and \$7.3 million in 2019 and 2018, respectively.

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 9. Other Employee Benefits

Other long-term employee benefits are as follows:

	Balance at December 31, 2018	Additions	Reductions	Balance at December 31, 2019	Amounts Due Within One Year
Other postemployment benefits, Retiree health care program (GASB 75)	\$ 29,909	\$ 2,817	\$ (4,057)	\$ 28,669	\$ -
Workers' compensation (Note 10)	13,900	3,218	(3,418)	13,700	1,700
Personal choice account	1,665	-	(239)	1,426	449
	<u>\$ 45,474</u>	<u>\$ 6,035</u>	<u>\$ (7,714)</u>	<u>\$ 43,795</u>	<u>\$ 2,149</u>

	Balance at December 31, 2017	Additions	Reductions	Balance at December 31, 2018	Amounts Due Within One Year
Other postemployment benefits, Retiree health care program (GASB 75)	\$ 29,337	\$ 2,719	\$ (2,147)	\$ 29,909	\$ -
Workers' compensation (Note 10)	15,150	2,108	(3,358)	13,900	3,100
Personal choice account	1,896	-	(231)	1,665	449
	<u>\$ 46,383</u>	<u>\$ 4,827</u>	<u>\$ (5,736)</u>	<u>\$ 45,474</u>	<u>\$ 3,549</u>

Other postemployment benefit plans: Qualified retired employees are eligible for certain postretirement benefit plans other than pensions (OPEB), also referred to as the retiree health care program.

Employees covered by benefit terms: At December 31, 2019 and 2018, the following employees were covered by the benefit terms:

	2019	2018
Active employees not fully eligible for benefits	4,786	4,862
Inactive employees currently receiving benefits	118	149
Active employees fully eligible for benefits	1,291	1,122
	<u>6,195</u>	<u>6,133</u>

Total retiree health care program liability: HHS's total OPEB liabilities of \$28.7 million and \$29.9 million as of December 31, 2019 and 2018, respectively, were measured as of December 31, 2018 and 2017, respectively, and were determined by actuarial valuations as of December 31, 2017.

Plan description: Certain union HHS employees who have HHS-sponsored health coverage in force as of their termination date and who meet certain age and length of service requirements may be eligible for HHS' retiree health plan. In 2007, HHS offered a retiree health alternative called the personal choice account (PCA) for nonunion employees, in conjunction with the County, which can be used for qualifying health expenses of covered employees, as an alternative to HHS' health care benefits for retired nonunion employees. The liability for PCA is recorded at estimated present value, net of estimated forfeitures, and the current portion of the liability is included in accrued salaries, wages and benefits in the statements of net position. Nonunion employees who chose not to participate in the PCA benefit remained eligible to participate in the retiree health program.

**Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota**

**Notes to Financial Statements
(In Thousands)**

Note 9. Other Employee Benefits (Continued)

While they are under age 65, eligible nonunion retirees who did not choose to participate in the PCA and certain eligible retirees who are unionized may participate in HHS' subsidized retiree health program, with access to the same health plan (and benefit levels) available to active employees. They may qualify to receive an HHS contribution toward health plan premiums in an amount equal to that contributed to an active employee electing employee-only health coverage until they reach age 65 by meeting one of the specific age and length of service requirements.

Funding policy: HHS follows the County's funding policy whereby retiree health care benefits are funded in relation to the annual required contribution (ARC) on a pay-as-you-go basis. Either the HHS Board or the County Board may change the funding policy at any time. In 2019, HHS paid eligible single premium amounts for the enrolled retirees described above. Eligible retiree family members, as well as ineligible retirees, may pay their full premium to obtain coverage.

Actuarial methods and assumptions: The total OPEB liabilities in the December 31, 2019 and 2018 actuarial report were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Methods and Assumptions	2019	2018
Reporting date	December 31, 2019	December 31, 2018
Measurement date	December 31, 2018	December 31, 2017
Actuarial valuation date	December 31, 2017	December 31, 2017
Discount rate	4.10%	3.44%
Rate of compensation increase	PERA	PERA
Health care cost trend rates	**	**
Inflation rate	PERA	PERA
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Straight-Line	Straight-Line
Amortization period	9.7 Years	9.7 Years
Method used to determine actuarial value of assets	N/A	N/A

** 5.6% for healthcare costs, decreasing to an ultimate rate of 4.00% in 2082.

The discount rate was based on the Fidelity General Obligation 20-year AA Municipal Bond Index.

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 9. Other Employee Benefits (Continued)

The actuarial assumptions used in the December 31, 2019 report were based on the results of an actuarial experience study for the period ended December 31, 2017. These actuarial assumptions are based on the presumption that the OPEB Plan will continue. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Changes in the OPEB Liability:

	2019	2018
Total OPEB liability, beginning	\$ 29,909	\$ 29,337
Changes for the year:		
Service cost	1,775	1,601
Interest	1,042	1,118
Changes of assumptions or other inputs	(1,233)	604
Benefit payments	(2,824)	(2,751)
Net changes	(1,240)	572
Total OPEB liability, ending	<u>\$ 28,669</u>	<u>\$ 29,909</u>

Changes of assumptions or other inputs reflect a change in the discount rate from 3.78% as of December 31, 2017, to 3.44% as of December 31, 2018, to 4.10% as of December 31, 2019.

Sensitivity of the total OPEB liability to changes in the discount rate: The following presents the total OPEB liability, as well as what the approximate total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease 3.10%	Discount Rate 4.10%	1% Increase 5.10%
Total OPEB liability	\$ 30,554	\$ 28,669	\$ 26,887

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates: The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	Decreasing to 4.60%	Health Care Cost Trend Current Trend Rate 5.60%	Increasing to 6.60%
Total OPEB liability	\$ 26,294	\$ 28,669	\$ 31,499

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 9. Other Employee Benefits (Continued)

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB: For the years ended December 31, 2019 and 2018, HHS recognized OPEB expense of \$2.8 million and \$2.7 million, respectively. At December 31, 2019 and 2018, HHS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions or other inputs	\$ 479	\$ (1,347)	\$ 541	\$ (277)
Employer contributions subsequent to the measurement date	2,824	-	2,824	-
	<u>\$ 3,303</u>	<u>\$ (1,347)</u>	<u>\$ 3,365</u>	<u>\$ (277)</u>

Employer contributions subsequent to the measurement date of December 31, 2018 of \$2.8 million, which are reported as deferred outflows of resources as of December 31, 2019, will be recognized as a reduction of the OPEB liability in HHS's year ending December 31, 2020. Amounts reported as the deferred outflows of resources and deferred inflows of resources related to OPEB as of December 31, 2019, will be recognized in OPEB expense over the average future service to retirement of plan participants as follows:

Years ending December 31:	
2020	\$ (100,889)
2021	(100,889)
2022	(100,889)
2023	(100,889)
2024	(100,889)
Thereafter	(363,577)
	<u>\$ (868,022)</u>

Note 10. Risk Management

General and professional liability: Because of HHS' status as a governmental entity, state law limits the exposure of HHS and its employees for their torts in accordance with Minnesota Statutes, Chapter 466. The limit of liability created by these statutes is \$0.5 million per claim and \$1.5 million maximum per occurrence, effective as of July 1, 2009. Prior to July 1, 2009, these limits ranged from \$0.3 million to \$0.4 million, and \$1.0 to \$1.2 million, respectively. HHS self-insures for general, professional and employment practices exposures. The estimated liability for claims represents an estimate for unpaid claims and for claims incurred but not reported. An actuarial valuation is the basis for the liability and expense. The actuarial calculations assume industry-based exposure rates and client-based statistically reliable and predictable loss data for professional liability. The general liability and professional claims liability is included in other accrued expenses in the statements of net position.

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 10. Risk Management (Continued)

The statutory limits on liability did not apply to HFA, a Minnesota not-for-profit corporation which contracted with HHS to provide faculty physicians to HHS prior to January 1, 2012. On that day, the physicians of HFA became employees of HHS, and thus became subject to the limits of Chapter 466. HFA purchased tail insurance coverage to cover the liability of these physicians for claims that were incurred but not reported as of January 1, 2012. Policy limits are \$1.0 million per occurrence and \$3.0 million in the aggregate, with \$11.0 million excess liability coverage, subject to deductible and stop-loss amounts of \$0.1 million. HHS is a named insured under that tail policy. HFA was statutorily merged into HHS effective January 1, 2013. Changes in the estimated general and professional liability during the years are as follows:

	Years Ended December 31	
	2019	2018
General and professional claims liability at beginning of year	\$ 4,637	\$ 4,735
Incurred claims	42	521
Change in IBNR estimate	454	(527)
Claims paid during the year	(1,143)	(92)
General and professional claims liability at end of year	<u>\$ 3,990</u>	<u>\$ 4,637</u>

HHRI purchases comprehensive liability coverage on a claims-made basis covering claims of up to \$5.0 million per occurrence or \$7.0 million in the aggregate, subject to certain deductible and self-retention amounts. Should these claims-made policies not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. HHRI has obtained coverage through January 1, 2021.

Workers' compensation: HHS is self-insured for workers' compensation claims. During 2019, \$3.7 million in benefits and administrative costs were paid and charged to the workers' compensation expense account. The estimated liability for claims represents an estimate for unpaid claims and for claims incurred but not reported. An actuarial valuation is the basis for the liability and expense. The actuarial calculations assume industry-based exposure rates and client-based statistically reliable and predictable loss data for professional liability. The workers' compensation liability is included in other accrued expenses and other employee benefits in the statements of net position. Changes in the estimated workers' compensation liability during the years are as follows:

	Years Ended December 31	
	2019	2018
Estimated liability at beginning of year	\$ 13,900	\$ 15,150
Estimated incurred claims (including IBNR)	3,218	2,108
Claims payments	(3,418)	(3,358)
Estimated liability at end of year	<u>\$ 13,700</u>	<u>\$ 13,900</u>

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 10. Risk Management (Continued)

HHS self-insured health and dental program: On January 1, 2011, HHS became self-insured for employee medical and dental claims for its employees. The accrual for estimated claims includes estimates of the ultimate cost for claims incurred but not reported (IBNR) and are based upon estimated cost of settlement. HHS purchased reinsurance on a specific-case basis for 2019 and 2018, in order to reduce its liability on individual risks. All reinsurance contracts are excess-of-loss contracts, which indemnify HHS for losses in excess of stated reinsurance policy limits. As of December 31, 2019 and 2018, the limits were \$0.6 million for specific claims and were \$101.8 million and \$98.5 million for claims in the aggregate, respectively. HHS has recorded a liability, which is net of an imprest fund of approximately \$2.4 million and \$3.0 million, of approximately \$2.3 million and \$0.9 million at December 31, 2019 and 2018, respectively, for known cases and for estimated claims that have been incurred but not yet reported, which is included in accrued expenses: salaries, wages and benefits in the accompanying statements of net position. Changes in the estimated health and dental program liability during the years are as follows:

	Years Ended December 31	
	2019	2018
Estimated liability at beginning of year	\$ 860	\$ 596
Incurred claims (including estimated IBNR)	84,961	77,053
Claims, administrative payments, taxes and fees	(83,518)	(76,789)
Estimated liability at end of year—net of imprest fund	<u>\$ 2,303</u>	<u>\$ 860</u>

HHRI self-insured health program: HHRI is self-insured for its employee health insurance program. HHRI pays annual health care claims up to \$0.08 million per employee with a \$1.9 million maximum cap. A third-party insurance carrier covers health care claims exceeding maximum limits. Estimated claims, administrative costs, and reserves that have been incurred but are unpaid are reflected as accrued expenses on the statements of net position and totaled \$0.2 million as of December 31, 2019 and 2018.

Note 11. Commitments, Contingencies and Subsequent Events

Litigation: The Organization is involved in litigation and employee matters arising in the normal course of business. After consultation with legal counsel, management believes that these matters will be resolved without material adverse effect on the Organization’s future financial position or results of operations.

HHS has capital commitments outstanding in the amount of approximately \$8.2 million at December 31, 2019.

Subsequent events: The Organization has evaluated subsequent events through May 29, 2020, the date on which the financial statements were available to be issued.

The COVID-19 pandemic has adversely impacted the Organization’s business. Public trust in health care facilities, especially facilities with patients perceived as being affected by infectious diseases, has diminished patients desire to seek care at those facilities. This in turn has created a temporary disruption in service and diversion of certain patients by disrupting or delaying delivery of certain procedures and pharmaceuticals. COVID-19 governmental assistance programs have been made available and the situation is rapidly evolving. Although disaster plans are in place and operations are pursuant to infectious disease protocols, the full impact of the pandemic is difficult to predict on the Organization’s business, financial condition or results of operations.

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 12. Condensed Combining Information for Blended Component Units

Presented below is the condensed combining schedules for the blended component units as of December 31, 2019:

	HHS	HHF	HHRI	Eliminations	Total Organization
Assets and Deferred Outflows					
Current assets	\$ 274,789	\$ 2,091	\$ 10,403	\$ (2,885)	\$ 284,398
Noncurrent assets	436,072	30,352	41,798	-	508,222
Total assets	710,861	32,443	52,201	(2,885)	792,620
Deferred outflows	43,476	-	-	-	43,476
	\$ 754,337	\$ 32,443	\$ 52,201	\$ (2,885)	\$ 836,096
Liabilities, Deferred Inflows and Net Position					
Current liabilities	\$ 145,033	\$ 818	\$ 7,156	\$ (2,885)	\$ 150,122
Noncurrent liabilities	509,045	-	-	-	509,045
Total liabilities	654,078	818	7,156	(2,885)	659,167
Deferred inflows	90,814	-	-	-	90,814
	744,892	818	7,156	(2,885)	749,981
Net position:					
Net investment in capital assets	235,829	-	2,029	-	237,858
Restricted:					
Expendable	3,099	26,958	7,071	-	37,128
Nonexpendable	1,883	2,610	17,489	-	21,982
Unrestricted	(231,366)	2,057	18,456	-	(210,853)
Total net position	9,445	31,625	45,045	-	86,115
	\$ 754,337	\$ 32,443	\$ 52,201	\$ (2,885)	\$ 836,096
Total operating revenue:					
Total net operating revenue	\$ 1,049,940	\$ 12,193	\$ 36,933	\$ (5,580)	\$ 1,093,486
Total operating expenses	1,075,444	8,341	37,716	(5,580)	1,115,921
(Loss) income from operations	(25,504)	3,852	(783)	-	(22,435)
Nonoperating revenue	(1,783)	2,491	6,365	-	7,073
Capital contributions	12,608	339	434	-	13,381
Change in net position	(14,679)	6,682	6,016	-	(1,981)
Net position, beginning of year	24,124	24,943	39,029	-	88,096
Net position, end of year	\$ 9,445	\$ 31,625	\$ 45,045	\$ -	\$ 86,115

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 12. Condensed Combining Information for Blended Component Units (Continued)

	HHS	HHF	HHRI	Eliminations	Total Organization
Net cash provided by (used in):					
Operating activities	\$ 10,987	\$ 1,067	\$ (988)	\$ -	\$ 11,066
Noncapital financing activities	-	340	-	-	340
Capital and related financing activities	(22,543)	(5)	177	-	(22,371)
Investing activities	68	308	364	-	740
Net (decrease) increase in cash and cash equivalents	(11,488)	1,710	(447)	-	(10,225)
Cash and cash equivalents:					
Beginning of year	38,994	10,764	2,423	-	52,181
End of year	<u>\$ 27,506</u>	<u>\$ 12,474</u>	<u>\$ 1,976</u>	<u>\$ -</u>	<u>\$ 41,956</u>

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 12. Condensed Combining Information for Blended Component Units (Continued)

Presented below is the condensed combining schedules for the blended component units as of December 31, 2018:

	HHS	HHF	HHRI	Eliminations	Total Organization
Assets and Deferred Outflows					
Current assets	\$ 264,412	\$ 1,240	\$ 8,924	\$ (1,929)	\$ 272,647
Noncurrent assets	447,994	24,287	36,382	-	508,663
Total assets	712,406	25,527	45,306	(1,929)	781,310
Deferred outflows	83,945	-	-	-	83,945
	<u>\$ 796,351</u>	<u>\$ 25,527</u>	<u>\$ 45,306</u>	<u>\$ (1,929)</u>	<u>\$ 865,255</u>
Liabilities, Deferred Inflows and Net Position					
Current liabilities	\$ 134,532	\$ 584	\$ 6,277	\$ (1,929)	\$ 139,464
Noncurrent liabilities	519,294	-	-	-	519,294
Total liabilities	653,826	584	6,277	(1,929)	658,758
Deferred inflows	118,401	-	-	-	118,401
	<u>772,227</u>	<u>584</u>	<u>6,277</u>	<u>(1,929)</u>	<u>777,159</u>
Net position:					
Net investment in capital assets	246,256	-	2,341	-	248,597
Restricted:					
Expendable	2,386	21,596	6,578	-	30,560
Nonexpendable	1,883	1,912	14,854	-	18,649
Unrestricted	(226,401)	1,435	15,256	-	(209,710)
Total net position	24,124	24,943	39,029	-	88,096
	<u>\$ 796,351</u>	<u>\$ 25,527</u>	<u>\$ 45,306</u>	<u>\$ (1,929)</u>	<u>\$ 865,255</u>
Total operating revenue:					
Total net operating revenue	\$ 1,006,285	\$ 11,594	\$ 35,085	\$ (5,015)	\$ 1,047,949
Total operating expenses	1,001,065	8,874	35,588	(5,015)	1,040,512
Income (loss) from operations	5,220	2,720	(503)	-	7,437
Nonoperating revenue	(2,297)	(473)	(1,812)	-	(4,582)
Capital contributions	10,463	-	318	-	10,781
Change in net position	13,386	2,247	(1,997)	-	13,636
Net position, beginning of year	10,738	22,696	41,026	-	74,460
Net position, end of year	<u>\$ 24,124</u>	<u>\$ 24,943</u>	<u>\$ 39,029</u>	<u>\$ -</u>	<u>\$ 88,096</u>

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Notes to Financial Statements
(In Thousands)

Note 12. Condensed Combining Information for Blended Component Units (Continued)

	HHS	HHF	HHRI	Eliminations	Total Organization
Net cash provided by (used in):					
Operating activities	\$ 499	\$ 2,883	\$ (417)	\$ -	\$ 2,965
Noncapital financing activities	-	34	-	-	34
Capital and related financing activities	(9,493)	(105)	(489)	-	(10,087)
Investing activities	218	107	(448)	-	(123)
Net (decrease) increase in cash and cash equivalents	(8,776)	2,919	(1,354)	-	(7,211)
Cash and cash equivalents:					
Beginning of year	47,770	7,845	3,777	-	59,392
End of year	<u>\$ 38,994</u>	<u>\$ 10,764</u>	<u>\$ 2,423</u>	<u>\$ -</u>	<u>\$ 52,181</u>

Note 13. New Accounting Standards

New accounting standards not yet adopted: GASB Statement No. 84, *Fiduciary Activities*: The primary objective of this statement is to establish criteria for identifying fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. The provisions in Statement No. 84 are effective for HHS financial statements for periods beginning after December 15, 2019.

GASB Statement No. 87, *Leases*: The primary objective of this statement is to require government lessees to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset and report amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, interest expense on the lease liability and note disclosures about the lease within the lessee's financial statements. This statement also requires lessors to recognize a lease receivable and a deferred inflow of resources and to continue to report leased assets in its financial statements. The lessor will also be required to report lease revenue, recognized over the term of the lease, corresponding with the reduction of the deferred inflow, interest income on the receivable, and note disclosures about the lease within their financial statements. The provisions in Statement No. 87 are effective for HHS financial statements for periods beginning after June 15, 2021.

GASB Statement No. 89, *Accounting for Interest Incurred before the End of a Construction Period*: this statement establishes guidance designed to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also simplifies accounting for interest cost incurred before the end of a construction period. The provisions in Statement No. 89 are effective for HHS financial statements for periods beginning after December 15, 2020.

HHS' management has not yet determined the effect the statements noted above will have on HHS' financial statements.

Required Supplementary Information

Hennepin Healthcare System, Inc.
d/b/a Hennepin County Medical Center
A Component Unit of Hennepin County, Minnesota

Required Supplementary Information (Unaudited)
Schedule of Defined Benefit Plan Contributions
(In Thousands)

These schedules present historical trend information about HHS's contributions for its employees who participate in the PERA plans. GASB Statement No. 68 was implemented in 2015. Information related to previous years is not available, therefore, trend information will be accumulated going forward to display a ten year presentation.

GERF Schedule of Contributions

Fiscal years ended December 31,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 20,759	\$ 20,759	\$ -	\$ 286,559	7.2%
2015	23,601	23,601	-	315,068	7.5%
2016	24,962	24,962	-	333,530	7.5%
2017	24,995	24,995	-	333,365	7.5%
2018	25,547	25,547	-	342,328	7.5%
2019	26,388	26,388	-	353,423	7.5%

PEPFF Schedule of Contributions

Fiscal years ended December 31,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 1,712	\$ 1,712	\$ -	\$ 11,191	15.3%
2015	2,017	2,017	-	12,446	16.2%
2016	2,062	2,062	-	12,728	16.2%
2017	2,166	2,166	-	13,372	16.2%
2018	2,365	2,365	-	14,222	16.6%
2019	2,378	2,378	-	14,164	16.8%

PECF Schedule of Contributions

Fiscal years ended December 31,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 186	\$ 186	\$ -	\$ 2,126	8.7%
2015	222	222	-	2,533	8.8%
2016	233	233	-	2,667	8.7%
2017	229	229	-	2,620	8.8%
2018	252	252	-	2,871	8.8%
2019	267	267	-	3,066	8.7%

**Hennepin Healthcare System, Inc.
d/b/a Hennepin County Medical Center
A Component Unit of Hennepin County, Minnesota**

**Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of Defined Benefit Plan
(In Thousands)**

GERF Schedule of Proportionate Share

Measurement Date	Proportion (%) of the Net Pension Liability (NPL)	Proportionate Share (Amount) of the NPL (a)	State's Proportionate Share of the NPL Associated with HHS (b)	HHS and State Total Proportionate Share of the NPL NPL Associated with HHS (abs)	Covered Payroll (c)	Proportionate Share of the NPL as a Percentage of the Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	5.3878%	\$ 253,092	\$ -	\$ 253,092	\$ 283,309	89.3%	78.8%
2015	4.9916%	258,691	-	258,691	293,869	88.0%	78.2%
2016	5.1308%	416,596	5,441	422,037	319,090	132.3%	68.9%
2017	5.3401%	340,908	4,286	345,194	346,025	99.8%	75.9%
2018	4.9725%	275,854	9,048	284,902	336,058	84.8%	79.5%
2019	4.8846%	270,059	8,394	278,453	347,311	80.2%	80.2%

PEPFF Schedule of Proportionate Share

Measurement Date	Proportion (%) of the Net Pension Liability (NPL)	Proportionate Share (Amount) of the NPL (a)	Covered Payroll (c)	Proportionate Share of the NPL as a Percentage of the Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	1.223%	\$ 13,209	\$ 10,986	120.2%	87.1%
2015	1.247%	14,169	11,511	123.1%	86.6%
2016	1.285%	51,569	12,428	414.9%	63.9%
2017	1.281%	17,295	13,386	129.2%	85.4%
2018	1.311%	13,978	13,937	100.3%	88.8%
2019	1.346%	14,332	14,187	101.0%	89.3%

PECF Schedule of Proportionate Share

Measurement Date	Proportion (%) of the Net Pension Liability (NPL)	Proportionate Share (Amount) of the NPL (a)	Covered Payroll (c)	Proportionate Share of the NPL as a Percentage of the Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	1.25%	\$ 94	\$ 2,140	4.4%	98.4%
2015	1.26%	195	2,266	8.6%	97.0%
2016	1.41%	5,151	2,646	194.7%	58.2%
2017	1.31%	3,734	2,626	142.2%	67.9%
2018	1.31%	216	2,700	8.0%	97.6%
2019	1.40%	193	2,992	6.5%	98.2%

**Hennepin Healthcare System, Inc.
d/b/a Hennepin County Medical Center
A Component Unit of Hennepin County, Minnesota**

**Required Supplementary Information (Unaudited)
Schedule of Changes in Total Other Postemployment Benefit Liability and Related Ratios
(In Thousands)**

	2019	2018	2017
Total OPEB liability			
Service cost	\$ 1,775	\$ 1,601	\$ 1,614
Interest	1,042	1,118	1,064
Changes of assumptions or other inputs	(1,233)	604	(349)
Benefit payments	(2,824)	(2,751)	(2,358)
Net change	(1,240)	572	(29)
Total OPEB liability, beginning	29,909	29,337	29,366
Total OPEB liability, ending	\$ 28,669	\$ 29,909	\$ 29,337
Covered-employee payroll	\$ 499,684	\$ 485,742	\$ 476,292
Total OPEB liability as a percentage of covered-employee payroll	5.74%	6.16%	6.16%

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

January 1, 2017	3.57%
December 31, 2017	3.78%
December 31, 2018	3.44%
December 31, 2019	4.10%

This schedule is presented to illustrate the requirement to show information for 10 years. However, only two years of information is available since implementing GASB No. 75 at January 1, 2017. Annual plan information will be added until the required 10 years is presented.

Supplementary Information



RSM US LLP

**Independent Auditor's Report
on the Supplementary Information**

To the Board of Directors
Hennepin Healthcare System, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Hennepin Healthcare System, Inc. (the Organization), a component unit of Hennepin County, Minnesota, as of and for the years ended December 31, 2019 and 2018, and have issued our report thereon, dated May 29, 2020, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Duluth, Minnesota
May 29, 2020

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Combining Statement of Net Position—Blended Component Units
December 31, 2019
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2019
Assets and Deferred Outflows					
Current assets:					
Cash and cash equivalents	\$ 27,505	\$ 2,013	\$ 1,976	\$ -	\$ 31,494
Accounts receivable:					
Patient accounts receivable, net of estimated uncollectibles of \$36,036	133,875	-	-	-	133,875
Other	19,580	78	8,179	(2,885)	24,952
Third-party payor settlements	70,113	-	-	-	70,113
Due from related parties, net	4,304	-	-	-	4,304
Inventories	9,322	-	-	-	9,322
Prepaid expenses and other current assets	10,090	-	248	-	10,338
Total current assets	274,789	2,091	10,403	(2,885)	284,398
Investments	-	-	15,209	-	15,209
Assets limited as to use:					
Cash and cash equivalents	-	10,462	-	-	10,462
Investments	4,982	13,757	23,980	-	42,719
Receivables, other	-	5,349	580	-	5,929
Total assets limited as to use	4,982	29,568	24,560	-	59,110
Capital assets:					
Nondepreciable	38,287	-	-	-	38,287
Depreciable, net of accumulated depreciation	387,733	-	2,029	-	389,762
	426,020	-	2,029	-	428,049
Other assets	5,070	784	-	-	5,854
Total assets	710,861	32,443	52,201	(2,885)	792,620
Deferred outflows	43,476	-	-	-	43,476
Total assets and deferred outflows	\$ 754,337	\$ 32,443	\$ 52,201	\$ (2,885)	\$ 836,096

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Combining Statement of Net Position—Blended Component Units (Continued)
December 31, 2019
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2019
Liabilities, Deferred Inflows and Net Position					
Current liabilities:					
Current maturities of long-term debt	\$ 7,375	\$ -	\$ -	\$ -	\$ 7,375
Accounts payable	27,118	794	4,614	(2,885)	29,641
Due to related parties, net	-	-	-	-	-
Third-party payor settlements	539	-	-	-	539
Accrued expenses:					
Salaries, wages and benefits	70,939	-	1,497	-	72,436
Other	39,062	24	1,045	-	40,131
Total current liabilities	145,033	818	7,156	(2,885)	150,122
Employee benefit obligations:					
Retiree health care program	28,669	-	-	-	28,669
Other employee benefits	12,977	-	-	-	12,977
Long-term debt, net of current maturities					
	182,816	-	-	-	182,816
Net pension liability	284,583	-	-	-	284,583
Total liabilities	654,078	818	7,156	(2,885)	659,167
Deferred inflows	90,814	-	-	-	90,814
Total liabilities and deferred inflows	744,892	818	7,156	(2,885)	749,981
Commitments and contingencies					
Net position:					
Net investment in capital assets	235,829	-	2,029	-	237,858
Restricted:					
Expendable	3,099	26,958	7,071	-	37,128
Nonexpendable	1,883	2,610	17,489	-	21,982
Unrestricted	(231,366)	2,057	18,456	-	(210,853)
Total net position	9,445	31,625	45,045	-	86,115
Total liabilities, deferred inflows, and net position	\$ 754,337	\$ 32,443	\$ 52,201	\$ (2,885)	\$ 836,096

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Combining Statement of Net Position—Blended Component Units
December 31, 2018
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2018
Assets and Deferred Outflows					
Current assets:					
Cash and cash equivalents	\$ 38,994	\$ 1,178	\$ 2,423	\$ -	\$ 42,595
Accounts receivable:					
Patient accounts receivable, net of estimated uncollectibles of \$30,977	118,194	-	-	-	118,194
Other	16,681	62	6,177	(1,929)	20,991
Third-party payor settlements	73,056	-	-	-	73,056
Due from related parties, net	1,218	-	-	-	1,218
Inventories	7,487	-	-	-	7,487
Prepaid expenses and other current assets	8,782	-	324	-	9,106
Total current assets	264,412	1,240	8,924	(1,929)	272,647
Investments	-	-	12,609	-	12,609
Assets limited as to use:					
Cash and cash equivalents	-	9,586	-	-	9,586
Investments	4,269	11,575	20,579	-	36,423
Receivables, other	-	2,347	853	-	3,200
Total assets limited as to use	4,269	23,508	21,432	-	49,209
Capital assets:					
Nondepreciable	36,214	-	354	-	36,568
Depreciable, net of accumulated depreciation	403,144	-	1,987	-	405,131
	439,358	-	2,341	-	441,699
Other assets	4,367	779	-	-	5,146
Total assets	712,406	25,527	45,306	(1,929)	781,310
Deferred outflows	83,945	-	-	-	83,945
Total assets and deferred outflows	\$ 796,351	\$ 25,527	\$ 45,306	\$ (1,929)	\$ 865,255

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Combining Statement of Net Position—Blended Component Units (Continued)
December 31, 2018
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2018
Liabilities, Deferred Inflows and Net Position					
Current liabilities:					
Current maturities of long-term debt	\$ 5,781	\$ -	\$ -	\$ -	\$ 5,781
Accounts payable	24,458	540	2,590	(1,929)	25,659
Third-party payor settlements	373	-	-	-	373
Accrued expenses:					-
Salaries, wages and benefits	63,171	-	-	-	63,171
Other	40,749	44	3,687	-	44,480
Total current liabilities	134,532	584	6,277	(1,929)	139,464
Employee benefit obligations:					
Retiree health care program	29,909	-	-	-	29,909
Other employee benefits	12,016	-	-	-	12,016
Long-term debt, net of current maturities					
	187,321	-	-	-	187,321
Net pension liability	290,048	-	-	-	290,048
Total liabilities	653,826	584	6,277	(1,929)	658,758
Deferred inflows	118,401	-	-	-	118,401
Total liabilities and deferred inflows	772,227	584	6,277	(1,929)	777,159
Commitments and contingencies					
Net position:					
Net investment in capital assets	246,256	-	2,341	-	248,597
Restricted:					
Expendable	2,386	21,596	6,578	-	30,560
Nonexpendable	1,883	1,912	14,854	-	18,649
Unrestricted	(226,401)	1,435	15,256	-	(209,710)
Total net position	24,124	24,943	39,029	-	88,096
Total liabilities, deferred inflows, and net position	\$ 796,351	\$ 25,527	\$ 45,306	\$ (1,929)	\$ 865,255

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Combining Statement of Revenues, Expenses and Changes in Net Position—Blended Component Units
Years Ended December 31, 2019
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2019
Operating revenues:					
Net patient service revenue, net of provision for bad debts of \$50,429	\$ 987,664	\$ -	\$ -	\$ -	\$ 987,664
Other operating revenue:					
Grants	24,211	11,107	36,410	-	71,728
Other	38,065	1,086	523	(5,580)	34,094
Net operating revenues	1,049,940	12,193	36,933	(5,580)	1,093,486
Operating expenses:					
Salaries and benefits	752,041	6,224	19,610	(5,580)	772,295
Supplies and services	225,712	1,467	14,727	-	241,906
Depreciation and amortization	43,020	-	568	-	43,588
Utilities and maintenance	30,254	117	1,283	-	31,654
Taxes and surcharges	18,418	-	-	-	18,418
Other	5,999	533	1,528	-	8,060
Total operating expenses	1,075,444	8,341	37,716	(5,580)	1,115,921
(Loss) income from operations	(25,504)	3,852	(783)	-	(22,435)
Nonoperating revenue (expense):					
Interest expense	(4,731)	-	-	-	(4,731)
Contributions, net	302	-	-	-	302
Investment income	2,646	2,491	6,365	-	11,502
Total nonoperating (expense) revenue	(1,783)	2,491	6,365	-	7,073
(Loss) income before capital contributions	(27,287)	6,343	5,582	-	(15,362)
Capital contributions from related parties	12,608	339	434	-	13,381
(Decrease) increase in net position	(14,679)	6,682	6,016	-	(1,981)
Total net position, beginning of year	24,124	24,943	39,029	-	88,096
Total net position, end of year	\$ 9,445	\$ 31,625	\$ 45,045	\$ -	\$ 86,115

Hennepin Healthcare System, Inc.
A Component Unit of Hennepin County, Minnesota

Combining Statement of Revenues, Expenses and Changes in Net Position—Blended Component Units
Years Ended December 31, 2018
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2018
Operating revenues:					
Net patient service revenue, net of provision for bad debts of \$44,902	\$ 950,864	\$ -	\$ -	\$ -	\$ 950,864
Other operating revenue:					
Grants	21,143	10,623	34,483	-	66,249
Other	34,278	971	602	(5,015)	30,836
Net operating revenues	1,006,285	11,594	35,085	(5,015)	1,047,949
Operating expenses:					
Salaries and benefits	694,287	6,868	19,424	(5,015)	715,564
Supplies and services	210,470	1,296	12,902	-	224,668
Depreciation and amortization	39,416	-	476	-	39,892
Utilities and maintenance	33,485	117	1,249	-	34,851
Taxes and surcharges	18,868	-	-	-	18,868
Other	4,539	593	1,537	-	6,669
Total operating expenses	1,001,065	8,874	35,588	(5,015)	1,040,512
Income (loss) from operations	5,220	2,720	(503)	-	7,437
Nonoperating revenue (expense):					
Interest expense	(3,557)	34	-	-	(3,523)
Contributions, net	322	-	-	-	322
Investment income (loss)	938	(507)	(1,812)	-	(1,381)
Total nonoperating expense	(2,297)	(473)	(1,812)	-	(4,582)
Income (loss) before capital contributions	2,923	2,247	(2,315)	-	2,855
Capital contributions from related parties	10,463	-	318	-	10,781
Increase (decrease) in net position	13,386	2,247	(1,997)	-	13,636
Total net position, beginning of year (as restated)	10,738	22,696	41,026	-	74,460
Total net position, end of year	\$ 24,124	\$ 24,943	\$ 39,029	\$ -	\$ 88,096

