ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2020 AND 2019

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

INDEPENDENT AUDITORS' REPORT

Board of Directors
St. Luke's Hospital of Duluth and Affiliates
Duluth, Minnesota

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of St. Luke's Hospital of Duluth and Affiliates (the System), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Luke's Hospital of Duluth and Affiliates as of December 31, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2021, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 15, 2021

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019
(IN THOUSANDS)

ASSETS	2020	2019
CURRENT ASSETS		
Cash and Cash Equivalents	$ 99,354	$ 37,618
Undesignated Investments	74,572	69,095
Receivables:		
Patient Accounts Receivable	61,951	62,160
Due from Third-Party Payors	247	755
Other	3,425	3,350
Current Portion of Assets Limited as to Use	2,693	6,741
Inventories	13,273	12,278
Prepaid Expenses	4,044	3,511
Total Current Assets	259,559	195,508
INVESTMENTS AND ASSETS LIMITED AS TO USE		
Internally Designated for Property and Equipment	18,243	18,126
Donor Restricted Investments	6,095	4,932
Held by Trustee Under Indenture Agreement, Net of Current Portion	5,017	29,225
Investments and Assets Limited as to Use	29,355	52,283
PROPERTY AND EQUIPMENT, NET	153,905	126,203
OTHER ASSETS	41,440	31,253
Total Assets	$ 484,259	$ 405,247

See accompanying Notes to Consolidated Financial Statements.

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2020 AND 2019
(IN THOUSANDS)

	2020	2019
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 6,247	$ 4,842
Accounts Payable	20,481	23,885
Construction Payable	-	4,559
Accrued Salaries and Employee Benefits	30,514	25,735
Due to Third-Party Payors	569	573
Deferred Revenue	67,302	-
Other Accrued Expenses	1,204	1,255
Total Current Liabilities	126,317	60,849
EMPLOYEE BENEFIT OBLIGATIONS	76,474	77,966
OTHER LIABILITIES	5,694	5,081
LONG-TERM DEBT (Net of Current Maturities)	138,946	139,968
Total Liabilities	347,431	283,864
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Without Donor Restrictions	130,733	116,451
With Donor Restrictions	6,095	4,932
Total Net Assets	136,828	121,383
Total Liabilities and Net Assets	$ 484,259	$ 405,247

See accompanying Notes to Consolidated Financial Statements.

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(IN THOUSANDS)

	2020	2019
REVENUES		
Patient Service Revenue	$ 461,548	$ 499,218
Other Revenue	41,303	25,144
Total Revenues	502,851	524,362
EXPENSES		
Salaries	238,219	250,109
Employee Benefits	55,228	56,395
Supplies	95,424	99,514
Physician and Professional Fees	31,921	38,102
Depreciation and Amortization	16,401	13,898
Occupancy	27,835	26,666
Interest	5,849	5,732
Other	31,512	31,707
Total Expenses	502,389	522,123
OPERATING GAIN	462	2,239
NONOPERATING GAINS	14,956	4,787
EXCESS OF REVENUES OVER EXPENSES BEFORE UNREALIZED GAINS ON INVESTMENTS, NET	15,418	7,026
UNREALIZED GAINS (LOSSES) ON INVESTMENTS, NET	(3,687)	7,599
EXCESS OF REVENUES OVER EXPENSES	$ 11,731	$ 14,625

See accompanying Notes to Consolidated Financial Statements.

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(IN THOUSANDS)

	Without Donor Restrictions	With Donor Restrictions	Total
NET ASSETS - DECEMBER 31, 2018	$ 110,799	$ 4,438	$ 115,237
Excess of Revenues Over Expenses	14,625	-	14,625
Net Unrealized Gains on Restricted Investments	-	409	409
Net Assets Released from Restriction	769	(769)	-
Restricted Investment Income	-	213	213
Donor Restricted Contributions	-	641	641
Change in Minimum Pension Liability	(9,742)	-	(9,742)
Change in Net Assets - 2019	5,652	494	6,146
NET ASSETS - DECEMBER 31, 2019	116,451	4,932	121,383
Excess of Revenues Over Expenses	11,731	-	11,731
Net Unrealized Losses on Restricted Investments	-	(546)	(546)
Net Assets Released from Restriction	736	(736)	-
Restricted Investment Income	-	1,425	1,425
Donor Restricted Contributions	-	1,020	1,020
Change in Minimum Pension Liability	1,815	-	1,815
Change in Net Assets - 2020	14,282	1,163	15,445
NET ASSETS - DECEMBER 31, 2020	$ 130,733	$ 6,095	$ 136,828

See accompanying Notes to Consolidated Financial Statements.

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(IN THOUSANDS)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 15,445	$ 6,146
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	16,401	13,898
(Gain) Loss on Disposal of Property and Equipment	3	(39)
Unrealized (Gains) Losses on Investments, Net	4,233	(8,008)
Amortization of Bond Premium	(58)	(58)
Change in Minimum Pension Liability	(1,815)	9,742
(Increase) Decrease in:		
Receivables	209	(5,032)
Other Receivables	(75)	1,425
Due from Third-Party Payors	508	(159)
Inventories	(995)	(2,105)
Prepaid Expenses	(533)	430
Other Assets	(1,896)	(615)
Increase (Decrease) in:		
Accounts Payable	(3,404)	(1,183)
Accrued Salaries and Employee Benefits	4,779	(482)
Due to Third-Party Payors	(4)	64
Other Liabilities	613	735
Deferred Revenue	67,302	-
Other Accrued Expenses	(4,210)	(2,039)
Net Cash Provided by Operating Activities	96,503	12,720
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(48,474)	(34,137)
Purchases of Investments	(47,309)	(20,823)
Sales of Investments	57,621	29,444
Purchase of Pavilion Surgery Center	(4,000)	-
Net Cash Used by Investing Activities	(42,162)	(25,516)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Long-Term Debt	4,973	1,027
Principal Payments on Long-Term Debt	(4,532)	(4,478)
Cash Paid for Debt Issuance Costs	-	(285)
Net Cash Provided (Used) by Financing Activities	441	(3,736)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	54,782	(16,532)
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	58,845	75,377
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	$ 113,627	$ 58,845

See accompanying Notes to Consolidated Financial Statements.

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2020 AND 2019
(IN THOUSANDS)

	2020	2019
SUPPLEMENTAL DISCLOSURE		
Cash and Cash Equivalents - Unrestricted	$ 99,354	$ 37,618
Cash and Cash Equivalents - Undesignated Investments	1,374	4,320
Cash and Cash Equivalents - Assets Limited as to Use	12,899	16,907
Cash, Cash Equivalents, and Restricted Cash	$ 113,627	$ 58,845
Cash Paid for Interest, Net of Capitalized Interest	$ 5,628	$ 5,651
Construction in Accounts Payable	$ -	$ 4,559

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

St. Luke's Hospital of Duluth (St. Luke's) is a Minnesota nonprofit corporation that provides medical care to patients in a licensed 267-bed hospital and its clinics.

St. Luke's Foundation (the Foundation) raises and holds funds for the benefit of St. Luke's. The Foundation amended and restated their by-laws effective December 15, 2009 to allow the Hospital board to elect the members of the board of Foundation.

Lake View Memorial Hospital, Inc. (Lake View) is a Minnesota nonprofit membership corporation. Lake View operates a hospital and clinic in Two Harbors, Minnesota. Effective January 1, 2010, Lake View and St. Luke's agreed to become more fully integrated, giving St. Luke's control of Lake View's operations. Lake View amended its articles of incorporation and by-laws, making St. Luke's the sole corporate member of Lake View. No consideration was given to Lake View by St. Luke's.

In August 2012, the Lake View board of directors passed a resolution to become part of the obligated group, which is comprised of St. Luke's, the Foundation, and Lake View.

Collectively, St. Luke's, the Foundation and Lake View are referred to as the System in the consolidated financial statements.

Consolidation Policy

The consolidated financial statements include the accounts of St. Luke's and the controlled Affiliates identified above. All material inter-company accounts and transactions have been eliminated through consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires the System to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The System is comprised of three separate nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) that are exempt from federal income taxes on related income pursuant to Section 501(c)(3) of the Code.

The System has elected to adopt guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The System follows the accounting standard for contingencies for evaluating uncertain tax positions. The adoption of this standard has no effect on the consolidated financial statements.

The System's income tax returns are subject to review and examination by federal, state, and local authorities.

NOTE 1 SUMMARY OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments with an original maturity of three months or less, excluding amounts limited as to use by the board of directors designation or other arrangements under trust agreements. Cash and cash equivalents are stated at cost, which approximates fair value.

Patient Receivables

Patient accounts receivable are recorded in the accompanying consolidated balance sheets at net realizable value based on certain assumptions. In evaluating the collectability of patient accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the net realizable value. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the net realizable value is based on the estimated contractual reimbursement percentages, which is based on current contract prices or historical claims paid data by payor. For uninsured patients (which includes both patients without insurance and patients with deductible and copayment balances due which third-party coverage exists for a portion of the bill), the net realizable value is determined using estimates of historical collection experience. These estimates are adjusted for recoveries and any anticipated changes in trends, including significant changes in payor mix, economic conditions or trends in federal and state governmental health care coverage.

Other Accounts Receivable

Other accounts receivable includes accrued interest receivable, other nonpatient related receivables and pledges receivable that represent commitments to make gifts received from residents, organizations, and businesses. The pledges are not legally enforceable.

Inventory

Inventory is stated at the lower of cost or net realizable value (principally on the first-in, first-out basis). Net realizable value is the estimated selling price (in the ordinary course of business) less reasonable expected costs for completion, disposal, and transportation.

Assets Limited as to Use

Assets limited as to use includes assets held by trustees under indenture agreements and designated assets set aside by the System's board of directors for future capital improvements over which the board retains control and may, at its discretion, subsequently use for other purposes. Assets limited as to use also include investments that are with donor restriction, depending on the intent of the donor. Amounts required to meet certain current liabilities of the System are classified as current in the consolidated balance sheets.

NOTE 1 SUMMARY OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Investment Income

The System has investments in debt and equity securities which consist of common stocks, mortgage and asset-backed securities, corporate obligations, government obligations, mutual funds and money market accounts. The deferred compensation funds are invested in mutual funds.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law.

The System continually monitors the difference between the cost and fair market value of its investments. If any of the System's investments experience a decline in value that the System determines is other than temporary, the System records a realized loss in investment income in the consolidated statements of operations. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the consolidated balance sheets.

Property and Equipment, Net

Property and equipment acquisitions are recorded at cost when purchased or at estimated fair market value when received by donation. The threshold for capitalization under the System's policy is items greater than $5,000. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Estimated useful lives for buildings range from 15 to 40 years, whereas fixed and major movable equipment range from 5 to 20 years. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. This amortization is included in depreciation and amortization in the consolidated statements of operations. Depreciation expense was $16,210 and $13,715 for the years ended December 31, 2020 and 2019, respectively.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions and are excluded from the excess of revenue over expense unless explicit stipulations specify how the donated assets must be used. Gifts of assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

NOTE 1 SUMMARY OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets and Goodwill

Intangible assets associated with acquisitions are included in other assets. Intangible assets are amortized on a straight-line basis over a period of 1 to 15 years.

The System also has goodwill included in other assets of $6,600 related to the purchase of the Pavilion Surgery Center, LLC (Surgery Center) during the year ended December 31, 2020. The goodwill is for future benefits expected to be received by the System from operating the Surgery Center. Goodwill is deemed to have indefinite useful life and is reviewed annually for impairment. No impairment was noted at December 31, 2020.

Duluth Imaging, LLC

In 2016 the System invested an initial contribution of $1,417 for 49% ownership in Duluth Imaging, LLC, a Minnesota Limited Liability Company. Duluth Imaging, LLC provides high-quality radiological care for northeastern Minnesota and northwestern Wisconsin. The investment in Duluth Imaging, LLC is recorded using the equity method of accounting.

Life Link III

In 2008, the System entered into an agreement with Life Link III to provide air ambulance services to the System's patients. The System initial contribution was $1,060. This investment is recorded using the equity method of accounting.

Pavilion Surgery Center, LLC

The consolidated financial statements have included the investment in the Pavilion Surgery Center, LLC (Surgery Center); a 50% joint venture with certain members of the System's medical staff. In 2000, the System invested $570 for its interest in the Surgery Center. The Surgery Center provides ambulatory surgical-related services to the northeastern Minnesota and northwestern Wisconsin community.

During the year ended December 31, 2020, the System purchased the remaining 50% ownership in the Surgery Center at a cost of $4,000. As part of this transaction, a gain of $3,853 was recorded to bring the previously held investment in the Surgery Center up to fair market value, which is included within nonoperating gains on the consolidated statement of operations. The Surgery Center is now operated as a department of St. Luke's and included as such in the consolidated financial statements.

Deferred Financing Costs

The System has incurred financing costs pertaining to the issuances of long-term debt. Original financing costs of $3,542 and $3,542 as of December 31, 2020 and 2019, respectively, are being amortized in a manner designed to approximate a constant annual effective interest rate over the term of the issuance. Accumulated amortization as of December 31, 2020 and 2019 was $984 and $704, respectively. Amortization expense related to deferred financing costs was $280 and $138 for the years ended December 31, 2020 and 2019, respectively.

NOTE 1 SUMMARY OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asset Retirement Obligations

Asset retirement obligations are included in other liabilities and represent obligations to dispose of assets that are legally required to be removed at a future date. They are recorded at the net present value using a risk-free interest rate and inflationary rate.

Deferred Revenue

As part of the Coronavirus Aid, Relief and Economic Security (CARES) Act the Centers for Medicare & Medicaid Services (CMS) administered an Accelerated and Advanced Payment Program to provide additional relief funds to providers. During the year ended December 31, 2020, the System received total advanced funds through the Accelerated and Advanced Payment Program of $57,449. Recoupment of the funds begins one year from the receipt of the funds, which is April 2021 for the System. This amount is reflected as deferred revenue on the consolidated balance sheets.

Net Assets

Net assets are classified into two separate categories based on the existence or absence of donor-imposed restrictions. In the consolidated financial statements, net assets that have similar characteristics have been combined into categories as follows:

Net Assets Without Donor Restrictions – Include net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. At times, the governing board can designate, from net assets without donor restrictions, net assets for a board-designated endowment or other purposes.

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

The System follows guidance on endowments of nonprofit organizations, including guidance on the net asset classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This guidance provides for additional disclosures about the System's endowment funds.

Contributions

Contributions from donors that are unconditional promises to give are recorded as receivables and revenues in the period that the promise is made. Conditional promises to give are not recorded until the condition is substantially met. All contributions are recorded at fair value.

NOTE 1 SUMMARY OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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.

Patient Assistance Program

The System provides care to patients who meet certain criteria under its patient assistance program policy prorated based on poverty level. Because the System does not pursue collection of amounts determined to qualify within this program, they are not reported as revenue.

Other Revenue

Other revenue includes principally rental income, income from Northern Imaging, Pavilion Surgery Center, and Life Link III, and income under other various contracts.

Provider Relief Funds

Due to the Coronavirus pandemic, the U.S. Department of Health and Human Services (HHS) made available emergency relief grant funds to health care providers through the CARES Act Provider Relief Fund (PRF). Total grant funds approved and received by the System was $14,093. The grant funds are subject to certain restrictions on eligible expenses or uses, reporting requirements, and will be subject to audit. At December 31, 2020, the System recognized $11,437 as other operating revenue in the consolidated statement of operations and $2,656 as deferred revenue in the consolidated balance sheets. Management believes the amounts have been recognized appropriately as of December 31, 2020.

Nonoperating Gains

Nonoperating gains include investment income, gains on disposal of property and equipment, and other various contributions for the years ended December 31, 2020 and 2019, respectively.

Excess of Revenues Over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in net assets without donor restriction which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions that, by donor restriction, were to be used for the purpose of acquiring such assets), and changes in the additional minimum pension liability.

NOTE 1 SUMMARY OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The System emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, the System has measured fair value using a market based approach and has classified assets recorded at fair value based on observable inputs of the fair value hierarchy as defined by the standard.

Investments are recorded at fair value on a recurring basis. Fair value for investments designated as Level 1 measured based on quoted prices in active markets, including the New York Stock Exchange, National Association of Securities Dealers Automated Quotations, and U.S. Treasury and government agency over-the-counter markets, for identical assets, if available. Fair value for investments designated as Level 2 are measured using independent pricing models based on quoted prices for similar assets. See Note 15 for information on investment balances by fair value hierarchy level.

The System also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows the System the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The System has not elected to measure any existing financial instruments at fair value, however, may elect to measure newly acquired financial instruments at fair value in the future.

Recently Issued Accounting Guidance

In February 2016, the Financial Accounting Standards Board (FASB) issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and financing leases with lease terms greater than one year. The accounting for lessors will remain relatively unchanged. The guidance changes the accounting for sale and leaseback transactions to conform to the new revenue recognition standards. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. Early adoption is permitted.

The standard was originally effective for the System for annual reporting periods beginning after December 15, 2020, however, given the impact of the Coivd-19 pandemic, during the year ended December 31, 2020 the FASB issued ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), allowing for delay in implementing the standard until reporting periods beginning after December 15, 2021. Management is evaluating the potential impact of these changes on the Organization's consolidated financial statements.

NOTE 1 SUMMARY OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, the System has evaluated events and transactions for potential recognition or disclosure through March 15, 2021, the date the consolidated financial statements were available to be issued.

NOTE 2 PATIENT SERVICE REVENUE

Patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in outpatient Clinics or in their homes (home care). The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the System does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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

NOTE 2 PATIENT SERVICE REVENUE (CONTINUED)

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and/or implicit price concessions provided to uninsured patients. Estimated contractual adjustments and discounts are based on contractual agreements, its discount policy, and historical experience. Estimated implicit price concessions are based on its historical collection experience for applicable patient portfolios.

Agreements with third-party payors provide for payments at amounts less than established charges. A summary of the payment arrangement with major third-party payors follows:

Medicare – St. Luke's

Inpatient acute care 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. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries were paid based upon a cost reimbursement methodology. St. Luke's was reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by St. Luke's and audits thereof by the Medicare fiscal intermediary. St. Luke's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with St. Luke's.

Medicare pays outpatient services under the Ambulatory Payment Classification (APC) method. Under this method, Medicare reimburses St. Luke's a predetermined amount for most outpatient services. The following services are excluded from the APC payment methodology; services already paid on a fee schedule and certain drugs, biologicals and medical devices identified as pass-through items. The APC payments are not based on the provider's annual cost report. Professional fees for clinic and other services are paid according to the Medicare fee schedule.

Medicare – Lake View

Lake View is certified as a Critical Access Hospital (CAH) and receives reimbursement for Inpatient, Swing Bed, and Outpatient services to Medicare patients on a reasonable cost basis. Medicare reimburses Lake View for services provided to Medicare patients using interim rates, with a final settlement determined based on the annual cost report that is filed by Lake View. This cost report is subject to audits by the Medicare fiscal intermediary. Lake View's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with Lake View.

Medicaid – St. Luke's

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient Medicaid services are reimbursed under the lower of usual or customary charge fee structure.

NOTE 2 PATIENT SERVICE REVENUE (CONTINUED)

Medicaid – Lake View

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services are paid based upon a predetermined fee schedule. In addition, capital-related costs and certain medical education costs are also reimbursed as a prospective pass-through.

Professional services provided by physicians and other clinicians are reimbursed based on one of the following methods: a prospectively determined resource-based relative value hospital, fee screen, or a cost-reimbursement methodology depending upon type of professional services provided.

Other

The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

NOTE 2 PATIENT SERVICE REVENUE (CONTINUED)

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Additional revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments were not considered material for the years ended December 31, 2020 and 2019.

The System provides care to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balance (for example, copays, and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amount the System expects to collect based on its collection history with those patients.

Patients who meet the System's criteria for charity care are provided care without charge. Such amounts determined to qualify as charity care are not reported as revenue.

The System has determined the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement/payment methodologies
- Length of patient's service/episode of care
- Method of reimbursement (fee for service or capitation)
- The System's line of business that provided the service (for example, hospital inpatient, hospital outpatient, clinic, etc.)

For the years ended December 31, 2020 and 2019, all of the patient service revenue recognized by the System was from goods and services that transfer to the customer over time.

Revenue from the Medicare and Medicaid programs accounted for approximately 38% and 9%, respectively, of the System's patient service revenue for the years ended December 31, 2020, and approximately 37% and 9%, respectively, of the System's patient service revenue for the year ended December 31, 2019. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(IN THOUSANDS)

NOTE 3 LIQUIDITY AND AVAILABILITY

The System invests cash in excess of short- term requirements in short-term investments. In addition, the System has long-term fixed income and equity investments which are liquid within one week.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2020	2019
Financial Assets at Year-End:		
Cash and Cash Equivalents	$ 99,354	$ 37,618
Undesignated Investments	74,572	69,095
Receivables:		
Net Patient Accounts Receivable	61,951	62,160
Due from Third-Party Payors	247	755
Other	3,425	3,350
Investments and Assets Limited As to Use:		
Internally Designated for Property and Equipment	18,243	18,126
Total Financial Assets Available within One Year	$ 257,792	$ 191,104

The System has certain board-designated assets limited as to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in qualitative information above. The System has other assets limited as to use for donor-restricted purposes and debt service. These assets limited to use, which are more fully described in Note 5, are not available for general expenditure within the next year and are not reflected in the amounts above.

Additionally, the System maintains a total of $30,000 in lines of credit, as discussed in more detail in Note 8. As of December 31, 2020, the full $30,000 remained available on the System's lines of credit.

NOTE 4 CONCENTRATIONS OF CREDIT RISKS

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The significant concentrations of gross revenue for services to patients include the following at December 31:

	2020	2019
Medicare	52 %	53 %
Medicaid	13	12
Blue Cross	15	16
Other Third-Party Payors	17	16
Self-Pay	3	3
Total	100 %	100 %

(IN THOUSANDS)

NOTE 4 CONCENTRATIONS OF CREDIT RISK (CONTINUED)

The System has from time to time deposits in excess of Federal Depository Insurance Corporation limits. Management believes any credit risk related to these deposits is minimal.

NOTE 5 ASSETS LIMITED AS TO USE, INVESTMENTS, AND INVESTMENT INCOME

As required by the Series 2012 and 2018 bond indenture agreement and the 2014 and 2016 loan agreements, St. Luke's established certain funds to be used to fund construction, remodeling, and equipment acquisitions, and to maintain a debt service reserve fund equal to the maximum annual debt service of the Series 2012 bonds.

In addition, the System has designated assets for future capital improvements over which the board retains control and may, at its discretion, subsequently use for other purposes. Assets limited as to use also include investments that are temporarily or permanently restricted, depending on the intent of the donor.

Investments and assets limited as to use consist of the following balances at December 31:

	2020	2019
Series 2012 Bond Fund	$ 1,055	$ 1,136
Series 2012 Debt Service Reserve Fund	5,981	6,030
Series 2018 A and B Capitalized Interest Fund	-	482
Series 2018 A and B Project Fund	254	27,123
Assets Held by Trustee Under Indenture Agreement	7,290	34,771
Assets Limited for Current Maturities - Lake View	420	1,195
Undesignated Investments	74,572	69,095
Internally Designated for Property and Equipment	18,243	18,126
Donor Restricted Investments	6,095	4,932
Total Investments and Assets Limited as to Use	106,620	128,119
Less: Current Portion of Assets Limited as to Use	(2,693)	(6,741)
Less: Undesignated Investments	(74,572)	(69,095)
Noncurrent Investments and Assets Limited as to Use	$ 29,355	$ 52,283

The composition of investments and assets limited as to use consists of the following at December 31:

	2020	2019
Cash and Cash Equivalents	$ 3	$ 6
Money Market Funds	14,270	21,221
Marketable Equity Securities	33,608	27,798
Mutual Funds	8,886	4,430
Government Obligations	140	2,739
Corporate Obligations	44,146	66,580
Real Estate Mutual Funds	5,567	5,345
Total Investments and Assets Limited as to Use	$ 106,620	$ 128,119

(IN THOUSANDS)

NOTE 5 ASSETS LIMITED AS TO USE, INVESTMENTS, AND INVESTMENT INCOME (CONTINUED)

Investment Income

Total investment income and net unrealized gains and losses on investments for the years ended December 31 consist of the following:

	2020	2019
Interest and Dividend Income	$ 2,210	$ 3,234
Realized Gains	9,529	1,506
Total Investment Income	$ 11,739	$ 4,740
Unrealized Gains (Losses), Net	$ (4,233)	$ 8,008

NOTE 6 OTHER ASSETS

A summary of other assets as of December 31 is as follows:

	2020	2019
Cash Surrender Value of Life Insurance	$ 23	$ 23
Deferred Compensation	26,733	22,252
Intangible Assets, Net	1,852	2,286
Investment in Duluth Imaging, L.L.C.	1,520	1,917
Investment in Pavilion Surgery Center, L.L.C.	-	337
Beneficial Interest in Life Link III	4,647	4,323
Goodwill	6,600	-
Other	65	115
Total	$ 41,440	$ 31,253

The future amortization of the net intangible assets as of December 31, 2020 is as follows:

Year Ending December 31,	Amounts
2021	$ 995
2022	609
2023	248
Total	$ 1,852

Summarized combined financial information for Duluth Imaging, L.L.C., Pavilion Surgery Center L.L.C. (1/1/20 through 4/30/20 activity only), and Life Link III as of and for the years ended December 31 is as follows:

	2020	2019
Net Income	$ 4,880	$ 7,970
Total Assets	81,349	69,038
Total Liabilities	31,823	21,045

(IN THOUSANDS)

NOTE 7 PROPERTY AND EQUIPMENT, NET

A summary of property and equipment as of December 31 is as follows:

	2020	2019
Land and Land Improvements	$ 13,427	$ 12,891
Buildings and Improvements	163,756	120,359
Major Movable Equipment	167,571	149,237
Construction in Progress	2,646	21,125
Gross Property and Equipment	347,400	303,612
Less: Accumulated Depreciation	(193,495)	(177,409)
Property and Equipment, Net	$ 153,905	$ 126,203

Included in property and equipment are amounts which were acquired under capital lease agreements with an approximate cost of $20,838 as of December 31, 2020 and 2019. Accumulated depreciation on assets acquired under capital lease agreements was $4,980 and $1,985 as of December 31, 2020 and 2019, respectively.

During the year ended December 31, 2020, the System capitalized the Emergency Department Upgrade project on the St. Luke's campus at a total cost of approximately $37,100. The project was financed internally, as well as through the issuance of the Series 2018 A and B bonds. Additionally, the System capitalized the master facility planning and campus development project at Lake View. The project was capitalized at a total cost of $13,794 and was financed internally, as well as through the issuance of the 2019 Note Payable. The System has capitalized interest expense of $1,438 and $1,574 related to the financing of these projects at December 31, 2020 and 2019, respectively.

As of December 31, 2020, the System did not have any material projects included in construction in progress.

NOTE 8 LINES OF CREDIT AND LONG-TERM DEBT

Line of Credit

As of December 31, 2020 the System had two line of credit agreements. Each line was available to St. Luke's with available credit in total of $30,000. During the year ended December 31, 2019 the System had one line of credit agreement, with available credit of $15,000. The outstanding balance on the line of credit agreements was $-0- at December 31, 2020 and 2019.

The interest rate on the lines of credit available to St. Luke's are 3.71% and 3.50%, at December 31, 2020. The lines of credit expire on April 19, 2022 and July 22, 2021, respectively.

(IN THOUSANDS)

NOTE 8 LINE OF CREDIT AND LONG-TERM DEBT (CONTINUED)

Long-Term Debt

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

Description	2020	2019
Duluth Economic Development Authority, Minnesota Health Care Facilities Revenue Bonds, Series 2012, interest from 4.0% to 6.0%, due in varying amounts through June 15, 2039 (net of unamortized premium of $1,077 and $1,136 in 2020 and 2019, respectively).	$ 68,927	$ 71,001
Duluth Economic Development Authority, Minnesota Health Care Facilities Revenue Bonds, Series 2018 A and B, Interest at 3.43%, Due in Varying Amounts through 6/15/2027.	39,500	39,500
2014 Promissory Note, payable in monthly installments of $85 through September 2024, including interest at 5.64%, remaining balance due as balloon payment October 2024, collateralized by receivables and mortgaged property.	7,006	7,608
2016 Promissory Note, payable in monthly installments of $30, including interest at 4.25%, maturing July 28, 2023 with balloon payment due, collateralized by real estate.	3,701	3,895
2017 Promissory Note, payable in monthly installments of $28, including interest at 3.75%, maturing February 22, 2025 with balloon payment due, collateralized by real estate.	4,514	4,678
City of Two Harbors Health Care Facilities Revenue Note Series 2003, payable in monthly installments of $33, including interest currently at 4.25%, interest rate resets after 75,150, and 225 months from the issuance date based on the seven-year Treasury Rate plus 1.75%, maturing in August 2028, collateralized by substantially all of Lake View's assets.	2,594	2,874
2012 Promissory Note, payable in monthly installments of $15, including interest currently at 4.25%, interest rate resets at a maximum of once every five years based on *The Wall Street Journal* Prime Rate plus 1%, maturing June 1, 2032, collateralized by Clinic land, buildings, equipment, accounts receivable, and inventory.	1,672	1,775
City of Two Harbors Health Care Facilities Revenue Note Series 2019, payable in monthly installments, including interest currently at 3.04%, maturing October 2, 2046, secured by St. Luke's Hospital of Duluth, Inc.	6,000	1,027

(IN THOUSANDS)

NOTE 8 LINE OF CREDIT AND LONG-TERM DEBT (CONTINUED)

Long-Term Debt (Continued)

Description	2020	2019
Promissory Note, noninterest bearing, remaining balance is forgivable after 120 months from disbursement date if principal payments through that date have been made.	$ 145	$ 145
Capital Lease Obligations, payable in monthly installments of $172 through September 2028, including interest rate of 4.01%, collateralized by various equipment.	13,768	15,228
Total	147,827	147,731
Less: Unamortized Debt Issuance Costs	(2,634)	(2,921)
Total, Net Unamortized Debt Issuance Costs	145,193	144,810
Less: Current Maturities	(6,247)	(4,842)
Long-Term Debt, Net of Current Maturities	$ 138,946	$ 139,968

2017 Promissory Note

In June 2017, St. Luke's issued a Promissory Note (St. Luke's Hospital of Duluth) (the 2017 Promissory Note). The promissory note is a construction loan, and as of December 31, 2020 St. Luke's had drawn $4,969 of a maximum $5,500. The interest rate on the promissory note is 3.75% and the payments are payable through February 2025.

2016 Promissory Note

In July 2016, St. Luke's issued $4,800 Promissory Note (St. Luke's Hospital of Duluth) (the 2016 Promissory Note). The interest rate on the promissory note is 4.25% and the payments are payable through July 2023.

Promissory Note – Series 2014

In September 2014, St. Luke's issued $9,975 Promissory Note (St. Luke's Hospital of Duluth Obligated Group) Series 2014 (the 2014 Promissory Note). The Foundation and Lake View are included in the Obligated Group for the 2014 Promissory Note. The interest rate on the promissory note is 5.64% and the payments are payable through October 2024. The issuance costs of approximately $130 are being amortized over the life of the 2014 Promissory Note.

Bonds – Series 2018 A and B Health Care Revenue Bonds

In December 2018, St. Luke's issued $39,500 Healthcare Facilities Revenue Bonds (St. Luke's Hospital of Duluth Obligated Group) Series 2018 A and B (the 2018 Bonds). The Foundation and Lake View are included in the Obligated Group for the 2018 Bonds. The interest rate on the bonds 3.43% and the payments are payable through June 2027.

The proceeds from the 2018 Bonds are being used to fund certain construction, remodeling, and equipment acquisition projects and certain investments required by the 2018 bond indenture agreement.

NOTE 8 LINE OF CREDIT AND LONG-TERM DEBT (CONTINUED)

Long-Term Debt (Continued)

Bonds – Series 2012 Health Care Revenue Bonds

In October 2012, St. Luke's issued $81,595 Healthcare Facilities Revenue Bonds (St. Luke's Hospital of Duluth Obligated Group) Series 2012 (the 2012 Bonds). The Foundation and Lake View are included in the Obligated Group for the 2012 Bonds. The interest rate on the bonds range from 4.0% to 6.0% and the payments are payable through June 2039. The bond premium of approximately $1,553 is being amortized over the life of the 2012 Bonds.

Financial Covenants

The bond agreements require that the Obligated Group, among other matters, maintain a specified level of debt service coverage and days cash on hand, as defined, and to meet other operational and financial performance covenants. The Bonds are collateralized by substantially all property and equipment owned by the Obligated Group.

Note – Series 2003, City of Two Harbors, Health Care Revenue Note

The terms of the 2003 Revenue Note held by Lake View call for the interest rate to be adjusted February 2016 and May 2022 at the seven-year Treasury Rate plus 1.75%. The Revenue Note is guaranteed by St. Luke's. The Revenue Note requires that Lake View maintain certain financial and nonfinancial covenants.

2012 Promissory Note

The terms of the 2012 Promissory Note held by Lake View call for the interest rate to be adjusted at a maximum of once every five years based on *The Wall Street Journal* Prime Rate plus 1.00%. The Promissory Note is guaranteed by St. Luke's. The Promissory Note requires that Lake View maintain certain financial and nonfinancial covenants.

Note – Series 2019, City of Two Harbors, Health Care Revenue Note

The 2019 Note Payable is a construction note, with the maximum of $6,000 drawn at December 31, 2020. The Revenue Note had an interest rate of 3.04% at December 31, 2020, but is subject to adjustments. The Revenue Note is guaranteed by St. Luke's. The Revenue Note requires that Lake View maintain certain financial and nonfinancial covenants.

Capital Lease Obligation

In September of 2018, the System entered in a capital lease agreement to finance an Electronic Medical Record system upgrade. The total amount financed was $17,000. The interest rate on the lease is 4.01% and payments are payable through September 2028.

(IN THOUSANDS)

NOTE 8 LINE OF CREDIT AND LONG-TERM DEBT (CONTINUED)

Long-Term Debt (Continued)

Maturities of long-term debt, excluding unamortized premium, and capital lease obligations, for each of the next five years and thereafter are as follows:

Year Ending December 31,	Long-Term Debt	Capital Leases Obligations
2021	$ 4,681	$ 2,089
2022	4,898	2,066
2023	5,278	2,066
2024	9,611	2,066
2025	8,436	2,066
Thereafter	95,155	5,683
Subtotal	128,059	
Less: Unamortized Debt Issuance Costs	(2,634)	
Total	$ 125,425	16,036
Less: Interest on Capital Lease Obligations		(2,268)
Total		$ 13,768

NOTE 9 EMPLOYEE BENEFIT PLANS AND EMPLOYMENT BENEFIT OBLIGATIONS

Savings Plans

The System has contributory employee retirement and savings plans for salaried employees, which are qualified under Sections 401(k) and 403(B) of the IRC. Employer contributions to the plan are discretionary. The related Employer expense was $2,328 and $2,760 for 2020 and 2019, respectively.

Deferred Compensation Plans

The System also maintains other nonqualified deferred compensation plans. The liability for these plans at December 31, 2020 and 2019 was $26,733 and $22,252, respectively, and is included within employee benefit obligations on the consolidated balance sheets.

Defined Contribution Plan

Effective January 2, 2006, eligible employees enter the defined contribution pension plan in lieu of the defined benefit pension plan. Participants are eligible to receive 3% of compensation up to $80,000 for up to 30 years of combined service under the defined benefit plan and the defined contribution plan, or an amount determined under the "Target Benefit Formula". The "Target Benefit Formula" approximates the actuarial equivalent, for transferring participants, which would have accrued under the defined benefit pension plan. Plan expenses were $3,501 and $3,520 for 2020 and 2019, respectively.

(IN THOUSANDS)

NOTE 9 EMPLOYEE BENEFIT PLANS AND EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

Defined Benefit Pension Plan

Employers are required to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through unrestricted net assets of a nonprofit organization. The amount of the asset or liability to be recorded is disclosed in the consolidated financial statements.

The System sponsors a noncontributory defined benefit pension plan. Effective January 2, 2006, plan eligibility was frozen and no new entrants are allowed in the plan. Benefits under the plan are based on employees' years of service and compensation. The System's policy is to fund the minimum required contributions, based upon actuarial computations, necessary to meet the present and future obligations of the plan to prevent a deficiency in the plan's funding.

The required disclosures for the defined benefit pension plan are as follows:

	2020	2019
Change in Benefit Obligation:		
Benefit Obligation at Beginning of Year	$ 190,554	$ 161,141
Service Cost	2,121	1,943
Interest Cost	5,469	6,666
Assumption Changes	17,190	26,000
Actuarial Loss	1,872	1,938
Actual Benefits Paid	(7,685)	(7,134)
Annuity Purchase Liability	-	-
Benefit Obligation at End of Year	$ 209,521	$ 190,554
Change in Plan Assets:		
Fair Value of Plan Assets at Beginning of Year	$ 134,840	$ 113,437
Actual Return on Plan Assets	25,679	24,191
Employer Contributions	6,947	4,346
Benefits Paid, Including Expenses	(7,685)	(7,134)
Fair Value of Plan Assets at End of Year	159,781	134,840
Reconciliation of Funded Status:		
Funded Status	(49,740)	(55,714)
Unrecognized Transition Obligation/(Asset)	N/A	N/A
Unrecognized Prior Service Cost	-	-
Unrecognized (Gain) Loss	69,355	71,170
Accumulated Other Comprehensive Income	(69,355)	(71,170)
Net Amount Recognized	(49,740)	(55,714)

(IN THOUSANDS)

NOTE 9 EMPLOYEE BENEFIT PLANS AND EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

Defined Benefit Pension Plan (Continued)

	2020	2019
Unrestricted Net Assets Attributable to Change in Additional Liability Recognition	N/A	N/A
Amount Recognized in the Consolidated Balance Sheets:		
Noncurrent Liabilities	(49,740)	(55,714)
Net Amount Recognized	(49,740)	(55,714)
Amount Not Yet Recognized in Net Periodic Pension Cost and Included in Unrestricted Net Assets:		
Prior Service Credit (Cost)	-	-
Accumulated Net Gain (Loss)	(69,355)	(71,170)
Pension Adjustment to Unrestricted Net Assets	(69,355)	(71,170)
Cumulative Contributions in Excess of Net Periodic Pension Cost	19,615	15,456
Net Amount Recognized in Consolidated Balance Sheets	(49,740)	(55,714)
Additional Year-End information for Pension Plans with Projected Benefit Obligation in Excess of Assets:		
Projected Benefit Obligation	209,521	190,554
Fair Value of Plan Assets	159,781	134,840
Weighted Average Assumptions Used to Arrive at the Benefit Obligation:		
Discount Rate	2.59	3.28
Rate of Compensation Increase	2.50	2.50
Weighted Average Assumptions Used to Arrive at the Net Benefit Cost - Beginning of Year:		
Discount Rate	3.28	4.49
Expected Long-Term Return on Plan Assets	6.70	7.00
Rate of Compensation Increase	2.50	2.50
Components of Net Periodic Benefit Cost:		
Service Cost	$ 2,121	$ 1,943
Interest Cost	5,469	6,666
Expected Return on Plan Assets (Gain)	(8,310)	(8,257)
Amortization of Unrecognized Items:		
Transition Obligation/Asset	-	-
Prior Service Cost	-	-
Amortization of Loss	3,508	2,262
Net Periodic Benefit Cost	$ 2,788	$ 2,614

(IN THOUSANDS)

NOTE 9 EMPLOYEE BENEFIT PLANS AND EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

Long-Term Rate of Return Assumption

To develop the expected long-term rate of return on assets assumption, the System considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 6.70% long-term rate of return on assets assumption for the fiscal year ended December 31, 2020. Expectations related to future returns have led to an assumption of 7.00% for the fiscal year ending December 31, 2020.

Estimated Benefits to be Paid Over the Next 5 Years	Amount
2021	$ 8,257
2022	8,572
2023	9,078
2024	9,596
2025	10,010
2026 - 2030	54,621

Future Contributions

The System expects to make a contribution to the Plan during the year ending December 31, 2020 of at least the amount required to meet funding requirements.

Fair Value of Plan Assets

The following tables present the fair value hierarchy for the balances of the plan assets measured at fair value on a recurring basis as of December 31:

2020	Level 1	Level 2	Level 3	Total
Plan Assets:				
Marketable Equity Securities	$ -	$ 105,038	$ -	$ 105,038
Marketable Debt Securities	-	39,771	-	39,771
U.S. Government Issues	796	2,567	-	3,363
Corporate Issues	-	8,977	-	8,977
Foreign Issues	-	1,008	-	1,008
Municipal Issues	-	122	-	122
Total Assets Measured at Fair Value	$ 796	$ 157,483	$ -	$ 158,279

2019	Level 1	Level 2	Level 3	Total
Plan Assets:				
Marketable Equity Securities	$ -	$ 80,765	$ -	$ 80,765
Marketable Debt Securities	-	40,287	-	40,287
U.S. Government Issues	767	2,861	-	3,628
Corporate Issues	-	7,415	-	7,415
Foreign Issues	-	773	-	773
Municipal Issues	-	71	-	71
Total Assets Measured at Fair Value	$ 767,000	$ 132,172	$ -	$ 132,939

(IN THOUSANDS)

NOTE 9 EMPLOYEE BENEFIT PLANS AND EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

The plan assets also included cash and cash equivalents of $1,502 and $1,901 at December 31, 2020 and 2019, respectively. Cash and cash equivalents are stated at cost, which approximates fair value.

NOTE 10 NET ASSET CLASSIFICATION

Net assets with donor restrictions are restricted for the following purpose or periods.

Subject to expenditure for specified purpose:

	2020	2019
Patient Care	$ 3,123	$ 2,706
Research	440	400
Lectures	168	140
Education	734	420
Other	857	493
Total	5,322	4,159

Not subject to appropriation or expenditure:

	2020	2019
Patient Care	$ 425	$ 425
Lectures	25	25
Education	30	30
Other	293	293
Total	773	773
Total Net Assets With Donor Restrictions	$ 6,095	$ 4,932

During 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose in the amount of $736 and $769, respectively.

The System's board of directors has designated, from net assets without donor restrictions of $130,733 and $116,451, net assets of $400 and $276 to be placed in a Quasi-endowment, as of December 31, 2020 and 2019, respectively.

NOTE 10 NET ASSET CLASSIFICATION (CONTINUED)

Interpretation of Relevant Law

The System is subject to the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the System has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the System considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of the initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The System has interpreted UPMIFA to permit spending underwater funds in accordance with the prudent measures required under the law.

Additionally, in accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the System and the donor- restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the System
- The investment policy of the System

(IN THOUSANDS)

NOTE 10 NET ASSET CLASSIFICATION (CONTINUED)

Endowment Net Assets

The following are the changes in endowment net assets for the years ended December 31, 2020 and 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - January 1, 2018	$ 409	$ 2,683	$ 3,092
Investment Return, Net	72	396	468
Contributions	-	-	-
Appropriation of Endowment Assets for Expenditure	(205)	(5)	(210)
Endowment Net Assets - December 31, 2019	276	3,074	3,350
Investment Return, Net	94	427	521
Contributions	30	-	30
Appropriation of Endowment Assets for Expenditure	-	(104)	(104)
Endowment Net Assets - December 31, 2020	$ 400	$ 3,397	$ 3,797

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the System to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2020 and 2019.

Return Objectives and Risk Parameters

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the System must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to preserve and grow capital, strive for consistent absolute returns, preserve purchasing power by striving for long-term returns which either match or exceed the set payout, fees and inflation without putting the principal value at imprudent risk, and diversify investments consistent with commonly accepted industry standard to minimize the risk of large losses.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that meets the System's long-term rate-of-return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle.

NOTE 10 NET ASSET CLASSIFICATION (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The System's spending policy is consistent with its objective of preservation of the fair value of the original gift of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

NOTE 11 RELATED-PARTY TRANSACTIONS

The System bills for MRI services and reimburses Duluth Imaging, L.L.C. for services performed. Expenses included in the consolidated statements of operations related to such agreements were $5,949 and $6,720 in 2020 and 2019, respectively. In addition, the System leased space for the MRI center to Duluth Imaging, L.L.C. Rent revenues included in the consolidated statements of operations were $195 and $192 for the years ended December 31, 2020 and 2019, respectively.

NOTE 12 LIABILITY INSURANCE

The System carries professional and general liability insurance on a "claims made" basis with coverage for claims up to $1,000 per occurrence (limited to annual aggregates of $3,000). In additional, the System carries excess professional liability and umbrella liability coverage. Should this insurance coverage become unavailable, the System would be at risk for all claims reported after the policy period had expired (either directly or through additional insurance premiums necessary to provide tail coverage). The System's current professional and general liability insurance coverage expires January 1, 2022.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Litigation

The System is a defendant in certain pending legal actions related to professional and general liabilities that are within applicable amounts and risks of the insurance policies for the periods involved. In the opinion of the System's management, any recovery by the plaintiff or other claimant in any such action would be covered by existing policies or would not have a material effect on the System's financial condition or results of operations.

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Government activity has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties as well as significant repayments of previously billed and collected revenues for patient services. Management of the System believes that the System is in substantial compliance with current laws and regulations.

(IN THOUSANDS)

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Employee Health Care Claims

The System self-insures for employee health care claims. The System manages its risk by entering into stop-loss reinsurance contracts that limit the System's exposure per individual to $200 for the first individual and $150 for the second and any additional individuals thereafter per year and $1,000 per lifetime. Annual contributions to fund the claims are based on actuarial estimates.

Included in other accrued expenses was approximately $2,753 and $2,835 for estimated unprocessed claims and claims incurred but not reported as of December 31, 2020 and 2019, respectively.

Workers' Compensation

The System purchases coverage for workers' compensation through an insurance company. Premium expense related to the workers' compensation insurance policy was $721 and $847 for 2020 and 2019, respectively. In connection with its self-insurance program for workers' compensation claims, the System has an irrevocable letter of credit with a bank that restricts drawings on the letter of credit to workers' compensation liability claims and related expenses. The System had $1,001 and $1,201 as of December 31, 2020 and 2019, respectively, available under the irrevocable letters of credit arrangement with a bank. While it is possible that claims, which may be asserted in the future, could result in liabilities in excess of amounts provided, management believes that the excess liability, if any, will not materially affect the financial position, results of operations, or cash flows of the System.

Operating Leases

The System has operating lease agreements for the rental of medical office buildings, the Surgery Center building, various clinic facilities, computer hardware and software, and various equipment. Rent expense was $13,813 and $14,300 for 2020 and 2019, respectively. The minimum future rental commitments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2020 are as follows:

Year Ending December 31,	Amount
2021	$ 11,880
2022	11,252
2023	10,224
2024	10,147
2025	8,260
Thereafter	10,774
Total	$ 62,537

(IN THOUSANDS)

NOTE 14 FUNCTIONAL EXPENSES

The System provides general health care services to residents within its geographic location, including Level 2 emergency trauma care, microsurgery and limb reattachment, open heart surgery, neurology and neurosurgery, obstetrics/newborn, oncology, ophthalmology, oral and maxillofacial surgery, otolaryngology, orthopedic surgery, pediatrics, physical medicine, sports medicine, plastic surgery, psychiatry, and urology and vascular/thoracic surgery. In addition to the health care services provided by the System, the Foundation holds fundraising events and raises funds on behalf of the System. Expenses related to providing these services are as follows at December 31:

	Health Care Services				Support Services		
2020	Inpatient	Outpatient	Clinic and Physician	Home Health and Hospice	General and Administrative	Fundraising	Total Expenses
Salaries	$ 44,013	$ 67,910	$ 92,511	$ 5,881	$ 27,532	$ 372	$ 238,219
Employee Benefits	11,527	16,901	18,299	1,489	6,988	24	55,228
Supplies	32,413	48,346	9,555	278	4,826	6	95,424
Physician and Professional Fees	4,431	7,202	9,815	1,420	8,978	75	31,921
Depreciation and Amortization	3,104	5,989	2,932	2	4,374	-	16,401
Occupancy	3,074	6,366	9,237	158	8,962	38	27,835
Interest	2,397	3,044	385	-	23	-	5,849
Other	7,948	10,188	3,787	749	7,979	861	31,512
Total Expenses	$ 108,907	$ 165,946	$ 146,521	$ 9,977	$ 69,662	$ 1,376	$ 502,389

	Health Care Services				Support Services		
2019	Inpatient	Outpatient	Clinic and Physician	Home Health and Hospice	General and Administrative	Fundraising	Total Expenses
Salaries	$ 48,220	$ 68,097	$ 100,693	$ 5,540	$ 27,204	$ 355	$ 250,109
Employee Benefits	12,318	16,851	18,956	1,486	6,760	24	56,395
Supplies	36,922	48,649	10,773	263	2,902	5	99,514
Physician and Professional Fees	5,639	7,806	15,977	1,173	7,443	64	38,102
Depreciation and Amortization	2,982	3,782	3,107	2	4,025	-	13,898
Occupancy	3,199	5,703	9,732	150	7,848	34	26,666
Interest	2,484	2,823	396	-	29	-	5,732
Other	8,777	10,271	3,197	693	7,941	828	31,707
Total Expenses	$ 120,541	$ 163,982	$ 162,831	$ 9,307	$ 64,152	$ 1,310	$ 522,123

(IN THOUSANDS)

NOTE 15 FAIR VALUE

Fair Value Measurements

The System uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how the System measures fair value refer to Note 1. The following tables present the fair value hierarchy for the balances of the assets of the System measured at fair value on a recurring basis as of December 31:

2020	Level 1	Level 2	Level 3	Total
Investments and Assets Limited to Use:				
Marketable Equity Securities	$ 33,608	$ -	$ -	$ 33,608
Mutual Funds	8,886	-	-	8,886
Government Obligations	140	-	-	140
Corporate Obligations	-	44,146	-	44,146
Real Estate Mutual Funds	5,567	-	-	5,567
Total Assets Measured at Fair Value	$ 48,201	$ 44,146	$ -	$ 92,347

2019	Level 1	Level 2	Level 3	Total
Investments and Assets Limited to Use:				
Marketable Equity Securities	$ 27,798	$ -	$ -	$ 27,798
Mutual Funds	4,430	-	-	4,430
Government Obligations	2,739	-	-	2,739
Corporate Obligations	-	66,580	-	66,580
Real Estate Mutual Funds	5,345	-	-	5,345
Total Assets Measured at Fair Value	$ 40,312	$ 66,580	$ -	$ 106,892

Fair Value of Financial Instruments

Additionally, from time to time, the System may be required to record at fair value other assets on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets. Nonfinancial assets measured at fair value on a nonrecurring basis would include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, other real estate owned, and other intangible assets measured at fair value for impairment assessment.

NOTE 16 CHARITY CARE AND BENEFITS TO THE COMMUNITY SERVED – UNAUDITED

In furtherance of its charitable purpose, the System's hospital and clinics provide a wide variety of benefits to the community. These services and donations account for a measurable portion of the System's costs and serve to promote healthy life styles, community development, health education, and affordable access to care.

(IN THOUSANDS)

NOTE 16 CHARITY CARE AND BENEFITS TO THE COMMUNITY SERVED – UNAUDITED (CONTINUED)

The System provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than established rates. Key elements used to determine eligibility include a patient's demonstrated inability to pay based on family size and household income related to federal income poverty guidelines. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The System did not receive any grants or contributions subsidizing the costs of these services for 2020 and 2019.

The System maintains records to identify and monitor the level of community benefit services it provides. Those records include management's estimate of the costs to provide charity care, discounted pricing to the uninsured, the cost of services and supplies furnished for community benefit programs, costs in excess of program payments for treating Medical Assistance patients and costs of subsidizing various health services such as emergency and trauma services, women's and children's services, homecare services, hospice services and behavioral health services.

The System has estimated its direct and indirect costs of providing charity care under its financial assistance policy using CHA/VHA guidelines. The following is a calculation of the estimate value of benefits provided to the community, including the costs of charity care, by the System of the years ended December 31, 2020 and 2019.

	2020	2019
Costs of Charity Care	$ 1,103	$ 1,195
Discounts Offered to Uninsured Patients	1,191	981
Costs in Excess of Medicaid Payments	13,023	12,616
Education and Workforce Development and Research	4,778	8,095
Subsidized Health Services	6,181	5,892
Cash and In-Kind Donations	308	490
Community Building and Other Community Benefit Costs	53	154
Total Cost of Community Benefits*	26,637	29,423
*As defined by CHA/VHA guidelines.		
Other Community Contributions:		
Costs in Excess of Medicare Payments	55,432	52,429
Other Care Provided without Compensation (Bad Debt)	8,896	11,066
Taxes and Fees	10,129	9,365
Total Value of Community Contributions	$ 101,094	$ 102,283

In addition to community benefit costs outlined above, the System provides additional community contributions such as services to Medicare patients below the costs for treatment, other uncompensated care and pays taxes and fees.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
St. Luke's Hospital of Duluth and Affiliates
Duluth, Minnesota

We have audited the consolidated financial statements of St. Luke's Hospital of Duluth and Affiliates as of and for the years ended December 31, 2020 and 2019, and have issued our report thereon dated March 15, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balances sheets and consolidating statements of operations are presented for the purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 15, 2021

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2020
(IN THOUSANDS)
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

ASSETS	St. Luke's	Foundation	Lake View	Eliminations	Consolidated System
CURRENT ASSETS					
Cash and Cash Equivalents	$ 91,786	$ 195	$ 7,373	$ -	$ 99,354
Undesignated Investments	67,533	7,039	-	-	74,572
Receivables:					
Patient Accounts Receivable	59,049	-	2,902	-	61,951
Due from Third-Party Payors	82	-	165	-	247
Other	6,807	93	576	(4,051)	3,425
Current Portion of Assets Limited as to Use	2,273	-	420	-	2,693
Inventories	12,814	-	459	-	13,273
Prepaid Expenses	3,961	2	81	-	4,044
Total Current Assets	244,305	7,329	11,976	(4,051)	259,559
INVESTMENTS AND ASSETS LIMITED AS TO USE					
Internally Designated for Property and Equipment	6,547	-	11,696	-	18,243
Donor Restricted Investments	-	5,814	281	-	6,095
Held by Trustee Under Indenture Agreement, Net of Current Portion	5,017	-	-	-	5,017
Investments and Assets Limited as to Use	11,564	5,814	11,977	-	29,355
PROPERTY AND EQUIPMENT, NET	134,559	-	19,346	-	153,905
OTHER ASSETS	41,375	-	65	-	41,440
Total Assets	$ 431,803	$ 13,143	$ 43,364	$ (4,051)	$ 484,259

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2020
(IN THOUSANDS)
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

LIABILITIES AND NET ASSETS	St. Luke's	Foundation	Lake View	Eliminations	Consolidated System
CURRENT LIABILITIES					
Current Maturities of Long-Term Debt	$ 5,846	$ -	$ 401	$ -	$ 6,247
Accounts Payable	19,695	525	4,257	(3,996)	20,481
Accrued Salaries and Employee Benefits	29,827	-	742	(55)	30,514
Due to Third-Party Payors	569	-	-	-	569
Deferred Revenue	62,259	-	5,043	-	67,302
Other Accrued Expenses	1,189	-	15	-	1,204
Total Current Liabilities	119,385	525	10,458	(4,051)	126,317
EMPLOYEE BENEFIT OBLIGATIONS	76,474	-	-	-	76,474
OTHER LIABILITIES	5,694	-	-	-	5,694
LONG-TERM DEBT (Net of Current Maturities)	129,297	-	9,614	35	138,946
Total Liabilities	330,850	525	20,072	(4,016)	347,431
COMMITMENTS AND CONTINGENCIES					
NET ASSETS					
Without Donor Restrictions	100,953	6,804	23,011	(35)	130,733
With Donor Restrictions	-	5,814	281	-	6,095
Total Net Assets	100,953	12,618	23,292	(35)	136,828
Total Liabilities and Net Assets	$ 431,803	$ 13,143	$ 43,364	$ (4,051)	$ 484,259

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2019
(IN THOUSANDS)
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

ASSETS	St. Luke's	Foundation	Lake View	Eliminations	Consolidated System
CURRENT ASSETS					
Cash and Cash Equivalents	$ 35,778	$ 210	$ 1,630	$ -	$ 37,618
Undesignated Investments	62,358	6,737	-	-	69,095
Receivables:					
Patient Accounts Receivable	59,109	-	3,051	-	62,160
Due from Third-Party Payors	497	-	258	-	755
Other	4,894	136	417	(2,097)	3,350
Current Portion of Assets Limited as to Use	5,546	-	1,195	-	6,741
Inventories	11,835	-	443	-	12,278
Prepaid Expenses	3,403	3	105	-	3,511
Total Current Assets	183,420	7,086	7,099	(2,097)	195,508
INVESTMENTS AND ASSETS LIMITED AS TO USE					
Internally Designated for Property and Equipment	5,897	-	12,229	-	18,126
Donor Restricted Investments	-	4,651	281	-	4,932
Held by Trustee Under Indenture Agreement, Net of Current Portion	29,225	-	-	-	29,225
Investments and Assets Limited as to Use	35,122	4,651	12,510	-	52,283
PROPERTY AND EQUIPMENT, NET	116,228	-	9,975	-	126,203
OTHER ASSETS	31,138	-	115	-	31,253
Total Assets	$ 365,908	$ 11,737	$ 29,699	$ (2,097)	$ 405,247

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2019
(IN THOUSANDS)
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

LIABILITIES AND NET ASSETS	St. Luke's	Foundation	Lake View	Eliminations	Consolidated System
CURRENT LIABILITIES					
Current Maturities of Long-Term Debt	$ 4,459	$ -	$ 383	$ -	$ 4,842
Accounts Payable	23,375	467	2,115	(2,072)	23,885
Construction Payable	3,364	-	1,195	-	4,559
Accrued Salaries and Employee Benefits	24,941	-	819	(25)	25,735
Due to Third-Party Payors	573	-	-	-	573
Other Accrued Expenses	1,234	-	21	-	1,255
Total Current Liabilities	57,946	467	4,533	(2,097)	60,849
EMPLOYEE BENEFIT OBLIGATIONS	77,966	-	-	-	77,966
OTHER LIABILITIES	5,081	-	-	-	5,081
LONG-TERM DEBT (Net of Current Maturities)	134,891	-	5,033	44	139,968
Total Liabilities	275,884	467	9,566	(2,053)	283,864
COMMITMENTS AND CONTINGENCIES					
NET ASSETS					
Without Donor Restrictions	90,024	6,619	19,852	(44)	116,451
With Donor Restrictions	-	4,651	281	-	4,932
Total Net Assets	90,024	11,270	20,133	(44)	121,383
Total Liabilities and Net Assets	$ 365,908	$ 11,737	$ 29,699	$ (2,097)	$ 405,247

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2020
(IN THOUSANDS)
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	St. Luke's	Foundation	Lake View	Eliminations	Consolidated System
REVENUES					
Patient Service Revenue	$ 443,708	$ -	$ 17,840	$ -	$ 461,548
Other Revenue	41,838	398	1,272	(2,205)	41,303
Total Revenues	485,546	398	19,112	(2,205)	502,851
EXPENSES					
Salaries	231,069	371	6,779	-	238,219
Employee Benefits	53,248	24	1,956	-	55,228
Supplies	94,080	5	1,339	-	95,424
Physician and Professional Fees	29,869	75	3,989	(2,012)	31,921
Depreciation and Amortization	15,588	-	813	-	16,401
Occupancy	27,037	38	792	(32)	27,835
Interest	5,645	-	213	(9)	5,849
Other	29,761	860	1,052	(161)	31,512
Total Expenses	486,297	1,373	16,933	(2,214)	502,389
OPERATING GAIN (LOSS)	(751)	(975)	2,179	9	462
NONOPERATING GAINS	11,601	2,141	1,214	-	14,956
EXCESS OF REVENUES OVER EXPENSES BEFORE UNREALIZED LOSSES ON INVESTMENTS, NET	10,850	1,166	3,393	9	15,418
UNREALIZED LOSSES ON INVESTMENTS, NET	(2,072)	(1,381)	(234)	-	(3,687)
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	$ 8,778	$ (215)	$ 3,159	$ 9	$ 11,731

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2019
(IN THOUSANDS)
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	St. Luke's	Foundation	Lake View	Eliminations	Consolidated System
REVENUES					
Patient Service Revenue	$ 481,608	$ -	$ 17,610	$ -	$ 499,218
Other Revenue	26,903	483	623	(2,865)	25,144
Total Revenues	508,511	483	18,233	(2,865)	524,362
EXPENSES					
Salaries	243,149	356	6,604	-	250,109
Employee Benefits	54,212	24	2,159	-	56,395
Supplies	98,177	2	1,367	(32)	99,514
Physician and Professional Fees	35,885	64	4,410	(2,257)	38,102
Depreciation and Amortization	13,304	-	594	-	13,898
Occupancy	26,103	34	816	(287)	26,666
Interest	5,511	-	228	(7)	5,732
Other	30,130	836	1,030	(289)	31,707
Total Expenses	506,471	1,316	17,208	(2,872)	522,123
OPERATING GAIN (LOSS)	2,040	(833)	1,025	7	2,239
NONOPERATING GAINS	3,647	426	714	-	4,787
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES BEFORE UNREALIZED GAINS ON INVESTMENTS, NET	5,687	(407)	1,739	7	7,026
UNREALIZED GAINS ON INVESTMENTS, NET	5,809	1,063	727	-	7,599
EXCESS OF REVENUES OVER EXPENSES	$ 11,496	$ 656	$ 2,466	$ 7	$ 14,625

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
St. Luke's Hospital of Duluth and Affiliates
Duluth, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of St. Luke's Hospital of Duluth and Affiliates (the System), which comprise the consolidated balance sheets as of December 31, 2020, and the related consolidated statements operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 15, 2021