ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the System adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General and the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

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

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

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

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

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2023, 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 27, 2023

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021
(IN THOUSANDS)

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 27,868	$ 74,065
Undesignated Investments	79,752	90,665
Receivables:		
Patient Accounts Receivable	65,475	57,266
Due from Third-Party Payors	21,572	118
Other	5,581	3,472
Current Portion of Assets Limited as to Use	5,829	2,376
Inventories	13,392	14,527
Prepaid Expenses	5,575	4,985
Total Current Assets	225,044	247,474
INVESTMENTS AND ASSETS LIMITED AS TO USE		
Internally Designated for Property and Equipment	17,281	20,713
Donor Restricted Investments	5,670	6,398
Held by Trustee Under Indenture Agreement, Net of Current Portion	61,705	5,109
Investments and Assets Limited as to Use	84,656	32,220
PROPERTY AND EQUIPMENT, NET	151,116	158,446
OPERATING LEASE ASSETS	43,117	-
FINANCING LEASE ASSETS	14,758	-
OTHER ASSETS	44,104	45,526
Total Assets	$ 562,795	$ 483,666

See accompanying Notes to Consolidated Financial Statements.

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2022 AND 2021
(IN THOUSANDS)

	2022	2021
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 3,153	$ 5,464
Current Maturities of Operating Lease Liability	10,493	-
Current Maturities of Financing Lease Liability	2,228	-
Accounts Payable	32,813	21,590
Construction Payable	2,907	-
Accrued Salaries and Employee Benefits	31,558	32,423
Due to Third-Party Payors	5,456	3,516
Deferred Revenue	99	40,790
Other Accrued Expenses	944	1,077
Total Current Liabilities	89,651	104,860
EMPLOYEE BENEFIT OBLIGATIONS	38,890	56,748
OTHER LIABILITIES	2,314	5,279
OPERATING LEASE LIABILITY (Net of Current Maturities)	35,293	-
FINANCING LEASE LIABILITY (Net of Current Maturities)	13,955	-
LONG-TERM DEBT (Net of Current Maturities)	193,020	135,091
Total Liabilities	373,123	301,978
NET ASSETS		
Without Donor Restrictions	182,254	175,290
Without Donor Restrictions - Noncontrolling Interest	1,748	-
With Donor Restrictions	5,670	6,398
Total Net Assets	189,672	181,688
Total Liabilities and Net Assets	$ 562,795	$ 483,666

See accompanying Notes to Consolidated Financial Statements.

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2022 AND 2021
(IN THOUSANDS)

	2022	2021
REVENUES		
Patient Service Revenue	$ 523,748	$ 505,644
Other Revenue	36,315	41,644
Total Revenues	560,063	547,288
EXPENSES		
Salaries	257,201	250,009
Employee Benefits	54,475	60,029
Supplies	110,554	101,552
Physician and Professional Fees	44,154	33,594
Depreciation and Amortization	18,585	18,484
Occupancy	32,026	28,836
Interest	5,167	6,917
Other	35,035	34,615
Total Expenses	557,197	534,036
OPERATING GAIN	2,866	13,252
NONOPERATING GAINS	4,944	8,274
EXCESS OF REVENUES OVER EXPENSES BEFORE UNREALIZED GAINS (LOSSES) ON INVESTMENTS, NET	7,810	21,526
UNREALIZED GAINS (LOSSES) ON INVESTMENTS, NET	(16,301)	1,623
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	$ (8,491)	$ 23,149

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, 2022 AND 2021
(IN THOUSANDS)

	Without Donor Restrictions	Non-Controlling Interest	With Donor Restrictions	Total
NET ASSETS - DECEMBER 31, 2020	$ 130,733	$ -	$ 6,095	$ 136,828
Excess of Revenues Over Expenses	23,149	-	-	23,149
Net Unrealized Gains on Restricted Investments	-	-	388	388
Net Assets Released from Restriction	1,013	-	(1,013)	-
Restricted Investment Income	-	-	369	369
Donor Restricted Contributions	-	-	559	559
Change in Minimum Pension Liability	20,159	-	-	20,159
Acquisition of St. Francis Apartments, LLC	236	-	-	236
Change in Net Assets - 2021	44,557	-	303	44,860
NET ASSETS - DECEMBER 31, 2021	175,290	-	6,398	181,688
Deficit of Revenues Over Expenses	(8,491)	-	-	(8,491)
Net Unrealized Losses on Restricted Investments	-	-	(1,018)	(1,018)
Net Assets Released from Restriction	542	-	(542)	-
Restricted Investment Income	-	-	105	105
Donor Restricted Contributions	-	-	474	474
Capital Contributions	-	-	253	253
Change in Minimum Pension Liability	12,161	-	-	12,161
Change in Value of Noncontrolling Interest	52	(52)	-	-
Acquisition of Northern Lakes Surgery Center, LLC	2,700	1,800	-	4,500
Change in Net Assets - 2022	6,964	1,748	(728)	7,984
NET ASSETS - DECEMBER 31, 2022	$ 182,254	$ 1,748	$ 5,670	$ 189,672

See accompanying Notes to Consolidated Financial Statements.

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021
(IN THOUSANDS)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 7,984	$ 44,860
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	18,585	18,484
Unrealized (Gains) Losses on Investments, Net	17,319	(2,011)
Amortization of Bond Premium	(830)	(62)
Change in Minimum Pension Liability	(12,161)	(20,159)
Loss on Refinancing of Long-Term Debt	573	-
(Increase) Decrease in:		
Receivables	(8,209)	4,685
Other Receivables	(2,109)	(47)
Due from Third-Party Payors	(21,454)	129
Inventories	1,135	(1,254)
Prepaid Expenses	(590)	(941)
Operating Lease Assets	8,707	-
Other Assets	5,619	(1,102)
Increase (Decrease) in:		
Accounts Payable	11,223	1,109
Accrued Salaries and Employee Benefits	(865)	1,909
Due to Third-Party Payors	1,940	2,947
Operating Lease Liabilities	(8,793)	-
Other Liabilities	(210)	(415)
Deferred Revenue	(40,691)	(26,512)
Other Accrued Expenses	(10,249)	(3,337)
Net Cash Provided (Used) by Operating Activities	(33,076)	18,283
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(17,078)	(22,834)
Purchases of Investments	(47,212)	(31,040)
Sales of Investments	19,602	10,489
Net Cash Used by Investing Activities	(44,688)	(43,385)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Long-Term Debt	76,931	-
Principal Payments on Long-Term Debt	(7,039)	(3,586)
Principal Payments on Financing Leases	(2,019)	-
Cash Paid for Debt Issuance Costs	(1,815)	(990)
Net Cash Provided (Used) by Financing Activities	66,058	(4,576)
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(11,706)	(29,678)
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	88,094	117,772
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	$ 76,388	$ 88,094

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, 2022 AND 2021
(IN THOUSANDS)

	2022	2021
SUPPLEMENTAL DISCLOSURES		
Cash and Cash Equivalents - Unrestricted	$ 27,868	$ 74,065
Cash and Cash Equivalents - Undesignated Investments	3,119	1,364
Cash and Cash Equivalents - Assets Limited as to Use	41,918	8,988
Cash and Cash Equivalents - Other Assets	3,483	3,677
Cash, Cash Equivalents, and Restricted Cash	$ 76,388	$ 88,094
Cash Paid for Interest, Net of Capitalized Interest	$ 5,229	$ 6,700
NONCASH INVESTING AND FINANCING ACTIVITIES		
Issuance of Bonds to Refinance Existing Debt Obligations	$ 62,187	$ 14,725
Refinancing of Debt Obligations	$ (62,187)	$ (16,357)
Equipment Received in Exchange for Finance Leases	$ 6,000	$ -
Recording of Operating Right of Use Assets and Lease Liabilities	$ 54,579	$ -

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. Pavilion, St. Francis Apartments, and Northern Lakes are not a part of the obligated group.

Pavilion Surgery Center, LLC (Pavilion) provides ambulatory surgical-related services and is operated Duluth, Minnesota. St. Luke's acquired the controlling interest in Pavilion during the year ended December 31, 2020, at which point it was operated as a department of the Hospital. Beginning in August of 2021 Pavilion reverted back to operating as a stand-alone surgery center, until June 2022, at which point it was again operated as a department of the Hospital.

St. Francis Apartments, LLC (St. Francis Apartments) is a 43-unit property designed to provide housing to individuals who have a history of homelessness. Effective October 1, 2021, St. Luke's assumed ownership of St. Francis Apartments from Churches United in Ministry (CHUM). CHUM continues to provide services to the residents of St. Francis Apartments.

Northern Lakes Surgery Center, LLC (Northern Lakes) was established in 2022 and will provide ambulatory surgical-related services in Moose Lake, Minnesota. St. Luke's controlling interest in Northern Lakes is 60%.

Collectively, St. Luke's, the Foundation, Lake View, Pavilion, St. Francis Apartments, and Northern Lakes 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.

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

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

St. Luke's, the Foundation, and Lake View are 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. Pavilion and St. Francis Apartments are disregarded entities of St. Luke's.

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.

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 net realizable value of patient receivables. 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.

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

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.

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.

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

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 financing 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 $18,555 and $18,294 for the years ended December 31, 2022 and 2021, 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.

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 Pavilion during the year ended December 31, 2020. The goodwill is for future benefits expected to be received by the System from operating Pavilion. Goodwill is deemed to have indefinite useful life and is reviewed annually for impairment. No impairment was noted at December 31, 2022 and 2021.

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.

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

Deferred Financing Costs

The System has incurred financing costs pertaining to the issuances of long-term debt. Original financing costs of $3,909 and $4,532 as of December 31, 2022 and 2021, 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, 2022 and 2021 was $598 and $1,197, respectively. Amortization expense related to deferred financing costs was $238 and $213 for the years ended December 31, 2022 and 2021, respectively.

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 began during 2021, with a total of $57,449 and $23,207 recouped as of December 31, 2022 and 2021, respectively. The remaining 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.

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

Net Assets (Continued)

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.

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 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 $7,095 and $7,150 for December 31, 2022 and 2021, respectively. The grant funds are subject to certain restrictions on eligible expenses or uses, reporting requirements, and will be subject to audit. At December 31, 2022 and 2021, the System recognized $7,946 and $8,857, respectively, as other operating revenue in the consolidated statement of operations and $-0- and $949, respectively, as deferred revenue in the consolidated balance sheets. Management believes the amounts have been recognized appropriately as of December 31, 2022 and 2021.

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

Nonoperating Gains

Nonoperating gains include investment income, losses on disposal of property and equipment, loss on re-finance of long-term debt and other various contributions for the years ended December 31, 2022 and 2021, 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.

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 16 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.

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

Adoption of New Accounting Standard

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent amount that changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The System adopted the requirements of the guidance effective January 1, 2022 and has elected to apply the provisions of this standard to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

Subsequent Events

In preparing these consolidated financial statements, the System has evaluated events and transactions for potential recognition or disclosure through March 27, 2023, 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.

(IN THOUSANDS)

NOTE 2 PATIENT SERVICE REVENUE (CONTINUED)

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.

The opening and closing contract balances were as follows:

	Patient Accounts Receivable
Balance as of January 1, 2021	$ 61,951
Balance as of December 31, 2021	57,266
Balance as of December 31, 2022	65,475

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.

NOTE 2 PATIENT SERVICE REVENUE (CONTINUED)

Medicare – St. Luke's (Continued)

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.

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.

NOTE 2 PATIENT SERVICE REVENUE (CONTINUED)

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.

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, 2022 and 2021.

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.

(IN THOUSANDS)

NOTE 2 PATIENT SERVICE REVENUE (CONTINUED)

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, 2022 and 2021, 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 37% and 10%, respectively, of the System's patient service revenue for the years ended December 31, 2022, and approximately 38% and 10%, respectively, of the System's patient service revenue for the year ended December 31, 2021. 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.

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:

	2022	2021
Financial Assets at Year-End:		
Cash and Cash Equivalents	$ 27,868	$ 74,065
Undesignated Investments	79,752	90,665
Receivables:		
Patient Accounts Receivable	65,475	57,266
Due from Third-Party Payors	21,572	118
Other	5,581	3,472
Investments and Assets Limited As to Use:		
Internally Designated for Property and Equipment	17,281	20,713
Total Financial Assets Available within One Year	$ 217,529	$ 246,299

(IN THOUSANDS)

NOTE 3 LIQUIDITY AND AVAILABILITY (CONTINUED)

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 $15,000 in lines of credit, as discussed in more detail in Note 8. As of December 31, 2022, the full $15,000 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:

	2022	2021
Medicare	52 %	52 %
Medicaid	13	14
Blue Cross	13	15
Other Third-Party Payors	20	17
Self-Pay	2	2
Total	100 %	100 %

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 2018, 2021, and 2022 bond indenture agreement, 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 2021 and 2022 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.

(IN THOUSANDS)

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

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

	2022	2021
Series 2012 Bond Fund	$ -	$ 1,197
Series 2012 Debt Service Reserve Fund	-	5,981
Series 2021 Debt Service Reserve Fund	831	70
Series 2022 Debt Service Reserve Fund	6,727	-
Series 2022 Project Fund	59,781	-
St. Francis Apartments Note Payable Reserve Fund	195	235
Assets Held by Trustee Under Indenture Agreement	67,534	7,483
Assets Limited for Current Maturities - Lake View	-	2
Undesignated Investments	79,752	90,665
Internally Designated for Property and Equipment	17,281	20,713
Donor Restricted Investments	5,670	6,398
Total Investments and Assets Limited as to Use	170,237	125,261
Less: Current Portion of Assets Limited as to Use	(5,829)	(2,376)
Less: Undesignated Investments	(79,752)	(90,665)
Noncurrent Investments and Assets Limited as to Use	$ 84,656	$ 32,220

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

	2022	2021
Cash and Cash Equivalents	$ 37,853	$ 247
Money Market Funds	7,184	10,105
Marketable Equity Securities	32,981	39,898
Mutual Funds	11,266	13,337
Government Obligations	18,528	94
Corporate Obligations	51,483	53,058
Real Estate Mutual Funds	10,942	8,522
Total Investments and Assets Limited as to Use	$ 170,237	$ 125,261

Investment Income

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

	2022	2021
Interest and Dividend Income	$ 3,527	$ 2,231
Realized Gains	303	4,497
Total Investment Income	$ 3,830	$ 6,728
Unrealized Gains (Losses), Net	$ (17,319)	$ 2,011

(IN THOUSANDS)

NOTE 6 OTHER ASSETS

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

	2022	2021
Cash Surrender Value of Life Insurance	$ 21	$ 21
Deferred Compensation	25,960	30,378
Intangible Assets, Net	1,959	1,601
Investment in Duluth Imaging, L.L.C.	1,384	1,365
Beneficial Interest in Life Link III	5,104	5,279
Goodwill	6,600	6,600
Other	3,076	282
Total	$ 44,104	$ 45,526

The future amortization of the net intangible assets as of December 31, 2022 is as follows:

Year Ending December 31,	Amounts
2023	$ 1,270
2024	511
2025	178
Total	$ 1,959

Summarized combined financial information for Duluth Imaging, L.L.C. and Life Link III as of and for the years ended December 31 is as follows:

	2022	2021
Net Income	$ 1,382	$ 8,360
Total Assets	100,386	95,549
Total Liabilities	46,974	40,627

NOTE 7 PROPERTY AND EQUIPMENT, NET

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

	2022	2021
Land and Land Improvements	$ 14,962	$ 14,237
Buildings and Improvements	180,851	178,390
Major Movable Equipment	153,903	174,605
Construction in Progress	19,536	3,003
Gross Property and Equipment	369,252	370,235
Less: Accumulated Depreciation	(218,136)	(211,789)
Property and Equipment, Net	$ 151,116	$ 158,446

(IN THOUSANDS)

NOTE 7 PROPERTY AND EQUIPMENT, NET (CONTINUED)

Included in property and equipment are amounts which were acquired under capital lease agreements with an approximate cost of $20,966 as of December 31, 2021. Accumulated depreciation on assets acquired under capital lease agreements was $7,975 as of December 31, 2021. These amounts are now classified as financing lease assets on the consolidated balance sheets.

As of December 31, 2022, the System had three major construction projects in process, including a geographical move and renovation of a new space for our OBGYN clinic with an estimated completion cost of $4.5 million. This project will be complete in spring of 2023 and is funded partially with leasehold improvement funds supplied by the building's landlord of $2.1 million with the remaining coming from the System's general capital funds. Next, a project to address interior refresh and remodel of main hospital spaces, including nursery space is ongoing with an estimated cost of $2.4 million. This project is will be complete in spring of 2023 and is funded through bond funding secured during 2022. Finally, an ambulatory surgery center and medical office building in Moose Lake, MN called St. Luke's Plaza that will house Northern Lakes Surgery Center with an estimated cost of $7 million is underway. The surgery center is set to open in spring of 2023 and will be funded through a joint venture with Gateway Clinic located in Moose Lake.

NOTE 8 LINE OF CREDIT AND LONG-TERM DEBT

Line of Credit

As of December 31, 2022 the System had one line of credit agreement. The line was available to St. Luke's with available credit of $15,000. The outstanding balance on the line of credit agreements was $-0- at December 31, 2022 and 2021.

The interest rate on the line of credit available to St. Luke's at December 31, 2022 is 5.82%. The line of credit expires on April 19, 2025.

Long-Term Debt

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

Description	2022	2021
Duluth Economic Development Authority, Minnesota Health Care Facilities Revenue Bonds, Series 2012, interest from 4.0% to 6.0%, balance refinanced as part of the Series 2022 bond issuance.	$ -	$ 63,206
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.	37,107	38,344

(IN THOUSANDS)

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

Long-Term Debt (Continued)

Description	2022	2021
Duluth Economic Development Authority, Minnesota Health Care Facilities Revenue Bonds, Series 2022A, Interest from 4.0% to 5.0%, due in Varying Amounts through June 15, 2039 (Net of Unamortized Premium of $8,471 in 2022)	$ 57,471	$ -
Duluth Economic Development Authority, Minnesota Health Care Facilities Revenue Bonds, Series 2022B, Interest at 5.25%, due in Varying Amounts through December 31, 2052 (Net of Unamortized Premium of $3,799 in 2022)	79,909	-
2017 Promissory Note, payable in monthly installments of $28, including interest at 3.75%, balance refinanced as part of the Series 2022 bond issuance.	-	4,343
Duluth Economic Development Authority, Minnesota Health Care Facilities Revenue Bonds, Series 2021A, Interest from 3.0% to 5.0%, due in Varying Amounts through June 15, 2044 (Net of Unamortized Premium of $1,813 and $1,933 in 2022 and 2021, respectively)	16,538	16,659
2012 Promissory Note, payable in monthly installments of $15, including interest at 4.25%, remaining balance repaid during the year ended December 31, 2022.	-	1,563
City of Two Harbors Health Care Facilities Revenue Note Series 2019, payable in monthly installments, including interest currently at 3.01%, maturing October 2, 2046, secured by St. Luke's Hospital of Duluth, Inc.	5,815	5,974
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
Greater Minnesota Housing Fund Promissory Note, interest only payments due through July 1, 2023, at which point monthly principal and interest payments of $7 will be made through maturity date of the note, with interest rate of 4.10%	1,600	1,600
Housing Program Loan and Lien, no principal or interest payments due during the 30-year period of the lien, which which will be satisfied with payment of loan	250	250
2022 Promissory Note, payable in monthly installments of $25, including interest at 4.74%, maturing October 2026.	1,029	-

(IN THOUSANDS)

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

Long-Term Debt (Continued)

Description	2022	2021
Capital Lease Obligations, payable in monthly installments of $172 through September 2028, including interest rate of 4.01%, collateralized by various equipment.	$ -	$ 12,202
Total	199,864	144,286
Less: Unamortized Debt Issuance Costs	(3,691)	(3,731)
Total, Net Unamortized Debt Issuance Costs	196,173	140,555
Less: Current Maturities	(3,153)	(5,464)
Long-Term Debt, Net of Current Maturities	$ 193,020	$ 135,091

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, 2021 St. Luke's had drawn $4,969 of a maximum $5,500. The interest rate on the promissory note is 3.75%. The balance was refinanced during the year ended December 31, 2022 as part of the Series 2022 bond issuance.

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.

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%. The balance was refinanced during the year ended December 31, 2022 as part of the Series 2022 bond issuance.

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. The remaining balance was fully repaid during the year ended December 31, 2022.

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

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

The 2019 Revenue Note is a construction note with an interest rate of 3.04% at December 31, 2022, 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.

Bonds – Series 2021A Health Care Revenue Bonds

In August 2021, St. Luke's issued $14,725 Healthcare Facilities Revenue Bonds (St. Luke's Hospital of Duluth Obligated Group) Series 2021A (the 2021 Bonds). The Foundation, Lake View, and Pavilion Surgery Center are included in the Obligated Group for the 2021 Bonds. The interest rate on the bonds range from 3.0% to 5.0% and the payments are payable through June 2044. The bond premium of approximately $1,965 is being amortized over the life of the 2021 Bonds.

Bonds – Series 2022A Health Care Revenue Bonds

In March 2022, St. Luke's issued $49,000 Healthcare Facilities Revenue Bonds (St. Luke's Hospital of Duluth Obligated Group) Series 2022A (the 2022A Bonds). The Foundation, Lake View, and Pavilion Surgery Center are included in the Obligated Group for the 2022 Bonds. The interest rate on the bonds range from 4.0% to 5.0% and the payments are payable through June 2039. The bond premium of approximately $9,093 is being amortized over the life of the 2022 Bonds.

Bonds – Series 2022B Health Care Revenue Bonds

In May 2022, St. Luke's issued $76,110 Healthcare Facilities Revenue Bonds (St. Luke's Hospital of Duluth Obligated Group) Series 2022B (the 2022B Bonds). The Foundation, Lake View, and Pavilion Surgery Center are included in the Obligated Group for the 2022B Bonds. The interest rate on the bonds is 5.25% and the payments are payable through June 2052. The bond premium of approximately $3,886 is being amortized over the life of the 2022B Bonds.

St. Francis Apartments Notes Payable

St. Francis Apartments has two outstanding pieces of debt as of December 31, 2022. The first is a note payable through the Greater Minnesota Housing Fund in the amount of $1,600. The latest maturity date for the note is June 2046, and it carries an interest rate of 4.1%. The second piece of debt is a loan and lien through the Housing and Redevelopment Authority of Duluth in the amount of $250. There are no interest or principal payments due through the term of the lien which is thirty years. Proceeds were utilized to purchase the apartment building.

Northern Lakes Notes Payable

In October 2022, Northern Lakes issued a Promissory Note (the 2022 Promissory Note). The promissory note is a construction loan, and as of December 31, 2022 Northern Lakes had drawn $1,029 of a maximum $2,000. The interest rate on the promissory note is 4.74% and the payments are payable through October 2026.

(IN THOUSANDS)

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

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. These amounts are now shown as financing lease liabilities on the consolidated balance sheets.

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.

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

Year Ending December 31,	Long-Term Debt
2023	$ 3,153
2024	4,019
2025	3,242
2026	3,409
2027	34,064
Thereafter	151,977
Subtotal	199,864
Less: Unamortized Debt Issuance Costs	(3,691)
Total	$ 196,173

NOTE 9 LEASES

The System's leases primarily consist of space for health care facilities, health care equipment, and various other office equipment from third parties. The System determines if an arrangement is a lease at contract inception. Operating and financing lease assets and liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. Because most of the System's leases do not provide an implicit rate of return, the System used an imputed interest rate to calculate the present value of payments.

The lease terms may include options to extend or terminate the lease when it is reasonably certain that the System will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The System has elected to recognize payments for short-term leases with a lease term of 12 month or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the balance sheet.

(IN THOUSANDS)

NOTE 9 LEASES (CONTINUED)

Lease assets and liabilities are as follows:

Assets:	2022
Financing Lease Assets	$ 14,758
Operating Lease Assets	43,117
Total Assets	$ 57,875

Liabilities:	2022
Current:	
Financing Leases	$ 2,228
Operating Leases	10,493
Noncurrent:	
Financing Leases	13,955
Operating Leases	35,293
Total Liabilities	$ 61,969

The System's lease costs under ASC 842 for the years ended December 31 are as follows:

	2022
Finance Lease Cost:	
Amortization of Lease Assets	$ 4,233
Interest on Lease Liabilities	538
Operating Lease Cost	11,160
Total Lease Cost	$ 15,931

As of December 31, 2022 the maturity of lease obligations consisted of the following:

Maturity Schedule	Financing Lease Liabilities	Operating Lease Liabilities
2023	$ 2,720	$ 10,493
2024	2,720	10,396
2025	2,720	9,038
2026	2,720	7,611
2027	2,720	5,630
Thereafter	4,497	10,294
Total Lease Payments	18,097	53,462
Less: Imputed Interest	(1,914)	(7,676)
Less: Current Portion	(2,228)	(10,493)
Long-Term Lease Liabilities	$ 13,955	$ 35,293

At December 31, 2022 the weighted average remaining lease term was 6.91 years for finance leases and 6.02 years for operating leases. At December 31, 2022 the weighted average discount rate was 3.80% for finance leases and 5.02% for operating leases.

NOTE 10 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 $2,576 and $2,465 for 2022 and 2021, respectively.

Deferred Compensation Plans

The System also maintains other nonqualified deferred compensation plans. The liability for these plans at December 31, 2022 and 2021 was $25,960 and $30,378, 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 $3,896 and $3,555 for 2022 and 2021, respectively.

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.

(IN THOUSANDS)

NOTE 10 EMPLOYEE BENEFIT PLANS AND EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

Defined Benefit Pension Plan (Continued)

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

	2022	2021
Change in Benefit Obligation:		
Benefit Obligation at Beginning of Year	$ 197,211	$ 209,521
Service Cost	1,716	1,991
Interest Cost	4,820	3,963
Assumption Changes	(6,648)	10,020
Actuarial Loss	(47,410)	(19,825)
Actual Benefits Paid	(8,897)	(8,459)
Benefit Obligation at End of Year	140,792	197,211
Change in Plan Assets:		
Fair Value of Plan Assets at Beginning of Year	170,841	159,781
Actual Return on Plan Assets	(28,565)	15,748
Employer Contributions	536	3,771
Benefits Paid, Including Expenses	(8,897)	(8,459)
Annuity Carve-Out	(6,012)	-
Fair Value of Plan Assets at End of Year	127,903	170,841
Reconciliation of Funded Status:		
Funded Status	(12,889)	(26,370)
Unrecognized Transition Obligation/(Asset)	N/A	N/A
Unrecognized (Gain) Loss	37,035	49,196
Accumulated Other Comprehensive Income	(37,035)	(49,196)
Net Amount Recognized	(12,889)	(26,370)
Unrestricted Net Assets Attributable to Change in Additional Liability Recognition	N/A	N/A
Amount Recognized in the Consolidated Balance Sheets:		
Noncurrent Liabilities	(12,889)	(26,370)
Net Amount Recognized	(12,889)	(26,370)
Amount Not Yet Recognized in Net Periodic Pension Cost and Included in Unrestricted Net Assets:		
Accumulated Net Gain (Loss)	(37,035)	(49,196)
Pension Adjustment to Unrestricted Net Assets	(37,035)	(49,196)
Cumulative Contributions in Excess of Net Periodic Pension Cost	24,146	22,826
Net Amount Recognized in Consolidated Balance Sheets	(12,889)	(26,370)

(IN THOUSANDS)

NOTE 10 EMPLOYEE BENEFIT PLANS AND EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

Defined Benefit Pension Plan (Continued)

	2022	2021
Additional Year-End information for Pension Plans with Projected Benefit Obligation in Excess of Assets:		
Projected Benefit Obligation	$ 140,792	$ 197,211
Fair Value of Plan Assets	127,903	170,841
Weighted Average Assumptions Used to Arrive at the Benefit Obligation:		
Discount Rate	5.55	3.00
Rate of Compensation Increase	2.50	2.50
Weighted Average Assumptions Used to Arrive at the Net Benefit Cost - Beginning of Year:		
Discount Rate	3.00	2.59
Expected Long-Term Return on Plan Assets	6.80	6.70
Rate of Compensation Increase	2.50	2.50
Components of Net Periodic Benefit Cost:		
Service Cost	1,716	1,991
Interest Cost	4,820	3,963
Expected Return on Plan Assets (Gain)	(10,118)	(9,243)
Amortization of Unrecognized Items:		
Amortization of Loss	2,798	3,849
Net Periodic Benefit Cost	$ (784)	$ 560

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 6.80% long-term rate of return on assets assumption for the fiscal years ended December 31, 2022 and 2021.

Estimated Benefits to be Paid Over the Next Five Years	Amount
2023	$ 9,134
2024	9,443
2025	9,694
2026	9,851
2027	10,018
2028 - 2032	51,126

Future Contributions

The System expects to make a contribution to the Plan during the year ending December 31, 2022 of at least the amount required to meet funding requirements.

(IN THOUSANDS)

NOTE 10 EMPLOYEE BENEFIT PLANS AND EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

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:

2022	Level 1	Level 2	Level 3	Total
Plan Assets:				
Marketable Debt Securities	$ -	$ 57,586	$ -	$ 57,586
U.S. Government Issues	-	1,761	-	1,761
Corporate Issues	-	68,549	-	68,549
Total Assets Measured at Fair Value	$ -	$ 127,896	$ -	$ 127,896

2021	Level 1	Level 2	Level 3	Total
Plan Assets:				
Marketable Equity Securities	$ -	$ 68,059	$ -	$ 68,059
U.S. Government Issues	-	2,147	-	2,147
Corporate Issues	-	100,107	-	100,107
Total Assets Measured at Fair Value	$ -	$ 170,313	$ -	$ 170,313

The plan assets also included cash and cash equivalents of $7 and $528 at December 31, 2022 and 2021, respectively. Cash and cash equivalents are stated at cost, which approximates fair value.

NOTE 11 NET ASSET CLASSIFICATION

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

Subject to expenditure for specified purpose:

	2022	2021
Patient Care	$ 2,967	$ 3,559
Research	209	397
Lectures	167	192
Education	472	574
Other	1,363	903
Total	5,178	5,625

(IN THOUSANDS)

NOTE 11 NET ASSET CLASSIFICATION (CONTINUED)

Not subject to appropriation or expenditure:

	2022	2021
Patient Care	$ 425	$ 425
Lectures	25	25
Education	30	30
Other	12	293
Total	492	773
Total Net Assets With Donor Restrictions	$ 5,670	$ 6,398

During 2022 and 2021, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose in the amount of $542 and $1,013, respectively.

The System's board of directors has designated, from net assets without donor restrictions of $182,254 and $175,290, net assets of $432 and $542 to be placed in a Quasi-endowment, as of December 31, 2022 and 2021, respectively.

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 11 NET ASSET CLASSIFICATION (CONTINUED)

Endowment Net Assets

The following are the changes in endowment net assets for the years ended December 31, 2022 and 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - January 1, 2020	$ 400	$ 3,397	$ 3,797
Investment Return, Net	112	495	607
Contributions	30	-	30
Appropriation of Endowment Assets for Expenditure	-	(44)	(44)
Endowment Net Assets - December 31, 2021	542	3,848	4,390
Investment Return, Net	(140)	(591)	(731)
Contributions	30	34	64
Appropriation of Endowment Assets for Expenditure	-	(22)	(22)
Endowment Net Assets - December 31, 2022	$ 432	$ 3,269	$ 3,701

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, 2022 and 2021.

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 11 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 12 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 $7,149 and $7,203 in 2022 and 2021, 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 $208 and $198 for the years ended December 31, 2022 and 2021, respectively.

NOTE 13 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, 2024.

NOTE 14 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 14 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 to $400 per individual per year. Annual contributions to fund the claims are based on actuarial estimates.

Included in other accrued expenses was approximately $2,713 and $3,402 for estimated unprocessed claims and claims incurred but not reported as of December 31, 2022 and 2021, respectively.

Workers' Compensation

The System purchases coverage for workers' compensation through an insurance company. Premium expense related to the workers' compensation insurance policy was $971 and $896 for 2022 and 2021, 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 $721 and $1,001 as of December 31, 2022 and 2021, 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 elected to apply the provisions of FASB ASC 842 to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

The System has operating lease agreements for the rental of medical office buildings, the Pavilion building, various clinic facilities, computer hardware and software, and various equipment. Rent expense was $13,928 for 2021. 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, 2021 were as follows:

Year Ending December 31,	Amount
2022	$ 10,405
2023	9,559
2024	9,524
2025	8,588
2026	6,955
Thereafter	15,454
Total Lease Payments	$ 60,485

(IN THOUSANDS)

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

COVID-19 Pandemic

The COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to the System, COVID-19 may impact various parts of its fiscal year 2023 operations and financial results including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of health care personnel, or loss of revenue due to reductions in certain revenue streams. Management believes the System is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of December 31, 2022.

NOTE 15 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		
2022	Inpatient	Outpatient	Clinic and Physician	Home Health and Hospice	General and Administrative	Fundraising	Total Expenses
Salaries	$ 39,974	$ 76,155	$ 103,238	$ 6,218	$ 31,197	$419	$ 257,201
Employee Benefits	9,532	17,743	18,694	1,541	6,939	26	54,475
Supplies	33,731	61,601	12,340	243	2,636	3	110,554
Physician and Professional Fees	8,095	13,124	13,005	1,127	8,747	56	44,154
Depreciation and Amortization	2,438	8,137	2,961	2	5,047	-	18,585
Occupancy	3,736	9,232	9,352	122	9,535	49	32,026
Interest	1,959	3,011	81	-	116	-	5,167
Other	7,055	11,626	3,385	759	11,003	1,207	35,035
Total Expenses	$ 106,520	$ 200,629	$ 163,056	$ 10,012	$ 75,220	$ 1,760	$ 557,197

	Health Care Services				Support Services		
2021	Inpatient	Outpatient	Clinic and Physician	Home Health and Hospice	General and Administrative	Fundraising	Total Expenses
Salaries	$ 43,611	$ 73,031	$ 98,718	$ 6,078	$ 28,204	$367	$ 250,009
Employee Benefits	10,745	17,207	18,235	1,479	12,338	25	60,029
Supplies	33,181	54,516	11,041	298	2,512	4	101,552
Physician and Professional Fees	5,888	9,468	12,693	1,141	4,339	65	33,594
Depreciation and Amortization	2,678	8,095	3,068	2	4,641	-	18,484
Occupancy	3,423	7,974	9,775	147	7,480	37	28,836
Interest	2,766	3,796	309	-	46	-	6,917
Other	8,038	11,714	3,305	724	10,109	725	34,615
Total Expenses	$ 110,330	$ 185,801	$ 157,144	$ 9,869	$ 69,669	$ 1,223	$ 534,036

(IN THOUSANDS)

NOTE 16 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:

2022	Level 1	Level 2	Level 3	Total
Investments and Assets Limited to Use:				
Marketable Equity Securities	$ 51,281	$ -	$ -	$ 51,281
Mutual Funds	11,266	-	-	11,266
Government Obligations	18,528	-	-	18,528
Corporate Obligations	-	56,219	-	56,219
Real Estate Mutual Funds	10,942	-	-	10,942
Total Assets Measured at Fair Value	$ 92,017	$ 56,219	$ -	$ 148,236

2021	Level 1	Level 2	Level 3	Total
Investments and Assets Limited to Use:				
Marketable Equity Securities	$ 61,380	$ -	$ -	$ 61,380
Mutual Funds	13,337	-	-	13,337
Government Obligations	94	-	-	94
Corporate Obligations	-	58,277	-	58,277
Real Estate Mutual Funds	8,522	-	-	8,522
Total Assets Measured at Fair Value	$ 83,333	$ 58,277	$ -	$ 141,610

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 17 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 17 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 2022 and 2021.

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, 2022 and 2021.

	2022	2021
Costs of Charity Care	$ 1,094	$ 955
Discounts Offered to Uninsured Patients	1,121	1,234
Costs in Excess of Medicaid Payments	12,724	16,108
Education and Workforce Development and Research	6,258	5,665
Subsidized Health Services	6,683	4,859
Cash and In-Kind Donations	566	344
Community Building and Other Community Benefit Costs	135	51
Total Cost of Community Benefits*	28,581	29,216

*As defined by CHA/VHA guidelines.

	2022	2021
Other Community Contributions:		
Costs in Excess of Medicare Payments	49,362	52,899
Other Care Provided without Compensation (Bad Debt)	7,495	7,603
Taxes and Fees	9,605	10,680
Total Value of Community Contributions	$ 95,043	$ 100,398

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.

CliftonLarsonAllen LLP
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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, 2022 and 2021, and have issued our report thereon dated March 27, 2023, 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 27, 2023

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2022
(IN THOUSANDS)
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

ASSETS	St. Luke's	Foundation	Lake View	St. Francis Apartments	Northern Lakes Surgery Center	Eliminations	Consolidated System
CURRENT ASSETS							
Cash and Cash Equivalents	$ 18,399	$ 242	$ 7,617	$ 136	$ 1,474	$ -	$ 27,868
Undesignated Investments	73,051	6,701	-	-	-	-	79,752
Receivables:							
Patient Accounts Receivable	62,482	-	2,993	-	-	-	65,475
Due from Third-Party Payors	21,263	-	309	-	-	-	21,572
Other	9,376	183	721	66	-	(4,765)	5,581
Current Portion of Assets Limited as to Use	5,825	-	4	-	-	-	5,829
Inventories	12,798	-	594	-	-	-	13,392
Prepaid Expenses	5,432	4	120	-	19	-	5,575
Total Current Assets	208,626	7,130	12,358	202	1,493	(4,765)	225,044
INVESTMENTS AND ASSETS LIMITED AS TO USE							
Internally Designated for Property and Equipment	6,325	-	10,956	-	-	-	17,281
Donor Restricted Investments	-	5,136	534	-	-	-	5,670
Held by Trustee Under Indenture Agreement, Net of Current Portion	61,510	-	-	195	-	-	61,705
Investments and Assets Limited as to Use	67,835	5,136	11,490	195	-	-	84,656
PROPERTY AND EQUIPMENT, NET	125,763	-	17,940	2,518	4,895	-	151,116
OPERATING LEASE ASSETS	42,700	-	417	-	-	-	43,117
FINANCING LEASE ASSETS	14,758	-	-	-	-	-	14,758
OTHER ASSETS	44,035	-	69	-	-	-	44,104
Total Assets	$ 503,717	$ 12,266	$ 42,274	$ 2,915	$ 6,388	$ (4,765)	$ 562,795

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2022
(IN THOUSANDS)
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

LIABILITIES AND NET ASSETS	St. Luke's	Foundation	Lake View	St. Francis Apartments	Northern Lakes Surgery Center	Eliminations	Consolidated System
CURRENT LIABILITIES							
Current Maturities of Long-Term Debt	$ 2,742	$ -	$ 164	$ 11	$ 236	$ -	$ 3,153
Current Maturities of Operating Lease Liability	10,340	-	153	-	-	-	10,493
Current Maturities of Financing Lease Liability	2,228	-	-	-	-	-	2,228
Accounts Payable	32,222	439	3,478	374	988	(4,688)	32,813
Accounts Payable	2,907	-	-	-	-	-	2,907
Accrued Salaries and Employee Benefits	30,810	-	825	-	-	(77)	31,558
Due to Third-Party Payors	5,456	-	-	-	-	-	5,456
Deferred Revenue	-	-	99	-	-	-	99
Other Accrued Expenses	939	-	5	-	-	-	944
Total Current Liabilities	87,644	439	4,724	385	1,224	(4,765)	89,651
EMPLOYEE BENEFIT OBLIGATIONS	38,890	-	-	-	-	-	38,890
OTHER LIABILITIES	2,314	-	-	-	-	-	2,314
OPERATING LEASE LIABILITY (Net of Current Maturities)	35,000	-	293	-	-	-	35,293
FINANCING LEASE LIABILITY (Net of Current Maturities)	13,955	-	-	-	-	-	13,955
LONG-TERM DEBT (Net of Current Maturities)	182,939	-	7,829	1,459	793	-	193,020
Total Liabilities	360,742	439	12,846	1,844	2,017	(4,765)	373,123
COMMITMENTS AND CONTINGENCIES							
NET ASSETS							
Without Donor Restrictions	142,975	6,691	28,894	1,071	2,623	-	182,254
Without Donor Restrictions - Noncontrolling Interest	-	-	-	-	1,748	-	1,748
With Donor Restrictions	-	5,136	534	-	-	-	5,670
Total Controlling Interest	142,975	11,827	29,428	1,071	4,371	-	189,672
Total Liabilities and Net Assets	$ 503,717	$ 12,266	$ 42,274	$ 2,915	$ 6,388	$ (4,765)	$ 562,795

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2021
(IN THOUSANDS)
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

ASSETS	St. Luke's	Foundation	Lake View	Pavilion Surgery Center	St. Francis Apartments	Eliminations	Consolidated System
CURRENT ASSETS							
Cash and Cash Equivalents	$ 58,499	$ 295	$ 14,152	$ 1,118	$ 1	$ -	$ 74,065
Undesignated Investments	82,462	8,203	-	-	-	-	90,665
Receivables:							
Patient Accounts Receivable	52,957	-	3,412	897	-	-	57,266
Due from Third-Party Payors	118	-	-	-	-	-	118
Other	10,909	181	603	12	30	(8,263)	3,472
Current Portion of Assets Limited as to Use	2,374	-	2	-	-	-	2,376
Inventories	13,806	-	494	227	-	-	14,527
Prepaid Expenses	4,909	8	46	22	-	-	4,985
Total Current Assets	226,034	8,687	18,709	2,276	31	(8,263)	247,474
INVESTMENTS AND ASSETS LIMITED AS TO USE							
Internally Designated for Property and Equipment	7,427	-	13,286	-	-	-	20,713
Donor Restricted Investments	-	6,117	281	-	-	-	6,398
Held by Trustee Under Indenture Agreement, Net of Current Portion	4,874	-	-	-	235	-	5,109
Investments and Assets Limited as to Use	12,301	6,117	13,567	-	235	-	32,220
PROPERTY AND EQUIPMENT, NET	136,333	-	18,707	782	2,624	-	158,446
OTHER ASSETS	45,448	-	78	-	-	-	45,526
Total Assets	$ 420,116	$ 14,804	$ 51,061	$ 3,058	$ 2,890	$ (8,263)	$ 483,666

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2021
(IN THOUSANDS)
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

LIABILITIES AND NET ASSETS	St. Luke's	Foundation	Lake View	Pavilion Surgery Center	St. Francis Apartments	Eliminations	Consolidated System
CURRENT LIABILITIES							
Current Maturities of Long-Term Debt	$ 5,197	$ -	$ 267	$ -	$ -	$ -	$ 5,464
Accounts Payable	21,020	407	6,570	1,652	137	(8,196)	21,590
Accrued Salaries and Employee Benefits	31,532	-	831	127	-	(67)	32,423
Due to Third-Party Payors	1,667	-	1,849	-	-	-	3,516
Deferred Revenue	37,988	-	2,802	-	-	-	40,790
Other Accrued Expenses	1,069	-	8	-	-	-	1,077
Total Current Liabilities	98,473	407	12,327	1,779	137	(8,263)	104,860
EMPLOYEE BENEFIT OBLIGATIONS	56,748	-	-	-	-	-	56,748
OTHER LIABILITIES	5,279	-	-	-	-	-	5,279
LONG-TERM DEBT (Net of Current Maturities)	124,183	-	9,427	-	1,454	27	135,091
Total Liabilities	284,683	407	21,754	1,779	1,591	(8,236)	301,978
COMMITMENTS AND CONTINGENCIES							
NET ASSETS							
Without Donor Restrictions	135,433	8,280	29,026	1,279	1,299	(27)	175,290
With Donor Restrictions	-	6,117	281	-	-	-	6,398
Total Net Assets	135,433	14,397	29,307	1,279	1,299	(27)	181,688
Total Liabilities and Net Assets	$ 420,116	$ 14,804	$ 51,061	$ 3,058	$ 2,890	$ (8,263)	$ 483,666

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2022
(IN THOUSANDS)
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	St. Luke's	Foundation	Lake View	Pavilion Surgery Center	St. Francis Apartments	Northern Lakes Surgery Center	Eliminations	Consolidated System
REVENUES								
Patient Service Revenue	$ 497,502	$ -	$ 22,990	$ 3,256	$ -	$ -	$ -	$ 523,748
Other Revenue	37,151	1,296	630	22	249	-	(3,033)	36,315
Total Revenues	534,653	1,296	23,620	3,278	249	-	(3,033)	560,063
EXPENSES								
Salaries	247,833	419	8,110	803	-	36	-	257,201
Employee Benefits	51,904	26	2,238	297	-	10	-	54,475
Supplies	107,357	3	2,010	1,168	-	16	-	110,554
Physician and Professional Fees	40,936	55	5,684	155	-	47	(2,723)	44,154
Depreciation and Amortization	16,982	-	1,447	50	106	-	-	18,585
Occupancy	30,763	49	943	17	284	-	(30)	32,026
Interest	4,881	-	199	-	87	-	-	5,167
Other	32,587	1,207	1,097	407	-	20	(283)	35,035
Total Expenses	533,243	1,759	21,728	2,897	477	129	(3,036)	557,197
OPERATING GAIN (LOSS)	1,410	(463)	1,892	381	(228)	(129)	3	2,866
NONOPERATING GAINS	4,274	161	485	-	-	-	24	4,944
EXCESS OF REVENUES OVER EXPENSES BEFORE UNREALIZED LOSSES ON INVESTMENTS, NET	5,684	(302)	2,377	381	(228)	(129)	27	7,810
UNREALIZED LOSSES ON INVESTMENTS, NET	(12,228)	(1,564)	(2,509)	-	-	-	-	(16,301)
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	$ (6,544)	$ (1,866)	$ (132)	$ 381	$ (228)	$ (129)	$ 27	$ (8,491)

ST. LUKE'S HOSPITAL OF DULUTH AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2021
(IN THOUSANDS)
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	St. Luke's	Foundation	Lake View	Pavilion Surgery Center	St. Francis Apartments	Eliminations	Consolidated System
REVENUES							
Patient Service Revenue	$ 480,971	$ -	$ 22,789	$ 1,884	$ -	$ -	$ 505,644
Other Revenue	40,824	764	1,422	11	1,230	(2,607)	41,644
Total Revenues	521,795	764	24,211	1,895	1,230	(2,607)	547,288
EXPENSES							
Salaries	241,545	367	7,423	674	-	-	250,009
Employee Benefits	57,901	25	1,978	125	-	-	60,029
Supplies	99,384	4	1,598	682	-	(116)	101,552
Physician and Professional Fees	30,813	65	4,907	126	-	(2,317)	33,594
Depreciation and Amortization	16,935	-	1,489	33	27	-	18,484
Occupancy	27,818	37	892	17	114	(42)	28,836
Interest	6,712	-	187	-	26	(8)	6,917
Other	32,775	723	1,021	228	-	(132)	34,615
Total Expenses	513,883	1,221	19,495	1,885	167	(2,615)	534,036
OPERATING GAIN (LOSS)	7,912	(457)	4,716	10	1,063	8	13,252
NONOPERATING GAINS	7,064	573	637	-	-	-	8,274
EXCESS OF REVENUES OVER EXPENSES BEFORE UNREALIZED GAINS ON INVESTMENTS, NET	14,976	116	5,353	10	1,063	8	21,526
UNREALIZED GAINS ON INVESTMENTS, NET	381	580	662	-	-	-	1,623
EXCESS OF REVENUES OVER EXPENSES	$ 15,357	$ 696	$ 6,015	$ 10	$ 1,063	$ 8	$ 23,149

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, 2022, 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 27, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing 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.

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

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 financial statements. 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 27, 2023

INDEPENDENT
NETWORK MEMBER