Hennepin Healthcare System, Inc.

A Component Unit of Hennepin County, Minnesota

Financial Report
With Supplemental Schedules
(With Independent Auditor's Report)
December 31, 2021

Contents

Independent Auditor's Report

To the Board of Directors
Hennepin Healthcare System, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Hennepin Healthcare System, Inc. (the Organization), a component unit of Hennepin County, Minnesota, which comprise the statements of net position as of December 31, 2021 and 2020, the statements of revenues, expenses and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for twelve months beyond the date of the financial statement date.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 Organization'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.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14 and the Required Supplementary Information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

RSM US LLP

Duluth, Minnesota
March 23, 2022

Management's Discussion and Analysis

The following management's discussion and analysis is intended to provide financial statement readers with a financial overview and narrative analysis of the financial position and activities of Hennepin Healthcare and its component units, Hennepin Healthcare Foundation (HHF) and Hennepin Healthcare Research Institute (HHRI), collectively referred to as Hennepin Healthcare System, Inc. (HHS or Organization), for the fiscal years ended December 31, 2021 and 2020. HHS is a component unit of the County of Hennepin, Minnesota. Readers are encouraged to consider the information presented here in conjunction with HHS' basic financial statements, including the notes thereto.

Required Basic Financial Statements

HHS' basic financial statements report information utilizing accounting methods similar to those used by other health care organizations. The statements of net position include all of HHS' assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). The statements of net position also provide the basis for evaluating the capital structure of HHS and assessing the liquidity and financial flexibility of HHS.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses and changes in net position. This statement measures the success of HHS' operations over the past two years and can be used to determine whether HHS has successfully recovered all of its costs through patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a different period.

The final required statement is the statements of cash flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operating, capital and related financing and investing activities. It also provides information for sources and uses of cash.

Due to the requirements of Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14* and GASB Statement No. 61, *The Financial Reporting Entity—Omnibus—an amendment of GASB Statement Nos. 14 and 34,* the basic financial statements of HHS include the financial information of HHF and HHRI, separately incorporated 501(c)(3) organizations.

Financial Highlights and Analysis

COVID-19 pandemic:

In January 2020, the Secretary of the U.S. Department of Health and Human Services declared a national public health emergency due to a novel strain of coronavirus (COVID-19), which continues through the date of this report. The measures to treat and contain the impact of COVID-19 have adversely impacted HHS' operational readiness and financial results.

Coronavirus variant waves disrupted traditional care patterns and caused issues with staffing, supply chains, costs and capacity. The vaccine distribution is propagating throughout neighborhoods. Due to public health restrictions and community resident concerns, traditional or normal care delivery lagged anticipated volumes.

HHS activated the Hospital Incident Command System (HICS) throughout the pandemic to coordinate its response around screening, isolation, treatment, testing, supply chain, protective equipment, telehealth, visitation, monitoring, reporting, surge capacity, staffing, environmental cleaning and coordination with the state and other health care systems.

HHS has proudly provided an incredible number of vaccinations, tests and care in support of the community during the pandemic, while remaining ready to address traditional care needs.

HHS' inpatient care for COVID-19 patients resulted in 1,017 and 1,474 discharges during 2021 and 2020, respectively. During 2021, HHS provided 227,505 COVID-19 vaccines with minimal activity during 2020, due to the vaccine not being readily available until late December. HHS performed COVID-19 testing for 268,246 and 186,451 patients and community businesses during 2021 and 2020, respectively. To accommodate alternatives to face-to-face care visits, HHS provided 72,842 and 81,442 virtual visits during 2021 and 2020, respectively.

The Be Well Clinic was temporarily closed in response to the County's work from home policy. Based upon the downtown environment and anticipated work from home patterns, it has been determined that this clinic will remain closed for now.

COVID-19 created a need to implement a remote workforce for eligible employees. Evaluation is ongoing around the feasibility of maintaining a certain level of remote workforce in a post-pandemic environment as potential cost savings and employee engagement measures.

HHS received Health Resources and Services Administration (HRSA) funding of approximately $2.0 million and $2.4 million as payment toward the uninsured for certain COVID-19 services, which are included in patient revenues in 2021 and 2020, respectively.

HHS received Provider Relief Funding of $4.7 million and $78.9 million in 2021 and 2020, respectively. HHS received Coronavirus Relief Funding of $17.5 million and $44.0 million allocated by the County during 2021 and 2020, respectively. These funds are fully recognized in the financial statements.

In April, HHS began repaying the cash advance received from Centers for Medicare & Medicaid Services (CMS) in 2020 of $66.4 million, which will be fully resolved in 2022. The remaining liability as of December 31, 2021, is $41.0 million, and is reported in short-term liabilities of the balance sheet.

Care Patterns:

Traditional health care volumes remain suppressed when compared to pre-pandemic levels. The care currently being provided is more resource intensive. Hospital inpatient capacity was abnormally stressed in 2021 due primarily to longer patient stays. The capacity issue was compounded as staff shortages increased while patient hospitalization intensified. The Average Length of Stay (ALOS) and Average Daily Census (ADC) for inpatient care seen in the third and fourth quarters of 2021 was the highest HHS has experienced. Lack of discharge options to non-acute care environments and lack of staffing created operating inefficiencies, forced sporadic care diversions, and contributed to the unusually high variable cost in personnel expenses, supplies and drugs.

The ALOS during 2021 was 6.76, compared to 6.17 and 5.86 for the prior two years 2020 and 2019, respectively. Correspondingly, the increased ADC driven by longer ALOS during those periods was 351, compared to the prior two years similar periods of 325 and 342. The average case mix, or severity of care seen in the hospital, was 1.84 in 2021, compared to 1.81 and 1.66 in 2020 and 2019, respectively. Some of the increase in ALOS and resulting ADC is attributable to the rising severity of care case mix index. Hospital discharges during 2021 was 18,965, compared to 19,282 and 21,295 for the prior two years 2020 and 2019. Therefore, increases in the ADC can be directly traced to changes in the case mix index and barriers to discharge that led to capacity constraints, which further resulted in operating inefficiencies.

Patients seeking services through the emergency room accounts for roughly 80% of all inpatients. Recovery from the pandemic in 2021 led to emergent care services growing 3.2%. This drove changes in downstream services such as inpatient discharges which decreased by (1.6%),while clinic visits increased 13.3%, operating room increased 21.4% and work relative value units (WRUVs) recovered by 25.8% when compared to the same period last year. Nearly all of these referenced activities were better than the pandemic year 2020, but less than the pre-pandemic year 2019 levels.

Staffing and Supply Challenges:

The impacts of COVID-19 have compounded staffing shortage of health care workers at a time when the resource need is more than ever. During 2021, team members were unable to work due to COVID related illness which peaked at about 650 employees. Additionally, there were excessive vacant positions at the bedside, patient care support job families, rehabilitative therapy, emergency medical services, revenue cycle management and nurses in the emergency room. In 2021, HHS made $13 million in retention payments and accrued another $15 million for payout in early 2022. Premium and contract labor costs incurred were $46.8 million and $32.0 million, in 2021 and 2020, respectively.

In order to subsidize the patient care workforce, beginning in late November, HHS hosted 16 medical personnel from the U.S. Department of Defense, via the Governor of Minnesota. The personnel support primarily consisted of nursing staff, but also included physicians and administrative staff. The deployment continued through January 22, 2022.

Cracks in the supply chain showed clear weaknesses that led to disruptions and stockpiling of critical items, which led to exorbitant costs. This led to HHS holding extensive amounts of safety stocks for a wide variety of health care items. Inventories were $11.2 million and $12.8 million in 2021 and 2020, respectively. The costs for protective equipment such as gloves, gowns, goggles - pharmaceuticals needed to treat acute respiratory illness and intensive care exploded. Cleaning supplies such as hand sanitizers or cleanser required to remove infectious diseases outstripped inventories and often raw materials. Supplies and drugs cost were $178.9 million and $155.6 million in 2021 and 2020, respectively.

East Lake Clinic Relocation:

During the George Floyd related civil unrest in 2020, the East Lake Clinic was damaged beyond repair and unable to be utilized. While patient care was redeployed to a variety of alternative locations, HHS wanted to reopen the clinic in a location convenient for the patients using the East Lake Clinic.

Vacant space within the Hennepin County South Minneapolis Human Service Center was determined to be an optimal space to accommodate the East Lake Clinic. This location would allow for expanded services through the co-location with mental health services for adult and adolescent patients provided by Hennepin County. The new location opened in October 2021.

Opportunity Assessment:

The pandemic has accelerated the need for rethinking current operating practices and changed the health care delivery environment on a national and local level. It is unlikely the industry will ever return to pre-COVID patient referral channels. In response to these changes that are expected to place continued pressure on financial performance, HHS engaged an outside expert to conduct an opportunities assessment. The assessment identified performance improvement initiatives to help guide the management team. The scope of services was broad and included conducting a comprehensive assessment of key functional areas with anticipated implementation between 2021 and 2024.

Net Position

A summary of the HHS' statements of net position as of December 31, 2021, 2020 and 2019, are presented in the table below:

Table 1
Condensed Statements of Net Position
(In thousands)

	December 31			2021–2020	2020–2019
	2021	2020	2019	Change	Change
Assets:					
Assets other than capital assets	**$ 498,898**	$ 487,602	$ 364,571	$ 11,296	$ 123,031
Capital assets	**422,937**	423,521	428,049	(584)	(4,528)
Deferred outflows	**181,150**	35,091	43,476	146,059	(8,385)
Total assets and deferred outflows	**$ 1,102,985**	$ 946,214	$ 836,096	$ 156,771	$ 110,118
Liabilities:					
Long-term debt	**$ 168,772**	$ 176,150	$ 182,816	$ (7,378)	$ (6,666)
Pension liability, net	**226,498**	312,646	284,583	(86,148)	28,063
Other liabilities	**291,519**	290,203	191,768	1,316	98,435
Deferred inflows	**231,112**	37,449	90,814	193,663	(53,365)
Total liabilities and deferred inflows	**917,901**	816,448	749,981	101,453	66,467
Net position:					
Invested in capital assets, net	**246,835**	239,635	237,858	7,200	1,777
Restricted	**68,298**	59,885	59,110	8,413	775
Unrestricted	**(130,049)**	(169,754)	(210,853)	39,705	41,099
Total net position	**185,084**	129,766	86,115	55,318	43,651
	$ 1,102,985	$ 946,214	$ 836,096	$ 156,771	$ 110,118

During 2021, total assets and deferred outflows increased by $156.8 million. Capital assets decreased by $0.6 million as depreciation exceeded additions to property, plant and equipment, net of disposals (see Note 4). Assets, other than capital assets, increased $11.3 million and includes a $6.7 million funding of Medicaid Managed Care Directed Payments. Days in accounts receivable, net, decreased from 40 to 38 days as of fiscal year-end. Total liabilities and deferred inflows increased $101.5 million which includes a decrease of $24.8 million of current liability from the Medicare Advance Payment via the CARES Act (see Note 1), $86.1 million decrease in net pension liability (see Note 8), $1.3 million increase in other current liabilities and $193.7 million increase in deferred inflows (see Note 8). Net position increased by $55.3 million.

Capital Assets

The following table summarizes the HHS' capital assets as of December 2021, 2020 and 2019.

Table 2
Capital Assets
(In thousands)

	December 31			2021–2020	2020–2019
	2021	2020	2019	Change	Change
Land	**$ 47,584**	$ 36,903	$ 28,603	$ 10,681	$ 8,300
Buildings and improvements	**623,484**	607,670	590,650	15,814	17,020
Leasehold improvements	**28,858**	27,024	26,380	1,834	644
Furniture and equipment	**313,751**	299,360	290,273	14,391	9,087
Software capital	**8,044**	7,195	4,519	849	2,676
Projects in progress	**8,390**	10,921	9,684	(2,531)	1,237
Subtotal	**1,030,111**	989,073	950,109	41,038	38,964
Less accumulated depreciation	**(607,174)**	(565,552)	(522,060)	(41,622)	(43,492)
Property, plant and equipment, net	**$ 422,937**	$ 423,521	$ 428,049	$ (584)	$ (4,528)

In March 2021, Hennepin County purchased the non-HHS owned portion of the Parkside Parking Ramp for $10.7 million. In February 2020, Hennepin County purchased the Parkside Building for $8.3 million. The ramp operation and building were subsequently transferred to HHS. Due to the intended repurposing of these spaces in the coming years, the assets are classified as land additions by HHS during 2021 and 2020.

More information about the HHS' capital assets are presented in Note 4 to the basic financial statements.

Long-Term Debt

The December 2021 principal payment of $5.4 million reduced the outstanding balance on the County note payable to $172.5 million. Interest payments were made in June and December 2021 in the amount of $1.7 million each. Total long-term debt of $168.8 million represents 24.8% of the total liabilities as of December 31, 2021.

More information about the HHS debt is presented in Note 7 to the basic financial statements.

Statements of Revenues, Expenses and Changes in Net Position

The following table presents a summary of the HHS' historical revenue, expenses and changes in net position for each of the fiscal years ended December 31.

Table 3
Condensed Statements of Revenues, Expenses and Changes in Net Position
(In thousands)

	Year Ended December 31			2021–2020	2020–2019
	2021	2020	2019	Change	Change
Operating revenue	**$ 1,223,278**	$ 1,031,621	$ 1,093,486	$ 191,657	$ (61,865)
Operating expense	**1,220,995**	1,146,026	1,115,921	74,969	30,105
Operating income (loss)	**2,283**	(114,405)	(22,435)	116,688	(91,970)
Nonoperating income	**26,849**	140,639	7,073	(113,790)	133,566
Capital contributions, net	**26,186**	17,417	13,381	8,769	4,036
Change in net position	**55,318**	43,651	(1,981)	11,667	45,632
Total net position:					
Beginning of year	**129,766**	86,115	88,096	43,651	(1,981)
End of year	**$ 185,084**	$ 129,766	$ 86,115	$ 55,318	$ 43,651

Financial Highlights of Hennepin Healthcare

Operating Results

In 2021, inpatient volumes decreased approximately 9.0% and clinic visit services increased approximately 13.3% compared to 2020. Although patient discharges decreased, the patient acuity has increased over the past two years. The ALOS increased 9.6% and 5.3% during 2021 and 2020, respectively. The case mix index increased 1.7% and 9.0% during 2021 and 2020, respectively. Overall outpatient volumes increased primarily due to increases in clinic visits, wRVUs and operating room (OR) services.

In 2021, net patient service revenue increased approximately $179.6 million or 19.5% compared to 2020. Inpatient and clinic volumes decreased by 317 discharges (1.6%) and increased 77,573 clinic primary and specialty care visits 13.3%, respectively. For fiscal year 2020, inpatient and clinic volumes decreased by 2,013 discharges (9.5%) and decreased 58,559 clinic primary and specialty care visits (9.1%), respectively.

For 2021, salaries, wages and employee benefits (including contract labor) increased $46.7 million or 6.3% as compared to 2020. For fiscal year 2020, labor costs decreased by $5.4 million or 0.7% compared to 2019, as volumes sharply declined as a result of the global pandemic.

For 2021, medical supplies increased $9.6 million or 14.8% from 2020, primarily related to OR and Lab activities. For fiscal year 2020, supplies increased $11.4 million or 21.3% from 2019, primarily related to OR and Lab activities. Costs in both 2021 and 2020 were impacted by supply shortages and increased prices.

For 2021, net non-operating revenue decreased $113.3 million from 2020. For 2020, net non-operating revenue increased $134.4 million. Both 2021 and 2020 non-operating revenue impacts were due to the additional COVID-19 relief funding that was available in 2020.

Operating Statistics

The table below sets forth certain selected historical operating statistics for the years ended December 31, 2021, 2020 and 2019:

Table 4
Operating Statistics
(Dollars in thousands)

	December 31		
	2021	2020	2019
Net patient service revenue	**$ 1,102,035**	$ 987,664	$ 950,864
Net patient service revenue per discharge	**$ 58**	$ 51	$ 45
Supplies and services to net patient services	**24.4%**	25.3%	23.7%
Salaries and benefits to net patient services	**72.0%**	75.6%	79.1%
WRVUs	**2,266,388**	1,802,260	2,086,673
Clinic Visits	**662,753**	585,180	643,739
OR Cases	**11,342**	9,345	11,054
Emergency services	**158,540**	153,673	181,757
Average Length of Stay (ALOS)	**6.76**	6.17	5.86
Case mix index—all inpatient (1)	**1.84**	1.81	1.66

(1) Case mix index represents the acuity level of inpatient services rendered. Changes generally reflect the level of resources required. For Medicare and certain commercial insurance payors, this relative value weighting system directly affects the reimbursement level.

Revenue and Volume Trends

Health care revenues depend upon inpatient occupancy levels, ancillary services volume, mix of services provided and reimbursement rates for such services. Hennepin Healthcare has agreements with third-party payors, including government programs and managed-care health plans, whereby payments are based upon predetermined rates per diagnosis, fixed per diem inpatient rates or discounts from established charges. Given budget concerns at both the federal and state levels, further government plan rate reductions are highly probable and would be a significant financial detriment.

In addition, Hennepin Healthcare receives funding through several distinct programs related to its Disproportionate Share Hospital status. The formula to determine participation status is based upon inpatient days of Medicare, SSI and Medicaid patients. Hennepin Healthcare receives subsidies for the high volume of Medicaid patients served in the form of Upper Payment Limit payments for patients who utilize Hennepin Healthcare services and are billed directly to the State. In 2022 and beyond, Hennepin Healthcare anticipates additional subsidies for Medicaid patients who utilize commercial payer contracted systems in the form of Directed Payments. Hennepin Healthcare also participates in the 340b program, which allows Hennepin Healthcare to purchase medications at a discount from drug manufacturers. These various support payments are critical to supporting the mission and ensuring the financial viability of Hennepin Healthcare.

For next fiscal year, management believes, based on specific federal and state government rate changes, rates will increase less than inflationary cost. Based upon continued federal legislative actions and discussions, significant adverse challenges to government reimbursement is very likely to continue into ensuing years.

The percentage of patient service revenue related to Medicare, Medicaid, discounted arrangements and other follows for the years ended December 31, 2021, 2020 and 2019:

	Deferred Inflows		
	2021	2020	2019
Commercial/other	**20%**	21%	20%
Medicaid	**45**	44	44
Medicare	**28**	29	30
Self pay	**7**	6	6
	100%	100%	100%

Hennepin Healthcare provides significant health care to the indigent population within its primary service area. Uncompensated charges for care provided to this population included charity care of approximately $22.6, $14.9 and $18.6 million and bad debts of approximately $30.3, $25.3 and $35.8 million for the years ended December 31, 2021, 2020 and 2019, respectively. Management's projection for the ensuing year is for similar levels of uncompensated services as a percentage of total services. The impact that federal legislative action and continuation of the pandemic into the next year will have on the local economic environment and ability of residents to obtain health plan coverage is unknown.

Performance Compared to Budget

The following table compares fiscal year 2021 actual to budget information for admissions and the statements of revenue, expenses and changes in net position.

Table 5
Actual Vs. Budget

	Actuals	Budget	Variance	Percentage Variance
Net patient service revenue per discharge	$ 58,109	$ 50,023	$ 8,086	16.2%
Operating expense per discharge	64,381	52,975	11,406	21.5%
(The following amounts are in thousands)				
Net patient service revenue	$1,102,036	$1,062,451	$ 39,585	3.7%
Other operating revenue	71,068	67,145	3,923	5.8%
Total operating revenue	1,173,104	1,129,596	43,508	3.9%
Operating expenses	1,173,959	1,126,391	47,568	4.2%
Operating income (loss)	(855)	3,205	(4,060)	(126.7%)
Income from investments	351	937	(586)	(62.5%)
COVID-19 funding	22,358	-	22,358	0.0%
Other nonoperating income (loss)	(3,436)	(4,123)	687	(16.7%)
Income before capital contributions	18,418	19	18,399	
Capital contributions from related parties, net	25,786	10,500	15,286	145.6%
Excess of revenue over expenses	$ 44,204	$ 10,519	$ 33,685	

Net patient revenue was favorable to budget by $39.6 million or 3.7%, for the fiscal year ended December 31, 2021. Other operating revenue was favorable to budget by 3.9 million or 5.8%. Hennepin Healthcare did not anticipate and, therefore, did not include in the original budget additional COVID-19 funding. See also Note 1.

Operating expenses were unfavorable to budget by $47.6 million or 4.2%. The operating margin was (0.07%) which was unfavorable to the budget of 0.28%.

Economic and Other Factors and Next Year's Budget

The HHS' board and management considered many factors when setting the 2022 budget. Of primary importance are market forces and environmental factors such as:

- The ongoing potential impact of the COVID-19 pandemic on the Hospital's financial results is extremely uncertain. The HHS' board and management agreed to an adjusted FY22 budget that reflects revenues at 90% of the FY21 budget and reduced expenses to reach a breakeven operating margin.

- The impact of the Patient Protection and Affordable Care Act (PPACA) and other mandated government reductions that affect Medicare and Medicaid reimbursement.

- The uncertainty of potential federal government actions which could have a negative effect on Medicaid funding, as well as the repayment terms of the Medicare Accelerated and Advance Payment program which HHS took advantage of during the pandemic.

- HHS' application for Directed Payments (supplemental funding) impacts health systems serving a disproportionate share of Medicaid Managed Care patients.

- Commercial payor reimbursement rate adjustments and the potential impact of Accountable Care Organizations (ACO's).

- Continued implementation of supply chain cost reduction strategies against inflation challenges.

- Ongoing opportunities for revenue cycle improvements.

- Increased public expectations for quality at a lower price, including the impending price transparency reporting requirements.

- HHS' commitment to providing increased financial assistance for medically necessary care of those unable to pay.

- Competitive salaries, wages and benefits.

- Continued need for capital investment to stay current with medical and business technology, including the hospital-wide electronic health record and all other supporting systems.

Financial Highlights of Hennepin Healthcare Foundation (HHF)

- Total net position increased $5.1 million or 16.7%. This is largely due to a large grant ($1.9 million) from a family foundation to be utilized over the next three years.

- Investments increased $1.9 million to a total of $17.7 million or 11.8%

- Contributions to HHF during fiscal years 2021 and 2020 were $2.9 million and $2.5 million, respectively. This increase of 16.2% is attributable to the addition of several senior development officers and several successful mini campaigns conducted in 2021.

- Grants and Contracts to HHF during fiscal years 2021 and 2020 were $3.7 million and $4.1 million, respectively. This decrease was due to the full recognition of the Redleaf grant in the previous year, 2020.

- Investment income during fiscal years 2021 and 2020 was a gain of $1.8 million and $2.1 million, respectively. The decrease was due to the performance of the investment pool during 2021, which is largely invested in the fixed income market.

- HHF donated $3.4 million and $10.9 million to HHS during fiscal years 2021 and 2020 to support the operations and capital needs of HHS. The decrease (-68.8%) was attributable to fully transferring the last of the capital build reimbursements for the Redleaf Center for Family Healing in 2020, the largest philanthropic endeavor at HHS.

HHF, as a separately incorporated 501(c)(3) organization, was organized for the charitable purpose of raising and providing funds for the advancement of HHS.

HHF invests in various mutual funds. Donated investments are reported at fair value at the date of receipt. Investments are carried at fair value based on quoted market prices.

Financial Highlights of Hennepin Healthcare Research Institute (HHRI)

- Total net position increased $6.0 million or 12.0%. The increase is largely due to investment income in 2021 totaling $5.8 million.

- Investments increased over $5.8 million during 2021 bringing total investments at December 31, 2021 to $51.8 million.

- Grants and contract revenues recognized by HHRI during fiscal years 2021 and 2020 were $44.5 million and $36.7 million, respectively. The $7.8 million increase was mainly due to an increase in subcontract revenues in 2021.

- Investment income, including unrealized and realized gains and losses, during fiscal years 2021 and 2020 was a gain of $5.8 million and $5.9 million, respectively.

HHRI, as a separately incorporated 501(c)(3) organization, was organized to promote the research and education mission of HHS.

HHRI invests in various mutual funds established by the HHS investment policy. Investments are carried at fair value based on quoted market prices.

Contacting HHS Chief Financial Officer

HHS' basic financial statements are designed to present users with a general overview of HHS' finances and to demonstrate HHS' accountability. If you have questions about the report or need additional financial information, please contact the Office of the Chief Financial Officer.

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

Statements of Net Position
December 31, 2021 and 2020
(In Thousands)

	2021	2020
Assets and Deferred Outflows		
Current assets:		
Cash and cash equivalents (Note 3)	**$ 193,330**	$ 190,048
Accounts receivable:		
Patient accounts receivable, net of estimated uncollectibles of $71,660 and $50,980 in 2021 and 2020, respectively	**109,946**	97,688
Other	**28,143**	25,796
Third-party payor settlements	**42,297**	54,906
Due from related parties, net	**2,776**	4,162
Inventories	**11,191**	12,778
Prepaid expenses and other current assets	**14,474**	18,179
Total current assets	**402,157**	403,557
Investments	**24,061**	20,567
Assets limited as to use:		
Cash and cash equivalents	**10,645**	7,538
Investments	**52,084**	47,014
Receivables, other	**5,569**	5,333
Total assets limited as to use	**68,298**	59,885
Capital assets (Note 4):		
Nondepreciable	**55,974**	47,824
Depreciable, net of accumulated depreciation	**366,963**	375,697
	422,937	423,521
Other assets	**4,382**	3,593
Total assets	**921,835**	911,123
Deferred outflows (Note 8)	**181,150**	35,091
Total assets and deferred outflows	**$ 1,102,985**	$ 946,214

See notes to financial statements.

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

Statements of Net Position
December 31, 2021 and 2020
(In Thousands)

	2021	2020
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Current maturities of long-term debt	**$ 7,330**	$ 7,736
Accounts payable	**35,874**	30,058
Third-party payor settlements	**93**	111
Medicare advanced payments	**41,042**	25,524
Accrued expenses:		
Salaries, wages and benefits	**105,319**	89,351
Other	**57,390**	53,707
Total current liabilities	**247,048**	206,487
Employee benefit obligations (Note 9):		
Retiree health care program	**26,903**	25,810
Other employee benefits	**17,568**	17,560
Medicare advanced payments, less current portion	**-**	40,346
Long-term debt, net of current maturities (Notes 1 and 7)	**168,772**	176,150
Net pension liability (Note 8)	**226,498**	312,646
Total liabilities	**686,789**	778,999
Deferred inflows (Note 8 and 9)	**231,112**	37,449
Total liabilities and deferred inflows	**917,901**	816,448
Commitments and contingencies (Note 11)		
Net position:		
Net investment in capital assets	**246,835**	239,635
Restricted:		
Expendable	**40,630**	34,546
Nonexpendable	**27,668**	25,339
Unrestricted	**(130,049)**	(169,754)
Total net position	**185,084**	129,766
Total liabilities, deferred inflows, and net position	**$ 1,102,985**	$ 946,214

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2021 and 2020
(In Thousands)

	2021	2020
Operating revenues:		
Net patient service revenue, net of provision for bad debts of $72,008 and $72,094 in 2021 and 2020, respectively	**$ 1,102,036**	$ 922,445
Other operating revenue:		
Grants	**80,139**	75,983
Other	**41,103**	33,193
Net operating revenues	**1,223,278**	1,031,621
Operating expenses:		
Salaries and benefits	**814,966**	774,407
Supplies and services	**291,192**	266,905
Depreciation and amortization	**43,575**	44,048
Utilities and maintenance	**46,108**	27,751
Taxes and surcharges	**17,607**	22,189
Other	**7,547**	10,726
Total operating expenses	**1,220,995**	1,146,026
Income (loss) from operations	**2,283**	(114,405)
Nonoperating revenue (expense):		
Interest expense	**(3,566)**	(4,041)
Contributions, net	**130**	329
Investment income	**7,927**	6,782
COVID-19 funding (Note 1)	**22,358**	137,569
Total nonoperating revenue	**26,849**	140,639
Income before capital contributions	**29,132**	26,234
Capital contributions from related parties, net	**26,186**	17,417
Increase in net position	**55,318**	43,651
Total net position, beginning of year	**129,766**	86,115
Total net position, end of year	**$ 185,084**	$ 129,766

See notes to financial statements.

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

Statements of Cash Flows
Years Ended December 31, 2021 and 2020
(In Thousands)

	2021	2020
Cash flows from operating activities:		
Receipts from third-party payors and patients	**$ 1,117,887**	$ 998,935
Grants	**80,139**	74,392
Other receipts, net	**16,260**	58,044
Payments to employees for salaries and benefits	**(873,383)**	(772,685)
Payments to suppliers	**(328,231)**	(302,724)
Net cash provided by operating activities	**12,672**	55,962
Cash flows from noncapital financing activities:		
COVID-19 funding	**22,358**	137,569
Gifts and bequests, net	**44**	156
Net cash provided by noncapital financing activities	**22,402**	137,725
Cash flows from capital and related financing activities:		
Contributions from related parties	**15,505**	9,117
Purchases of capital assets	**(32,332)**	(34,130)
Principal payments on long-term debt	**(7,784)**	(6,305)
Interest paid on long-term debt	**(3,566)**	(4,041)
Other	**(714)**	(3,266)
Net cash used in capital and related financing activities	**(28,891)**	(38,625)
Cash flows from investing activities:		
Purchase of investments	**(4,121)**	(8,081)
Sale of investments	**1,212**	5,093
Investment earnings received	**3,115**	3,556
Net cash provided by investing activities	**206**	568
Net increase in cash and cash equivalents	**6,389**	155,630
Cash and cash equivalents:		
Beginning of year	**197,586**	41,956
End of year	**$ 203,975**	$ 197,586
Cash and cash equivalents are reported in the accompanying statements of net position as follows:		
Cash and cash equivalents	**$ 193,330**	$ 190,048
Assets limited as to use	**10,645**	7,538
	$ 203,975	$ 197,586

(Continued)

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

Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020
(In Thousands)

	2021	2020
Reconciliation of income (loss) from operations to net cash provided by operating activities:		
Income (loss) from operations	**$ 2,283**	$ (114,405)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation and amortization	**43,575**	44,048
Provision for bad debts and charity care	**136,967**	72,094
(Gain) loss on disposal of assets	**(22)**	98
Changes in assets and liabilities related to operations:		
Accounts receivable	**(151,808)**	(36,155)
Prepaid expenses and inventories	**4,504**	(9,036)
Accounts payable	**5,816**	3,229
Due from related parties, net	**1,386**	142
Medicare accelerated payments	**(24,828)**	65,870
Deferred inflows, outflows and net pension liability	**(38,544)**	(16,917)
Accrued expenses and estimated third-party settlements	**33,343**	46,994
Net cash provided by operating activities	**$ 12,672**	$ 55,962
Noncash investing, capital and financing activities:		
Capital assets financed through loans and payables	**$ -**	$ 1,135
Donated land from related party	**$ 10,681**	$ 8,300

See notes to financial statements.

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

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

HHS incorporates an integrated network of physicians, hospital and ambulatory care services. The main campus in Minneapolis, Minnesota, includes a Level 1 Adult and Pediatric Trauma Center and is also an academic medical center and public hospital, and operates primary and specialty care clinics. HHS also operates community and convenience care clinics in the surrounding metropolitan area. As of December 31, 2021, HHS operated a hospital with licensed capacity of 894 beds and 65 bassinets, 452 beds and 65 bassinets of which were available, as well as 9 primary care clinics and 34 specialty care clinics, and employed approximately 872 providers, 262 residents and 152 pharmacists in 9 pharmacy locations.

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

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

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14,* HHF and HHRI are included in HHS' financial statements as blended component units. HHS is the sole corporate member and has the final authority to approve voting members of both HHF and HHRI Boards. Hereinafter, the combined entities are referred to as "the Organization."

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

(In Thousands)

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

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

Net patient service revenue and patient accounts receivable: Gross patient service revenue is recorded when services are provided at HHS' established rates, with contractual adjustments and provision for bad debts deducted to arrive at net patient service revenue. HHS has agreements with third-party payors, which provide for reimbursement to HHS at amounts that differ from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges, per diem payments, and risk-sharing contracts. Net patient service revenue, as reflected in the accompanying statements of revenues, expenses and changes in net position for the years ended December 31, 2021 and 2020, consisted of the following:

	2021	2020
Gross patient charges	$ 3,133,450	$ 2,643,257
Deductions from gross patient charges	(1,966,572)	(1,716,776)
Intergovernmental transfers	46,125	45,501
Uncompensated care services, Hennepin County	26,000	22,557
Provision for bad debts and charity care	(136,967)	(72,094)
Net patient service revenue	$ 1,102,036	$ 922,445

As a safety net hospital, HHS receives supplemental Medicaid payments, also known as Upper Payment Limit (UPL) payments, for inpatient, outpatient, managed care, physician, dental, CRNA and ambulance services through intergovernmental transfers in accordance with specific state statutes subject to federal regulations and approval. These UPL amounts are recorded as net patient service revenue in the statements of revenues, expenses and changes in net position. Estimated UPL amounts due to HHS at December 31, 2021 and 2020, were approximately $28.2 million and $52.7 million, respectively, and are recorded in the statements of net position as third-party payor settlements. The effect of changes in estimates related to prior years is an increase in net patient service revenue of approximately $10.0 million and $5.0 million for the years ended December 31, 2021 and 2020, respectively.

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

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

(In Thousands)

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

Medicare: Payment arrangements under the Medicare program are as follows: inpatient acute care, psychiatric services and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The majority of outpatient services are paid at Ambulatory Payment Classification (APC) rates; certain outpatient services, including kidney acquisition and medical education costs related to Medicare beneficiaries, are paid based on a cost-reimbursement methodology. HHS also receives Disproportionate Share Hospital reimbursement for serving a disproportionate share of indigent patients based on a factor of Medicaid-eligible days to total days, plus a Social Security income percentage applied to Medicare inpatient prospective payments. HHS is reimbursed for cost-reimbursable items at an estimated rate, with final settlement determined after submission of annual cost reports by HHS and audits thereof by the Medicare fiscal intermediary. The net impact from final settlements and changes in estimates related to prior years was an increase in net patient service revenue of approximately $0.9 million and $0.8 million for the years ended December 31, 2021 and 2020, respectively. Medicare cost reports have been final-settled through 2016. Various settled cost reports have pending appeals and re-openings to address a variety of issues.

Medicaid: Medicaid payments for inpatient, outpatient and physician services are primarily based on prospective, per-case rates. The inpatient rate is based upon the All-Patient Refined (APR) Diagnostic Related Grouping (DRG) methodology and utilizes the Medicare Cost Report as the base document in determining the statewide Medicaid operation rate and the HHS Disproportionate Population Adjustment. The outpatient rate is based on the Medicare APC methodology, modified by Department of Human Services (DHS) for Medicaid reimbursement. The 2021 and 2020 outpatient payments reflect the fee schedule rates less an 8.5% ratable reduction. The physician services payment is based upon the Medicare Relative Value Units (RVUs). The 2021 physician payments reflect the fee schedule rates less a 7% ratable reduction. Approximately 79% of the Medicaid services at HHS are Prepaid Medical Assistance Program (PMAP) patients. PMAP rates are negotiated directly with insurers, and are generally higher than those paid directly by the State for enrollees not assigned an insurer.

Credit risk from payors: As of and for the years ended December 31, 2021 and 2020, HHS' gross patient charges and related receivables by payor or payor categories as a percent of the totals were approximately as follows:

	Accounts Receivable		Gross Charges	
	2021	2020	2021	2020
Commercial/other	40%	38%	20%	21%
Medicaid	32	31	45	44
Medicare	17	18	28	29
Self pay	11	13	7	6
	100%	100%	100%	100%

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

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

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

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

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

Medicare advanced payments of approximately $65.9 million were received by HHS during the year ended December 31, 2020. These are advances that must be repaid to the extent not recouped in connection with future Medicare claims billed. The Medicare advanced payments are interest-free for up to 29 months and the program currently requires that the Centers for Medicare & Medicaid Services (CMS) recoup the accelerated payments beginning 12 months after receipt by the provider, by withholding future Medicare fee-for-service payments for claims until such time as the full accelerated payment has been recouped. The program currently requires that any outstanding balance remaining after 29 months must be repaid by the provider or be subjected to a 4.00% annual interest rate. CMS is reevaluating pending and new applications for accelerated payments in light of significant other relief provided by the CARES Act. Recoupment of accelerated payments began in April 2021. As of December 31, 2021, CMS recouped $24.8 million Medicare claims and the liability is reflected within Medicare advanced payments in the statements of net position.

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

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

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

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

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

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

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

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

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

Net position: The statements of net position display HHS' assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets—Net capital assets reduced by the outstanding balance of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted, expendable—Net position that is subject to donor stipulations that will be available to HHS for direct use by a designated program as specified by the donor.

Restricted, nonexpendable—Net position that is subject to donor stipulations that must be maintained permanently by HHS.

Unrestricted—Net position that does not meet the definitions of restricted or net investment in capital assets above.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), HHS' policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

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

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

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

Related-party transactions: HHS is a major provider of health care services for Hennepin Health (HH), an enterprise fund of the County. HHS has an agreement with HH to provide services to enrollees of the Hennepin Health program whereby HHS is reimbursed based upon services performed and program outcomes. Net revenues from HH were approximately $107.8 million and $78.2 million for the years ended December 31, 2021 and 2020, respectively. HHS has net receivables from HH of approximately $14.5 million and $6.9 million at December 31, 2021 and 2020, respectively.

HHS records amounts received from County for capital asset additions as capital contributions. During 2021 and 2020, HHS received capital contributions of approximately $26.2 million and $28.3 million, respectively.

HHS provides services to the County residents that are uninsured and indigent for which the County reimburses HHS. HHS reported $26.0 million and $22.6 million within net patient service revenue for this reimbursement during the years ended December 31, 2021 and 2020, respectively.

The County provided funding for the construction of a clinic and specialty center building under an agreement with HHS. The County funding was obtained in part by the County issuing General Obligation Bonds and is to be repaid by HHS over a term of 25 years at a blended interest rate of approximately 1.5%. HHS owed the County $172.5 million and $177.9 million as of December 31, 2021 and 2020, respectively (see Note 7).

The County also provided funding to HHS related to the Coronavirus Relief Fund Program (CRF), which was established to provide economic relief for grants to local businesses and non-profits adversely affected by the COVID-19 pandemic. HHS reported as nonoperating revenue $17.5 million and $44.0 million as of December 31, 2021 and 2020, respectively.

HHS has a $0.5 million net receivable and $0.3 million net payable from the County as of December 31, 2021 and 2020, respectively, which is included in due from related parties on the accompanying statements of net position.

HHS is a participant in Hennepin County's central mobile equipment internal service fund, which is used to account for the costs of purchasing, operating and replacing all automotive and other mobile equipment used by HHS and other components and departments of the County. At December 31, 2021, HHS purchased fleet of approximately 65 vehicles which included 38 ambulances. HHS paid $4.0 million and $4.4 million during the years ended December 31, 2021 and 2020, respectively, for the use of the fleet. Payments cover funded depreciation to replace the existing fleet, maintenance, fuel and administrative costs. Increases to the total fleet size require vehicle purchases by HHS and subsequent contribution to the County at the time of addition.

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

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

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

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

COVID-19 pandemic: In January 2020, the Secretary of the U.S. Department of Health and Human Services declared a national public health emergency due to a novel strain of coronavirus (COVID-19). In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The resulting measures to contain the spread and impact of COVID-19 have adversely affected HHS' results of operations. As a result of the COVID-19 pandemic, federal and state governments have passed legislation, promulgated regulations and taken other administrative actions intended to assist health care providers in providing care to COVID-19 and other patients during the public health emergency. HHS' accounting policies for the recognition of these stimulus monies are described below.

COVID-19 funding: The Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), which was signed into law on March 27, 2020, and other legislative actions have mitigated some of the economic disruption caused by the COVID-19 pandemic. For the years ended December 31, 2021 and 2020, HHS received $4.7 million and $78.9 million, respectively, of distributions from the Provider Relief Fund and $17.5 million and $44 million, respectively, in Coronavirus Relief Funds allocated from the County. For the year ended December 31, 2021, HHS received $0.2 million allocated Coronavirus Relief Funds by local cities. HHS determined that the full $22.4 million and $122.9 million, qualified as reimbursement for lost revenue and direct expenses and was therefore recognized as nonoperating revenue in the statements of revenues, expenses and changes in net position for the years ended December 31, 2021 and 2020, respectively. The recognition of amounts received was conditioned upon the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, certification that payment was to be used to prevent, prepare for and respond to COVID-19 and was intended to reimburse the recipient only for health care–related expenses or lost revenue that are attributable to COVID-19. HHS recognizes grant payments as income because there was reasonable assurance HHS had complied with the conditions associated with the grant. HHS' estimates could change materially in the future based on the evolving grant compliance guidance provided by the government. Also for the years ended December 31, 2021 and 2020, HHS received $2.0 million and $2.4 million, respectively, from the CARES Act COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing and Treatment of the Uninsured program, which was recognized as net patient service revenue in the statements of revenues, expenses and changes in net position.

(In Thousands)

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

This program is administered by the Health Resources and Services Administration to provide claims reimbursements to health care providers for conducting COVID-19 testing for the uninsured and to support health care related expenses attributable to the treatment of uninsured individuals with COVID-19.

In addition, the CARES Act provides for an expansion of the Medicare Accelerated and Advance Payment Program whereby inpatient acute care hospitals and other eligible providers may request accelerated payment of up to 100% of their Medicare payment amount for a six-month period to be repaid through withholding of future Medicare fee-for-service payments beginning 12 months after receipt. Recoupment of accelerated payments began in April 2021.

Reclassifications: Certain prior year amounts on the financial statements have been reclassified to conform to the December 31, 2021 presentation. These reclassifications had no effect on the change in net position or total net position as previously reported.

Note 2. Community Benefit

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

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

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

	2021	2020
Costs of charity care, including discounts offered to uninsured patients	$ 22,618	$ 14,938
Costs in excess of Medicaid payments, net	29,063	58,700
Medicaid surcharge and MinnesotaCare tax	16,212	21,266
Education workforce development and research (1)	20,362	21,155
Community and subsidized health services costs (1)	1,934	1,122
Community building and other community benefit costs (1)	68	54
Total cost of community benefits (2)	90,257	117,235
Other community contributions:		
Costs in excess of Medicare payments	95,801	90,630
Other care provided without compensation (bad-debt expense) (3)	30,329	25,266
Total value of community contributions	$ 216,387	$ 233,131

(1) Grant monies of approximately $10.5 million and $10.9 million in 2021 and 2020, respectively, are excluded by offsetting to costs incurred.

(In Thousands)

Note 2. Community Benefit (Continued)

(2) As defined by the CHA/VHA guidelines:
- CHA (Catholic Health Association) is the national membership association of Catholic Health Ministry.
- VHA (VHA, Inc.) is a national cooperative of leading not-for-profit health care corporations.

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

Note 3. Cash and Cash Equivalents

The County's Office of Budget and Finance is responsible for the treasury function of all the County's deposits and investments held by its funds. Cash from all funds are pooled for deposit and investment purposes. HHS and HHF comprised $211.0 million or 11.8% and $202.6 million or 12.9% of the County's total cash and investments as of December 31, 2021 and 2020, respectively. As of December 31, 2021, a majority of the pool's investments were invested in U.S. government and agency issues, with the remainder invested in repurchase agreements and money market funds. Detailed information about the County's deposits with financial institutions, repurchase agreements, interest rate risk, credit risk, concentration of credit risk, and custodial credit risk can be obtained directly from the County's 2021 financial statements. Investment earnings and losses are allocated based on average monthly cash balances. HHRI's cash equivalents include highly liquid investments with maturities of three months or less.

Note 4. Capital Assets

Capital asset activity as of December 31, 2021 and 2020 was as follows:

	Balance at December 31, 2020	Additions and Transfers	Retirements and Disposals	Balance at December 31, 2021	Estimated Years
Land	$ 36,903	$ 10,681	$ -	$ 47,584	
Buildings and improvements	607,670	15,867	(53)	623,484	5–40
Leasehold improvements	27,024	3,947	(2,113)	28,858	3–15
Furniture and equipment	299,360	15,432	(1,041)	313,751	3–20
Software capital	7,195	849	-	8,044	3–7
Total depreciable capital assets	941,249	36,095	(3,207)	974,137	
Projects in progress	10,921	(2,531)	-	8,390	
Less accumulated depreciation:					
Buildings	(313,163)	(22,712)	50	(335,825)	
Leasehold improvements	(16,792)	(1,702)	877	(17,617)	
Furniture and equipment	(231,287)	(18,271)	723	(248,835)	
Software capital	(4,310)	(890)	303	(4,897)	
Total accumulated depreciation	(565,552)	$ (43,575)	$ 1,953	(607,174)	
Capital assets, net	$ 423,521			$ 422,937	

(In Thousands)

Note 4. Capital Assets (Continued)

	Balance at December 31, 2019	Additions and Transfers	Retirements and Disposals	Balance at December 31, 2020	Estimated Years
Land	$ 28,603	$ 8,300	$ -	$ 36,903	
Buildings and improvements	590,650	17,020	-	607,670	5–40
Leasehold improvements	26,380	644	-	27,024	3–15
Furniture and equipment	290,273	9,741	(654)	299,360	3–20
Software capital	4,519	2,676	-	7,195	3–7
Total depreciable capital assets	911,822	30,081	(654)	941,249	
Projects in progress	9,684	1,237	-	10,921	
Less accumulated depreciation:					
Buildings	(291,356)	(21,807)	-	(313,163)	
Leasehold improvements	(14,698)	(2,094)	-	(16,792)	
Furniture and equipment	(212,407)	(19,436)	556	(231,287)	
Software capital	(3,599)	(711)	-	(4,310)	
Total accumulated depreciation	(522,060)	$ (44,048)	$ 556	(565,552)	
Capital assets, net	$ 428,049			$ 423,521	

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

Note 5. Investments and Assets Limited As to Use

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

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs are other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3: Pricing inputs include those that are significant to the fair value of the financial assets or financial liabilities and are not observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

(In Thousands)

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

The Organization's assets and liabilities measured at fair value on a recurring basis are limited to investments. The fair values of the Organization's investments in mutual funds are included in Level 1, which were determined through unadjusted, quoted prices in active markets. The Organization did not have any Level 2 or Level 3 investments as of December 31, 2021 and 2020.

As of December 31, 2021, the Organization had the following investments:

	HHS	HHF	HHRI	Total
Mutual funds:				
Domestic equities	$ 5,280	$ 8,136	$ 25,233	$ 38,649
International	-	3,231	9,580	12,811
Fixed income	1,336	6,360	16,989	24,685
Total investments	$ 6,616	$ 17,727	$ 51,802	$ 76,145

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

Investments	$ 24,061
Assets limited as to use, investments	52,084
Total investments	$ 76,145

As of December 31, 2020, the Organization had the following investments:

	HHS	HHF	HHRI	Total
Mutual funds:				
Domestic equities	$ 4,492	$ 6,663	$ 20,954	$ 32,109
International	-	3,062	9,068	12,130
Fixed income	1,247	6,134	15,961	23,342
Total investments	$ 5,739	$ 15,859	$ 45,983	$ 67,581

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

Investments	$ 20,567
Assets limited as to use, investments	47,014
Total investments	$ 67,581

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

(In Thousands)

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

As of December 31, 2021 and 2020, the investments, as rated by Moody's, had the following ratings:

	2021		2020	
Type of Investment	Carrying Amount	Quality Rating	Carrying Amount	Quality Rating
Mutual funds—fixed income	$ 24,685	AAA - BB	$ 23,342	AAA - BB
Not rated:				
Mutual funds—domestic equities	38,649		32,109	
Mutual funds—international	12,811		12,130	
Total investment	$ 76,145		$ 67,581	

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

As of December 31, 2021 and 2020, not more than 5% of the Organization's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds and external investment pools or other pooled investments.

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

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

Note 6. Endowments

HHRI's endowment consists of six individual funds established for a variety of purposes. The entire endowment is classified as restricted nonexpendable. HHRI's endowment reported in restricted nonexpendable net position as of December 31, 2021 and 2020 is $21.3 million and $19.3 million, respectively. HHF's restricted nonexpendable net position totaled $4.5 million and $4.1 million as of December 31, 2021 and 2020, respectively. HHS' restricted nonexpendable net position totaled $1.9 million as of December 31, 2021 and 2020.

(In Thousands)

Note 7. Long-Term Debt

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

	2021	2020
Notes payable to the County, 2.19% blended interest rate, due in semi-annual interest only installments ranging from $0.1 million to $2.1 million and annual principal installments ranging from $5.8 million to $11.5 million through December 2041	$ 172,534	$ 177,905
Various capital leases, due in monthly installments of $237, including interest at a rate of 2.0%-5.5%, through September 2024	3,260	5,673
Other, promissory note	308	308
	176,102	183,886
Less current maturities	7,330	7,736
	$ 168,772	$ 176,150

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

	Principal	Interest	Total
Years ending December 31:			
2022	$ 7,330	$ 4,723	$ 12,053
2023	7,053	4,533	11,586
2024	7,052	4,347	11,399
2025	7,343	4,157	11,500
2026	7,200	3,962	11,162
2027-2031	39,879	16,750	56,629
2032-2036	46,231	11,029	57,260
2037-2041	54,014	4,352	58,366
	$ 176,102	$ 53,853	$ 229,955

(In Thousands)

Note 7. Long-Term Debt (Continued)

Changes in long-term debt are as follows:

	Balance, Beginning	Borrowings	Payments	Balance, Ending
		2021		
Notes payable	$ 178,213	$ -	$ (5,371)	$ 172,842
Capital lease	5,673	-	(2,413)	3,260
	$ 183,886	$ -	$ (7,784)	$ 176,102
		2020		
Notes payable	$ 183,221	$ -	$ (5,008)	$ 178,213
Capital lease	6,970	-	(1,297)	5,673
	$ 190,191	$ -	$ (6,305)	$ 183,886

Note 8. Pension Plans

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

1. General Employees Retirement Fund (GERF)

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

2. Public Employees Police and Fire Fund (PEPFF)

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

3. Public Employees Correctional Fund (PECF)

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

Note 8. Pension Plans (Continued)

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

1. GERF Benefits

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

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

2. PEPFF Benefits

Benefits for PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after 10 years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after 10 years up to 100% after 20 years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

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

Note 8. Pension Plans (Continued)

3. PECF Benefits

Benefits for PECF members first hired after June 30, 2010, vest on a prorated basis from 50% after five years up to 100% after 10 years of credited service. The annuity accrual rate is 1.9% of average salary for each year of service in that plan. For PECF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

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

Contributions: Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. HHS' contributions to all plans during the years ended December 31, 2021 and 2020 were equal to the required contributions under the statutes.

1. GERF Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in calendar years 2021 and 2020. HHS was required to contribute 7.5% for Coordinated Plan members in calendar years 2021 and 2020. HHS' contributions to the GERF for the years ended December 31, 2021 and 2020 were $28.6 million and $26.6 million, respectively.

2. PEPFF Contributions

Plan members were required to contribute 11.8% of their annual covered salary in calendar years 2021 and 2020. HHS was required to contribute 17.7% of pay for PEPFF members in calendar years 2021 and 2020. HHS' contributions to the PEPFF for the years ended December 31, 2021 and 2020 were $2.7 million and $2.5 million, respectively.

3. PECF Contributions

Plan members were required to contribute 5.8% of their annual covered salary in calendar years 2021 and 2020. HHS was required to contribute 8.8% of pay for PECF members in calendar years 2021 and 2020. HHS' contributions to the PECF for the years ended December 31, 2021 and 2020 were $0.3 million.

(In Thousands)

Note 8. Pension Plans (Continued)

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

1. GERF Pension Costs

At December 31, 2021 and 2020, HHS reported a liability of $217.5 million and $296.0 million, respectively, for its proportionate share of the GERF's net pension liability. HHS' net pension liability reflected a reduction due to the State of Minnesota's contribution of $16.0 million to the fund in 2021. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. At December 31, 2021 and 2020, the State of Minnesota's proportionate share of the net pension liability associated with HHS totaled $6.6 million and $9.1 million, respectively. The net pension liability was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability and related deferred amounts were determined by actuarial valuations as of those dates. HHS' proportion of the net pension liability was based on the contributions received by PERA during the measurement periods for employer payroll paid dates from July 1, 2020 through June 30, 2021, for 2021 measurement, and July 1, 2019 through June 30, 2020, for 2020 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021 and 2020, HHS' proportionate share was 5.1% and 4.9%, respectively.

For the years ended December 31, 2021 and 2020, HHS recognized pension expense of $(3.7) million and $8.3 million, respectively, for its proportionate share of the GERF's pension expense. In addition, for the years ended December 31, 2021 and 2020, HHS recognized $0.6 million and $0.8 million, respectively, as pension expense and grant revenue for its proportionate share of the State of Minnesota's contributions to the GERF in connection with the plan's special funding situation.

At December 31, 2021 and 2020, HHS reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,282	$ (6,634)	$ 2,672	$ (1,120)
Changes in actuarial assumptions	132,829	(4,647)	-	(10,965)
Net difference between projected and actual investment earnings	-	(188,986)	3,921	-
Changes in proportion	8,529	(1,219)	2,144	(8,305)
Contributions subsequent to the measurement date	15,678	-	14,433	-
	$ 158,318	$ (201,486)	$ 23,170	$ (20,390)

(In Thousands)

Note 8. Pension Plans (Continued)

Employer contributions subsequent to the measurement date of approximately $15.7 million, which are reported as deferred outflows of resources related to pensions, will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31:		
2022	$	(7,533)
2023		(370)
2024		443
2025		(51,386)
	$	(58,846)

2. PEPFF Pension Costs

At December 31, 2021 and 2020, HHS reported a liability of $9.2 million and $16.3 million, respectively, for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability and related deferred amounts were determined by actuarial valuations as of those dates. HHS' proportion of the net pension liability was based on the contributions received by PERA during the measurement periods for employer payroll paid dates from July 1, 2020 through June 30, 2021, for 2021 measurement, and July 1, 2019 through June 30, 2020, for 2020 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021 and 2020, HHS' proportion was 1.2%.

The State of Minnesota also contributed $18.0 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2021. The contribution consisted of $9.0 million in direct state aid that does meet the definition of a special funding situation and $9.0 million in fire state aid that does not meet the definition of a special funding situation. HHS' net pension liability reflected a reduction due to the State of Minnesota's contribution of $9.0 million to the fund in 2020. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. At December 31, 2021, the State of Minnesota's proportionate share of the net pension liability associated with HHS totaled $0.4 million.

For the years ended December 31, 2021 and 2020, HHS recognized pension expense of $(0.9) million and $1.9 million, respectively, for its proportionate share of the PEPFF's pension expense. HHS also recognized $0.1 million for the years ended December 31, 2021 and 2020, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing $9.0 million to the PEPFF each year, starting in fiscal year 2014.

(In Thousands)

Note 8. Pension Plans (Continued)

At December 31, 2021 and 2020, HHS reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,799	$ -	$ 744	$ (804)
Changes in actuarial assumptions	13,500	(5,436)	5,649	(10,563)
Net difference between projected and actual investment earnings	-	(17,516)	391	-
Changes in proportion	322	(1,317)	524	(1,027)
Contributions subsequent to the measurement date	1,424	-	1,311	-
	$ 17,045	$ (24,269)	$ 8,619	$ (12,394)

Employer contributions subsequent to the measurement date of approximately $1.4 million, which are reported as deferred outflows of resources related to pensions, will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31:	
2022	$ (6,746)
2023	(1,287)
2024	(1,356)
2025	(2,112)
2026	2,853
	$ (8,648)

3. PECF Pension Costs

At December 31, 2021 and 2020, HHS reported a liability of $(0.2) million and $0.4 million, respectively, for its proportionate share of the PECF's net pension liability. The net pension liability was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. HHS' proportion of the net pension liability was based on the contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021, for 2021 measurement, and July 1, 2019 through June 30, 2020, for 2020 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021 and 2020, HHS' proportion was 1.4%.

For the years ended December 31, 2021 and 2020, HHS recognized pension expense of $(0.5) million and $(0.7) million, respectively, for its proportionate share of the PECF's pension expense.

(In Thousands)

Note 8. Pension Plans (Continued)

At December 31, 2021 and 2020, HHS reported its proportionate share of the PECF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ (135)	$ 3	$ (144)
Changes in actuarial assumptions	1,460	(22)	-	(725)
Net difference between projected and actual investment earnings	-	(1,865)	95	-
Changes in proportion	7	(5)	15	-
Contributions subsequent to the measurement date	142	-	147	-
	$ 1,609	$ (2,027)	$ 260	$ (869)

Employer contributions subsequent to the measurement date of approximately $0.1 million, which are reported as deferred outflows of resources related to pensions, will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31:	
2022	$ (70)
2023	(14)
2024	33
2025	(509)
	$ (560)

Actuarial assumptions: The total pension liabilities for all plans in the June 30, 2021 valuations were determined using the following actuarial assumptions:

Inflation	2.25% per year
Active member payroll growth	3.00% per year
Investment rate of return	6.50%

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 29 years of service and 6.0% per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75% after one year of service to 3.0% after 24 years of service. In the Correctional Plan, salary growth assumptions range from 11.0% at age 20 to 3.0% at age 60.

Note 8. Pension Plans (Continued)

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan and the Correctional Plans are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions used in the June 30, 2021 valuation were based on the results of actuarial experience studies. Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The most recent four-year experience studies for the Police and Fire and the Correctional Plan were completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions occurred specific to each plan's June 30, 2021 valuation:

GERF

Changes in actuarial assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in plan provisions:

- There have been no changes since the prior valuation.

PEPFF

Changes in actuarial assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The inflation assumption was changed from 2.50% to 2.25%.
- The payroll growth assumption was changed from 3.25% to 3.00%.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60% to 70%. Minor changes to form of payment assumptions were applied.

Note 8. Pension Plans (Continued)

Changes in plan provisions:

- There have been no changes since the prior valuation.

PECF

Changes in actuarial assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The inflation assumption was changed from 2.50% to 2.25%.
- The payroll growth assumption was changed from 3.25% to 3.00%.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 10, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 10, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed as recommended in the July 10, 2020 experience study. The new rates predict more terminations, both in the three-year select period (based on service) and the ultimate rates (based on age).
- Assumed rates of disability lowered.
- Assumed percent married for active members was lowered from 85% to 75%.
- Minor changes to form of payment assumptions were applied.

Changes in plan provisions:

- There have been no changes since the prior valuation.

(In Thousands)

Note 8. Pension Plans (Continued)

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

	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	33.5%	5.10%
Private markets	25.0%	5.90%
Fixed income	25.0%	0.75%
International equity	16.5%	5.30%
	100.0%	

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

Discount rate: The discount rate used to measure the total pension liability in 2021 was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the GERF and PEPFF were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease in Discount Rate	June 30, 2021 Discount Rate	1% Increase in Discount Rate
GERF discount rate	5.50%	6.50%	7.50%
HHS proportionate share of the GERF NPL	$ 443,681	$ 217,545	$ 31,987
PEPFF discount rate	5.50%	6.50%	7.50%
HHS proportionate share of the PEPFF NPL	$ 29,163	$ 9,186	$ (7,191)
PECF discount rate	5.50%	6.50%	7.50%
HHS proportionate share of the PECF NPL	$ 2,427	$ (233)	$ (2,344)

(In Thousands)

Note 8. Pension Plans (Continued)

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

Defined contribution plans: Effective January 1, 2009, HHS established a 401(a) retirement plan, as a PERA alternative, for certain employees hired on or after that date. The plan requires a 6% employer contribution, which totaled approximately $3.0 million and $3.1 million in 2021 and 2020, respectively. Effective January 1, 2012, a 401(a) retirement plan was made available to certain physicians. Contributions are based upon a percentage of eligible employees' compensation and totaled approximately $8.8 million and $8.4 million in 2021 and 2020, respectively.

Note 9. Other Employee Benefits

Other long-term employee benefits are as follows:

	Balance at December 31, 2020	Additions	Reductions	Balance at December 31, 2021	Amounts Due Within One Year
Other postemployment benefits, Retiree health care program (GASB 75)	$ 25,810	$ 3,718	$ (2,625)	$ 26,903	$ -
Workers' compensation (Note 10)	17,700	6,508	(6,308)	17,900	1,700
Personal choice account	2,008	-	(192)	1,816	448
	$ 45,518	$ 10,226	$ (9,125)	$ 46,619	$ 2,148

	Balance at December 31, 2019	Additions	Reductions	Balance at December 31, 2020	Amounts Due Within One Year
Other postemployment benefits, Retiree health care program (GASB 75)	$ 28,669	$ 2,879	$ (5,738)	$ 25,810	$ -
Workers' compensation (Note 10)	13,700	8,849	(4,849)	17,700	1,700
Personal choice account	1,426	755	(173)	2,008	449
	$ 43,795	$ 12,483	$ (10,760)	$ 45,518	$ 2,149

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

Employees covered by benefit terms: At December 31, 2021 and 2020, the following employees were covered by the benefit terms:

	2021	2020
Active employees not fully eligible for benefits	4,733	4,908
Inactive employees currently receiving benefits	92	104
Active employees fully eligible for benefits	1,214	1,208
	6,039	6,220

(In Thousands)

Note 9. Other Employee Benefits (Continued)

Total retiree health care program liability: HHS' total OPEB liabilities of $26.9 million and $25.8 million as of December 31, 2021 and 2020, respectively, were measured as of December 31, 2020 and 2019, respectively, and were determined by actuarial valuations as of December 31, 2019.

Plan description: Certain union HHS employees who have HHS-sponsored health coverage in force as of their termination date and who meet certain age and length of service requirements may be eligible for HHS' retiree health plan. In 2007, HHS offered a retiree health alternative called the personal choice account (PCA) for nonunion employees, in conjunction with the County, which can be used for qualifying health expenses of covered employees, as an alternative to HHS' health care benefits for retired nonunion employees. Nonunion employees who chose not to participate in the PCA benefit remained eligible to participate in the retiree health program.

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

Funding policy: HHS follows the County's funding policy whereby retiree health care benefits are funded in relation to the annual required contribution (ARC) on a pay-as-you-go basis. Either the HHS Board or the County Board may change the funding policy at any time. In 2021, HHS paid eligible single premium amounts for the enrolled retirees described above. Eligible retiree family members, as well as ineligible retirees, may pay their full premium to obtain coverage.

Actuarial methods and assumptions: The total OPEB liabilities in the December 31, 2021 and 2020 actuarial report were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Methods and Assumptions	2021	2020
Reporting date	December 31, 2021	December 31, 2020
Measurement date	December 31, 2020	December 31, 2019
Actuarial valuation date	December 31, 2019	December 31, 2019
Discount rate	2.12%	2.74%
Rate of compensation increase	PERA	PERA
Health care cost trend rates	**	**
Inflation rate	PERA	PERA
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Straight-Line	Straight-Line
Amortization period	9.6 Years	9.6 Years
Method used to determine actuarial value of assets	N/A	N/A

** 6.6% for healthcare costs, decreasing to an ultimate rate of 4.0% in 2074.

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

(In Thousands)

Note 9. Other Employee Benefits (Continued)

The actuarial assumptions used in the December 31, 2021 report were based on the results of an actuarial experience study for the period ended December 31, 2020. These actuarial assumptions are based on the presumption that the OPEB Plan will continue. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Changes in the OPEB liability:

	2021	2020
Total OPEB liability, beginning	$ 25,810	$ 28,669
Changes for the year:		
Service cost	1,757	1,692
Interest	720	1,187
Changes of assumptions or other inputs	1,241	(2,915)
Benefit payments	(2,625)	(2,823)
Net changes	1,093	(2,859)
Total OPEB liability, ending	$ 26,903	$ 25,810

Changes of assumptions or other inputs reflect a change in the discount rate from 3.78% as of December 31, 2017, to 3.44% as of December 31, 2018, to 4.10% as of December 31, 2019, to 2.74% as of December 31, 2020 and 2.12% as of December 31, 2021.

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

	1% Decrease 1.12%	Discount Rate 2.12%	1% Increase 3.12%
Total OPEB liability	$ 28,990	$ 26,903	$ 24,923

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

	Decreasing to 5.10%	Health Care Cost Trend Current Trend Rate 6.10%	Increasing to 7.10%
Total OPEB liability	$ 23,943	$ 26,903	$ 30,475

(In Thousands)

Note 9. Other Employee Benefits (Continued)

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB: For the years ended December 31, 2021 and 2020, HHS recognized OPEB expense of $2.7 million and $2.6 million, respectively. At December 31, 2021 and 2020, HHS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions or other inputs	$ 1,467	$ (3,330)	$ 417	$ (3,796)
Employer contributions subsequent to the measurement date	2,711	-	2,625	-
	$ 4,178	$ (3,330)	$ 3,042	$ (3,796)

Employer contributions subsequent to the measurement date of December 31, 2021 of $2.7 million, which are reported as deferred outflows of resources as of December 31, 2021, will be recognized as a reduction of the OPEB liability in HHS' year ending December 31, 2022. Amounts reported as the deferred outflows of resources and deferred inflows of resources related to OPEB as of December 31, 2021, will be recognized in OPEB expense over the average future service to retirement of plan participants as follows:

	OPEB Expense
Years ending December 31:	
2022	$ (275)
2023	(275)
2024	(275)
2025	(275)
2026	(263)
Thereafter	(500)
	$ (1,863)

Note 10. Risk Management

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

(In Thousands)

Note 10. Risk Management (Continued)

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

Changes in the estimated general and professional liability are as follows:

	Years Ended December 31	
	2021	2020
General and professional claims liability at beginning of year	$ 5,311	$ 3,990
Incurred claims (including IBNR estimate)	1,633	(1,651)
Change in IBNR estimate	(192)	3,740
Claims paid during the year	(1,230)	(768)
General and professional claims liability at end of year	$ 5,522	$ 5,311

HHRI purchases comprehensive liability coverage on a claims-made basis covering claims of up to $5.0 million per occurrence or $7.0 million in the aggregate, subject to certain deductible and self-retention amounts. Should these claims-made policies not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. HHRI has obtained coverage through January 1, 2023.

Workers' compensation: HHS is self-insured for workers' compensation claims. During 2021 and 2020, $7.3 million and $8 million, respectively, in benefits and administrative costs were paid and charged to the workers' compensation expense account. The estimated liability for claims represents an estimate for unpaid claims and for claims incurred but not reported. An actuarial valuation is the basis for the liability and expense. The actuarial calculations assume industry-based exposure rates and client-based statistically reliable and predictable loss data for professional liability. The workers' compensation liability is included in other accrued expenses and other employee benefits in the statements of net position.

Changes in the estimated workers' compensation liability are as follows:

	Years Ended December 31	
	2021	2020
Estimated liability at beginning of year	$ 17,700	$ 13,700
Estimated incurred claims (including IBNR)	6,508	8,849
Claims payments	(6,308)	(4,849)
Estimated liability at end of year	$ 17,900	$ 17,700

(In Thousands)

Note 10. Risk Management (Continued)

HHS self-insured health and dental program: On January 1, 2011, HHS became self-insured for employee medical and dental claims for its employees. The accrual for estimated claims includes estimates of the ultimate cost for claims incurred but not reported (IBNR) and are based upon estimated cost of settlement. HHS purchased reinsurance on a specific-case basis for 2021 and 2020, in order to reduce its liability on individual risks. All reinsurance contracts are excess-of-loss contracts, which indemnify HHS for losses in excess of stated reinsurance policy limits. As of December 31, 2021 and 2020, the limits were $0.6 million for specific claims and were $116.1 million and $108.1 million for claims in the aggregate, respectively. HHS has recorded a liability of approximately $4.5 million and $2.6 million as of December 31, 2021 and 2020, respectively, for known cases and for estimated claims that have been incurred but not yet reported, which is included in accrued expenses: salaries, wages and benefits in the accompanying statements of net position.

Changes in the estimated health and dental program liability are as follows:

	Years Ended December 31	
	2021	2020
Estimated liability at beginning of year	$ 2,557	$ 2,303
Incurred claims (including estimated IBNR)	96,680	80,638
Claims, administrative payments, taxes and fees	(94,730)	(80,384)
Estimated liability at end of year—net of imprest fund	$ 4,507	$ 2,557

HHRI self-insured health program: HHRI is self-insured for its employee health insurance program. HHRI pays annual health care claims up to $0.08 million per employee with a $2.2 million maximum cap. A third-party insurance carrier covers health care claims exceeding maximum limits. Estimated claims, administrative costs, and reserves that have been incurred but are unpaid are reflected as accrued expenses on the statements of net position and totaled $0.2 million and $0.1 million as of December 31, 2021 and 2020, respectively.

Note 11. Commitments and Contingencies

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

HHS has capital commitments outstanding in the amount of approximately $16.8 million at December 31, 2021.

(In Thousands)

Note 12. Condensed Combining Information for Blended Component Units

Presented below is the condensed combining schedules for the blended component units as of December 31, 2021:

Condensed Statement of Net Position

	HHS	HHF	HHRI	Eliminations	Total Organization
Assets and Deferred Outflows					
Current assets	$ 391,768	$ 1,739	$ 12,247	$ (3,597)	$ 402,157
Noncurrent assets	431,426	34,871	53,381	-	519,678
Total assets	823,194	36,610	65,628	(3,597)	921,835
Deferred outflows	181,150	-	-	-	181,150
	$ 1,004,344	$ 36,610	$ 65,628	$ (3,597)	$ 1,102,985
Liabilities, Deferred Inflows and Net Position					
Current liabilities	$ 240,171	$ 1,096	$ 9,378	$ (3,597)	$ 247,048
Noncurrent liabilities	439,741	-	-	-	439,741
Total liabilities	679,912	1,096	9,378	(3,597)	686,789
Deferred inflows	231,112	-	-	-	231,112
	911,024	1,096	9,378	(3,597)	917,901
Net position:					
Net investment in capital assets	245,256	-	1,579	-	246,835
Restricted:					
Expendable	4,734	28,502	7,394	-	40,630
Nonexpendable	1,883	4,492	21,293	-	27,668
Unrestricted	(158,553)	2,520	25,984	-	(130,049)
Total net position	93,320	35,514	56,250	-	185,084
	$ 1,004,344	$ 36,610	$ 65,628	$ (3,597)	$ 1,102,985

Condensed Statement of Revenues, Expenses and Changes in Net Position

Total operating revenue:					
Total net operating revenue	$ 1,173,104	$ 10,973	$ 44,853	$ (5,652)	$ 1,223,278
Total operating expenses	1,173,959	7,644	45,044	(5,652)	1,220,995
(Loss) income from operations	(855)	3,329	(191)	-	2,283
Nonoperating revenue	19,273	1,756	5,820	-	26,849
Capital contributions	25,786	-	400	-	26,186
Change in net position	44,204	5,085	6,029	-	55,318
Net position, beginning of year	49,116	30,429	50,221	-	129,766
Net position, end of year	$ 93,320	$ 35,514	$ 56,250	$ -	$ 185,084

(In Thousands)

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

Condensed Statement of Cash Flows

	HHS	HHF	HHRI	Eliminations	Total Organization
Net cash provided by (used in):					
Operating activities	$ 13,927	$ 411	$ (1,666)	$ -	$ 12,672
Noncapital financing activities	22,358	44	-	-	22,402
Capital and related financing activities	(28,753)	(144)	6	-	(28,891)
Investing activities	317	(111)	-	-	206
Net increase (decrease) in cash and cash equivalents	7,849	200	(1,660)	-	6,389
Cash and cash equivalents:					
Beginning of year	182,501	12,153	2,932	-	197,586
End of year	$ 190,350	$ 12,353	$ 1,272	$ -	$ 203,975

(In Thousands)

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

Presented below is the condensed combining schedules for the blended component units as of December 31, 2020:

Condensed Statement of Net Position

	HHS	HHF	HHRI	Eliminations	Total Organization
Assets and Deferred Outflows					
Current assets	$ 393,972	$ 4,644	$ 12,370	$ (7,429)	$ 403,557
Noncurrent assets	430,278	29,516	47,772	-	507,566
Total assets	824,250	34,160	60,142	(7,429)	911,123
Deferred outflows	35,091	-	-	-	35,091
	$ 859,341	$ 34,160	$ 60,142	$ (7,429)	$ 946,214
Liabilities, Deferred Inflows and Net Position					
Current liabilities	$ 200,264	$ 3,731	$ 9,921	$ (7,429)	$ 206,487
Noncurrent liabilities	572,512	-	-	-	572,512
Total liabilities	772,776	3,731	9,921	(7,429)	778,999
Deferred inflows	37,449	-	-	-	37,449
	810,225	3,731	9,921	(7,429)	816,448
Net position:					
Net investment in capital assets	237,846	-	1,789	-	239,635
Restricted:					
Expendable	3,856	23,889	6,801	-	34,546
Nonexpendable	1,883	4,128	19,328	-	25,339
Unrestricted	(194,469)	2,412	22,303	-	(169,754)
Total net position	49,116	30,429	50,221	-	129,766
	$ 859,341	$ 34,160	$ 60,142	$ (7,429)	$ 946,214

Condensed Statement of Revenues, Expenses and Changes in Net Position

Total operating revenue:					
Total net operating revenue	$ 988,376	$ 11,307	$ 37,320	$ (5,382)	1,031,621
Total operating expenses	1,098,191	14,760	38,457	(5,382)	1,146,026
(Loss) from operations	(109,815)	(3,453)	(1,137)	-	(114,405)
Nonoperating revenue	132,614	2,101	5,924	-	140,639
Capital contributions	16,872	156	389	-	17,417
Change in net position	39,671	(1,196)	5,176	-	43,651
Net position, beginning of year	9,445	31,625	45,045	-	86,115
Net position, end of year	$ 49,116	$ 30,429	$ 50,221	$ -	$ 129,766

(In Thousands)

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

Condensed Statement of Cash Flows

	HHS	HHF	HHRI	Eliminations	Total Organization
Net cash provided by (used in):					
Operating activities	$ 54,647	$ (476)	$ 1,791	$ -	$ 55,962
Noncapital financing activities	137,569	156	-	-	137,725
Capital and related financing activities	(38,660)	-	35	-	(38,625)
Investing activities	1,439	(1)	(870)	-	568
Net increase (decrease) in cash and cash equivalents	154,995	(321)	956	-	155,630
Cash and cash equivalents:					
Beginning of year	27,506	12,474	1,976	-	41,956
End of year	$ 182,501	$ 12,153	$ 2,932	$ -	$ 197,586

Note 13. New Accounting Standards

New accounting standards not yet adopted: GASB Statement No. 87, *Leases,* the primary objective of this statement is to require government lessees to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset and report amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, interest expense on the lease liability and note disclosures about the lease within the lessee's financial statements. This statement also requires lessors to recognize a lease receivable and a deferred inflow of resources and to continue to report leased assets in its financial statements. The lessor will also be required to report lease revenue, recognized over the term of the lease, corresponding with the reduction of the deferred inflow, interest income on the receivable, and note disclosures about the lease within their financial statements. The provisions in Statement No. 87 are effective for HHS' financial statements for periods beginning after June 15, 2021.

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

Required Supplementary Information

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

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

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

GERF Schedule of Contributions

Fiscal years ended December 31,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	$ 20,759	$ 20,759	$ -	$ 286,559	7.2%
2015	23,601	23,601	-	315,068	7.5%
2016	24,962	24,962	-	333,530	7.5%
2017	24,995	24,995	-	333,365	7.5%
2018	25,547	25,547	-	342,328	7.5%
2019	26,388	26,388	-	353,423	7.5%
2020	26,551	26,551	-	355,991	7.5%
2021	28,614	28,614	-	383,652	7.5%

PEPFF Schedule of Contributions

Fiscal years ended December 31,	Statutorily (a)	Contributions (b)	Contribution (a-b)	Covered (d)	Contributions (b/d)
2014	$ 1,712	$ 1,712	$ -	$ 11,191	15.3%
2015	2,017	2,017	-	12,446	16.2%
2016	2,062	2,062	-	12,728	16.2%
2017	2,166	2,166	-	13,372	16.2%
2018	2,365	2,365	-	14,222	16.6%
2019	2,378	2,378	-	14,164	16.8%
2020	2,457	2,457	-	14,041	17.5%
2021	2,680	2,680	-	15,214	17.6%

PECF Schedule of Contributions

Fiscal years ended December 31,	Statutorily (a)	Contributions (b)	Contribution (a-b)	Covered (d)	Contributions (b/d)
2014	$ 186	$ 186	$ -	$ 2,126	8.7%
2015	222	222	-	2,533	8.8%
2016	233	233	-	2,667	8.7%
2017	229	229	-	2,620	8.8%
2018	252	252	-	2,871	8.8%
2019	267	267	-	3,066	8.7%
2020	276	276	-	3,171	8.7%
2021	278	278	-	3,188	8.7%

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

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

GERF Schedule of Proportionate Share

Measurement Date June 30,	Proportion (%) of the Net Pension Liability (NPL)	Proportionate Share (Amount) of the NPL (a)	State's Proportionate Share of the NPL Associated with HHS (b)	HHS and State Total Proportionate Share of the NPL NPL Associated with HHS (abs)	Covered Payroll (c)	Proportionate Share of the NPL as a Percentage of the Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	5.3878%	$ 253,092	$ -	$ 253,092	$ 283,309	89.3%	78.8%
2015	4.9916%	258,691	-	258,691	293,869	88.0%	78.2%
2016	5.1308%	416,596	5,441	422,037	319,090	132.3%	68.9%
2017	5.3401%	340,908	4,286	345,194	346,025	99.8%	75.9%
2018	4.9725%	275,854	9,048	284,902	336,058	84.8%	79.5%
2019	4.8846%	270,059	8,394	278,453	347,311	80.2%	80.2%
2020	4.9363%	295,954	9,126	305,080	353,643	86.3%	79.1%
2021	5.0942%	217,545	6,643	224,188	368,837	60.8%	87.0%

PEPFF Schedule of Proportionate Share

Measurement Date June 30,	Proportion (%) of the Net Pension Liability (NPL)	Proportionate Share (Amount) of the NPL (a)	Covered Payroll (c)	Proportionate Share of the NPL as a Percentage of the Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	1.223%	$ 13,209	$ 10,986	120.2%	87.1%
2015	1.247%	14,169	11,511	123.1%	86.6%
2016	1.285%	51,569	12,428	414.9%	63.9%
2017	1.281%	17,295	13,386	129.2%	85.4%
2018	1.311%	13,978	13,937	100.3%	88.8%
2019	1.346%	14,332	14,187	101.0%	89.3%
2020	1.237%	16,300	14,067	115.9%	87.2%
2021	1.190%	9,186	14,714	62.4%	93.7%

PECF Schedule of Proportionate Share

Measurement Date June 30,	Proportion (%) of the Net Pension Liability (NPL)	Proportionate Share (Amount) of the NPL (a)	Covered Payroll (c)	Proportionate Share of the NPL as a Percentage of the Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	1.25%	$ 94	$ 2,140	4.4%	98.4%
2015	1.26%	195	2,266	8.6%	97.0%
2016	1.41%	5,151	2,646	194.7%	58.2%
2017	1.31%	3,734	2,626	142.2%	67.9%
2018	1.31%	216	2,700	8.0%	97.6%
2019	1.40%	193	2,992	6.5%	98.2%
2020	1.45%	392	3,162	12.4%	96.7%
2021	1.42%	(233)	3,269	-7.1%	101.6%

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

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

	2021	2020	2019	2018	2017
Total OPEB liability					
Service cost	**$ 1,757**	$ 1,692	$ 1,775	$ 1,601	$ 1,614
Interest	**720**	1,187	1,042	1,118	1,064
Changes of assumptions or other inputs	**1,241**	(2,915)	(1,233)	604	(349)
Benefit payments	**(2,625)**	(2,823)	(2,824)	(2,751)	(2,358)
Net change	**1,093**	(2,859)	(1,240)	572	(29)
Total OPEB liability, beginning	**25,810**	28,669	29,909	29,337	29,366
Total OPEB liability, ending	**$ 26,903**	$ 25,810	$ 28,669	$ 29,909	$ 29,337
Covered-employee payroll	**$ 519,523**	$ 524,771	$ 499,684	$ 485,742	$ 476,292
Total OPEB liability as a percentage of covered-employee payroll	5.18%	4.92%	5.74%	6.16%	6.16%

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

January 1, 2017	3.57%
December 31, 2017	3.78%
December 31, 2018	3.44%
December 31, 2019	4.10%
December 31, 2020	2.74%
December 31, 2021	2.12%

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

Supplementary Information

RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
Hennepin Healthcare System, Inc.

Report on the Financial Statements
We have audited the accompanying financial statements of Hennepin Healthcare System, Inc. (the Organization), a component unit of Hennepin County, Minnesota, as of and for the years ended December 31, 2021 and 2020, and have issued our report thereon, dated March 23, 2022, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

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

The other supplementary information on page 57 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

RSM US LLP

Duluth, Minnesota
March 23, 2022

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

Non-GAAP—Management Presentation of Operational Results
Combining Statements of Revenues, Expenses and Changes in Net Position—Blended Component Units
Year Ended December 31, 2021
(Unaudited)
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2021	2020
Operating revenues:						
Net patient service revenue	$ 1,102,036	$ -	$ -	$ -	$ 1,102,036	$ 922,445
Other operating revenue:						
Grants	47,551	10,442	44,504	-	102,497	211,961
Other	46,356	2,287	6,169	(5,652)	49,160	41,895
Contributions from related parties	25,786	-	400	-	26,186	17,417
Net operating revenues	1,221,729	12,729	51,073	(5,652)	1,279,879	1,193,718
Operating expenses:						
Salaries and benefits	792,822	6,327	20,981	(5,652)	814,478	774,006
Supplies and services	264,881	1,062	21,404	-	287,347	266,921
Depreciation and amortization	42,970	-	605	-	43,575	44,048
Utilities and maintenance	44,756	68	1,284	-	46,108	27,751
Taxes and surcharges	17,607	-	-	-	17,607	22,189
Other	10,156	187	770	-	11,113	14,767
Total operating expenses	1,173,192	7,644	45,044	(5,652)	1,220,228	1,149,682
Income from operations	48,537	5,085	6,029	-	59,651	44,036
Nonoperating expense	4,333	-	-	-	4,333	385
Increase in net position	44,204	5,085	6,029	-	55,318	43,651
Total net position, beginning of year	49,116	30,429	50,221	-	129,766	86,115
Total net position, end of year	$ 93,320	$ 35,514	$ 56,250	$ -	$ 185,084	$ 129,766

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

Combining Statement of Net Position—Blended Component Units
December 31, 2021
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2021
Assets and Deferred Outflows					
Current assets:					
Cash and cash equivalents	$ 190,350	$ 1,709	$ 1,271	$ -	$ 193,330
Accounts receivable:					
Patient accounts receivable, net of estimated uncollectibles of $71,660	109,946	-	-	-	109,946
Other	21,586	27	10,127	(3,597)	28,143
Third-party payor settlements	42,297	-	-	-	42,297
Due from related parties, net	2,180	3	593	-	2,776
Inventories	11,191	-	-	-	11,191
Prepaid expenses and other current assets	14,218	-	256	-	14,474
Total current assets	391,768	1,739	12,247	(3,597)	402,157
Investments	-	946	23,115	-	24,061
Assets limited as to use:					
Cash and cash equivalents	-	10,645	-	-	10,645
Investments	6,616	16,781	28,687	-	52,084
Receivables, other	-	5,569	-	-	5,569
Total assets limited as to use	6,616	32,995	28,687	-	68,298
Capital assets:					
Nondepreciable	55,880	-	94	-	55,974
Depreciable, net of accumulated depreciation	365,478	-	1,485	-	366,963
Other assets	3,452	930	-	-	4,382
Total assets	823,194	36,610	65,628	(3,597)	921,835
Deferred outflows	181,150	-	-	-	181,150
Total assets and deferred outflows	$ 1,004,344	$ 36,610	$ 65,628	$ (3,597)	$ 1,102,985

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

Combining Statement of Net Position—Blended Component Units (Continued)
December 31, 2021
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2021
Liabilities, Deferred Inflows and Net Position					
Current liabilities:					
Current maturities of long-term debt	$ 7,330	$ -	$ -	$ -	$ 7,330
Accounts payable	31,495	1,096	6,880	(3,597)	35,874
Due to related parties, net	-	-	-	-	-
Third-party payor settlements	93	-	-	-	93
Medicare advanced payments	41,042	-	-	-	41,042
Accrued expenses:					
Salaries, wages and benefits	103,557	-	1,762	-	105,319
Other	56,654	-	736	-	57,390
Total current liabilities	240,171	1,096	9,378	(3,597)	247,048
Employee benefit obligations:					
Retiree health care program	26,903	-	-	-	26,903
Other employee benefits	17,568	-	-	-	17,568
Long-term debt, net of current maturities	168,772	-	-	-	168,772
Net pension liability	226,498	-	-	-	226,498
Total liabilities	679,912	1,096	9,378	(3,597)	686,789
Deferred inflows	231,112	-	-	-	231,112
Total liabilities and deferred inflows	911,024	1,096	9,378	(3,597)	917,901
Net position:					
Net investment in capital assets	245,256	-	1,579	-	246,835
Restricted:					
Expendable	4,734	28,502	7,394	-	40,630
Nonexpendable	1,883	4,492	21,293	-	27,668
Unrestricted	(158,553)	2,520	25,984	-	(130,049)
Total net position	93,320	35,514	56,250	-	185,084
Total liabilities, deferred inflows, and net position	$ 1,004,344	$ 36,610	$ 65,628	$ (3,597)	$ 1,102,985

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

Combining Statement of Net Position—Blended Component Units
December 31, 2020
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2020
Assets and Deferred Outflows					
Current assets:					
Cash and cash equivalents	$ 182,501	$ 4,616	$ 2,931	$ -	$ 190,048
Accounts receivable:					
Patient accounts receivable, net of estimated uncollectibles of $50,980	97,688	-	-	-	97,688
Other	24,777	19	8,429	(7,429)	25,796
Third-party payor settlements	54,906	-	-	-	54,906
Due from related parties, net	3,437	9	716	-	4,162
Inventories	12,778	-	-	-	12,778
Prepaid expenses and other current assets	17,885	-	294	-	18,179
Total current assets	393,972	4,644	12,370	(7,429)	403,557
Investments	-	713	19,854	-	20,567
Assets limited as to use:					
Cash and cash equivalents	-	7,538	-	-	7,538
Investments	5,739	15,146	26,129	-	47,014
Receivables, other	-	5,333	-	-	5,333
Total assets limited as to use	5,739	28,017	26,129	-	59,885
Capital assets:					
Nondepreciable	47,824	-	-	-	47,824
Depreciable, net of accumulated depreciation	373,908	-	1,789	-	375,697
	421,732	-	1,789	-	423,521
Other assets	2,807	786	-	-	3,593
Total assets	824,250	34,160	60,142	(7,429)	911,123
Deferred outflows	35,091	-	-	-	35,091
Total assets and deferred outflows	$ 859,341	$ 34,160	$ 60,142	$ (7,429)	$ 946,214

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

Combining Statement of Net Position—Blended Component Units (Continued)
December 31, 2020
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2020
Liabilities, Deferred Inflows and Net Position					
Current liabilities:					
Current maturities of long-term debt	$ 7,736	$ -	$ -	$ -	$ 7,736
Accounts payable	26,851	3,727	6,909	(7,429)	30,058
Due to related parties, net	-	-	-	-	-
Third-party payor settlements	111	-	-	-	111
Medicare advanced payments	25,524	-	-	-	25,524
Accrued expenses:					
Salaries, wages and benefits	87,549	-	1,802	-	89,351
Other	52,493	4	1,210	-	53,707
Total current liabilities	200,264	3,731	9,921	(7,429)	206,487
Employee benefit obligations:					
Retiree health care program	25,810	-	-	-	25,810
Other employee benefits	17,560	-	-	-	17,560
Medicare advanced payments, less current portion	40,346	-	-	-	40,346
Long-term debt, net of current maturities	176,150	-	-	-	176,150
Net pension liability	312,646	-	-	-	312,646
Total liabilities	772,776	3,731	9,921	(7,429)	778,999
Deferred inflows	37,449	-	-	-	37,449
Total liabilities and deferred inflows	810,225	3,731	9,921	(7,429)	816,448
Net position:					
Net investment in capital assets	237,846	-	1,789	-	239,635
Restricted:					
Expendable	3,856	23,889	6,801	-	34,546
Nonexpendable	1,883	4,128	19,328	-	25,339
Unrestricted	(194,469)	2,412	22,303	-	(169,754)
Total net position	49,116	30,429	50,221	-	129,766
Total liabilities, deferred inflows, and net position	$ 859,341	$ 34,160	$ 60,142	$ (7,429)	$ 946,214

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

Combining Statement of Revenues, Expenses and Changes in Net Position—Blended Component Units
Years Ended December 31, 2021
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2021
Operating revenues:					
Net patient service revenue, net of provision for bad debts of $72,008	$ 1,102,036	$ -	$ -	$ -	$ 1,102,036
Other operating revenue:					
Grants	25,193	10,442	44,504	-	80,139
Other	45,875	531	349	(5,652)	41,103
Net operating revenues	1,173,104	10,973	44,853	(5,652)	1,223,278
Operating expenses:					
Salaries and benefits	793,310	6,327	20,981	(5,652)	814,966
Supplies and services	268,726	1,062	21,404	-	291,192
Depreciation and amortization	42,970	-	605	-	43,575
Utilities and maintenance	44,756	68	1,284	-	46,108
Taxes and surcharges	17,607	-	-	-	17,607
Other	6,590	187	770	-	7,547
Total operating expenses	1,173,959	7,644	45,044	(5,652)	1,220,995
(Loss) income from operations	(855)	3,329	(191)	-	2,283
Nonoperating revenue (expense):					
Interest expense	(3,566)	-	-	-	(3,566)
Contributions, net	130	-	-	-	130
Investment income	351	1,756	5,820	-	7,927
COVID-19 funding	22,358	-	-	-	22,358
Total nonoperating revenue (expense)	19,273	1,756	5,820	-	26,849
Income before capital contributions	18,418	5,085	5,629	-	29,132
Capital contributions from related parties	25,786	-	400	-	26,186
Increase in net position	44,204	5,085	6,029	-	55,318
Total net position, beginning of year	49,116	30,429	50,221	-	129,766
Total net position, end of year	$ 93,320	$ 35,514	$ 56,250	$ -	$ 185,084

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

Combining Statement of Revenues, Expenses and Changes in Net Position—Blended Component Units
Years Ended December 31, 2020
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2020
Operating revenues:					
Net patient service revenue, net of provision for bad debts of $72,094	$ 922,445	$ -	$ -	$ -	$ 922,445
Other operating revenue:					
Grants	26,976	10,683	36,733	-	74,392
Other	38,955	624	587	(5,382)	34,784
Net operating revenues	988,376	11,307	37,320	(5,382)	1,031,621
Operating expenses:					
Salaries and benefits	746,584	13,266	19,939	(5,382)	774,407
Supplies and services	249,993	1,154	15,758	-	266,905
Depreciation and amortization	43,453	-	595	-	44,048
Utilities and maintenance	26,360	117	1,274	-	27,751
Taxes and surcharges	22,189	-	-	-	22,189
Other	9,612	223	891	-	10,726
Total operating expenses	1,098,191	14,760	38,457	(5,382)	1,146,026
(Loss) from operations	(109,815)	(3,453)	(1,137)	-	(114,405)
Nonoperating revenue (expense):					
Interest expense	(4,041)	-	-	-	(4,041)
Contributions, net	329	-	-	-	329
Investment income	(1,243)	2,101	5,924	-	6,782
COVID-19 funding	137,569	-	-	-	137,569
Total nonoperating revenue (expense)	132,614	2,101	5,924	-	3,070
Income (loss) before capital contributions	22,799	(1,352)	4,787	-	26,234
Capital contributions from related parties	16,872	156	389	-	17,417
Increase (decrease) in net position	39,671	(1,196)	5,176	-	43,651
Total net position, beginning of year	9,445	31,625	45,045	-	86,115
Total net position, end of year	$ 49,116	$ 30,429	$ 50,221	$ -	$ 129,766