



HEALTHPARTNERS INC.

Financial Statements and Uniform Guidance Single Audit

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

HEALTHPARTNERS INC

Table of Contents

	Page(s)
Independent Auditors' Report	1
Consolidated Financial Statements:	
Balance Sheets as of December 31, 2020 and 2019	3
Statements of Operations and Changes in Net Assets for the years ended December 31, 2020 and 2019	4
Statements of Cash Flows for the years ended December 31, 2020 and 2019	5
Notes to Consolidated Financial Statements	6–48
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	51
Schedule of Expenditures of Federal Awards	54
Notes to Schedule of Expenditures of Federal Awards	58
Schedule of Findings and Questioned Costs	59



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Audit and Compliance Committee
HealthPartners, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of HealthPartners, Inc., which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HealthPartners, Inc. as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2021, on our consideration of HealthPartners, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HealthPartners, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HealthPartners, Inc.'s internal control over financial reporting and compliance.

KPMG LLP

Minneapolis, Minnesota
March 24, 2021

HEALTHPARTNERS, INC.
Consolidated Balance Sheets
December 31, 2020 and 2019
(In thousands)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 1,583,877	842,237
Investments	836,500	829,685
Investments whose use is limited	9,200	9,454
Accounts receivable	634,272	629,085
Other current assets	203,180	157,526
Total current assets	3,267,029	2,467,987
Investments whose use is limited	43,664	38,392
Other investments	1,334,386	1,184,063
Property, plant, and equipment, net	1,363,294	1,384,367
Operating lease right of use assets	200,625	223,081
Deferred compensation	131,476	107,541
Other	137,286	149,920
Total assets	\$ 6,477,760	5,555,351
Liabilities and Net Assets		
Current liabilities:		
Unpaid medical claims	\$ 255,775	216,199
Accounts payable	499,358	426,549
Provider payable	117,443	93,406
Salaries and employee benefits payable	406,695	351,495
Accrued real estate taxes, income taxes, and interest	33,035	30,322
Deferred revenue	81,135	56,368
Current portion of lease obligations	24,127	25,121
Current portion of long-term debt	134,767	37,110
Total current liabilities	1,552,335	1,236,570
Long-term debt – less current portion	725,819	652,692
Lease obligations	187,316	200,785
Deferred employee benefits	136,766	115,090
Other	268,792	117,775
Total liabilities	2,871,028	2,322,912
Net assets:		
Without donor restrictions	3,525,502	3,159,591
With donor restrictions	81,230	72,848
Total net assets	3,606,732	3,232,439
Total liabilities and net assets	\$ 6,477,760	5,555,351

See accompanying notes to consolidated financial statements.

HEALTHPARTNERS, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Premiums earned	\$ 3,608,565	3,506,325
Patient service revenue	2,973,898	3,221,579
Administrative service revenue	116,916	126,600
Other revenue	<u>334,093</u>	<u>184,147</u>
Total operating revenues	<u>7,033,472</u>	<u>7,038,651</u>
Operating expenses:		
Salaries and employee benefits	2,727,021	2,835,725
Medical claims	2,574,811	2,513,044
Supplies and other	1,241,190	1,381,609
Depreciation	193,476	180,338
Taxes and assessments	169,281	139,541
Interest	<u>31,296</u>	<u>26,347</u>
Total operating expenses	<u>6,937,075</u>	<u>7,076,604</u>
Operating income (loss)	96,397	(37,953)
Nonoperating income (loss):		
Net investment income and net investment gains (losses)	155,256	205,413
Other	<u>14,916</u>	<u>14,420</u>
Total nonoperating income	<u>170,172</u>	<u>219,833</u>
Excess of revenues over expenses	266,569	181,880
Inherent contribution received from Olivia Hospital & Clinic and Foundation	40,139	—
Recognition of change in pension and postretirement funded status	52,559	51,580
Change in net unrealized losses and gains on investments	10,237	15,143
Cumulative effect of accounting change for leases	—	4,799
Net assets released from restrictions	—	9,851
Other	<u>(3,593)</u>	<u>(988)</u>
Increase in net assets without donor restrictions	<u>365,911</u>	<u>262,265</u>
Net assets with donor restrictions:		
Net investment income and realized gains	2,014	2,427
Inherent contribution received from Olivia Hospital & Clinic and Foundation	1,008	—
Change in net unrealized gains and losses on investments	34	321
Change in beneficial interest of Foundations	(27)	115
Contributions	3,361	19,666
Net assets released from restrictions	(2,007)	(15,217)
Other	<u>3,999</u>	<u>9,042</u>
Increase in net assets with donor restrictions	<u>8,382</u>	<u>16,354</u>
Change in net assets	374,293	278,619
Net assets – beginning of year	<u>3,232,439</u>	<u>2,953,820</u>
Net assets – end of year	\$ <u><u>3,606,732</u></u>	\$ <u><u>3,232,439</u></u>

See accompanying notes to consolidated financial statements.

HEALTHPARTNERS, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Cash flows provided by operating activities:		
Increase in net assets	\$ 374,293	278,619
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Inherent contribution received from Olivia Hospital & Clinic and Foundation	(41,147)	—
Change in net unrealized gains and losses on investments	10,271	15,464
Change in pension and postretirement funded status	(52,559)	(51,580)
Loss (gain) on sale of property, plant and equipment	1,318	(73)
Depreciation	192,158	180,411
Amortization	7,993	7,624
Cumulative effect of accounting change for leases	—	(4,799)
Decrease (increase) in:		
Accounts receivable	(2,888)	(71,101)
Other current assets	(41,523)	(52,075)
Deferred compensation	(23,935)	(20,864)
Other assets	13,112	(23,182)
(Decrease) increase in:		
Unpaid medical claims	39,576	(2,551)
Accounts payable	72,011	89,572
Provider payable	24,037	1,260
Accrued expenses	56,288	20,957
Deferred revenue	19,999	(68,314)
Deferred employee benefits	75,180	69,115
Other liabilities	149,792	4,668
Net cash provided by operating activities	<u>873,976</u>	<u>373,151</u>
Cash flows used in investing activities:		
Contribution of cash from Olivia Hospital & Clinic and Foundation	36,033	—
Purchases of investments	(399,768)	(417,337)
Sales, maturities, and repayments of investments	382,682	329,835
Purchases of other investments	(294,564)	(398,305)
Sales, maturities, and repayments of other investments	146,344	239,052
Purchases of property, plant, and equipment	(168,829)	(241,681)
Purchases of investments whose use is limited	(106,259)	(379,716)
Sales, maturities, and repayments of investments whose use is limited	101,241	382,294
Net cash used in investing activities	<u>(303,120)</u>	<u>(485,858)</u>
Cash flows used in financing activities:		
Proceeds from issuance of long-term debt	210,000	—
Payments on long-term debt	(39,216)	(49,001)
Net cash provided by (used in) financing activities	<u>170,784</u>	<u>(49,001)</u>
Increase (decrease) in cash and cash equivalents	741,640	(161,708)
Cash and cash equivalents – beginning of year	<u>842,237</u>	<u>1,003,945</u>
Cash and cash equivalents – end of year	\$ <u>1,583,877</u>	\$ <u>842,237</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 32,004	27,314
Supplemental disclosure of noncash investing activities:		
Additions of property, plant, and equipment funded through accounts payable	\$ 1,795	9,646

See accompanying notes to consolidated financial statements.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

HealthPartners, Inc. and subsidiaries (HP) is an integrated healthcare delivery system that provides healthcare services and coverage to HP insured and self-insured members as well as healthcare services to the general public throughout Minnesota and surrounding states. HP provides these services through a network of owned and leased primary and specialty care medical facilities, dental facilities and owned hospitals, as well as contracting with various primary and specialty medical facilities and dental facilities, physician groups, hospitals, and related healthcare providers located primarily in the Twin Cities and Western Wisconsin areas.

The consolidated financial statements of HP include the following organizations:

Group Health Plan, Inc. (GHI)
HealthPartners, Inc. (HPI)
HealthPartners Insurance Company (HPIC)
HealthPartners Administrators, Inc. (HPAI)
Regions Hospital (Regions)
Park Nicollet Health Services (PNHS)
Lakeview Health
Hutchinson Health & Foundation (HH)
Hudson Hospital & Foundation (HHF)
Westfields Hospital & Foundation (WH)
Amery Regional Medical Center & Foundation (ARMC)
Olivia Hospital, Clinics & Foundation (Olivia)
HealthPartners Central Minnesota Clinics, Inc. (HPCMC)
Physicians Neck & Back Clinics, Inc. (PNBC)
Ramsey Integrated Health Services (IHS)
Capital View Transitional Care Center (CVTCC)
Dental Specialties, Inc. (DSI)
HPI-Ramsey
RH-Wisconsin, Inc. (RHW)
RHSC, Inc. (RHSC)
HealthPartners Services, Inc. (HPSI)
HealthPartners Associates, Inc. (HPA)
HealthPartners East Side Holding, LLC (HESH)
HealthPartners Institute (Institute)
Regions Hospital Foundation (RHF)

PNHS is the parent company of Park Nicollet Methodist Hospital (Methodist), Park Nicollet Clinic (PNC), PNMC Holdings, Park Nicollet Foundation (PNF), Park Nicollet Health Care Products (PNHCP), Park Nicollet Enterprises (PNE), Tria Orthopedic Center, LLC (TRIA) and HH.

Lakeview Health is the parent company of Lakeview Memorial Hospital Association, Inc. (LMHA), Lakeview Health Foundation (LHF), and Stillwater Medical Group (SMG).

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

HPI-Ramsey is the parent organization of Regions, Lakeview Health, IHS, CVTCC, RHF, and RHW.

RHW is the parent organization of HHF and WH.

GHI and HPI are not-for-profit corporations licensed as health maintenance organizations (HMO) in Minnesota.

GHI, PNHS, Regions, Methodist, Lakeview Health, HH, LMHA, LHF, SMG, HHCF, HHF, WH, ARMC, Olivia, PNC, PNF, PNHCP, PNBC, IHS, CVTCC, HPI-Ramsey, RHW, RHSC, Institute, and RHF are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code (IRC). HPI is exempt under Section 501(c)(4) of the IRC. HESH, and TRIA are limited liability corporations. All other organizations are for-profit taxable organizations.

Effective May 1, 2020, Olivia joined the HP family of care. Olivia includes a 16 bed critical access hospital, three clinics and a foundation.

This transaction was accounted for as an acquisition under Accounting Standards Codification (ASC) Subtopic 958-805, *Not-for Profit Entities—Business Combinations*. No consideration was paid by HPI to acquire the net assets of Olivia. The affiliation resulted in an excess of assets acquired over liabilities assumed, or an inherent contribution without donor restrictions from Olivia to HPI of \$40,139 which is included in excess of revenues over expenses in the consolidated statement of operations and changes in net assets and an inherent contribution with donor restrictions of \$1,008 which is recorded in changes in net assets with donor restrictions for the year ended December 31, 2020.

The following table summarizes the fair value estimates of Olivia assets acquired and liabilities assumed as of May 1, 2020:

Cash acquired	\$	36,033
Tangible assets acquired		31,783
Liabilities assumed		<u>26,669</u>
Total identifiable nets assets assumed/ inherent contribution	\$	<u><u>41,147</u></u>

(b) Basis of Accounting

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP). All significant intercompany balances and transactions have been eliminated in consolidation.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(c) Use of Estimates

Preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. HP considers some of our most important accounting policies that require estimates and management judgment to be those policies with respect to fair value of investments, implicit and explicit price concessions, premium stabilization programs, retirement benefits, general and professional liability claims, unpaid medical claims and workers' compensation claims liabilities. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash balances on hand and deposited in financial institutions and are all highly liquid investments with an original maturity of three months or less. Cash and cash equivalents held for long-term or restricted as to use are classified as investments and are excluded from cash and cash equivalents.

(e) Investments

Investments consist of fixed income securities and marketable equity securities. The investments are carried at fair value and are not included as investments whose use is limited or other investments. The fair value of all securities, is based on quoted market prices for identical or similar securities.

Fixed maturity securities are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in fair value, excluding other-than-temporary impairments, are recognized as a change in net assets. Fixed maturity investments are impaired when a decline in fair value is judged to be other-than-temporary. Fair value is calculated based on publicly available market information or other estimates determined by management. HP employs a systematic methodology that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, HP evaluates, among other factors, general market conditions, credit quality of debt instrument's issuers, and the duration and extent to which the fair value is less than cost. HP also evaluates whether we have plans to sell the security or it is more likely than not that HP will be required to sell the security before recovery. In addition, HP considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in other income (expense), net and a new cost basis in the investment is established.

Premiums and discounts on fixed income securities are recognized in income on an accrual basis using the interest yield method. Interest on fixed income is recognized on an accrual basis. The adjustment method is used to amortize all asset-backed securities.

Marketable equity securities are carried at fair value with realized and unrealized gains and losses recognized as investment income. HP recognizes dividends on equity securities in investment income upon the declaration of the dividend.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(f) Investments Whose Use is Limited and Other Investments

Investments whose use is limited that are intended to be used for current operations, primarily to settle current debt obligations, are classified as current assets and are carried at fair value based on quoted market prices.

Investments whose use is limited and other investments that are not intended to be used for current operations are, therefore, classified as noncurrent assets and are carried at fair value based on quoted market prices.

(g) Liquidity and Availability

As of December 31, 2020, HP had a working capital surplus. Financial assets available for general expenditures within one year of the consolidated balance sheet date consist of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,583,877	842,237
Investments	2,170,886	2,013,748
Accounts receivable	<u>634,272</u>	<u>629,085</u>
Financial assets available to meet cash needs for general expenditures within one year	4,389,035	3,485,070
Current liabilities	<u>(1,552,335)</u>	<u>(1,236,570)</u>
Net financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,836,700</u>	<u>2,248,500</u>

HP has investments whose use is limited for various purposes. These investments whose use is limited that are not available for general expenditures within the next year are not reflected in the amounts in the table above.

As part of HP's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds.

As of December 31, 2020, HP management believes it was in compliance with all bond covenants.

(h) Other Current Assets

Other current assets include pharmaceutical, medical, and surgical supplies inventories, which are valued at the lower of average cost or market.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(i) Property, Plant, and Equipment, Net

Property, plant, and equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the shorter of the estimated useful life of the asset or the lease term. The estimated useful lives of our property and equipment are generally as follows:

Land improvements	5–40 years
Buildings and building improvements	10–40 years
Equipment	3–15 years
Leasehold improvements	5–15 years

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of the underlying asset.

(j) Leases

HP determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) asset and current portion and long term portion of lease obligations in the consolidated balance sheets. Finance leases are included in non-current other assets, accounts payables and other liabilities in the consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we generally use our incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

(k) Impairment of Long-Lived Assets

HP periodically reviews the carrying value of long-lived assets for potential impairment by comparing the carrying value of these assets to the estimated undiscounted future cash flows expected to result from the use of these assets. Should the sum of the related, expected future net cash flows be less than the carrying value, an impairment loss could be recognized dependent upon other considerations. HP did not recognize any impairment losses in 2020 and 2019.

(l) Long-term Debt - Deferred Financing Costs

Financing and legal costs incurred in connection with the issuance of long-term debt are amortized over the life of the related indebtedness using the effective-interest method, and are included as an offset to long-term debt on the consolidated balance sheets.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(m) Unpaid Medical Claims

Unpaid medical claims represents HP's best estimate of the cost of settling claims related to insured events that have occurred on or before the consolidated balance sheet date and are unpaid at year-end. The estimated liability includes the amount that will be required for future payments of claims that have been reported; claims related to insured events that have occurred, but that have not been reported; and unpaid claims processing expense. Unpaid claims processing expense is an estimate of the costs to record, process and adjudicate unpaid claims.

The liability for unpaid medical claims for medical services purchased are developed using actuarial methods based upon historical submission and payment data, cost trends, customer and product mix, seasonality, utilization of healthcare services, contracted service rates, and other relevant factors. The estimates may change as actuarial methods change or as underlying facts upon which estimates are based change. Although considerable variability is inherent in such estimates, management believes the amount of unpaid medical claims is adequate. The estimates are continually reviewed and adjusted as necessary, as experience develops or new information becomes known; such adjustments are included in current operations.

Premium deficiencies are recognized when it is probable that expected claims and certain administrative expenses will exceed future premiums on existing medical insurance contracts without consideration of investment income. For purposes of premium deficiencies, contracts are deemed to be either short or long duration and are grouped in a manner consistent with our method of acquiring, servicing and measuring the profitability of such contracts. Once established, premium deficiencies are released commensurate with actual claims experience over the remaining life of the contract. Premium deficiencies of \$0 and \$11,491 were estimated and included in unpaid medical claims at December 31, 2020 and 2019, respectively.

(n) Provider Payable

HP's contracts with hospitals, specialists, and primary care providers (Providers) include provisions for pay for performance and outcome recognition programs. These programs include goals such as generic drug use, optimal diabetes care, patient satisfaction, depression outcomes, colorectal screening, and others that are measured and reported on a quarterly and annual basis. If the Providers exceed the goals that were agreed upon, Providers will receive shared savings payouts from HP.

(o) Revenue Recognition

(i) Premiums

Premiums are earned at contractual rates and are recognized in the period for which services are covered. If applicable, premiums are reported net of Medical Loss Ratio (MLR) rebates, reinsurance, and adjustments resulting from the Affordable Health Care for America Act (Health Care Reform Act) risk adjustment program. Unearned premiums received in advance of a coverage period are classified as deferred revenue in the consolidated balance sheets.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(ii) *Patient Service Revenue*

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

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

HP determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with HP's policy and/or implicit price concessions provided to uninsured patients. HP determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. HP determines its estimate of implicit price concessions based on historical collection experience with this class of patients.

Agreements with third-party payers provide for payments at amounts less than established charges.

A summary of the payment arrangements with major third-party payers follows:

Medicare: Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic or other factors. Certain services are paid based on a cost reimbursement methodologies subject to certain limits. Physical services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of services, or per covered member.

Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

In addition, the contracts HP has with commercial payers also provide for retroactive audit and review of claims. Settlements with third-party payers for retroactive adjustments due to audits, review or investigations are considered variable consideration and are included in the determination of estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and HP's historic settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews and investigations.

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

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance. HP also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. HP estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions.

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

Patients who meet HP's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

HP utilizes a process to identify and appeal certain settlements with certain payors. Reimbursement is adjusted in the year the settlement is finalized. During 2020 and 2019, appeals, cost report settlements, and other adjustments to prior year estimates resulted in an increase in patient service revenue of \$38,343 and \$43,156, respectively, in the consolidated statements of operations and changes in net assets.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

Patient service revenue at established rates, less third-party payor contractual adjustments and implicit price concessions, for the years ended December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Payor type:		
Medicare	\$ 1,036,700	1,077,341
Medicaid	378,457	395,835
Third-party payor	1,528,275	1,709,992
Patients	<u>30,466</u>	<u>38,411</u>
Patient service revenue	\$ <u>2,973,898</u>	<u>3,221,579</u>
Service type:		
Hospital – Inpatient	\$ 728,342	728,627
Hospital – Outpatient	705,597	715,948
Professional Services	1,499,208	1,580,280
Other	<u>40,751</u>	<u>196,724</u>
Patient service revenue	\$ <u>2,973,898</u>	<u>3,221,579</u>

(p) Other Revenue

Other revenue is recognized in the period in which services are rendered or at a point in time and consists primarily of administrative support fees from self-insured employer groups, retail sales revenue, grant revenue, cafeteria revenue, and parking ramp revenue.

(q) Uncompensated Care

HP provides medical care without charge or at a reduced cost to patients who were determined to be unable to pay (implicit price concessions) and provided medical care to patients who were determined to be able, but unwilling to pay. Upon determining that a patient meets the established HP charity care criteria, the charges for services provided to the patient are determined to qualify as uncompensated care and are not reported as revenue.

(r) Income Taxes

HPIC, HPSI, HPA, HPAI, HPCMC, PNE, and DSI, (the Taxable Group) are subject to federal and state income taxes. The liability method is used in accounting for income taxes. Accordingly, deferred income tax assets and liabilities are recognized for the differences between the financial and tax reporting basis of assets and liabilities based on enacted tax rates and laws. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

Deferred tax assets of \$2,345 and \$5,231 have been recorded and included in other non-current assets in the consolidated balance sheets at December 31, 2020 and 2019, respectively. Deferred tax liabilities of \$643, and \$0 have been recorded and included in accrued taxes and interest in the consolidated balance sheets at December 31, 2020 and 2019, respectively. Income tax receivables of \$14,693 and \$12,646 at December 31, 2020 and 2019, respectively, have been recorded and included in accounts receivable, net in the consolidated balance sheets. Income tax payables of \$174 and \$1,165 at December 31, 2020 and 2019, respectively, have been recorded and included in accrued real estate, income taxes, and interest in the consolidated balance sheets. Income tax expense of \$13,213 and \$14,064 has been recorded and included in taxes and assessments in the consolidated statements of operations and changes in net assets for the years ended December 31, 2020 and 2019, respectively.

Judgment is required in determining HP's effective tax rate and in evaluating its tax position. HP establishes accruals for uncertain tax positions when, despite the belief that HP's tax return positions are fully supportable, HP believes that its position may not be fully sustained, primarily given the risks associated with tax litigation or disputes. The uncertain tax position accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law, and emerging legislation. HP's effective tax rate includes the impact of changes to the accruals for uncertain tax positions. HP classifies interest and penalties on tax-related matters as income and other tax expense in the consolidated statements of operations and changes in net assets. HP recorded no liabilities at December 31, 2020 or 2019 for unrecognized tax benefits.

(s) Risk Management

HP's investments are exposed to various risks, such as interest rate, market, cash flow, and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is possible that changes in risks in the near term could materially affect the amounts reported in the accompanying consolidated balance sheets and statements of operations and changes in net assets.

HP is exposed to various risks of loss related to torts; theft of; damage to, and destructions of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There have been no significant changes in HP's insurance coverages from 2019 to 2020.

HP has established reserves for unpaid medical claims based on assumptions concerning a number of factors, including trends in healthcare costs, expenses, general economic conditions, and other factors. To the extent that actual claims experience is less favorable than estimated based on HP's underlying assumptions, HP's incurred losses would increase and future earnings could be adversely affected.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(t) Medical Loss Ratio

HP is subject to the minimum MLR rebate requirements of the Affordable Health Care for America Act (Health Care Reform Act). Under the regulations of the Health Care Reform Act, insured plans will be required to make premium rebate payments to its enrollees that are enrolled under certain health insurance policies if a specific minimum annual MLR is not met in the prior year. The required minimum MLR, as defined by the Health Care Reform Act for insured plans is 85% for the large group market and 80% for the individual and small group markets. HP results for 2020 include an estimated \$1,000 of minimum MLR rebates to be paid in 2021 for the individual market which is include in accounts payable in the consolidated balance sheet. HP recorded no liability for the year ended December 31, 2019.

(u) Risk Adjustment

Risk Adjustment – The Health Care Reform Act established a permanent risk adjustment program to transfer funds from qualified individual and small group insurance plans with below average risk scores to plans with above average risk scores. Based on the risk of HP's qualified plan members relative to the average risk of members of other qualified plans in comparable markets, HP estimated its ultimate 2020 and 2019 risk adjustment receivable or payable and reflects the year-to-date impact as an adjustment to premiums earned. At December 31, 2020 and 2019, HP recorded a payable of \$50,670 and \$48,337, respectively, under the risk adjustment program and is included in accounts payable in the consolidated balance sheets.

Health Insurer Fee – The Health Care Reform Act established a health insurer fee which is levied on health insurers for each calendar year beginning on or after January 1, 2014 and is not deductible for income tax purposes. The amount of the health insurer fee for each health insurer is based on a ratio of the insurer's net health insurance premium written for the previous calendar year compared to the U.S. health insurance industry total net premiums. In accordance with the amendments in ASU 2011-06, *Fees Paid to the Federal Government by Health Insurers*, on January 1, 2019 and 2018, respectively, the liability for the health insurer fee payable was recorded in full within HP's 2020 and 2019 consolidated financial statements, with a corresponding deferred cost that was amortized to expense using a straight-line method of allocation over both 2020 and 2019. As of December 31, 2019 and 2018, HP estimated their portion of the health insurer fee to be approximately \$47,199 and \$0, respectively. In September of 2020 and 2019, HP paid \$41,271 and \$0, respectively, to the federal government for its portion of the health insurer fee. The health insurer fee has been repealed for 2021 and forward.

Risk Corridor – Between 2014 and 2016, the Health Care Reform Act established a temporary three-year risk sharing program for qualified individual and small group insurance plans. Under this program, HP makes (or receives) payments to (or from) the U.S. Department of Health and Human Services (HHS) based on the ratio of allowable costs to target costs as defined by the Health Care Reform Act. Due to the uncertainty of receiving any amounts due from HHS, HP did not recorded any receivable from HHS. In 2020 as part of the Health Republic and Common Group Risk Corridor Class Action Suit settlement, HP received \$24,176 as part of that settlement and is recorded in premiums earned.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(v) COVID-19

The COVID-19 pandemic and the associated governmental responses had an impact on both HP's care delivery services and health insurance products. During 2020, the impact of COVID-19 on the demand for HP's health insurance products was relatively modest as premiums remained relatively consistent with prior periods, while claims experience was more volatile with claims down significantly during the middle part of the year followed by a significant increase in claims during the latter part of the year as medical services resumed. HP's care delivery services was also significantly impacted as services performed were directly impacted by governmental shut down of medical services. Particular primary care and specialty care services, elective medical procedures and dental services. The impact of these shut downs significantly decreased HP's patient service revenue. While most services were allowed to resume and COVID-19 related medical services increased significantly throughout the year it did not erase the shortfall of patient service revenue for the year. The future impact due to COVID-19 is uncertain at this time and will depend on the duration and severity of the pandemic.

(w) Reclassifications

Over the past several years, HP has acquired hospitals and physician practices that have gradually shifted the strategic focus of HP from that of a health insurance company to that of a fully integrated health system. As of January 1, 2020, HP made certain modifications to its consolidated financial statement presentation to more consistently align HP's presentation with other large integrated not-for-profit healthcare organizations. As a result, HP changed the presentation of investment income in the amount of \$205,413 from operating revenues to non-operating income and changed the presentation of its expenses so that only the natural classification of such expenses is included on the statements of operations and changes in net assets and the natural and functional classifications of such expenses is included in note 21. Such changes have been applied to the consolidated financial statements as of and for the year ended December 31, 2019.

During 2020, HP decided to correct the presentation of some immaterial errors in the 2019 financial statements. Such changes included the reclassification of the components of HP's pension costs, other than the service cost component, of \$14,420 were changed from salaries and employee benefits expense to non-operating income (expense). In addition, the restricted investment and other income of \$7,752 was changed from investment income to a separate line item within changes in net asset with donor restrictions section on the consolidated statements of operations and changes in net assets. Further, HP now presents a separate section on the statements of operations and changes in net assets for the changes in the net assets with donor restrictions. HP believes the impact of such changes are not material to the consolidated financial statements.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(2) Investments

The composition of the investment portfolios as of December 31, 2020 and 2019 is summarized as follows:

	<u>Investments</u>	<u>Investments whose use is limited (current)</u>	<u>Investments whose use is limited (noncurrent)</u>	<u>Other investments</u>	<u>Total</u>
December 31, 2020:					
Cash equivalents	\$ 7,752	9,200	14,411	125,116	156,479
Government agency securities	329,653	—	6,374	126,473	462,500
Asset-backed securities	123,500	—	—	20,544	144,044
Residential mortgage-backed securities	44,297	—	41	27,592	71,930
Commercial mortgage-backed securities	22,052	—	—	7,654	29,706
Corporate obligations	300,011	—	—	62,241	362,252
Preferred securities	—	—	—	584	584
Common stocks/mutual funds	9,235	—	22,838	964,182	996,255
	<u>\$ 836,500</u>	<u>9,200</u>	<u>43,664</u>	<u>1,334,386</u>	<u>2,223,750</u>
	<u>Investments</u>	<u>Investments whose use is limited (current)</u>	<u>Investments whose use is limited (noncurrent)</u>	<u>Other investments</u>	<u>Total</u>
December 31, 2019:					
Cash equivalents	\$ 7,630	9,454	3,909	43,248	64,241
Government agency securities	361,774	—	15,778	191,509	569,061
Asset-backed securities	112,063	—	—	19,401	131,464
Residential mortgage-backed securities	47,075	—	38	27,790	74,903
Commercial mortgage-backed securities	26,792	—	—	9,094	35,886
Corporate obligations	270,754	—	—	68,743	339,497
Preferred securities	—	—	—	660	660
Common stocks/mutual funds	3,597	—	18,667	823,618	845,882
	<u>\$ 829,685</u>	<u>9,454</u>	<u>38,392</u>	<u>1,184,063</u>	<u>2,061,594</u>

Investments whose use is limited consists of long-term professional liability trust funds, donor restricted funds, and debt service reserve funds.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

Investment return for the years ended December 31, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 43,324	63,293
Net realized and unrealized gains (losses) on investments in earnings	114,704	144,490
Investment expenses	<u>(2,772)</u>	<u>(2,370)</u>
Total investment income and net realized gains (losses) on investments in earnings	155,256	205,413
Change in net unrealized gains (losses) fixed maturity securities	<u>10,237</u>	<u>15,143</u>
Total investment return without donor restrictions	<u>165,493</u>	<u>220,556</u>
Net realized and unrealized gains (losses) on investments in earnings	2,014	2,427
Change in net unrealized gains (losses) fixed maturity securities	<u>34</u>	<u>321</u>
Total investment return with donor restrictions	<u>2,048</u>	<u>2,748</u>
Total investment return	<u>\$ 167,541</u>	<u>223,304</u>

HP did not record any impairment losses in 2020 or 2019. Gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, including the noncredit portion of OTTI, as of December 31, 2020 and 2019, are as follows:

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized loss</u>	<u>Fair value</u>	<u>Unrealized loss</u>	<u>Fair value</u>	<u>Unrealized loss</u>
December 31, 2020:						
Government agency securities \$	50,218	(64)	—	—	50,218	(64)
Asset-backed securities	20,153	(29)	1,531	(8)	21,684	(37)
Residential mortgage-backed securities	8,226	(96)	59	(2)	8,285	(98)
Commercial mortgage-backed securities	3,418	(32)	257	—	3,675	(32)
Corporate obligations	<u>3,987</u>	<u>(24)</u>	<u>250</u>	<u>(1)</u>	<u>4,237</u>	<u>(25)</u>
	<u>\$ 86,002</u>	<u>(245)</u>	<u>2,097</u>	<u>(11)</u>	<u>88,099</u>	<u>(256)</u>

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
December 31, 2019:						
Government agency securities \$	141,762	(155)	2,860	(17)	144,622	(172)
Asset-backed securities	29,766	(58)	13,240	(35)	43,006	(93)
Residential mortgage-backed securities	16,014	(49)	11,787	(223)	27,801	(272)
Commercial mortgage-backed securities	7,500	(20)	6,490	(35)	13,990	(55)
Corporate obligations	28,181	(82)	6,042	(37)	34,223	(119)
	<u>\$ 223,223</u>	<u>(364)</u>	<u>40,419</u>	<u>(347)</u>	<u>263,642</u>	<u>(711)</u>

All investments in a gross unrealized loss position at December 31, 2020 and 2019 were investment grade. The investments in a gross unrealized loss position at December 31, 2020 and 2019 represent 14.50% and 15.64%, respectively, of the fair value of total investments in HP's portfolio.

The following paragraphs summarize HP's evaluation of investment categories with unrealized losses as of December 31, 2020 and 2019.

Government agency securities are temporarily impaired due to current interest rates and not credit-related reasons. HP expects to collect all principle and interest on these securities.

Asset-backed securities, residential mortgage-backed securities, and commercial mortgage-backed securities are impacted by both interest rates and the value of the underlying collateral. HP utilizes thresholds and discounted cash flow models using outside assumptions to determine if an OTTI is warranted.

Corporate obligation valuations are impacted by both interest rates and credit industry specific issues. HP recognizes OTTI due to credit issues when HP determines the security will not recover in a reasonable period of time. Unrealized losses are primarily due to the interest rate environment and certain industries falling out of favor.

(3) Fair Value of Financial Instruments

All financial instruments are carried at fair value.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

(a) Cash and Cash Equivalents

The carrying amount approximates fair value due to the short duration of these financial instruments.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(b) Investments, Investments Whose Use is Limited, and Other Investments

The fair values are based on quoted market prices at the reporting date where available. For securities not actively traded, fair value is estimated based on investments with similar interest rates, credit quality, yield, and maturity.

(c) Fair Value Hierarchy

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques 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 lowest priority to unobservable inputs (Level 3 measurements). Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. The three levels of the fair value hierarchy under GAAP are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that HP has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the valuation methodologies used in 2020.

Cash Equivalents

Valued daily based on subscription and redemption activity at a stable \$1 net asset value (NAV). Redemptions can occur daily at NAV and there are no restrictions to redemption or unfunded commitments.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

Mutual Funds, Common Stock, and Preferred Stock

Valued daily based on unadjusted quoted market prices from national exchanges.

Fixed Income

The fair values are estimated based on cash flows, discounted at current rates, for instruments of similar maturities and credit quality, or based on quoted market prices for similar issues.

Government Agency Securities, Asset-backed Securities, Residential Mortgage-backed Securities, Commercial Mortgage-backed Securities, Corporate Obligations, and Preferred Securities.

Valued based on the closing price reported on the active market on which the individual securities are traded. For preferred securities classified as Level 3 securities, the fair value is based on a bid evaluated price.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although HP believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables present the level within the fair value hierarchy at which HP's invested assets are measured on a recurring basis at December 31, 2020 and 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2020:				
Cash equivalents	\$ 156,479	—	—	156,479
Fixed income:				
Government agencies	247,014	215,485	—	462,499
Asset-backed securities	—	144,044	—	144,044
Residential mortgage-backed securities	—	71,930	—	71,930
Commercial mortgage-backed securities	—	29,706	—	29,706
Corporate obligations	—	362,252	—	362,252
Preferred securities	584	—	—	584
Common stock:				
Small cap stocks	143,194	—	—	143,194
Mid cap stocks	1,257	—	—	1,257
Large cap stocks	4,347	—	—	4,347
International stocks	912	—	—	912
Mutual funds:				
Fixed income funds	275,662	—	—	275,662
Real estate investment trust funds	589	—	—	589

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Large cap funds	\$ 7,361	—	—	7,361
Mid cap funds	1,739	—	—	1,739
Small cap funds	9,152	—	—	9,152
Alternative funds	2,953	—	—	2,953
Index funds	326,777	—	—	326,777
International funds	222,312	—	—	222,312
Total investment assets at fair value	<u>\$ 1,400,333</u>	<u>823,417</u>	<u>—</u>	<u>2,223,749</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2019:				
Cash equivalents	\$ 64,241	—	—	64,241
Fixed income:				
Government agencies	569,061	—	—	569,061
Asset-backed securities	—	131,464	—	131,464
Residential mortgage-backed securities	—	74,903	—	74,903
Commercial mortgage-backed securities	—	35,886	—	35,886
Corporate obligations	—	339,497	—	339,497
Preferred securities	660	—	—	660
Common stock:				
Small cap stocks	111,120	—	—	111,120
Mid cap stocks	890	—	—	890
Large cap stocks	2,697	—	—	2,697
International stocks	765	—	—	765
Mutual funds:				
Fixed income funds	226,841	—	—	226,841
Real estate investment trust funds	731	—	—	731
Large cap funds	2,413	—	—	2,413
Mid cap funds	1,315	—	—	1,315
Small cap funds	6,849	—	—	6,849
Alternative funds	1,768	—	—	1,768
Index funds	282,152	—	—	282,152
International funds	208,341	—	—	208,341
Total investment assets at fair value	<u>\$ 1,479,844</u>	<u>581,750</u>	<u>—</u>	<u>2,061,594</u>

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

HP transferred \$215,485 in Government Agency securities from level 1 to level 2 for the year ended December 31, 2020. There were no transfers between fair values during the year ended December 31, 2019.

HP has no financial assets or liabilities that were measured at fair value on a nonrecurring basis at December 31, 2020 and 2019.

(4) Accounts Receivable

Accounts receivable at December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Patient service	\$ 378,610	380,374
Premiums	119,407	115,332
Other	136,255	133,379
Total	<u>\$ 634,272</u>	<u>629,085</u>

Patient service accounts receivable are reduced by explicit and implicit price concessions, based on established guidelines for identifying uncollectible patient accounts. HP's management periodically assesses the explicit and implicit price concessions by taking into consideration, by payor category, the expected net collections, accounts receivable aging, historical collections experience, economic conditions, trends in healthcare coverage, and other collection indicators. The primary source of the implicit price concessions is the patient responsibility portion of commercial accounts. The primary source of the implicit price concessions is charges for uninsured patients. Patients who are insured are assessed separately for collectability from uninsured patients. The results of these implicit price concessions are used to establish the net realizable value of patient accounts receivable and the implicit price concessions. For premiums and other receivables, HP's policy is to set up implicit price concessions for all receivables over 90 days outstanding.

HP grants credit without collateral to its patients, most of whom are insured under third-party payor arrangements. The mix of health service receivables by payor at December 31, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Medicare	23%	21%
Medicaid	8	7
Third-party payors	47	47
Patients	22	25
Total	<u>100%</u>	<u>100%</u>

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(5) Property, Plant, and Equipment, Net

A summary of the costs and the related accumulated depreciation at December 31, 2020 and 2019 is as follows:

	2020		2019	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land and land improvements	\$ 129,227	14,628	118,719	13,901
Buildings and building improvements	1,901,518	1,044,356	1,737,942	978,519
Equipment	1,476,547	1,154,970	1,456,258	1,125,848
Leasehold improvements	218,657	164,775	217,826	157,063
Construction in progress	16,074	—	128,953	—
	\$ 3,742,023	2,378,729	3,659,698	2,275,331
Property, plant, and equipment, net		\$ 1,363,294		1,384,367

(a) Regions Hospital Campus

The majority of Regions' main campus is owned by Ramsey County and leased to Regions. The lease agreement grants Regions use of the property through December 2066 and requires Regions to: (i) provide care to the indigent of Ramsey County throughout the lease term; (ii) pay all taxes, utilities, maintenance, and insurance costs with respect to the property; (iii) use its best efforts to continue providing, and consult with the Ramsey County Board of Commissioners before discontinuing, its major or unique services, including but not limited to, the trauma center, burn unit, graduate medical education, and research services; and (iv) not assign the lease to a for-profit corporation.

The property leased from Ramsey County is included in Regions' net property, plant, and equipment. Under the lease, Regions is required to provide a minimum dollar amount of charity care to Ramsey County residents. In the event the value of charity care does not meet the lease requirement, Regions can fulfill the requirement by making capital improvements to Regions' property. Regions' compliance with the charity care requirement of the lease is based on the value of charity care provided and reduced by Ramsey County's direct cash support, if any.

(b) Construction in Progress

Construction in progress at December 31, 2020 and 2019 represents deposits on equipment purchases and costs incurred in connection with remodeling and building projects. At December 31, 2020 and 2019, there was \$0 and \$2,624, respectively, of capitalizable interest included in construction in progress.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(6) Other Assets - Goodwill and Other Intangible Assets

HP has a carrying value of goodwill of \$3,225 and \$19,154 at December 31, 2020 and 2019, respectively, related to business acquisitions. In 2020 and 2019, HP recognized an impairment related to goodwill of \$15,929 and \$0, respectively, which is recorded in supplies and other in the accompany statements of operations and changes in net assets. The carrying value of other intangible assets is \$123 and \$393 at December 31, 2020 and 2019, respectively, related primarily to brand name and intellectual property. Both goodwill and intangible assets are included in other non-current assets.

(7) Unpaid Medical Claims

The following table represents gross incurred and paid medical claims development for the years ended December 31, 2020 and 2019.

		Incurred medical claims for the years ended December 31	
		2019	2020
Date of service			
2019		\$ 3,003,096	2,953,400
2020			<u>2,982,332</u>
	Total		<u>\$ 5,935,732</u>
		Cumulative paid medical claims for the years ended December 31	
		2019	2020
Date of service			
2019		\$ 2,750,444	2,953,400
2020			<u>2,696,644</u>
	Total		5,650,044
Less intercompany eliminations			<u>(29,913)</u>
Total outstanding liabilities for unpaid medical claims			<u>\$ 255,775</u>

Substantially all of the outstanding liabilities for unpaid medical claims at December 31, 2020 relate to the current year.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

The table disclosing paid claims, incurred claims, and the balance in the unpaid medical claims for the years ended December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Balance – January 1, net	\$ 216,199	218,750
Add: Intercompany eliminations	<u>36,453</u>	<u>34,606</u>
Balance – January 1	252,652	253,356
Incurred related to:		
Current year	2,982,332	3,003,096
Prior year	<u>(49,697)</u>	<u>(37,629)</u>
Total incurred	<u>2,932,635</u>	<u>2,965,467</u>
Paid related to:		
Current year	2,696,644	2,750,444
Prior year	<u>202,955</u>	<u>215,727</u>
Total paid	<u>2,899,599</u>	<u>2,966,171</u>
Balance – December 31	285,688	252,652
Less intercompany eliminations	<u>(29,913)</u>	<u>(36,453)</u>
Balance – December 31	<u>\$ 255,775</u>	<u>216,199</u>

As the unpaid medical claims includes various developed estimates, HP's actual claims experience may be more or less than HP's previously developed estimates. HP's unpaid medical claims liability as of December 31, 2019 and 2018, was decreased by \$49,697 and \$37,629, respectively, in the following year for claims that had occurred on or prior to those consolidated balance sheets. These adjustments resulted from HP's actual claims expense related to prior years totaling less than the estimates previously made by HP. The change in incurred claims is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. In addition, the reserves are continually reviewed to reflect current conditions and claim trends, and any resulting adjustments are reflected in operating results in the year the revisions are made.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(8) Long-Term Debt

Long-term debt at December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
HealthPartners, Inc. Senior Notes – Series 2020 (1)	\$ 110,000	—
HealthPartners, Inc. Line of credit agreement (2)	100,000	—
Health Care Facility Revenue Bonds – Series 2018A and B (3)	45,930	48,700
HealthPartners, Inc. Senior Notes – Series 2018 (4)	50,000	50,000
Health Care Facility Revenue Bonds – Series 2015A (5)	170,663	171,547
Health Care Facility Revenue Bonds – Series 2015B (6)	120,030	135,085
Health Care Facility Revenue Bonds – Series 2015A (7)	142,365	145,262
Health Care Facility Revenue Bonds – Series 2014B (8)	5,915	10,785
Health Care Facility Revenue Bonds – Series 2014A (9)	19,340	21,455
HealthPartners, Inc. Senior Notes – Series 2013 (10)	65,780	70,310
Hudson Hospital refunding revenue bonds – Series 2012 (11)	5,433	7,449
Westfields mortgage bonds payable – Series 2016A and B (12)	7,449	8,037
ARMC revenue bonds – Series 2011 (13)	22,336	23,439
HESH loan payable (14)	—	1,801
	<hr/>	<hr/>
Total debt prior to deferred financing costs	865,241	693,870
Deferred financing costs	<u>(4,655)</u>	<u>(4,068)</u>
Total debt	860,586	689,802
Less current portion	<u>134,767</u>	<u>37,110</u>
Long-term portion	<u>\$ 725,819</u>	<u>652,692</u>

Annual principal payments due on the above debt are as follows:

Year ending December 31:	
2021	\$ 134,052
2022	35,828
2023	37,141
2024	38,287
2025	40,607
Thereafter	562,929
Unamortized bond premiums	<u>16,397</u>
Total	<u>\$ 865,241</u>

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

- 1) *The HealthPartners, Inc. Senior Notes* – Series 2020 were issued by HPI and the Obligated Group, which includes GHI, HPI, HPIC, HPAI, Regions, PNHS, Methodist, PNC, PNHCP, and PNMC Holdings (collectively, the Obligated Group). The bonds are payable in annual principle payments and semiannual interest payments through 2050 with an interest rate of 4.37% and are the sole obligation of HP and the Obligated Group. The Obligated Group's gross revenues were pledged toward repayment of the bonds. Financial costs are amortized over the life of the bonds. The debt agreements provide for certain financial covenants and also limit the amount of additional debt that can be incurred.
- 2) HP has established four credit agreements with four banks totaling \$155,000 to provide liquidity to HP. These facilities are secured by the HealthPartners Master Trust indenture and have expiration dates of June 28, 2021 (\$100,000), August 19, 2021 (\$25,000), and August 20, 2021 (\$30,000). Advances under the credit agreements bear a variable rate based on the London Interbank Offered Rate (LIBOR). As of December 31, 2020, there was \$100,000 outstanding under the credit agreement with expires on June 28, 2021.
- 3) *The Health Care Facility Revenue Refunding Bonds* – Series 2018A and 2018B were issued by the Housing and Redevelopment Authority of the City of Saint Paul (HRA) on behalf of Regions and the Obligated Group. The bond proceeds were used to construct Region's new birth center. The bonds are payable in annual installments through 2033 with a fixed interest rate of 3.41% and are the sole obligation of Regions and the Obligated Group. The Obligated Group's gross revenues were pledged toward repayment of the bonds. The debt agreements include covenants enumerating minimum debt service coverage requirements, along with restrictions on the incurrence of additional debt, sales of assets, mergers and consolidations, transactions with affiliates, creation of liens and certain other matters.
- 4) *The HealthPartners, Inc. Senior Notes* – Series 2018 were issued by HP and the Obligated Group. The bonds are payable in annual principal payments and semiannual interest payments through 2048 with a fixed interest rate of 4.62% and are the sole obligation of HP and the Obligated Group. The Obligated Group's gross revenues were pledged toward repayment of the bonds. The debt agreements provide for certain financial covenants and also limit the amount of additional debt that can be incurred.
- 5) *The Health Care Facility Revenue Refunding Bonds* – Series 2015A were issued by the Housing and Redevelopment Authority of the City of Saint Paul (HRA) on behalf of PNHS and the Obligated Group. Proceeds were used to refund the Series 2008C and Series 2009 PNHS Obligated Group bonds. The bonds are payable in annual installments through 2033 with fixed interest rate ranging from 4.00 to 5.00% and are the sole obligation of PNHS and the Obligated Group. The Obligated Group's gross revenues were pledged toward repayment of the bonds. The debt agreements provide for certain financial covenants and also limit the amount of additional debt that can be incurred.
- 6) *The Health Care Facility Revenue Refunding Bonds* – Series 2015B were issued by HRA on behalf of PNHS and the Obligated Group. Proceeds were used to refund the Series 2008C and Series 2009 PNHS Obligated Group bonds. The bonds are payable in annual installments through 2027 with fixed interest rate ranging from 1.041 to 4.189% and are the sole obligation of PNHS and the Obligated Group. The Obligated Group's gross revenues were pledged toward repayment of the bonds. The debt

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

agreements provide for certain financial covenants and also limit the amount of additional debt that can be incurred.

- 7) *The Health Care Facility Revenue Refunding Bonds* – Series 2015A were issued by HRA on behalf of Regions and the Obligated Group. Proceeds were used to refund the Series 2006 Regions Obligated Group bonds. The bonds are payable in annual installments through 2033 with fixed interest rate ranging from 3.00 to 5.00% and are the sole obligation of Regions and the Obligated Group. The Obligated Group's gross revenues were pledged toward repayment of the bonds. The debt agreements provide for certain financial covenants and also limit the amount of additional debt that can be incurred.
- 8) *The Health Care Facility Revenue Refunding Bonds* – Series 2014B were issued by the Housing and Redevelopment Authority of the City of Saint Paul (HRA) on behalf of GHI and the Obligated Group. Proceeds were used to refund the series 2003 bonds. The bonds are payable in annual installments through 2022 with a fixed interest rate of 3.19% and are the sole obligation of GHI and the Obligated Group. The Obligated Group's gross revenues were pledged toward repayment of the bonds. The debt agreements provide for certain financial covenants and also limit the amount of additional debt that can be incurred.
- 9) *The Health Care Facility Revenue Refunding Bonds* – Series 2014A were issued by the HRA on behalf of Regions. The bonds are payable in annual installments through 2028 with a fixed interest rate of 3.99% and are the sole obligation of the Obligated Group. The bond proceeds were used to refund the Series 1998 bonds for which the original proceeds of the bonds were used primarily for hospital facility construction, general facility refurbishing, and equipment acquisition. The Obligated Group's gross revenues were pledged toward repayment of the bonds. The debt agreements include covenants enumerating minimum debt service coverage requirements, along with restrictions on the incurrence of additional debt, sales of assets, mergers and consolidations, transactions with affiliates, creation of liens, and certain other matters.
- 10) *The HealthPartners, Inc. Senior Notes* – Series 2013 were issued by HP and the Obligated Group. The bonds are payable in annual principal payments and semiannual interest payments through 2030 with a fixed interest rate of 4.61% and are the sole obligation of HP and the Obligated Group. The Obligated Group's gross revenues were pledged toward repayment of the bonds. The debt agreements provide for certain financial covenants and also limit the amount of additional debt that can be incurred.
- 11) *Hudson Hospital Refunding Revenue Bonds Payable* – Series 2012 were issued by the Wisconsin Health and Educational Facilities on behalf of HH. The bonds are payable in monthly installments through 2029 with a fixed interest rate of 3.61% with substantially all of the mortgaged property of the hospital campus pledged as collateral on the Revenue Bonds.
- 12) *Westfields Mortgage Bonds Payable* – WH mortgage bonds payable consisted of a \$6,854 Hospital Facilities Revenue Note, Series 2016A, and a \$3,224 Hospital Facilities Revenue Note, Series 2016B (collectively, the Westfields Notes). WH entered into this loan agreement with the Community Development Authority of the City of New Richmond, WI, and the Village of Star Prairie, WI. The Westfields Notes are payable in monthly installments through 2024 with a fixed interest rate of 2.99% and are collateralized by land, land improvements, and the building.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

13) *ARMC Revenue Bonds* – Series 2011 were issued by the Village of Clear Lake, Wisconsin, City of Amery, Wisconsin and the Village of Luck, Wisconsin at a fixed interest rate of 3.87% and the Town of Lincoln, Wisconsin and the Town of Black Brook, Wisconsin at an interest rate of 3.67%. These revenue bonds are payable in monthly installments through 2036 and are secured by the hospital building and related property.

14) *HESH Loan Payable* – HESH entered into a loan arrangement with Prudential Insurance Company of America in connection with the building and equipping of the HealthPartners Specialty Center facility. The loan is payable in monthly installments through 2020 with a fixed interest rate of 5.99% and is secured by the land, all buildings, structures, and improvements located in or on the land and all of the fixtures, and personal property owned by HESH but excluding all personal property owned by any tenant of the property.

HP was in compliance with all debt covenants as of December 31, 2020.

The debt agreements also require HP to maintain certain funds in trust accounts. Investments in the trusts are recorded at fair value. Such funds are included in investments whose use is limited in the consolidated balance sheet at December 31, 2020 and 2019 and were as follows:

	<u>2020</u>	<u>2019</u>
Funds held by trustee:		
Debt service reserve fund	\$ 1,669	1,664
Bond interest and principal fund	9,200	9,454
	<u>10,869</u>	<u>11,118</u>
Less current portion	9,200	9,454
Long-term portion	<u>\$ 1,669</u>	<u>1,664</u>

(9) Leases

The components of lease expense were as follows:

	<u>2020</u>	<u>2019</u>
Operating lease costs	\$ 36,408	36,181
Finance lease costs:		
Amortization of ROU assets	1,475	1,129
Interest on lease liabilities	1,189	1,007
	<u>2,664</u>	<u>2,136</u>
Total lease costs	<u>\$ 39,072</u>	<u>38,317</u>

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

Supplemental cash flow information related to leases was as follows:

	<u>2020</u>	<u>2019</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	\$ 34,231	33,452
Operating cash outflows from finance leases	1,189	1,007
Financing cash outflows from finance leases	2,416	1,868
ROU assets obtained in exchange for lease obligations:		
Operating leases	\$ 7,265	6,672
Finance leases	—	—

Operating and finance lease ROU assets and lease liabilities were as follows:

	<u>2020</u>	<u>2019</u>
Operating leases:		
Right of use assets	\$ 200,625	223,081
Lease obligations current portion liability	24,127	25,121
Lease obligations long-term portion liability	187,316	200,785
Finance leases:		
Property and equipment	\$ 41,736	22,539
Accumulated depreciation	<u>(18,557)</u>	<u>(17,082)</u>
Property and equipment, net	<u>\$ 23,179</u>	<u>5,457</u>
Accounts payable – Short -term lease obligations	\$ 2,495	2,145
Other liabilities – Long-term lease obligations	<u>26,283</u>	<u>9,850</u>
Total finance lease liability	<u>\$ 28,778</u>	<u>11,995</u>

As of December 31, 2020 and 2019, the weighted average remaining lease term was 12.27 and 12.59, respectively, for operating leases and 24.43 and 5.88 years, respectively for finance leases. The weighted average discount rate was 5.47% and 5.42% for the years ended December 31, 2020 and 2019, respectively, for operating leases and 4.54% for finance leases for 2020 and 2019.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

Maturities of lease liabilities as of December 31, 2020 were as follows:

	<u>Operating leases</u>	<u>Finance leases</u>
2021	\$ 33,833	3,709
2022	30,597	3,561
2023	27,567	3,561
2024	25,904	3,175
2025	23,416	1,243
Thereafter	<u>161,376</u>	<u>26,047</u>
Total lease payments	302,693	41,296
Less imputed interest	<u>(91,250)</u>	<u>(12,518)</u>
Total	<u>\$ 211,443</u>	<u>28,778</u>

(10) Retirement Plans

HP provides several retirement programs for its various groups of employees.

GHI, HPCMC, PNBC, RHSC, and HPA (the Group) have a noncontributory defined benefit cash balance plan covering their employees age 21 and over with a minimum of one year of service. Contributions to the plan are a function of the years of service, the level of compensation, and an interest rate credit. Plan assets are invested in a fund consisting of common stocks, bonds, and other marketable securities. The plan is funded in accordance with federal law and regulations.

Lakeview Health has a defined benefit pension plan covering substantially all of its employees. Pension benefits are based on years of service and the employees' compensation during their highest consecutive five-year compensation period. Lakeview Health funds contributions to the plan based on actuarial computations using the projected unit credit method.

HP uses a December 31 measurement date for the retirement plans.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

The Plans' benefit obligation and funded status at December 31, 2020 and 2019, and changes for the years then ended, are as follows:

	<u>2020</u>	<u>2019</u>
Change in benefit obligation:		
Benefit obligation – beginning of year	\$ 664,148	599,730
Service cost	19,778	19,438
Interest cost	21,719	24,677
Actuarial gain (loss)	40,110	45,942
Benefits paid	(32,826)	(24,911)
Expenses	(626)	(728)
Settlements	(4,282)	—
Benefit obligation – end of year	<u>\$ 708,021</u>	<u>664,148</u>
Change in plan assets:		
Fair value of plan assets – beginning of year	\$ 717,204	595,381
Actual return on plan assets	127,027	134,962
Employer contributions	12,500	12,500
Benefits paid	(37,109)	(24,911)
Expenses	(626)	(728)
Fair value of plan assets – end of year	<u>\$ 818,996</u>	<u>717,204</u>
	<u>2020</u>	<u>2019</u>
Funded status:		
Funded status	\$ 110,973	53,052
Unrecognized net actuarial loss	15,942	63,044
Unrecognized prior service cost	319	585
Prepaid benefit cost	<u>\$ 127,234</u>	<u>116,681</u>
Amount recognized in the balance sheets consists of the following:		
Current assets – other	\$ 111,754	56,998
Noncurrent liabilities – deferred employee benefits	(781)	(3,946)
Amount recognized in net assets without donor restrictions:		
Net loss	\$ 15,942	63,044
Net prior service cost	319	585
Total amount recognized	<u>\$ 16,261</u>	<u>63,629</u>

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

Weighted average assumptions as of December 31:

Discount rate – the Group	2.70 %	3.40 %
Discount rate – Lakeview Health	2.89	3.57
Expected return on plan assets – the Group	6.75	6.75
Expected return on plan assets – Lakeview Health	6.50	6.50
Rate of compensation increase – the Group	3.00	3.00
Rate of compensation increase – Lakeview Health	3.50	4.50

The following benefit payments, which reflect expected future service, are expected to be paid:

Estimated benefit payments:	
2021	\$ 36,552
2022	38,910
2023	40,477
2024	41,653
2025	40,755
2026–2030	<u>218,416</u>
Total	<u>\$ 416,763</u>

(a) Plan Assets

HP has in place an Asset Allocation and Investment Policy Guidelines document that provides general oversight of the Plans' assets. The asset class investment return goals are broken down by the following asset classes: core fixed income, large cap equities, small cap equities, and international equities. In addition to the return objectives, each asset class has a minimum and maximum range and a targeted asset allocation percentage. In general, investment managers selected are expected to adequately diversify each portfolio in their efforts to maximize risk-adjusted performance. The Plans may use private placements, mutual funds, and commingled/collective funds periodically to gain exposure to certain asset classes.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

HP pension plan weighted average asset allocations at December 31, 2020 and 2019 by assets category are as follows:

	<u>Target allocation</u>	<u>2020</u>	<u>2019</u>
Asset category:			
Equity securities	75.0 %	70.2%	74.7%
Debt securities	25.0	28.3	24.6
All other assets	—	1.5	0.7
	<u>100.0 %</u>	<u>100.0%</u>	<u>100.0%</u>
Employer contributions –			
Contributions expected to be paid during measurement year ended December 31		\$ 10,000	10,000

HP has classified its investments in the pension plans as collective/commingled funds, mutual funds, common stock (domestic and international), preferred stock, fixed income securities, and money market accounts.

The following tables present the level within the fair value hierarchy at which HP's invested assets are measured on a recurring basis at December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2020:				
Cash equivalents	\$ 12,023	—	—	12,023
Fixed income:				
Asset-backed securities	—	3,239	—	3,239
Government agencies	38,445	—	—	38,445
Mortgage-backed securities	—	15,184	—	15,184
Corporate obligations	—	18,529	—	18,529
Common stock:				
Small cap stocks	83,587	—	—	83,587
Mid cap stocks	1,262	—	—	1,262
Large cap stocks	1,359	—	—	1,359
International stocks	1,037	—	—	1,037

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Fixed income funds	\$ 149,247	—	—	149,247
Index funds	250,313	—	—	250,313
International funds	155,952	—	—	155,952
Commingled funds	16,303	—	—	16,303
Total investments measured at net asset value *	<u>—</u>	<u>—</u>	<u>—</u>	<u>72,516</u>
Total investment assets at fair value	\$ <u>709,528</u>	<u>36,952</u>	<u>—</u>	<u>818,996</u>

For certain investments, HealthPartners utilizes net asset value as a practical expedient to fair value. Below is a summary of investments accounted for at net asset value as of December 31, 2020:

	<u>Net asset value</u>	<u>Redemption frequency</u>	<u>Redemption notice</u>	<u>Unfunded commitments</u>
Commingled funds (a)	\$ 55,190	Monthly	1/2/5 days	None
Multi-strategy hedge fund (b)	<u>17,326</u>	Monthly/Quarterly/Semi Annual	99/90/65 days	None
	\$ <u>72,516</u>			

The following tables present the level within the fair value hierarchy at which HP's invested assets are measured on a recurring basis at December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2019:				
Cash equivalents	\$ 5,641	—	—	5,641
Fixed income:				
Asset-backed securities	—	2,139	—	2,139
Government agencies	21,977	—	—	21,977
Mortgage-backed securities	—	26,755	—	26,755
Corporate obligations	—	16,800	—	16,800
Common stock:				
Small cap stocks	67,976	—	—	67,976
Mid cap stocks	3,023	—	—	3,023
Large cap stocks	888	—	—	888
International stocks	536	—	—	536

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Fixed income funds	\$ 106,412	—	—	106,412
Index funds	243,918	—	—	243,918
International funds	129,099	—	—	129,099
Commodity funds	—	—	—	—
Commingled funds	19,413	—	—	19,413
Total investments measured at net asset value *	<u>—</u>	<u>—</u>	<u>—</u>	<u>72,627</u>
Total investment assets at fair value	\$ <u>598,883</u>	<u>45,694</u>	<u>—</u>	<u>717,204</u>

* Measured at NAV and included only for reconciliation purposes. Valued based on the underlying market value of securities held in the funds as determined by the common/collective trust fund manager. The underlying asset values are determined using various inputs; however, the accounts are valued using the NAV as practical expedient to fair value of each account.

For certain investments, HealthPartners utilizes net asset value as a practical expedient to fair value. Below is a summary of investments accounted for at net asset value as of December 31, 2019:

	<u>Net asset value</u>	<u>Redemption frequency</u>	<u>Redemption notice</u>	<u>Unfunded commitments</u>
Commingled funds (a)	\$ 57,105	Monthly	1/2/5 days	None
Multi-strategy hedge fund (b)	<u>15,522</u>	Monthly/Quarterly/Semi Annual	99/90/65 days	None
	\$ <u>72,627</u>			

(a) Commingled fund investments – this category includes investments in portfolios that may not be sold to investors other than “accredited investors” within the meaning of Regulation D under the Securities Act of 1933 (Securities Act), unless sold pursuant to another available exemption from the Securities Act. The price of these fund’s shares is based on the portfolio’s net asset value. The net asset value is determined by dividing the total value of the portfolio’s investments and other assets, less any liabilities, by the total number of shares outstanding. For purposes of calculating net asset value, portfolio securities and other assets for which market quotes are readily available are valued at market value. Market value is generally determined on the basis of official closing prices or the last reported sales prices, or if no sales are reported, based on quotes obtained from quotation reporting systems, established market makers, or pricing services.

(b) Multi strategy hedge fund – this category includes investments in the U.S. and global markets through a hedge fund structure.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

HP did not have any transfers between Levels 1 and 2 during the years ended December 31, 2020 and 2019.

(b) Accumulated Benefit Obligation

Information for pension plans with an accumulated benefit obligation in excess of plan assets at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Projected benefit obligation	\$ 708,021	664,148
Accumulated benefit obligation	670,818	625,269
Fair value of plan assets	818,996	717,204

(c) Components of Net Periodic Benefit Cost

The components of net periodic benefit cost for the retirement plans for 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Service cost	\$ 19,778	19,438
Interest cost	21,719	24,677
Expected return on plan assets	(43,737)	(41,905)
Amortization of prior service cost	121	241
Recognized actuarial loss	6,553	2,567
Net periodic benefit cost	<u>\$ 4,434</u>	<u>5,018</u>

	<u>2020</u>	<u>2019</u>
Weighted average assumptions as of December 31:		
Discount rate – the Group	3.40 %	4.30 %
Discount rate – Lakeview Health	3.57	4.30
Expected return on plan assets – the Group	6.75	6.75
Expected return on plan assets – Lakeview Health	6.50	6.50
Rate of compensation increase – the Group	3.00	3.00
Rate of compensation increase – Lakeview Health	4.50	4.50

(d) Regions Plans

Substantially, all full-time employees of Regions are covered by Regions' defined contribution retirement plan or by the defined benefit plans administered by the Public Employees Retirement Association of the state of Minnesota (PERA).

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

Regions sponsors a defined contribution retirement plan covering all employees over the age of 21 who have completed one year of eligible service and are not covered by PERA. The plan provides for both a base contribution and a matching contribution funded by the employer based on the employees' participation in a qualifying 403(b) plan. The plan is a qualified plan under IRC Section 401(a) and satisfies the requirements of Section 401(m). Regions' contributions range from 4% to 6% of eligible employees' compensation. Total contributions to the plan were \$16,398 and \$15,857 in 2020 and 2019, respectively.

(e) GHI Plans

GHI sponsors two qualified defined contribution plans under various sections of the IRC, which are the GHI 403(b)(7) Plan and the GHI 401(k) Plan. Employee balances in the GHI 403(b)(7) Plan were frozen, effective July 3, 1996. Eligible employees of GHI can contribute 1.0% to 50.0% of annual compensation up to the maximum dollar limits established by the Internal Revenue Service with GHI matching the participants' contribution up to 7.5% of their salary. GHI made discretionary contributions to the GHI 401(k) Plan, for which GHI, HPCMC, RHSC, HPA, and PNBC are participants, of \$47,166 and \$43,493 in 2020 and 2019, respectively.

(f) PNHS Plans

PNHS contributes to various multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- (1) Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- (2) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- (3) If PNHS chooses to stop participating in some of its multiemployer plans, PNHS may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

PNHS's participation in these plans for the annual periods ended December 31, 2020 and 2019, is outlined in the following table. The zone status is based on information that PNHS received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

than 65% funded, plans in the yellow zone are between 65% and 80% funded, and plans in the green zone are at least 80% funded.

Pension fund	EN/Pension plan number	Pension protection act zone status		FIP/RP status pending/implemented	Contributions for the years ended		Surcharge imposed	Expiration date of collective-bargaining agreement
		2020	2019		2020	2019		
Twin Cities Hospitals Minnesota Nurses Association	41-6184922	Green as of 1/1/2020	Green as of 1/1/2019	Yes *	9,129	7,808	No	5/31/2022
Twin Cities Hospitals Workers Pension Plan	41-1303906	Green as of 1/1/2020	Green as of 1/1/2019	No	787	812	No	2/28/2021

* The sponsor has commenced a funding improvement plan in order to meet funding requirements over a funding improvement period ending in 2021.

PNHS was listed in both the Twin Cities Hospitals Minnesota Nurses Association and the Twin Cities Hospitals Workers Pension Plan Form 5500 as providing more than 5% of the total contributions for 2019 and 2018.

PNHS offers a 401(k) and a 403(b) contributory savings plan covering substantially all employees. Discretionarily, PNHS matches a specified percentage of each employee's contribution up to a maximum of 4% of the individual's compensation. For 2020 and 2019, PNHS made contributory matches of 50%. In addition, PNHS makes contributions of 4.5% of a participant's compensation up to 100% of the social security wage base and 9.7% of any compensation in excess of 100% of the social security wage base up to a maximum wage base of \$285 in 2020 and \$280 in 2019. Plan contribution expense for PNHS was \$38,132 and \$41,113 in 2020 and 2019, respectively.

(g) WH Plans

WH has a defined contribution retirement plan covering substantially all employees who meet the requirement set forth in the plan. The eligible employees can elect to contribute, up to the maximum dollar limits established by the Internal Revenue Service, of their annual salary to the plan with WH matching the participants' contributions up to 5% of their salary. Contributions to the plan were \$872 and \$900 in 2020 and 2019, respectively.

(h) HHF Plans

HHF has a defined contribution retirement plan for all its eligible employees. HHF contributes 3% of annual compensation for those plan participants contributing a minimum of 1% of their annual compensation. For those employees attaining 15 or more years of continuous service, HHF will contribute between 4% and 8% of the employees' annual compensation assuming the employee contributes an equal percentage. Contributions to the plan were \$702 and \$649 in 2020 and 2019, respectively.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(i) Lakeview Health Plans

LMHA has a defined contribution plan or 401(k) plan covering substantially all employees of LMHA who meet the requirements set forth in the plan. An employee becomes eligible to participate after completing one year of service, accumulating 1,000 hours of service, and attaining age 21. A participant may elect to defer compensation not to exceed a dollar limit, which is set by law. All employee contributions to the 401(k) plan are 100% vested. LMHA will make matching contributions to the 401(k) plan in the amount of 2% of the compensation that is contributed by the employee. Contributions to the 401(k) plan were \$1,807 and 1,681 in 2020 and 2019, respectively.

SMG has a defined contribution 401(k) plan covering substantially all employees of SMG who meet the requirements set forth in the plan. A participant may elect to defer compensation not to exceed a dollar limit, which is set by law. All employee contributions to the 401(k) are 100% vested. SMG also has a profit sharing plan, where SMG has the discretion to determine contribution amounts. A participant is eligible after completing 1,000 hours of service and if the participant is employed on the last day of the plan year. Contributions to both the 401(k) plan and the profit sharing plan were \$503 and \$664 in 2020 and 2019, respectively.

(j) HH & Olivia Plans

HH & Olivia have a retirement savings plan for the benefit of its employees who attain minimum qualifications requirements as defined in the plan. Contributions are determined by the Board of Directors annually. The contributions are made to a trust, which holds and invests such funds. Participating employees are eligible to withdraw their respective vested benefits upon retirement, termination or disability. Contributions to the trust were \$1,775 and \$1,567 in 2020 and 2019, respectively.

(k) ARMC Plans

ARMC has a defined contribution retirement plan covering substantially all employees of ARMC who meet the requirement set forth in the plan. The eligible employees can elect to contribute, up to the maximum dollar limits established by the Internal Revenue Service, of their annual salary to the plan with ARMC matching the participants' contributions on a discretionary basis up to 3% of their salary. Contributions to the plan were \$620 and \$717 in 2020 and 2019, respectively.

(11) Postretirement Benefits

HP provides for postretirement benefit plans for its various groups of employees.

Regions sponsors a defined benefit plan that provides postretirement medical and dental benefits to substantially all of Regions' employees hired prior to January 1, 1993, and retired by December 31, 2000. The plan is contributory for retirees below age 65 and noncontributory for retirees age 65 and older. In 1994, the plan was amended to eliminate subsidized coverage after age 65 for participants who retired after July 1, 1994. In 1999, the plan was amended to eliminate coverage for active employees who retired after December 31, 2000.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

GHI sponsors a defined benefit plan that provides postretirement medical and dental benefits to GHI employees. As of January 1, 2006, new early retirees (ages 55 to 64) will not be allowed to purchase two single policies. Instead, they must purchase family coverage if they elect coverage for spouse or dependent. As of January 1, 2008, new nonunion early retirees (ages 55 to 64) will pay rates that are based on the actual experience of the early retiree group (i.e., retiree group rates).

PNHS extends health insurance coverage to certain union contract labor who elect to retire and begin receiving pension benefits at age 55 or older, until such time as the retiree is eligible for Medicare. PNHS also has a defined benefit postretirement health care plan covering certain former employees and spouses who satisfied certain eligibility requirements. No other employees will be included in this plan.

At December 31, 2020 and 2019, HP has recognized a liability of \$10,245 and \$10,145, respectively, in other liabilities in the accompanying consolidated balance sheets.

(12) Deferred Compensation Plan

HP offers certain employees nonqualified deferred compensation plans created in accordance with applicable provisions of the IRC. The plans permit qualifying employees to defer a portion of their salary until future years. The accumulated deferred compensation balance is not immediately available to employees until a certain criteria has been met depending on the specific deferred compensation plan.

All amounts of compensation deferred under the plans and all income attributable to those amounts (until paid or made available to the employee or other beneficiary) are solely the property and rights of HP (not restricted to the payment of benefits under the plan), subject only to the claim of general creditors. Participants' rights under the plans are equal to those of general creditors of HP in an amount equal to the fair market value of the deferred account for each participant. The related assets and liabilities are reported at fair value.

The assets for these plans at December 31, 2020 and 2019 had fair values of \$130,304 and \$105,470 respectively, and were entirely invested in Level 1 mutual funds and money market funds and are included in deferred compensation on the consolidated balance sheets. The liabilities for these plans at December 31, 2020 and 2019 were \$135,369 and \$113,923, respectively, and are included in deferred employee benefits in the consolidated balance sheets.

(13) Self-Insured Programs

HP has various self-insured programs covering professional liability, workers' compensation, and certain health and dental claims. Provisions for related losses on incurred claims are included as liabilities.

GHI, PNHS, Regions, Lakeview Health, HH, WH, HHF, Olivia and ARMC have professional liability insurance programs providing coverage on a claims-made basis. GHI, PNHS, Regions, Lakeview Health and Olivia has coverages that have a self-insured retention (SIR) limit of \$10,000 per occurrence in 2020 and \$7,000 per occurrence in 2019. HH, WH, HHF, and ARMC have coverages that have a limit of \$1,000 per occurrence and \$3,000 aggregate in 2020 and 2019. These coverages are purchased through Midwest Medical Insurance Company, Inc. GHI, PNHS, Regions, Lakeview Health, HH and Olivia have purchased insurance policies with excess per claim and annual aggregate limits. GHI's, PNHS, Regions, Lakeview Health, HH and Olivia per claim limits in excess of the SIR limits are \$75,000 in 2020 and 2019. WH, HHF,

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

and ARMC are insured against losses in excess of these amounts through its participation in the mandatory Patients' Compensation Fund of the state of Wisconsin. The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the annual period extending to February 1, 2022.

(14) Related-Party Transactions

HP has a 47.5% ownership interest in St. Francis Regions Medical Center (St. Francis) with Allina Health System and Essentia holding a 47.5% and 5.0% ownership interest, respectively, in St. Francis as well. HP's ownership interest is accounted for on the equity method and is included in other assets in the consolidated statements of financial position and in other revenue in the consolidated statements of operations and changes in net assets. At December 31, 2020 and 2019, HP's ownership interest in St. Francis was \$70,132 and \$65,292, respectively. HP's proportionate share in income of St. Francis was \$4,841 and \$6,050 in 2020 and 2019, respectively. At December 31, 2020 and 2019 St. Francis had total assets of \$215,101 and \$196,443 and total liabilities of \$65,279 and \$58,179, respectively (unaudited). For 2020 and 2019 St. Francis recorded total revenue of \$174,381 and \$180,734, total expenses of \$163,928 and \$161,966, and net income of \$10,453 and \$18,768, respectively (unaudited).

(15) Provider Tax

The legislature of the state of Minnesota passed a law in 1992 requiring all healthcare providers to pay a tax on healthcare services they provide to patients. The funds collected from this tax help provide health insurance coverage to individuals who otherwise could not afford health insurance. In 2020 and 2019, the provider tax was 1.8% and 2.0% in 2020 and 2019, respectively, of healthcare services, which is included within patient services revenue on the consolidated statements of operations and changes in net assets.

(16) Medical Care Surcharge

The legislature of the state of Minnesota passed a law in 1992 requiring all healthcare providers to pay a medical care surcharge. The purpose of the surcharge was to maintain the federal matching funds the state receives for the Medicaid program and to improve reimbursement to providers for Medicaid patients.

(17) Premium Tax

The legislature of the state of Minnesota passed legislation in 1992 requiring HMOs to pay 1% tax on premium revenue effective January 1, 1996. The funds collected from this tax help provide health coverage to individuals who otherwise could not afford health insurance. In 2020 and 2019, the premium tax for HMOs was 1% as determined by the State Finance Commissioner based on funds available in the Health Care Access Fund. HPIC, a subsidiary of HP, was assessed a 2% premium tax in 2020 and 2019.

(18) Minnesota Medical Assistance Program

In 2020, due to the COVID-19 pandemic HP and other Managed Care Organizations (MCO's) in the State of Minnesota entered into an agreement with the State of Minnesota, acting through its Department of Human services (the State) to establish a risk corridor surrounding an agreed upon medical loss ratio for all Medical Assistance programs. Under terms of this agreement the MCO's and the State have agreed to either have the MCO's return contribution if the medical loss ratio is below the risk corridor ratio or have the State provide additional contributions to the MCO's or the medical loss ratio is above the risk corridor ratio.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

In 2020, HP has recorded a liability related to this agreement in the amount of \$20,000 and is included in accounts payable in the consolidated balance sheets.

(19) Minnesota Capitalization Requirements

The legislature of the State of Minnesota enacted a bill (the Bill) relating to HMOs requiring, among other things, that HMOs maintain positive working capital, make certain deposits, and comply with certain net worth requirements. The Bill requires that existing HMOs maintain cash deposits equal to the greater of \$500 or 33% of their uncovered expenses in the preceding calendar year. The term “uncovered expenses” is defined as the costs of healthcare services that are covered by the HMO for which the enrollee would also be liable in the event of the organization’s insolvency. The legislature of the State of Minnesota enacted a bill requiring that insurance companies maintain at least \$500 in securities as a guarantee that the obligations to policyholders will be performed. At December 31, 2020 and 2019, the depository requirements were satisfied through statutory deposits with Wells Fargo Bank Minnesota, NA.

The Bill also requires that existing HMOs and Accident and Health Insurance Companies maintain a “total adjusted capital to risk-based capital,” defined as total admitted assets less total liabilities at the regulatory action level, which is greater than 150% of the risk-based capital authorized control level. On a consolidated basis, all HP-affiliated HMOs and Accident and Health Insurance Companies are in compliance with the above provisions at December 31, 2020 and 2019, respectively.

(20) COVID-19

The Coronavirus Aid, Relief, and Economic Security (CARES Act), which was enacted on March 27, 2020, authorizes \$100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (PHSSEF). Payments from the PHSSEF are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. HP received \$155,053 in payments of which \$129,789 was recognized as other operating revenue for the year ended December 31, 2020. The remaining \$25,264 was recognized as deferred revenue in the accompanying consolidated balance sheets as of December 31, 2020.

As a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic, the CARES Act expanded the Medicare Accelerated and Advance Payment Program. Inpatient acute care hospitals may request accelerated payments of up to 100% of the Medicare payment amount. The Centers for Medicare and Medicaid Services (CMS) based payment amounts for inpatient acute care hospitals on the provider’s Medicare fee-for-service reimbursements in the last six months of 2019. Such accelerated payments are interest free for 29 months, and the program currently requires CMS to re-coup the payments starting after 12 months at 25% of each month’s Medicare billings, increasing to 50% of Medicare billings in month 24. The program currently requires any outstanding balance remaining after 29 months to be repaid by the provider or be subject to an interest rate currently set at 4%. The payments are made for services a healthcare entity has provided or will provide to its Medicare patients who are the healthcare entity’s customers. Therefore, they are accounted for under Topic 606 as revenue once the services are provided to the patients. During 2020, HP received \$232,596 of accelerated payments, which have been accrued on

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

the consolidated balance sheet as of December 31, 2020 of which \$91,548 is reflected in accounts payables and \$141,048 in other long-term liabilities. This contract liability will be reduced over time as revenue is recognized for claims submitted for services provided after the 12 month period.

Lastly, the CARES Act provides for deferred payment of the employer portion of the social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. HP began deferring the employer portion of social security taxes in April 2020. As of December 31, 2020, HP deferred \$72,957 in social security taxes which are included in salaries and employee benefits payable in the accompanying consolidated balance sheet.

Due to the on-going public health emergency, evolving government guidance and potential for additional stimulus, there is still a high degree of uncertainty surrounding their implementation. HP continues to assess the impact of the CARES Act, the potential impact of future stimulus measures, if any, and the impact of laws, regulations, financial condition and cash flows.

(21) Classification of Expenses

HP expenses are classified as follows:

	<u>2020</u>	<u>2019</u>
Healthcare services:		
Salaries and employee benefits	\$ 2,254,272	2,338,324
Medical claims	2,574,811	2,513,044
Supplies and other	994,768	1,143,295
Depreciation	149,130	142,318
Taxes and assessments	33,296	43,688
Interest	31,296	26,347
Total healthcare services	<u>\$ 6,037,573</u>	<u>6,207,016</u>
Administrative:		
Salaries and employee benefits	\$ 472,749	497,401
Supplies and other	246,422	238,314
Depreciation	44,346	38,020
Taxes and assessments	135,985	95,853
Total administrative	<u>\$ 899,502</u>	<u>869,588</u>

Healthcare Services includes costs incurred in providing healthcare services to both members of our insurance operations as well as costs incurred in delivery care to patients in our care delivery operations.

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

(22) Charity Care, Taxes, and Assessments

In furtherance of its charitable purpose, HP provides a variety of benefits to the community. HP maintains records to identify, measure, and estimate the cost for community service programs.

HP also conducts medical research and provides medical education programs in furtherance of its commitment to improving the healthcare available to the community.

HP also provides medical care without charge or at reduced cost to low-income community residents, primarily through: (a) the services to patients who express a willingness to pay but who are determined to be unable to pay and (b) participation in public program payments (primarily Medicare and Medicaid).

(a) Cost of Providing Charity Care (Also Referred to as Financial Assistance)

HP provides medical care without charge or at a reduced cost to residents of the communities that it serves through the provision of charity care. Policies have been established to identify charity care cases that meet certain guidelines for a patient's ability to pay for services. The cost of providing charity care is measured by applying a cost-to-charge ratio to the charges identified as charity care.

(b) Costs in Excess of Medicaid Payments

HP provides services to public enrollees (Medicaid). Such public programs typically reimburse at amounts less than cost.

The cost of charity care, community service, medical education, taxes, and assessments for the years ended December 31, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Estimated costs in excess of public program payments:		
Medicare and Medicaid	\$ 424,815	412,992
Estimated cost of charity care	37,956	37,386
Community service	18,018	22,184
Medical education	15,965	15,711
Medical care surcharge	27,835	26,212
Premium tax	43,053	41,879
ACA taxes and assessments	42,565	1,053
Provider tax	<u>60,289</u>	<u>71,415</u>
Total cost of charity care, community service, medical education, taxes, and assessments	<u>\$ 670,496</u>	<u>628,832</u>

(23) Contingencies

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Government activity has increased with respect to investigations and allegations concerning possible violations of regulations by

HEALTHPARTNERS, INC.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(In thousands)

healthcare providers, which could result in the imposition of significant fines and penalties as well as significant repayments of previously billed and collected revenues for patient services. HP has a corporate compliance plan designed in accordance with federal guidelines. As a part of this plan, HP performs periodic internal reviews of its compliance with laws and regulations, and investigates and attempts to resolve and remedy reported or suspected incidents of material noncompliance with applicable laws, regulations, or policies on a timely basis. Management of HP believes that HP's compliance programs and procedures lead to substantial compliance with current laws and regulations.



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Audit and Compliance Committee
HealthPartners, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of HealthPartners, Inc., which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of operations and changes in net asset and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 24, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

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

KPMG LLP

Minneapolis, Minnesota
March 24, 2021



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Audit and Compliance Committee
HealthPartners, Inc:

Report on Compliance for Each Major Federal Program

We have audited HealthPartners Inc.'s and its subsidiaries (HealthPartners, Inc.) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on HealthPartners, Inc.'s major federal programs for the year ended December 31, 2020. HealthPartners, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for HealthPartners, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HealthPartners, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of HealthPartners, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, HealthPartners, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2020-001. Our opinion on each major federal program is not modified with respect to this matter.



HealthPartners, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. HealthPartners, Inc. is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. HealthPartners, Inc.'s response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

Report on Internal Control over Compliance

Management of HealthPartners, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered HealthPartners, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HealthPartners, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Finding 2020-001, that we consider to be a significant deficiency.

HealthPartners, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. HealthPartners, Inc. is also responsible for preparing a corrective action plan to address the audit finding included in our auditors' report. HealthPartners, Inc.'s response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of HealthPartners, Inc. as of and for the year ended December 31, 2020, and have issued our report thereon dated March 24, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Minneapolis, Minnesota
March 29, 2022

HEALTHPARTNERS, INC.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
Year ended December 31, 2020

Federal grantor/pass-through grantor/program or cluster title	Pass-through entity name	Pass-through entity identifying number	CFDA number/ contract number	Total federal expenditures	Passed through to subrecipients
Research and Development Cluster:					
Direct Federal Funding:					
Department of Health and Human Services:					
Agency for Healthcare Research and Quality:					
Optimizing the Value of PROMs in Improving Care Delivery through Health Information Technology	N/A	N/A	93.226	\$ 390,291	—
Improving Recognition and Management of Hypertension in Youth: Comparing Approaches for Extending Effective CDS for use in a Large Rural Health System	N/A	N/A	93.226	76,334	28,452
National Institutes of Health:					
National Cancer Institute:					
Evaluating Options for Non-Responders: A SMART Approach to Enhancing Weight Loss	N/A	N/A	93.394	102,204	29,837
Implementing Cancer Prevention Using Patient-Provider Clinical Decision Support	N/A	N/A	93.393	547,583	198,425
Metro-Minnesota Community Clinical Oncology Research Consortium (MMCORC)	N/A	N/A	93.399	2,179,566	—
Metro-Minnesota Community Clinical Oncology Research Consortium (MMCORC)	N/A	N/A	93.399	1,066,518	—
National Institute on Aging:					
Hotspotting Cardiometabolic Disparities for Simulated Advances in Population Care	N/A	N/A	93.866	477,423	129,937
A Technology-Driven Intervention to Improve Early Detection and Management of Cognitive Impairment	N/A	N/A	93.866	100,020	—
National Institute of Child Health and Human Development:					
EHR-based Decision Support for Pediatric Acute Abdominal Pain in Emergency Care	N/A	N/A	93.865	305,200	153,823
Oral Corticosteroid Use During Pregnancy and Risk for Preterm Birth	N/A	N/A	93.865	168,273	—
National Institute for Occupational Safety and Health:					
Technical Education: Bridging the Gap in Health and Safety in Small Businesses	N/A	N/A	93.262	27,234	—
National Institute of Dental and Craniofacial Research:					
A Clinic-Randomized Trial of a Clinical Decision Support System to Improve Dental Provider Deliver of Brief Tobacco Interventions and Quitline Referrals	N/A	N/A	93.121	392,202	68,329
De-Implementing Opioid Use and Implementing Optimal Pain Management Following Dental Extractions	N/A	N/A	93.121	485,679	83,420
De-Implementing Opioid Use and Implementing Optimal Pain Management Following Dental Extractions	N/A	N/A	93.121	126,474	16,704
Examining the Relationship of Periodontal Treatment and Improved Health Outcomes for Coronary Heart Disease, Cerebrovascular Disease and Diabetes	NA	NA	93.121	116,477	—
National Institute of Diabetes and Digestive and Kidney Disease:					
Home Use of MD-Logic Automated Insulin Delivery System:					
Safety and Efficacy	N/A	N/A	93.847	3,579,060	2,873,578
Home Use of MD-Logic Automated Insulin Delivery System:					
Safety and Efficacy	N/A	N/A	93.847	274,674	—
A Technology-Driven Intervention to Improve Identification and Management of Chronic Kidney Disease in Primary Care	NA	NA	93.847	361,392	—
National Heart, Lung, and Blood Institute:					
CV Benefits and Safety of Glucose-Lowering Therapies in Adults with Diabetes	N/A	N/A	93.837	42,388	33,837
Reducing CV Risk in Prediabetes Patients Using EHR-Based Decision Support	N/A	N/A	93.837	486,803	146,610
A Team-Based and Technology Driven Adherence Intervention to Improve Chronic Disease Outcomes	N/A	N/A	93.837	787,468	67,024
Total Direct Funding				12,093,263	3,829,976
Indirect Federal Funding:					
Department of Health and Human Services:					
Agency for Healthcare Research and Quality:					
Evaluating System Change to Advance Learning and Take Evidence to Scale (ESCALATES)	Oregon Health & Science University	1005864 HPIER	93.226	49,245	—
National Institutes of Health:					
National Institute of Diabetes and Digestive and Kidney Diseases:					
Identifying Primary Care Practice Components Leading to Optimal Diabetes Care in Patient-Centered Medical Homes	University of Minnesota	N005393501	93.847	82,638	—
Health Delivery Systems Center for Diabetes Translational Research	Kaiser Permanente Northern California	RNG200630-03	93.847	59,257	—
Epidemiology of Diabetes Interventions and Complications (EDIC)	Case Western Reserve University	RES514445	93.847	206,753	—
Effects of Biomedical Risk Factors on Neuro-cognition using MRI:					
Long term follow-up of the Diabetes Control & Complications Trial/Epidemiology of Diabetes Interventions and Complications Study Cohort	Case Western Reserve University	RES512833	93.847	3,467	—
Emotional Distress in Comparative Effectiveness Trial of Diabetes Treatments (GRADE EDS)	George Washington University	NA	93.847	14,493	—

HEALTHPARTNERS, INC.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
Year ended December 31, 2020

Federal grantor/pass-through grantor/program or cluster title	Pass-through entity name	Pass-through entity identifying number	CFDA number/contract number	Total federal expenditures	Passed through to subrecipients
Continuation of the Glycemia Reduction Approaches in Diabetes: A Comparative Effectives (GRADE) Study	George Washington University Tufts Medical Center	S-GRD1718-SC53 5015648-SERV	93.847	\$ 1,010,512	—
			93.847	2,033	—
Vitamin D to Prevent Type 2 Diabetes (D2d) Health Delivery Systems Center for Diabetes Translational Research: Understanding the Impact of COVID-19 on Type 2 Diabetes Care	Kaiser Foundation Research Institute Kaiser Foundation Research Institute	RNG200631-07 RNG200631-07	93.847	6,823	—
			93.847	12,497	—
National Institute of Mental Health: A Randomized Clinical Trial to Reduce Cardiovascular Risk in Adults with SMI	Kaiser Permanente Washington Health Research Institute Northwestern University	2018000036 60044318 HP	93.242	41,766	—
Live Well with Bipolar Disorder			93.242	22,989	—
Pragmatic Trial of Population-based Programs to Prevent Suicide Attempt	Kaiser Foundation Health Plan of Washington	RNG209764-BUDG05-HEALTHPARTNERS	93.242	44,793	—
Mental Health Research Network III	Kaiser Permanente Washington Health Research Institute	2019117083	93.242	71,369	—
Mental Health Research Network III Suicide Risk Calculator	Kaiser Permanente Washington Health Research Institute	2019117092	93.242	66,084	—
Mental Health Research Network III Digital Mindfulness Based Cognitive Therapy for Perinatal Depression	Kaiser Permanente Washington Health Research Institute	2019117131	93.242	55,412	—
Mental Health Research Network III Impact and Implications of Rapid Transition to Virtual Mental Health Care during COVID-19	Kaiser Permanente Washington Health Research Institute	RNG210861-HP	93.242	39,154	—
National Institute of Neurological Disorders and Stroke: Network for Emergency Care Clinical Trials: Strategies to Innovate Emergency Care Clinical Trials Network (SIREN)-Network Clinical Center (HUB)	University of Minnesota University of Cincinnati University of Michigan	N005808602 U01NS100699 SBUK00011702	93.853	21,704	—
Multi-arm Optimization of Stroke Thrombolysis (MOST) Stroke Trial			93.853	7,510	—
Brain Oxygen Optimization in Severe Traumatic Brain Injury – Phase 3 (BOOST-3)			93.853	45,000	—
National Institute of Aging: ASpirin in Reducing the Effects on the Elderly eXTension	Hennepin Healthcare Research Institute	15233-06-02FFS	93.866	148,135	—
The Natural History of Cognitive Decline in Chronic Kidney Disease: Renal, Vascular and Alzheimer's Disease Contributions	Hennepin Healthcare Research Institute	15105-01	93.866	20,667	—
Advancing Geriatrics Infrastructure and Network Growth (AGING) Initiative	University of Massachusetts, Worcester	OSP2018110	93.866	39,299	—
NIA AD/ADRD Health Care Systems Research Collaboratory	Brown University	1385	93.866	85,401	—
Individual and Joint Effects of the Frailty Phenotype, Functional Limitations and Multimorbidity on Health Care Costs and Utilization	University of Minnesota	P007422501	93.866	52,669	—
National Institute on Drug Abuse: Predictive Modeling: the role of opioid use in suicide risk	Kaiser Foundation Research Institute	HPI-OOS030297	93.279	36,893	—
Suicide Prediction and Prevention for People at Risk for Opioid Use Disorder	Hennepin Healthcare Research Institute	15277-1	93.279	65,699	—
NorthStar Node of the Clinical Trials Network Reducing Stigma Toward People with Opioid Use Disorder Among Primary Care Clinicians	Hennepin Healthcare Research Institute	15280-1	93.279	87,769	—
NorthStar Node of the Clinical Trials Network	Hennepin Healthcare Research Institute	15258-1	93.279	1,039,730	—
NorthStar Node of the Clinical Trials Network	Hennepin Healthcare Research Institute	15249-04-HPRossom	93.279	13,940	—
Changing our paths: Well-being and recovery amount American Indians with opioid use disorder	University of Minnesota	D007614701	93.279	18,038	—
National Institute of Dental and Craniofacial Research: National Dental PBRN COVID-19 Research (CORE) Registry	University of Alabama Birmingham Restful Jaw Company, LLC Restful Jaw Company, LLC University of Alabama Birmingham	000521323-SC0007 X1708400C Restful Jaw X1930300C Restful Jaw 000521323-0003	93.121	913	—
The Restful Jaw Device: A New Way to Support and Protect the Jaw During Third Molar Extractions			93.121	105,031	—
The Restful Jaw Device: A New Way to Support and Protect the Jaw During Third Molar Extractions			93.121	22,210	—
The National Dental PBRN Administrative and Resource Center			93.121	318,311	—
National Cancer Institute: CT DOSE Collaboratory	University of California, San Francisco	8492SC	93.393	5,598	—
Comorbidity and Screening Outcomes Among Older Women Undergoing Mammography	Georgetown University	412932 GR412884-HPI	93.393	33,138	—
Leveraging machine learning to improve risk prediction for chemotherapy induced neuropathy	Kaiser Foundation Research Institute	RNG210725-HPI	93.393	3,161	—
Personalized Smoking Cessation Tool Based on Patient Lung CT Image	Imbio, LLC	24-03	93.393	80,936	—
A New Perspective U.S. Cohort set within the Health Care System Institutions to Study Cancer	Henry Ford Health System	B30049HPI	93.RD	116,912	—
A New Perspective U.S. Cohort set within the Health Care System Institutions to Study Cancer	Henry Ford Health System	B30049HPI	93.RD	141,579	—
A New Perspective U.S. Cohort set within the Health Care System Institutions to Study Cancer	Henry Ford Health System	B30049HPI	93.RD	382,600	—
A New Perspective U.S. Cohort set within the Health Care System Institutions to Study Cancer	Henry Ford Health System	B30049HPI	93.RD	219,156	—
A Survey of Cannabis and Cannabidiol in Patients with Cancer in the State of Minnesota to Assess Prevalence, Utilization Patterns, Efficacy and Safety	University of Minnesota	P30CA077598	93.397	4,999	—
Implementing Universal Lynch Syndrome Screening across Multiple HealthCare Systems: Identifying Strategies to Facilitate and Maintain Programs in Different Organizational Contexts	Geisinger Clinic	646018HPI03	93.353	25,497	—
National Heart, Lung, and Blood Institute: CV Wizard: Does a Prioritized, Point-of-Care Clinical Decision Support Tool Improve Guideline-Based CVD Risk Factor Control in Safety Net Clinics?	Kaiser Permanente Northwest	OOS030182-HealthPartners	93.837	189,961	—

HEALTHPARTNERS, INC.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
Year ended December 31, 2020

Federal grantor/pass-through grantor/program or cluster title	Pass-through entity name	Pass-through entity identifying number	CFDA number/contract number	Total federal expenditures	Passed through to subrecipients
Shared decision making for stroke prevention in atrial fibrillation (SDM4Afib)	Mayo Clinic	HEA-212513-03	93.837	\$ 16,686	—
Influenza Vaccine to Effectively Stop Cardio Thoracic Events and Decompensated Heart Failure (INVESTED)	Brigham and Women's Hospital	114117	93.837	—	—
Network Management Core (NEMO) for the Pulmonary Trials Cooperative (PTC)	COPD Foundation	002-Amend5	93.838	16,274	—
Home Based Rehabilitation for COPD	Mayo Clinic	HEA-238553-01	93.838	159,451	—
Mechanistic Effects of Health Coaching to reduce COPD Hospitalizations	Mayo Clinic	HEA-271691/PO #67492192	93.838	1,510	—
Genetic Epidemiology of COPD	National Jewish Health	20073314	93.838	371,174	—
Network Management Core (NEMO) for the Pulmonary Trials Cooperative (PTC) – INSIGHT Study	COPD Foundation	001-Amend5	93.838	41,256	—
Office of the Director, National Institutes of Health Trans-America Consortium of the Health Care Systems Research Network for the All of Us Research Program	Henry Ford Health System	B11170HPI	93.310	760,861	—
National Institute on General Medical Studies Career Advancement and Culture Change in Biomedical Research: Group Peer Mentoring Outcomes and Mechanisms	Brandeis University	403795HPI	93.310	15,987	—
National Institute of Child Health and Human Development: Maternal Obesity, Milk Composition, and Infant Growth Early Environmental Stressors for Emerging Cardiometabolic Risk	University of Minnesota University of Minnesota	P007776102 N007186301	93.865 93.865	53,303 219,305	— —
Centers for Disease Control and Prevention: The CENTER: Center of Excellence, a Network for Training and Epidemiology in Refugee Health Iowa: CBD RP: Component A BD Steps II Core	Minnesota Department of Health University of Iowa	108746 S00441-01	93.283 93.073	73,468 42,549	— —
Total Indirect Funding				6,893,565	—
Total Research and Development Cluster				18,986,828	3,829,976
Other Programs:					
Direct Federal Funding:					
United States Agency for International Development (USAID): Collaborations Cooperative Development Project	N/A	N/A	98.002	951,176	—
U.S. Department of Health & Human Services COVID-19 Testing and Migration for Rural Health Clinics	N/A	N/A	93.697	346,230	—
COVID-19 Small Rural Hospital Improvement Grant Program	N/A	N/A	93.301	421,585	—
COVID-19 Claims Reimbursement for the Uninsured	N/A	N/A	93.461	889,471	—
Total Other Programs				2,608,462	—
Other Programs:					
Indirect Federal Funding:					
Health Resources and Services Administration: Ryan White	Hennepin Healthcare Research Institute	NA	93.918	124,861	—
Primary Care	Hennepin County Medical Center	A165023-SR	93.914	87,210	—
Medical Case Management	Hennepin County Medical Center	A165023-SR	93.914	50,943	—
Primary Care	Hennepin County Medical Center	HS00000524	93.914	83,167	—
Medical Case Management	Hennepin County Medical Center	HS00000524	93.914	244,785	—
COVID-19 – Medical Case Management CARES Act	Hennepin County Medical Center	HS00000524	93.914	9,211	—
Total for CFDA 93.914 HIV Emergency Relief Project Grants				475,316	—
Transportation	Hennepin County Medical Center	A165085-SR	93.917	219	—
Transportation	Hennepin County Medical Center	HS00000524	93.917	5,401	—
Administration	Hennepin County Medical Center	HS00000524	93.917	17,563	—
Total for CFDA 93.917 HIV Care Formula Grants				23,183	—
Total Health Resources and Services Administration				623,360	—

HEALTHPARTNERS, INC.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
Year ended December 31, 2020

Federal grantor/pass-through grantor/program or cluster title	Pass-through entity name	Pass-through entity identifying number	CFDA number/ contract number	Total federal expenditures	Passed through to subrecipients
Department of Defense-Army Medical Research Acq. Activity: Beta-Blockers for the Prevention of Acute Exacerbations of COPD Surgical Timing and Rehabilitation (Star) for Multiple Ligament Knee Injuries (MLK): A Multicenter Integrated Clinical Trial	University of Alabama Birmingham	000507860-010	12.420	\$ 28,165	—
Novel Strategies to Combat Post-Traumatic Osteoarthritis (PTOA)	University of Pittsburgh	0056666 (413614-1)	12.420	10,506	—
Total for CFDA 12.420 Military Medical Research and Development	Palo Alto Veterans Institute for Research	62332239-156499	12.420	<u>28,548</u>	<u>2,164</u>
Institute of Museum and Library Services Shared Big Data Gateway for Research Libraries (SBD-Gateway): A Cloud-based Cyberinfrastructure for Sharing Research Assets and Advancing Library Information Science	Trustees of Indiana University	7966-HPI	45.312	28,802	—
Highway Safety Cluster National Highway Traffic Safety Administration: 2020 NHTSA Funding – Hospital Support Liaison 2021 NHTSA Funding – Child Passenger Hospital Support Liaison	Minnesota Department of Public Safety	A-HOSCPS20-2020-REGIONS-008	20.600	126,062	—
Total for CFDA 20.600 State and Community Highway Safety	Minnesota Department of Public Safety	A-HOSCPS21-2021-REGIONS-03	20.600	<u>14,440</u>	<u>—</u>
Total Highway Safety Cluster				<u>140,502</u>	<u>—</u>
EPA Programs Funding: Environmental Protection Agency: Testing the Dissemination of Fish Consumption Information – New Proposal	Minnesota Department of Health	120460	66.469	181,807	—
U.S. Department of Treasury COVID-19 Coronavirus Relief Fund COVID-19 Coronavirus Relief Fund	Washington Cty SHIP	N/A	21.019	73,572	—
Total for CFDA 21.019 Coronavirus Relief Fund	State of Wisconsin	N/A	21.019	<u>268,258</u>	<u>—</u>
U.S. Department of Health & Human Services COVID-19 Hospital Association COVID-19 Preparedness and Response Activities COVID-19 Hospital Association COVID-19 Preparedness and Response Activities	Minnesota Hospital Association (MHA)	N/A	93.899	247,171	—
Total for CFDA 93.899 Hospital Association COVID-19 Preparedness and Response Activities	Wisconsin Hospital Association (WHA)	N/A	93.899	<u>45,078</u>	<u>—</u>
Total Other Programs				<u>292,249</u>	<u>—</u>
Total Expenditures of Federal Awards				<u>1,675,769</u>	<u>2,164</u>
				<u>\$ 23,271,059</u>	<u>3,832,140</u>

See accompanying independent auditors' report and notes to the schedule of expenditures of federal awards.

HEALTHPARTNERS INC.

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2020

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes all federal award activity of HealthPartners, Inc. and its subsidiaries (HealthPartners, Inc.) under programs of the federal government for the year ended December 31, 2020.

The Schedule is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.

(2) Indirect Cost Rates

Expenditures for federal programs are recognized using the costs accounting principles contained in the Uniform Guidance, *Cost Principles for NonProfit Organizations (2 CFR part 230)*. Under those cost principles, certain types of expenditures are not allowed or are limited as to reimbursement. Expenditures include a portion of costs associated with HealthPartners Institute activities (facilities and administrative costs or indirect costs), which are allocated to federal awards under negotiated formulas commonly referred to as facilities and administrative cost rates. HealthPartners Institute has negotiated Facilities and Administration rates from the Division of Cost Allocation and has elected not to use the 10% de minimis indirect cost rate as described in the Uniform Guidance. Other entities within HealthPartners, Inc. do not maintain a negotiated Facilities and Administration rates from the Division of Cost Allocation and have elected not to use the 10% de minimis indirect cost rate as described in the Uniform Guidance.

HEALTHPARTNERS INC.

Schedule of Findings and Questioned Costs

Year ended December 31, 2020

(1) Summary of Auditors' Results

- a. Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- b. Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- c. Noncompliance material to the financial statements: **No**
- d. Internal control deficiencies over major program disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **Yes**
- e. Type of report issued on compliance for major programs: **Unmodified**
- f. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**
- g. Major program:
 - Research and Development Cluster – various CFDA numbers
 - COVID-19 Claims Reimbursement for the Uninsured – CFDA 93.461
 - Cooperative Development Program – CFDA 98.002
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- i. Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

HEALTHPARTNERS INC.

Schedule of Findings and Questioned Costs

Year ended December 31, 2020

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2020-001: Significant Deficiency – Calculation and recording of salary caps

Program: Research and Development Cluster

CFDA Number: 93.847

Federal Agency: National Institute of Diabetes and Digestive and Kidney Disease

Federal Award Identification Number: UC4DK108611

Federal Award Year: September 13, 2015 to August 31, 2020

Criteria: The Consolidated Appropriations Act, 2014 (Public Law 113-76), signed into law on January 17, 2014, restricted the amount of direct salary to Executive Level II of the Federal Executive pay scale.

Condition Found: During our testwork, KPMG tested payroll selections for 24 individuals. Four of those individuals were subject to the salary cap criteria noted above and the salary cap was incorrectly calculated for one of these individuals. The sample was not intended to be, and was not, a statistically valid sample.

Cause: Adequate review and reperformance of salary caps was not performed prior to recording expenditures to the grant.

Effect: Payroll expenditures recorded to the grant were higher than allowable.

Questioned Costs:

- Known questioned costs \$667
- Likely questioned costs \$58,317

Recommendation: Management should ensure controls around calculation, review, and recording of salary caps are implemented and operating effectively.

HealthPartners
8170 33rd Avenue South
Bloomington, MN 55425



healthpartners.com

Mailing Address:
PO Box 1309
Minneapolis, MN 55440-1309

03/28/2022

Management response to finding 2020-001:

As of March 2022, HealthPartners has provided additional training to staff performing the federal salary cap calculation. HealthPartners also implemented additional independent review of all federal salary cap calculations and related journal entries.

Name(s) of the contact person(s) responsible for corrective action:

- Brett Hentges, Director of Finance