Hennepin Healthcare System, Inc.

A Component Unit of Hennepin County, Minnesota

Financial Report
With Supplemental Schedules
(With Independent Auditor's Report)
December 31, 2023

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

Contents

Independent Auditor's Report

Board of Directors
Hennepin Healthcare System, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hennepin Healthcare System, Inc. (the Organization), a component unit of Hennepin County, Minnesota, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Organization, as of December 31, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As explained in Note 1 to the financial statements, the Organization adopted GASB Statement No. 96, *Subscription-Based Information Technology Agreements*, which is applied retroactively by restating balances in the financial statements as of January 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

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

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

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

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

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

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2024, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

RSM US LLP

Duluth, Minnesota
April 30, 2024

Management's Discussion and Analysis

The following management discussion and analysis is intended to provide financial statement readers with a financial overview and narrative analysis of the financial position and activities of Hennepin Healthcare and its component units, Hennepin Healthcare Foundation ("HHF") and Hennepin Healthcare Research Institute ("HHRI"), collectively referred to as Hennepin Healthcare System, Inc. ("HHS"), for the fiscal years ended December 31, 2023, and 2022. HHS is a subsidiary corporation of the County of Hennepin, Minnesota. Readers are encouraged to consider the information presented here in conjunction with HHS' basic financial statements, including the notes thereto.

Required Basic Financial Statements

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

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

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

Due to the requirements of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity—Omnibus—an amendment of GASB Statement Nos. 14 and 34,* and GASB No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, the basic financial statements of HHS include the financial information of HHF and HHRI, separately incorporated 501(c)(3) organizations.

Financial Highlights and Analysis

COVID-19 pandemic: In January 2020, the Secretary of the U.S. Department of Health and Human Services declared a national public health emergency due to a novel strain of coronavirus (COVID-19), which continues through May 11, 2023. The measures to treat and contain the impact of COVID-19 have adversely impacted HHS' operational readiness and financial results.

HHS received Health Resources and Services Administration (HRSA) funding of approximately $0.3 million as payment toward the uninsured for certain COVID-19 services, which are included in patient revenues in 2022. On March 22, 2022, HRSA stopped accepting claims for COVID-19 testing and treatment for the Uninsured Program.

HHS received Federal Emergency Management Agency (FEMA) public assistance funding of approximately $1.9 million for disaster relief relating to COVID-19 costs in 2023. This is the only FEMA funding HHS received related to COVID-19.

Care Patterns: The care currently being provided is more resource intensive. Hospital inpatient capacity was abnormally stressed in 2023 due primarily to longer patient stays. The capacity issue was compounded as staff shortages increased while patient hospitalization intensified. For 2023 and 2022, the Average Length of Stay (ALOS) and Discharges remain unfavorable to pre-pandemic metrics. Lack of discharge options to non-acute care environments and lack of staffing created operating inefficiencies, forced sporadic care diversions, and contributed to the unusually high variable cost in personnel expenses, supplies, and drugs.

The ALOS during 2023 was 7.65, compared to 7.68 and 6.76 for the prior two years 2022 and 2021, respectively. The 2023 Average Daily Census (ADC) was 348, compared to the prior two years similar periods of 349 and 351. The average case mix, or severity of care seen in the hospital, was 1.94 in 2023, compared to 1.89 and 1.84 in 2022 and 2021. Some of the increase in ALOS and resulting ADC is attributable to the rising severity of care case mix index. Hospital discharges during 2023 were 16,592, compared to 16,587 and 18,965 for the prior two years 2022 and 2021. Therefore, discharge volumes can be directly traced to changes in the case mix index and barriers to discharge, which have increased the ALOS and led to capacity constraints, which further resulted in operating inefficiencies.

Patients seeking services through the emergency room account for roughly 80% of all inpatients. The ALOS remained high during 2023 and continued the capacity constraints as emergent care services grew 6.0%. This impacted downstream services such as inpatient discharges remaining flat, while clinic visits increased by 0.6%, operating room increased by 2.3%, and work relative value units (WRVUs) increased by 5.9% when compared to the same period last year.

Staffing and Supply Challenges: The hospital industry is continuing to experience healthcare worker shortages. During 2022, there were excessive vacant positions at the bedside, patient care support job families, rehabilitative therapy, emergency medical services, revenue cycle management, and nurses in the emergency room. During 2022, HHS made retention payments of $15.0 million and $13.0 million as an incentive to retain current staff in an environment where healthcare workers are leaving the industry due to burnout. During 2023, HHS expanded the work force to reduce vacant positions, help relieve burnout and maintain patient quality of care. The market demand for healthcare workers remains high causing increased regular wages, contract labor and premium pay. Premium and contract labor cost incurred were $79.6 million and $71.2 million, in 2023 and 2022, respectively. For reference, these same costs were $46.8 million and $32.0 million in 2021 and 2020, respectively.

The supply chain of critical items continues to be a challenge. The availability of healthcare items has recovered as the demand remains high, which has led to exorbitant costs during 2023 and 2022. Patient acuity increases the utilization of protective equipment such as gloves, gowns, goggles - pharmaceuticals needed to treat acute respiratory illness and intensive care. Inventories were $12.1 million and $11.3 million in 2023 and 2022, respectively. Supplies and drugs cost were $213.7 million and $182.8 million in 2023 and 2022, respectively.

Comprehensive Campus Development Plan: The Comprehensive Campus Development Plan (CCDP) is a strategic plan that will guide the future of Hennepin Healthcare as a system. The CCDP is also an opportunity to reimagine the eight-block main campus, as well as our system's business models, programs, services offerings and infrastructure. It is aimed at positioning HHS to positively impact our team members, patients, communities, and stakeholders.

In 2023, HHS launched the Clinical Program Strategy committee to lay the foundation for the future campus because it helps understand the community needs, where HHS can grow, and the space needed to make those changes happen. Technology, Data, and Analytics assessments will improve the digital tools patients use to access care. The Project Management Office developed a program roadmap so the work of managing and implementing the project can transition from outside resources to HHS internal teams.

HHS has partnered with Hennepin County to help with the vision, development, and fund support of this strategic plan.

Directed Payments: Minnesota enacted legislation that gives Medicaid authority to administer a Managed Care directed payment program during 2022. CMS approved the contract arrangement included in the pre-print that direct Medicaid Managed Care Organizations to participate in the directed payment program. Minnesota DHS directs and contractually requires Medicaid Managed Care Organizations to pay enhanced minimum fee schedule for services provided to Medicaid beneficiaries. HHS funds the program through intergovernmental transfers (IGT) payments. Based on utilization, and enhanced fee schedule payments are sent to HHS. During 2023, HHS expanded the directed payment services to outpatient and is continuing to carefully analyze the impacts of this new revenue stream.

Opportunity Assessments: The pandemic has accelerated the need for rethinking current operating practices and changed the health care delivery environment on a national and local level. It is unlikely the industry will ever return to pre-COVID patient referral channels. In response to these changes that are expected to place continued pressure on financial performance, HHS engaged outside experts to consider opportunities. The assessments identified performance improvement initiatives to help guide the management team, provided resource utilization methodologies and tools, and considered care design and flow. The scope of services was broad and included conducting comprehensive assessments of key functional areas with implementation and outcomes impacting past and future periods.

Net Position

A summary of the HHS' statements of net position as of December 31, 2023, 2022 and 2021, are presented in the table below:

Table 1
Condensed Statements of Net Position
(In thousands)

	December 31			2023 - 2022	2022 - 2021
	2023	2022	2021	Change	Change
Assets:					
Assets other than capital assets	**$ 432,101**	$ 464,308	$ 498,898	$ (32,207)	$ (34,590)
Capital assets	**442,749**	464,445	462,140	(21,696)	2,305
Deferred outflows:	**122,528**	179,082	181,150	(56,554)	(2,068)
Total assets and deferred outflows	**$ 997,378**	$ 1,107,835	$ 1,142,188	$ (110,457)	$ (34,353)
Liabilities:					
Long-term debt	**$ 154,356**	$ 160,861	$ 167,098	$ (6,505)	$ (6,237)
Long-term lease payable	**17,887**	25,285	33,970	(7,398)	(8,685)
Long-term subscription payable	**6,572**	10,321	-	(3,749)	10,321
Pension liability, net	**310,354**	471,641	226,498	(161,287)	245,143
Other liabilities	**258,701**	278,930	299,469	(20,229)	(20,539)
Deferred inflows:	**140,081**	17,255	231,112	122,826	(213,857)
Total Liabilities and deferred inflows	**$ 887,951**	$ 964,293	$ 958,147	$ (76,342)	$ 6,146
Net position:					
Invested in capital assets, net	**244,756**	243,395	244,956	1,361	(1,561)
Restricted	**72,995**	65,872	68,298	7,123	(2,426)
Unrestricted	**(208,324)**	(165,725)	(129,213)	(42,599)	(36,512)
Total net position	**109,427**	143,542	184,041	(34,115)	(40,499)
	$ 997,378	$ 1,107,835	$ 1,142,188	$ (110,457)	$ (34,353)

During 2023, total assets and deferred outflows decreased by $110.5 million. Capital assets decreased by $21.7 million as depreciation exceeded additions to property, plant and equipment, net of disposals (see Note 4). Assets, other than capital assets, decreased $32.2 million. Days in accounts receivable, net, increased from 55 to 58 days as of fiscal year-end. Total liabilities and deferred inflows decreased $76.3 million which includes a $161.3 million decrease in net pension liability (see Note 8), $20.2 million decrease in other current liabilities offset by $122.8 million increase in deferred inflows (see Note 8). Net position decreased by $34.1 million.

Capital Assets

The following table summarizes the HHS' capital assets as of December 2023, 2022 and 2021.

Table 2
Capital Assets
(In thousands)

	December 31			2023 - 2022	2022 - 2021
	2023	2022	2021	Change	Change
Land	**$ 48,703**	$ 48,577	$ 48,514	$ 126	$ 63
Buildings and improvements	**646,122**	636,796	623,484	9,326	13,312
Leasehold improvements	**28,597**	28,916	28,858	(319)	58
Furniture and equipment	**348,063**	324,021	313,751	24,042	10,270
Software capital	**8,044**	8,044	8,044	-	-
Projects in progress	**15,114**	14,075	8,390	1,039	5,685
Subtotal	**1,094,643**	1,060,429	1,031,041	34,214	29,388
Less accumulated depreciation	**(690,973)**	(650,196)	(607,174)	(40,777)	(43,022)
Building leases	**15,756**	18,621	18,621	(2,865)	-
Vehicles and equipment leases	**17,806**	30,281	29,713	(12,475)	568
Subscriptions	**38,177**	31,358	14,750	6,819	16,608
Subtotal	**71,739**	80,260	63,084	(8,521)	17,176
Less accumulated amorization	**(32,660)**	(26,048)	(9,131)	(6,612)	(16,917)
Property, plant and equipment, net	**$ 442,749**	$ 464,445	$ 477,820	$ (21,696)	$ (13,375)

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

Long-Term Debt

The December 2023 principal payment of $6.1 million reduced the outstanding balance on the County note payable to $160.5 million. Interest payments were made in June and December 2023 in the amount of $2.4 million and $2.5 million, respectively. Total long-term debt of $178.8 million represents 23.9% of the total liabilities as of December 31, 2023.

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

	Year Ended December 31			2023 - 2022	2022 - 2021
	2023	2022	2021	Change	Change
Operating revenue	**$ 1,434,105**	$ 1,355,314	$ 1,223,278	$ 78,791	$ 132,036
Operating expense	**1,476,685**	1,355,805	1,257,610	120,880	98,195
Operating loss before pension plans, actuarial impact	**(42,580)**	(491)	(34,332)	(42,089)	33,841
Pension plans, actuarial impact	**(16,037)**	(30,419)	36,942	14,382	(67,361)
(Loss) income from operations	**(58,617)**	(30,910)	2,610	(27,707)	(33,520)
Nonoperating income (loss)	**13,857**	(21,471)	25,479	35,328	(46,950)
Capital contributions, net	**10,645**	11,882	26,186	(1,237)	(14,304)
Change in net position	**(34,115)**	(40,499)	54,275	6,384	(94,774)
Total Net Position, beginning of year	**143,542**	184,041	129,766	(40,499)	54,275
Total Net Position, end of year	**$ 109,427**	$ 143,542	$ 184,041	$ (34,115)	$ (40,499)

Financial Highlights of Hennepin Healthcare

Operating Results

In 2023, inpatient volumes were flat and clinic visit services increased approximately 0.6% compared to 2022. Although patient discharges were consistent, the patient acuity has increased over the past two years. The ALOS decreased 0.4% and increased 13.6% during 2023 and 2022, respectively. The case mix index increased 2.6% and 2.7% during 2023 and 2022, respectively. Overall outpatient volumes increased primarily due to increases in clinic visits, WRVUs, and OR services.

In 2023, net patient service revenue increased approximately $94.8 million or 7.9% compared to 2022. Inpatient and clinic volumes increased by 5 discharges (0.0%) and increased 3,562 clinic primary and specialty care visits (0.6%), respectively. For fiscal year 2023, inpatient and clinic volumes decreased by 2,378 discharges (12.5%) and decreased 35,836 clinic primary and specialty care visits (5.4%), respectively.

For 2023, salaries, wages, and employee benefits (including contract labor) increased $66.3 million or 7.2% as compared to 2022. For fiscal year 2022, labor costs increased by $59.0 million or 7.1% as compared to 2021.

For 2023, medical supplies increased $3.7 million or 5.4% from 2022, primarily related to OR and Lab activities. For fiscal year 2022, medical supplies decreased $6.8 million or 9.1% from 2021, primarily related to OR and Lab activities.

For 2023, net nonoperating revenue increased $35.3 million from 2022. For 2022, net nonoperating revenue decreased $46.6 million.

Operating Statistics

The table below sets forth certain selected historical operating statistics for the years ended December 31, 2023, 2022 and 2021:

Table 4

Operating Statistics	December 31			2023 - 2022	2022 - 2021
	2023	2022	2021	Change	Change
Net patient service revenue	**$ 1,289,237**	$ 1,194,466	$ 1,102,036	$ 94,771	$ 92,430
Net patient service revenue per discharge	**$ 78**	$ 72	$ 58	$ 6	$ 14
Supplies and services to net patient services	**27.5%**	23.6%	24.4%	3.9%	(0.7%)
Salaries and benefits to net patient services	**76.6%**	74.4%	75.3%	2.2%	(0.9%)
WRVUs	**2,302,065**	2,174,130	2,266,388	127,935	(92,258)
Clinic Visits	**630,479**	626,917	662,753	3,562	(35,836)
OR Cases	**11,558**	11,294	11,342	264	(48)
Emergency services	**160,906**	151,858	158,540	9,048	(6,682)
Average Length of Stay (ALOS)	**7.65**	7.68	6.76	(0.03)	0.92
Case mix index - all inpatient (1)	**1.94**	1.89	1.84	0.05	0.05

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

Revenue and Volume Trends

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

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

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

The percentage of gross patient service revenue related to Medicare, Medicaid, discounted arrangements, and other follows for the years ended December 31, 2023, 2022 and 2021:

	2023	2022	2021
Commercial/other	**20%**	20%	20%
Medicaid	**44**	45	45
Medicare	**29**	29	28
Self pay	**7**	6	7
	100%	100%	100%

Hennepin Healthcare provides significant health care to the indigent population within its primary service area. Uncompensated charges for care provided to this population included charity care of approximately $51.4, $34.4, and $22.6 million and bad debts of approximately $21.1, $32.2, and $30.3 million for the years ended December 31, 2023, 2022 and 2021, respectively. Management's projection for the ensuing year is for similar levels of uncompensated services as a percentage of total services.

Performance Compared to Budget

The following table compares fiscal year 2023 actual to budget information for admissions and the statement of revenue, expenses and changes in net position for HHS excluding the result of HHF and HHRI.

Table 5
Actual Vs. Budget

	Actuals	Budget	Variance	Percentage Variance
Net patient service per discharge	$ 77,702	$ 72,841	$ 4,861	6.7%
Operating expense per discharge	85,414	77,516	7,898	10.2%
(The following amounts are in thousands)				
Net patient service revenue	$1,289,237	$1,247,701	$ 41,536	3.3%
Other operating revenue	80,570	77,855	2,715	3.5%
Total operating revenue	1,369,807	1,325,556	44,251	3.3%
Operating expenses	1,417,192	1,322,962	94,230	7.1%
Operating income (loss)	(47,385)	2,594	(49,979)	(1,926.7%)
Income from investments	7,621	1,020	6,601	647.2%
Other nonoperating income (loss)	(2,145)	(4,818)	2,673	(55.5%)
Capital contributions from related parties, net	10,255	12,500	(2,245)	(18.0%)
(Deficit) excess of revenue over expenses	$ (31,654)	$ 11,296	$ (42,950)	

Net patient revenue was favorable to budget by $41.5 million, or 3.3%, for the fiscal year ended December 31, 2023. Other operating revenue was favorable to budget by 2.7 million, or 3.5%. Hennepin Healthcare did not anticipate and therefore did not include in the original budget additional COVID-19 funding.

Operating expenses were unfavorable to budget by $94.2 million, or 7.1%. The operating margin was (3.46%) which was unfavorable to the budget of 0.2%.

Economic and Other Factors and Next Year's Budget

The HHS's board and management considered many factors when setting the 2024 budget. Of primary importance are market forces and environmental factors such as:

- The ongoing potential impact of the COVID-19 pandemic on the Hospital's financial results is extremely uncertain.
- The impact of the Patient Protection and Affordable Care Act (PPACA) and other mandated government reductions that affect Medicare and Medicaid reimbursement.
- The uncertainty of potential federal government actions which could have a negative effect on Medicaid funding.

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

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

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

- On-going opportunities for revenue cycle improvements.

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

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

- Competitive salaries, wages and benefits.

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

Financial Highlights of Hennepin Healthcare Foundation (HHF)

- Total net position increased $8.4 million or 25.3%. This is primarily due to an increase in investment income and a decrease in utilization of grant disbursements.

- Investments increased $2.5 million to a total of $17.6 million or a 16.5% increase due to improved market conditions throughout 2023.

- Contributions to HHF during fiscal years 2023 and 2022 were $4.1 million and $4.0 million, respectively.

- Grants and Contracts to HHF during fiscal years 2023 and 2022 were $6.0 million and $7.7 million, respectively.

- Investment income during fiscal years 2023 and 2022 was a gain of $3.0 million and loss of ($3.1) million, respectively. The increase was due to improved capital markets in 2023.

- HHF had total expenses of $10.7 million and $15.4 million in 2023 and 2022, respectively. The majority of the decrease was due to a decrease in Grants and Disbursements expense of ($5.5) million offset by increases in various other expense line items.

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

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

Financial Highlights of Hennepin Healthcare Research Institute (HHRI)

- Total net position increased \$7.1 million or 13.3% in 2023. The majority of the increase is due to gains on investments totaling \$7.3 million.

- Total Cash and Investments increased \$9.1 million during 2023 due to positive cash flow from operating activities and gains on investments.

- Grants and contracts revenues recognized by HHRI during fiscal years 2023 and 2022 were \$54.3 million and \$53.3 million, respectively.

- Total Expenses increased from \$49.9 million in 2022 to \$55.4 million in 2023. General and Administrative expenses totaled \$3.9 million or 7.1% of total expenses in 2023.

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

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

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

Contacting HHS Chief Financial Officer

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

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

Statements of Net Position
December 31, 2023 and 2022
(In Thousands)

	2023	2022 (Restated)
Assets and Deferred Outflows		
Current assets:		
Cash and cash equivalents (Note 3)	**$ 76,994**	$ 133,186
Accounts receivable:		
Patient accounts receivable, net of estimated uncollectibles of $67,726 and $63,383 in 2023 and 2022, respectively	**169,584**	147,987
Other	**36,671**	34,975
Third-party payor settlements	**16,083**	36,996
Due from related parties, net	**6,193**	6,099
Inventories	**12,106**	11,296
Prepaid expenses and other current assets	**16,149**	9,705
Total current assets	**333,780**	380,244
Investments	**23,839**	14,491
Assets limited as to use:		
Cash and cash equivalents	**22,352**	13,679
Investments	**49,907**	48,742
Receivables, other	**735**	3,451
Total assets limited as to use	**72,994**	65,872
Capital assets (Note 4):		
Nondepreciable	**63,817**	62,652
Depreciable, net of accumulated depreciation	**339,853**	347,581
Leased assets, net of accumulated amortization	**19,273**	30,553
Subscription assets, net of amortization	**19,806**	23,659
	442,749	464,445
Other assets	**1,488**	3,701
Total assets	**874,850**	928,753
Deferred outflows (Notes 8 and 9)	**122,528**	179,082
Total assets and deferred outflows	**$ 997,378**	$ 1,107,835

See notes to financial statements.

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

Statements of Net Position
December 31, 2023 and 2022
(In Thousands)

	2023	2022 (Restated)
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Current maturities of long-term debt	**$ 19,178**	$ 24,583
Accounts payable	**53,689**	41,296
Third-party payor settlements	**3,651**	10,709
Due from related parties, net	**553**	-
Accrued expenses:		
Salaries, wages and benefits	**94,213**	102,402
Other	**54,676**	60,274
Total current liabilities	**225,960**	239,264
Employee benefit obligations (Note 9):		
Retiree health care program	**19,375**	23,010
Other employee benefits	**13,366**	16,656
Long-term debt, net of current maturities (Notes 1 and 7)	**178,815**	196,467
Net pension liability (Note 8)	**310,354**	471,641
Total liabilities	**747,870**	947,038
Deferred inflows (Notes 8 and 9)	**140,081**	17,255
Total liabilities and deferred inflows	**887,951**	964,293
Commitments and contingencies (Note 11)		
Net position:		
Net investment in capital assets	**244,756**	243,395
Restricted:		
Expendable	**46,595**	43,081
Nonexpendable	**26,400**	22,791
Unrestricted	**(208,324)**	(165,725)
Total net position	**109,427**	143,542
Total liabilities, deferred inflows and net position	**$ 997,378**	$ 1,107,835

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2023 and 2022
(In Thousands)

	2023	2022 (Restated)
Operating revenues:		
Net patient service revenue, net of provision for bad debts of $171,048 and $126,499 in 2023 and 2022, respectively	**$ 1,289,237**	$ 1,194,466
Other operating revenue:		
Grants	**97,432**	111,636
Other	**47,436**	49,212
Net operating revenues	**1,434,105**	1,355,314
Operating expenses:		
Salaries and benefits excluding pension expense	**987,536**	921,196
Supplies and services	**354,634**	306,074
Depreciation and amortization	**62,202**	60,173
Utilities and maintenance	**46,938**	43,063
Taxes and surcharges	**18,367**	17,982
Other	**7,008**	7,317
Total operating expenses before pension plans, actuarial impact	**1,476,685**	1,355,805
Loss from operations before pension plans, actuarial impact	**(42,580)**	(491)
Pension plans, actuarial loss	**(16,037)**	(30,419)
Loss from operations	**(58,617)**	(30,910)
Nonoperating revenue (expense), net:		
Interest expense	**(6,086)**	(5,457)
Contributions, net	**175**	67
Investment (loss) income	**17,885**	(16,081)
COVID-19 funding	**1,883**	-
Total nonoperating revenue (expense), net	**13,857**	(21,471)
Excess (deficiency) of revenue over expense	**(44,760)**	(52,381)
Capital contributions from related parties, net	**10,645**	11,882
Decrease in net position	**(34,115)**	(40,499)
Total net position, beginning of year	**143,542**	184,041
Total net position, end of year	**$ 109,427**	$ 143,542

See notes to financial statements.

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

Statements of Cash Flows
Years Ended December 31, 2023 and 2022
(In Thousands)

	2023	2022 (Restated)
Cash flows from operating activities:		
Receipts from third-party payors and patients	**$ 1,281,495**	$ 1,124,038
Grants	**97,432**	111,636
Other receipts, net	**50,669**	44,732
Payments to employees for salaries and benefits	**(1,000,175)**	(922,833)
Payments to suppliers	**(439,799)**	(368,355)
Net cash (used in) provided by operating activities	**(10,378)**	(10,782)
Cash flows from noncapital financing activities:		
COVID-19 funding	**1,883**	-
Gifts and bequests, net	**1,143**	28
Net cash provided by noncapital financing activities	**3,026**	28
Cash flows from capital and related financing activities:		
Contributions from related parties	**10,645**	11,882
Purchases of capital assets	**(34,186)**	(29,722)
Principal payments on long-term debt	**(29,058)**	(16,343)
Interest paid on long-term debt	**(6,086)**	(5,147)
Other	**17,813**	(9,375)
Net cash used in capital and related financing activities	**(40,872)**	(48,705)
Cash flows from investing activities:		
Purchase of investments	**(5,218)**	(2,277)
Sale of investments	**2,969**	1,507
Investment earnings received	**2,954**	3,119
Net cash provided by investing activities	**705**	2,349
Net (decrease) in cash and cash equivalents	**(47,519)**	(57,110)
Cash and cash equivalents:		
Beginning of year	**146,865**	203,975
End of year	**$ 99,346**	$ 146,865
Cash and cash equivalents are reported in the accompanying statements of net position as follows:		
Cash and cash equivalents	**$ 76,994**	$ 133,186
Assets limited as to use	**22,352**	13,679
	$ 99,346	$ 146,865

(Continued)

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

Statements of Cash Flows (Continued)
Years Ended December 31, 2023 and 2022
(In Thousands)

	2023	2022 (Restated)
Reconciliation of income (loss) from operations to net cash (used in) provided by operating activities:		
(Loss) income from operations	**$ (58,617)**	$ (30,910)
Adjustments to reconcile income (loss) from operations to net cash (used in) provided by operating activities:		
Depreciation and amortization	**62,202**	60,173
Provision for bad debts and charity care	**171,048**	126,499
(Gain) on disposal of assets	**(319)**	(362)
In-kind donations	**43**	33
Changes in assets and liabilities related to operations:		
Accounts receivable	**(191,625)**	(169,254)
Prepaid expenses and inventories	**(7,254)**	(1,402)
Accounts payable	**12,393**	8,078
Due from related parties, net	**459**	(3,297)
Medicare accelerated payments	**-**	(41,042)
Deferred inflows, outflows and net pension liability	**18,093**	33,354
Accrued expenses and estimated third-party settlements	**(16,801)**	7,348
Net cash (used in) provided by operating activities	**$ (10,378)**	$ (10,782)
Noncash investing, capital and financing activities:		
Capital assets financed through loans and payables	**$ 6,001**	$ 712
Net change in realized (loss) gain on investments, net	**$ 11,218**	$ (19,336)

See notes to financial statements.

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

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

HHS incorporates an integrated network of physicians, hospital and ambulatory care services. The main campus in Minneapolis, Minnesota, includes a Level 1 Adult and Pediatric Trauma Center and is also an academic medical center and public hospital, and operates primary and specialty care clinics. HHS also operates community and convenience care clinics in the surrounding metropolitan area. As of December 31, 2023, HHS operated a hospital with licensed capacity of 894 beds and 65 bassinets, 469 beds and 65 bassinets of which were available, as well as 9 primary care clinics and 34 specialty care clinics, and employed approximately 954 providers, 255 residents and 149 pharmacists in 9 pharmacy locations.

HHS is governed by a 15-member Board of Directors that is responsible for oversight of operating activities. The Hennepin County Board of Commissioners retains certain ownership and governing rights and obligations, including oversight of the safety net mission and the review and approval of the Board members, annual operating budget, health service plan and capital budget. The County is the governing member of HHS.

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

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

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

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

(In Thousands)

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

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

Net patient service revenue and patient accounts receivable: Gross patient service revenue is recorded when services are provided at HHS' established rates, with contractual adjustments and provision for bad debts deducted to arrive at net patient service revenue. HHS has agreements with third-party payors, which provide for reimbursement to HHS at amounts that differ from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges, per diem payments, and risk-sharing contracts. Net patient service revenue, as reflected in the accompanying statements of revenues, expenses and changes in net position for the years ended December 31, 2023 and 2022, consisted of the following:

	2023	2022
Gross patient charges	$ 3,399,855	$ 3,134,801
Deductions from gross patient charges	(1,977,070)	(1,839,837)
Uncompensated care services, Hennepin County	37,500	26,000
Provision for bad debts and charity care	(171,048)	(126,498)
Net patient service revenue	$ 1,289,237	$ 1,194,466

As a safety net hospital, HHS receives supplemental Medicaid payments, also known as Upper Payment Limit (UPL) payments, for inpatient, outpatient, managed care, physician, dental, CRNA and ambulance services through intergovernmental transfers in accordance with specific state statutes subject to federal regulations and approval. These UPL amounts are recorded as net patient service revenue in the statements of revenues, expenses and changes in net position. Estimated UPL amounts due to HHS at December 31, 2023 and 2022, were approximately $11.2 million and $22.2 million, respectively, and are recorded in the statements of net position as third-party payor settlements. The effect of changes in estimates related to prior years increased net patient service revenue $8.7 million and decreased net patient service revenue $12.1 million for the years ended December 31, 2023 and 2022, respectively.

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

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

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

Medicare: Payment arrangements under the Medicare program are as follows: inpatient acute care, psychiatric services and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The majority of outpatient services are paid at Ambulatory Payment Classification (APC) rates; certain outpatient services, including kidney acquisition and medical education costs related to Medicare beneficiaries, are paid based on a cost-reimbursement methodology. HHS also receives Disproportionate Share Hospital reimbursement for serving a disproportionate share of indigent patients based on a factor of Medicaid-eligible days to total days, plus a Social Security income percentage applied to Medicare inpatient prospective payments. HHS is reimbursed for cost-reimbursable items at an estimated rate, with final settlement determined after submission of annual cost reports by HHS and audits thereof by the Medicare fiscal intermediary. The net impact from final settlements and changes in estimates related to prior years was an increase in net patient service revenue of approximately $0.9 million and $2.9 million for the years ended December 31, 2023 and 2022, respectively. Medicare cost reports have been final settled through 2018. Various settled cost reports have pending appeals and re-openings to address a variety of issues.

Medicaid: Medicaid payments for inpatient, outpatient and physician services are primarily based on prospective, per-case rates. The inpatient rate is based upon the All-Patient Refined (APR) Diagnostic Related Grouping (DRG) methodology and utilizes the Medicare Cost Report as the base document in determining the statewide Medicaid operation rate and the HHS Disproportionate Population Adjustment. The outpatient rate is based on the Medicare APC methodology, modified by Department of Human Services (DHS) for Medicaid reimbursement. The 2023 and 2022 outpatient payments reflect the fee schedule rates less an 8.5% ratable reduction. The physician services payment is based upon the Medicare Relative Value Units (RVUs). The 2023 physician payments reflect the fee schedule rates less a 7% ratable reduction. Approximately 76% of the Medicaid services at HHS are Prepaid Medical Assistance Program (PMAP) patients. PMAP rates are negotiated directly with insurers, and are generally higher than those paid directly by the state for enrollees not assigned an insurer.

Directed Payments: Minnesota enacted legislation, effective January 1, 2022, that gives Medicaid authority to administer Managed Care directed payment program. CMS approval is required for the contractual arrangement included in the pre-print that direct Medicaid Managed Care Organizations to participate in the directed payment program. Minnesota DHS directs and contractually requires Medicaid Managed Care Organizations to pay enhanced minimum fee schedule amounts for services provided to Medicaid beneficiaries. HHS funds the program through intergovernmental transfers (IGT) payments. Receipt of directed payments by HHS is based on patient utilization and enhanced fee schedules. These payments are recorded in the gross patient service revenue.

(In Thousands)

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

Credit risk from payors: As of and for the years ended December 31, 2023 and 2022, HHS' gross patient charges and related receivables by payor or payor categories as a percent of the totals were approximately as follows:

	Accounts Receivable		Gross Charges	
	2023	2022	2023	2022
Commercial/other	36%	44%	20%	20%
Medicaid	34	30	44	45
Medicare	18	16	29	29
Self pay	12	10	7	6
	100%	100%	100%	100%

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

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

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

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

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

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

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

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

Inventories: Inventories consist of pharmaceuticals, food items and certain medical supplies. These are reported at the lower of cost or market on a weighted average cost basis, determined using the first-in, first-out method.

Capital assets: Purchases in excess of one thousand dollars for HHF and five thousand dollars for HHRI and HHS are capitalized and recorded at cost, if purchased, or fair value at the date of donation, if donated. Assets under lease obligation are depreciated over the shorter of the lease term or their respective estimated useful lives, unless the Organization intends to purchase the asset at the end of the lease term in which case they are depreciated over the useful lives of the assets. Amortization on assets under leases is included with depreciation expense on owned capital assets. It is the policy of the Organization to record depreciation expense based on the estimated useful lives of individual assets, using the straight-line method of depreciation.

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. No asset impairment charges were recorded in 2023 or 2022.

Subscription-Based Information Technology Arrangements: Subscription-Based Information Technology Arrangements (SBITA) are defined as contracts that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. A SBITA is included as a right to use asset and corresponding SBITA liability in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). For SBITAs recorded, the rates are based upon the incremental borrowing rate and vary based on inception date and terms of the contract.

HHS adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, as of January 1, 2022. The statement required the recognition of certain subscription assets and liabilities for another party's IT software, alone or in combination with tangible capital assets, that were previously classified as operating expenses. The subscription assets and liabilities are recorded as right-to-use assets and long-term debt in the statement of net position and are recognized as inflows of resources or expenses and changes in net position. The standard required HHS to record right-to-use assets and long-term debt totaling $14.8 million and $13.6 million, respectively, in the statement of net position as of January 1, 2022. There was no adjustment to opening net position for the adoption.

(In Thousands)

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

The adoption of GASB 96 was applied retrospectively to the earliest period presented. As a result, net position was adjusted as of January 1, 2022 and December 31, 2022:

Net position January 1, 2022 as previously reported	$ 184,041
Addition of subscription assets, net of accumulated depreciation	14,750
Addition of subscriptions payables	(13,593)
Removal of prepaid subscriptions	(1,157)
Net position as of January 1, 2022, as restated	$ 184,041
Net position December 31, 2022 as previously reported	$ 142,841
Addition of subscription assets, net of accumulated depreciation	23,038
Addition of subscriptions payables	(19,497)
Removal of prepaid subscriptions	(2,666)
Addition of accrued expense other	(174)
Net position as of December 31, 2022, as restated	$ 143,542

Leases: A lease asset is determined at inception when the control of the right to use an underlying asset belongs to the entity for the term of the lease for a period of one year or greater. The term of the lease may include exercisable options when reasonably certain the option will be renewed. Right-to-use assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. Leases, in which the Organization is the lessee, are included as right-to-use assets, net of respective amortization, in accordance with GASB Statement No. 87, *Leases (GASB 87)*, in the statement of net position at the present value of expected lease payments over the lease term, adjusted for lease incentives, if applicable. Lease liabilities are based initially at the present value of lease payments, over the term of the leases and are re-measured whenever there is a change or modification of the lease terms. The current and long-term lease liabilities are recorded in the statement of net position. For leases recorded, the rates are based upon the incremental borrowing rate and vary based on inception date and terms of the contract. Current rates range from 0.41% to 3.9%.

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

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

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

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

	Years Ended December 31	
	2023	2022
Estimated liability at beginning of year	$ 42,586	$ 43,248
Net change	1,998	(662)
Estimated liability at end of year	$ 44,584	$ 42,586

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

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

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

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

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

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

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

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

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

Related-party transactions: HHS is a major provider of health care services for Hennepin Health (HH), an enterprise fund of the County. HHS has an agreement with HH to provide services to enrollees of the Hennepin Health program whereby HHS is reimbursed based upon services performed and program outcomes. Net revenues from HH were approximately $131.1 million and $162.9 million for the years ended December 31, 2023 and 2022, respectively. HHS has net receivables from HH of approximately $2.5 million and $21.8 million at December 31, 2023 and 2022, respectively.

HHS records amounts received from the County for capital asset additions as capital contributions. During 2023 and 2022, HHS received capital contributions of approximately $10.6 million and $11.9 million, respectively.

HHS provides services to the County residents that are uninsured and indigent for which the County reimburses HHS. HHS reported $37.5 million and $26.0 million within net patient service revenue for this reimbursement during the years ended December 31, 2023 and 2022, respectively.

The County provided funding for the construction of a clinic and specialty center building under an agreement with HHS. The County funding was obtained in part by the County issuing General Obligation Bonds and is to be repaid by HHS over a term of 25 years at a blended interest rate of approximately 1.5%. HHS owed the County $160.5 million and $166.7 million as of December 31, 2023 and 2022, respectively (see Note 7).

HHS has a net receivable of $5.6 million and $3.9 million from the County as of December 31, 2023 and 2022, respectively, which is included in due from related parties on the accompanying statements of net position.

HHS is a participant in Hennepin County's central mobile equipment internal service fund, which is used to account for the costs of purchasing, operating and replacing all automotive and other mobile equipment used by HHS and other components and departments of the County. At December 31, 2023, HHS purchased fleet of approximately 61 vehicles which included 35 ambulances. HHS paid $4.4 million and $4.6 million during the years ended December 31, 2023 and 2022, respectively, for the use of the fleet. Payments cover funded depreciation to replace the existing fleet, maintenance, fuel and administrative costs. Increases to the total fleet size require vehicle purchases by HHS and subsequent contribution to the County at the time of addition.

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

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

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

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

Due to the information technology systems used by the HHS and/or HHS' third-party vendors, HHS may often be the target of cyber-attacks and other security threats which could cause significant disruption in the HHS' business. Programs are in place which are intended to detect, contain, and respond to data security incidents and provide employee awareness training regarding phishing, malware and other cyber risks to protect against cyber risks and security breaches. However, because the techniques used to obtain unauthorized access, disable, or degrade service, or sabotage systems change frequently and are increasing in sophistication, HHS may be unable to anticipate these techniques, detect breaches or implement adequate preventive measures and may be subject to breaches of our information technology systems or business interruption.

Subsequent events: HHS has considered subsequent events through April 30, 2024, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto.

On February 21, 2024, Change Healthcare, a third-party service provider to the Organization, became aware of a cybersecurity incident (the Incident) causing a disruption across the health care industry. The Organization uses Change Healthcare for multiple systems, including to process patient claims. As a result of the Incident, the Organization is not aware of any data, including personally identifiable information (PII) and/or protected health information (PHI), that has been compromised as a result of the Incident. At this time, the Organization is not aware of any legal claims asserted against the Organization and is not able to predict if the Incident will have a material adverse effect on the Organization's financial condition or results of operations.

Due to the information technology systems used by the Organization, the Organization may often be the target of cyber-attacks and other security threats which could cause significant disruption to its business. Programs are in place which are intended to detect, contain, and respond to data security incidents and provide employee awareness training regarding phishing, malware and other cyber risks to protect against cyber risks and security breaches. However, because the techniques used to obtain unauthorized access, disable, or degrade service, or sabotage systems change frequently and are increasing in sophistication, the Organization may be unable to anticipate these techniques, detect breaches or implement adequate preventive measures and may be subject to breaches of our information technology systems or business interruption. The Organization has obtained insurance to help mitigate part of the financial risks associated with cyber incidents which was in place for the periods ending December 31, 2023 and 2022.

Reclassifications: Certain prior year amounts on the financial statements have been reclassified to conform to the December 31, 2023 presentation.

(In Thousands)

Note 2. Community Benefit

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

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

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

	2023	2022
Costs of charity care, including discounts to uninsured patients	$ 51,377	$ 34,361
Medicaid payments in (excess) deficit of costs, net (1)	7,192	(11,565)
Medicaid surcharge and MinnesotaCare tax	17,488	17,262
Education workforce development and research (2)	40,182	19,749
Community and subsidized health services costs (2)	1,723	3,793
Community building and other community benefit costs (2)	19	29
Total cost of community benefits (3)	117,981	63,629
Other community contributions:		
Costs in excess of Medicare payments	152,810	120,796
Other care provided without compensation (bad-debt expense) (4)	21,102	32,186
Total value of community contributions	$ 291,893	$ 216,611

(1) Implementation of directed payments (Note 1)

(2) Grant monies of approximately $5.4 million and $11.3 million in 2023 and 2022, respectively, are excluded by offsetting to costs incurred.

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

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

(In Thousands)

Note 3. Cash and Cash Equivalents

The County's Office of Budget and Finance is responsible for the treasury function of all the County's deposits and investments held by its funds. Cash from all funds are pooled for deposit and investment purposes. HHS and HHF comprised $101.9 million or 5.9% and $158.8 million or 8.8% of the County's total cash and investments as of December 31, 2023 and 2022, respectively. As of December 31, 2023, a majority of the pool's investments were invested in U.S. government and agency issues, with the remainder invested in repurchase agreements and money market funds. Detailed information about the County's deposits with financial institutions, repurchase agreements, interest rate risk, credit risk, concentration of credit risk and custodial credit risk can be obtained directly from the County's 2023 financial statements. Investment earnings and losses are allocated based on average monthly cash balances. HHRI's cash equivalents include highly liquid investments with maturities of three months or less.

Note 4. Capital Assets and Right-to-Use Assets

Capital asset and right-to-use lease asset activity as of December 31, 2023 and 2022, was as follows:

	Balance at December 31, 2022	Additions and Transfers	Retirements and Disposals	Balance at December 31, 2023	Estimated Years
Capital assets:					
Land and other nondepreciable	$ 48,577	$ 126	$ -	$ 48,703	
Depreciable capital assets:					
Buildings and improvements	636,796	10,736	(1,410)	646,122	5–40
Leasehold improvements	28,916	310	(629)	28,597	3–15
Furniture and equipment	324,021	25,115	(1,073)	348,063	3–20
Software capital	8,044	-	-	8,044	3–7
Total	997,777	36,161	(3,112)	1,030,826	
Projects in progress	14,075	1,089	(50)	15,114	
Less accumulated depreciation:					
Buildings	(358,784)	(22,655)	371	(381,068)	
Leasehold improvements	(19,515)	(1,810)	629	(20,696)	
Furniture and equipment	(266,090)	(17,411)	914	(282,587)	
Software capital	(5,807)	(815)	-	(6,622)	
Total	(650,196)	(42,691)	1,914	(690,973)	
Capital assets, before lease assets	410,233	(5,315)	(1,248)	403,670	
Right-to-use lease assets:					
Buildings under lease	18,621	-	(2,865)	15,756	
Equipment and vehicles under lease	30,281	-	(12,475)	17,806	
Subscriptions	31,358	6,819	-	38,177	
Total	80,260	6,819	(15,340)	71,739	
Less accumulated amortization for:					
Buildings under lease	(3,233)	(1,538)	422	(4,349)	
Equipment and vehicles under lease	(15,116)	(6,952)	12,128	(9,940)	
Subscriptions	(7,699)	(10,672)	-	(18,371)	
Total	(26,048)	(19,162)	12,550	(32,660)	
Right-to-use lease assets, net	54,212	$ (12,343)	$ (2,790)	39,079	
Capital assets, net	$ 464,445			$ 442,749	

(In Thousands)

Note 4. Capital Assets and Right-to-Use Assets (Continued)

	Balance at December 31, 2021	Additions and Transfers	Retirements and Disposals	Balance at December 31, 2022	Estimated Years
Capital assets:					
Land and other nondepreciable	$ 48,514	$ 63	$ -	$ 48,577	
Depreciable capital assets:					
Buildings and improvements	623,484	13,312	-	636,796	5–40
Leasehold improvements	28,858	214	(156)	28,916	3–15
Furniture and equipment	313,751	11,223	(953)	324,021	3–20
Software capital	8,044	-	-	8,044	3–7
Total	974,137	24,749	(1,109)	997,777	
Projects in progress	8,390	5,685	-	14,075	
Less accumulated depreciation:					
Buildings	(335,825)	(22,959)	-	(358,784)	
Leasehold improvements	(17,617)	(1,909)	11	(19,515)	
Furniture and equipment	(248,835)	(17,553)	298	(266,090)	
Software capital	(4,897)	(910)	-	(5,807)	
Total	(607,174)	(43,331)	309	(650,196)	
Capital assets, before lease assets	423,867	(12,834)	(800)	410,233	
Right-to-use lease assets:					
Buildings under lease	18,621	-	-	18,621	
Equipment and vehicles under lease	29,713	1,692	(1,124)	30,281	
Subscriptions	14,750	16,608	-	31,358	
Total	63,084	18,300	(1,124)	80,260	
Less accumulated amortization for:					
Buildings under lease	(1,552)	(1,681)	-	(3,233)	
Equipment and vehicles under lease	(7,579)	(7,537)	-	(15,116)	
Subscriptions	-	(7,699)	-	(7,699)	
Total	(9,131)	(16,917)	-	(26,048)	
Right-to-use lease assets, net	53,953	$ 1,383	$ (1,124)	54,212	
Capital assets, net	$ 477,820			$ 464,445	

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

Note 5. Investments and Assets Limited As to Use

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

(In Thousands)

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

The three levels of the fair value hierarchy defined by GASB No. 72 and a description of the valuation methodologies used for instruments measured at fair value are as follows:

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3: Unobservable inputs for the asset. In these situations, the Organization develops inputs using the best information available in the circumstances.

The Organization's assets and liabilities measured at fair value on a recurring basis are limited to investments. The fair values of the Organization's investments in mutual funds are included in Level 1, which were determined through unadjusted, quoted prices in active markets. The Organization did not have any Level 2 or Level 3 investments as of December 31, 2023 and 2022.

As of December 31, 2023, the Organization had the following investments:

	HHS	HHF	HHRI	Total
Mutual funds:				
Domestic equities	$ 4,895	$ 7,783	$ 23,297	$ 35,975
International	-	3,114	9,646	12,760
Fixed income	1,497	6,736	16,778	25,011
Total investments	$ 6,392	$ 17,633	$ 49,721	$ 73,746

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

Investments	$ 23,839
Assets limited as to use, investments	49,907
Total investments	$ 73,746

(In Thousands)

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

As of December 31, 2022, the Organization had the following investments:

	HHS	HHF	HHRI	Total
Mutual funds:				
Domestic equities	$ 4,462	$ 6,746	$ 20,323	$ 31,531
International	-	2,600	7,600	10,200
Fixed income	1,191	5,794	14,517	21,502
Total investments	$ 5,653	$ 15,140	$ 42,440	$ 63,233

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

Investments	$ 14,491
Assets limited as to use, investments	48,742
Total investments	$ 63,233

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

As of December 31, 2023 and 2022, the investments, as rated by Moody's, had the following ratings:

	2023		2022	
Type of Investment	Carrying Amount	Quality Rating	Carrying Amount	Quality Rating
Mutual funds—fixed income	$ 25,011	AAA - BB	$ 21,502	AAA - BB
Not rated:				
Mutual funds—domestic equities	35,975		31,531	
Mutual funds—international	12,760		10,200	
Total investment	$ 73,746		$ 63,233	

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

As of December 31, 2023 and 2022, not more than 5% of the Organization's total investments were invested in securities of any one issuer, excluding securities issued or guaranteed by the U.S. government, mutual funds and external investment pools or other pooled investments.

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

(In Thousands)

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

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

Note 6. Endowments

HHRI's endowment consists of six individual funds established for a variety of purposes. The entire endowment is classified as restricted nonexpendable. HHRI's endowment reported in restricted nonexpendable net position as of December 31, 2023 and 2022, is $19.2 million and $17.2 million, respectively. HHF's restricted nonexpendable net position totaled $5.3 million and $3.7 million as of December 31, 2023 and 2022, respectively. HHS' restricted nonexpendable net position totaled $1.9 million for both of the years ended December 31, 2023 and 2022.

Note 7. Long-Term Debt

A schedule of changes in long-term debt as of and for the years ended December 31, 2023 and 2022, consists of the following:

	December 31, 2022	Additions	Reductions	December 31, 2023	Amounts Due Within One Year
Notes payable	$ 166,657	$ -	$ (6,130)	$ 160,527	$ 6,518
Lease liabilities	34,562	-	(12,340)	22,222	4,335
Subscription liabilities	19,497	5,988	(10,588)	14,897	8,325
Other promissory notes	334	13	-	347	-
	$ 221,050	$ 6,001	$ (29,058)	$ 197,993	$ 19,178

	December 31, 2021	Additions	Reductions	December 31, 2022	Amounts Due Within One Year
Notes payable	$ 172,534	$ -	$ (5,877)	$ 166,657	$ 6,130
Lease liabilities	44,342	686	(10,466)	34,562	9,277
Subscription liabilities	13,593	14,477	(8,573)	19,497	9,176
Other promissory notes	308	26	-	334	-
	$ 230,777	$ 15,189	$ (24,916)	$ 221,050	$ 24,583

(In Thousands)

Note 7. Long-Term Debt (Continued)

Notes payable: Notes payable due to the County with a 2.19% blended interest rate, due in semi-annual interest installments ranging from $0.1 million to $2.1 million, and annual principal installments ranging from $5.8 million to $11.5 million through December 2041.

Debt service requirements of notes payable and other promissory notes are as follows:

	Principal	Interest	Total
Years ending December 31:			
2024	$ 6,518	$ 4,343	$ 10,861
2025	6,923	4,166	11,089
2026	7,200	3,979	11,179
2027	7,432	3,783	11,215
2028	7,663	3,582	11,245
2029-2033	42,109	14,662	56,771
2034-2038	49,220	8,593	57,813
2039-2041	33,809	1,826	35,635
	$ 160,874	$ 44,934	$ 205,808

Lease liabilities: HHS had lease obligations for buildings, medical and office equipment, and vehicles, which are payable in total monthly installments of $0.1 million to $0.4 million, discounted at rates ranging from 2.0% to 3.9%. As of December 31, 2023 and 2022, the related right-to-use assets had a net book value of $19.3 million and $30.5 million, respectively.

The schedule of the future minimum lease payments under the leases together with the present value of the net minimum lease payments is as follows:

	Principal	Interest	Total
Years ending December 31:			
2024	$ 4,335	$ 587	$ 4,922
2025	4,171	586	4,757
2026	3,977	473	4,450
2027	2,053	358	2,411
2028	1,503	266	1,769
2029-2033	6,096	441	6,537
2034	87	-	87
	$ 22,222	$ 2,711	$ 24,933

Subscription liabilities: HHS had subscription obligations for vendor's IT software and associated tangible capital assets, which are payable in annual or monthly installments of $0.1 million to $3.1 million, discounted at rates ranging from 0.2% to 3.6%. As of December 31, 2023 and 2022, the related right-to-use assets had a net book value of $19.8 million and $23.6 million, respectively.

(In Thousands)

Note 7. Long-Term Debt (Continued)

The schedule of the future minimum lease payments under the subscriptions together with the present value of the net minimum lease payments is as follows:

	Principal	Interest	Total
Years ending December 31:			
2024	$ 8,325	$ 205	$ 8,530
2025	4,025	99	4,124
2026	2,108	39	2,147
2027	439	7	446
	$ 14,897	$ 350	$ 15,247

Note 8. Pension Plans

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

1. General Employees Retirement Fund (GERF)

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

2. Public Employees Police and Fire Fund (PEPFF)

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

3. Public Employees Correctional Fund (PECF)

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

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

Note 8. Pension Plans (Continued)

1. GERF Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the Social Security Administration (SSA), with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

2. PEPFF Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1%. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

3. PECF Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase will be equal to 100% of the COLA announced by SSA, with a minimum increase of at least 1% and a maximum of 2.5%. If the plan's funding status declines to 85% or below for two consecutive years or 80% for one year, the maximum will be lowered from 2.5% to 1.5%.

Note 8. Pension Plans (Continued)

Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

Contributions*: Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. HHS' contributions to all plans during the years ended December 31, 2023 and 2022, were equal to the required contributions under the statutes.

1. GERF Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in calendar years 2023 and 2022. HHS was required to contribute 7.5% for Coordinated Plan members in calendar years 2023 and 2022. HHS' contributions to the GERF for the years ended December 31, 2023 and 2022, were $30.7 million and $29.3 million, respectively.

2. PEPFF Contributions

Plan members were required to contribute 11.8% of their annual covered salary in calendar years 2023 and 2022. HHS was required to contribute 17.7% of pay for PEPFF members in calendar years 2023 and 2022. HHS' contributions to the PEPFF for the years ended December 31, 2023 and 2022, were $3.0 million and $2.7 million.

3. PECF Contributions

Plan members were required to contribute 5.8% of their annual covered salary in calendar years 2023 and 2022. HHS was required to contribute 8.8% of pay for PECF members in calendar years 2023 and 2022. HHS' contributions to the PECF for both of the years ended December 31, 2023 and 2022, were $0.3 million.

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

1. GERF Pension Costs

At December 31, 2023 and 2022, HHS reported a liability of $287.5 million and $412.6 million, respectively, for its proportionate share of the GERF's net pension liability. HHS' net pension liability reflected a reduction due to the State of Minnesota's contribution of $16.0 million to the fund in 2023 and 2022. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. At December 31, 2023 and 2022, the State of Minnesota's proportionate share of the net pension liability associated with HHS totaled $7.9 million and $12.1 million, respectively. The net pension liability was measured as of June 30, 2023 and 2022, and the total pension liability used to calculate the net pension liability and related deferred amounts were determined by actuarial valuations as of those dates. HHS' proportion of the net pension liability was based on the contributions received by PERA during the measurement periods for employer payroll paid dates from July 1, 2022 through June 30, 2023, for 2023 measurement, and July 1, 2021 through June 30, 2022, for 2022 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2023 and 2022, HHS' proportionate share was 5.1% and 5.2%, respectively.

(In Thousands)

Note 8. Pension Plans (Continued)

For the years ended December 31, 2023 and 2022, HHS recognized pension expense of $46.5 million and $57.6 million, respectively, for its proportionate share of the GERF's pension expense. In addition, for the years ended December 31, 2023 and 2022, HHS recognized $0.8 million and $1.9 million, respectively, as pension expense and grant revenue for its proportionate share of the State of Minnesota's contributions to the GERF in connection with the plan's special funding situation.

At December 31, 2023 and 2022, HHS reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 9,472	$ (1,962)	$ 3,446	$ (4,298)
Changes in actuarial assumptions	46,157	(78,805)	91,373	(1,590)
Net difference between projected and actual investment earnings	-	(8,636)	9,822	-
Changes in proportion	4,826	(4,027)	9,138	-
Contributions subsequent to the measurement date	18,681	-	15,917	-
	$ 79,136	$ (93,430)	$ 129,696	$ (5,888)

Employer contributions subsequent to the measurement date of approximately $18.7 million, which are reported as deferred outflows of resources related to pensions, will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31:	
2024	$ 9,618
2025	(42,212)
2026	5,856
2027	(6,237)
	$ (32,975)

2. PEPFF Pension Costs

At December 31, 2023 and 2022, HHS reported a liability of $22.3 million and $54.3 million, respectively, for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2023 and 2022, and the total pension liability used to calculate the net pension liability and related deferred amounts was determined by actuarial valuations as of those dates. HHS' proportion of the net pension liability was based on the contributions received by PERA during the measurement periods for employer payroll paid dates from July 1, 2022 through June 30, 2023, for 2023 measurement, and July 1, 2021 through June 30, 2022, for 2022 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2023 and 2022, HHS' proportionate share was 1.3% and 1.2%, respectively.

(In Thousands)

Note 8. Pension Plans (Continued)

The State of Minnesota also contributed $18.0 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2022. The contribution consisted of $9.0 million in direct state aid that does meet the definition of a special funding situation and $9.0 million in fire state aid that does not meet the definition of a special funding situation. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. At December 31, 2023 and 2022, the State of Minnesota's proportionate share of the net pension liability associated with HHS totaled $0.9 million and $2.4 million, respectively.

For the years ended December 31, 2023 and 2022, HHS recognized pension expense of $6.6 million and $3.9 million, respectively, for its proportionate share of the PEPFF's pension expense. HHS also recognized $0.1 million for the years ended December 31, 2023 and 2022, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing $9.0 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2023 and 2022, HHS reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 6,014	$ -	$ 3,271	$ -
Changes in actuarial assumptions	24,603	(31,263)	31,429	(336)
Net difference between projected and actual investment earnings	-	(660)	1,408	-
Changes in proportion	1,825	(697)	560	(994)
Contributions subsequent to the measurement date	1,868	-	1,553	-
	$ 34,310	$ (32,620)	$ 38,221	$ (1,330)

Employer contributions subsequent to the measurement date of approximately $1.9 million, which are reported as deferred outflows of resources related to pensions, will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31:	
2024	$ 952
2025	197
2026	5,162
2027	(1,265)
2028	(5,224)
	$ (178)

(In Thousands)

Note 8. Pension Plans (Continued)

3. PECF Pension Costs

At December 31, 2023 and 2022, HHS reported a liability of $0.6 million and $4.8 million, respectively, for its proportionate share of the PECF's net pension liability. The net pension liability was measured as of June 30, 2023 and 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. HHS' proportion of the net pension liability was based on the contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023, for 2023 measurement, and July 1, 2021 through June 30, 2022, for 2022 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2023 and 2022, HHS' proportion was 1.3% and 1.4%, respectively.

For the years ended December 31, 2023 and 2022, HHS recognized pension expense of $0.1 million and $1.7 million and, respectively, for its proportionate share of the PECF's pension expense.

At December 31, 2023 and 2022, HHS reported its proportionate share of the PECF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 233	$ (71)	$ -	$ (158)
Changes in actuarial assumptions	1,894	(2,756)	3,084	(7)
Net difference between projected and actual investment earnings	-	(50)	154	-
Changes in proportion	-	(229)	2	(4)
Contributions subsequent to the measurement date	173	-	145	-
	$ 2,300	$ (3,106)	$ 3,385	$ (169)

Employer contributions subsequent to the measurement date of approximately $0.2 million, which are reported as deferred outflows of resources related to pensions, will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31:	
2024	$ 73
2025	(468)
2026	(520)
2027	(64)
	$ (979)

Note 8. Pension Plans (Continued)

Actuarial Methods and Assumptions: The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.0% was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25% for the General Employees Plan, Police and Fire Plan, and the Correctional Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan, 1% for the Police and Fire Plan, and 2% for the Correctional Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75% after one year of service to 3.0% after 24 years of service. In the Correctional Plan, salary growth assumptions range from 11.0% at age 20 to 3.0% at age 60.

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

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation. The most recent four-year experience studies for the Police and Fire and the Correctional Plan were completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

GERF

Changes in actuarial assumptions:

- The investment return assumption and single discount rate were changed from 6.5% to 7.0%.

Changes in plan provisions:

- An additional one-time direct state aid contribution of $170.1 million was contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Note 8. Pension Plans (Continued)

PEPFF

Changes in actuarial assumptions:

- The investment return assumption was changed from 6.5% to 7.00%.
- The single discount rate changed from 5.4% to 7.0%.

Changes in plan provisions:

- Additional one-time direct state aid contribution of 19.4 million was contributed to the Plan on October 1, 2023.
- Vesting requirement for new hires after June 30, 2014, was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with 50% vesting after five years, increasing incrementally to 100% after 10 years.
- A one-time, non-compounding benefit increase of 3.0% will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member's occupation.
- The total and permanent duty disability benefit was increased, effective July 1, 2023.

PECF

Changes in actuarial assumptions:

- The investment return rate was changed from 6.5% to 7.00%.
- The single discount rate changed from 5.42% to 7.0%.

Changes in plan provisions:

- Additional one-time direct state aid contribution of $5.3 million was contributed to the Plan on October 1, 2023.
- A one-time, non-compounding benefit increase of 2.5% minus the actual 2024 adjustment will be payable in a lump sum calendar year 2024 by March 31, 2024.
- The maximum benefit increase will revert back to 2.5%. The maximum increase is 1.5% and the Plan's funding ratio improves to 85% for two consecutive years on a market value of assets basis.

(In Thousands)

Note 8. Pension Plans (Continued)

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

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

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

Discount rate: The discount rate used to measure the total pension liability in 2023 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the GERF and PEPFF were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease in Discount Rate	June 30, 2023 Discount Rate	1% Increase in Discount Rate
	6.00%	7.00%	8.00%
HHS proportionate share of the GERF NPL	$ 508,633	$ 287,513	$ 105,633
PEPFF discount rate	6.00%	7.00%	8.00%
HHS proportionate share of the PEPFF NPL	$ 44,121	$ 22,237	$ 4,246
PECF discount rate	6.00%	7.00%	8.00%
HHS proportionate share of the PECF NPL	$ 3,184	$ 604	$ (1,455)

(In Thousands)

Note 8. Pension Plans (Continued)

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

Defined contribution plans: Effective January 1, 2009, HHS established a 401(a) retirement plan, as a PERA alternative, for certain employees hired on or after that date. The plan requires a 6% employer contribution, which totaled approximately $4.0 million and $3.2 million in 2023 and 2022, respectively. Effective January 1, 2012, a 401(a) retirement plan was made available to certain physicians. Contributions are based upon a percentage of eligible employees' compensation and totaled approximately $10.1 million and $9.0 million in 2023 and 2022, respectively.

Note 9. Other Employee Benefits

Other long-term employee benefits are as follows:

	Balance at December 31, 2022	Additions	Reductions	Balance at December 31, 2023	Amounts Due Within One Year
Other postemployment benefits,					
Retiree health care program					
(GASB 75)	$ 23,010	$ 1,918	$ (5,553)	$ 19,375	$ -
Workers' compensation (Note 10)	18,500	1,942	(5,442)	15,000	3,100
Personal choice account	1,705	-	(119)	1,586	120
	$ 43,215	$ 3,860	$ (11,114)	$ 35,961	$ 3,220

	Balance at December 31, 2021	Additions	Reductions	Balance at December 31, 2022	Amounts Due Within One Year
Other postemployment benefits,					
Retiree health care program					
(GASB 75)	$ 26,903	$ 2,607	$ (6,500)	$ 23,010	$ -
Workers' compensation (Note 10)	17,900	5,561	(4,961)	18,500	3,100
Personal choice account	1,816	-	(111)	1,705	449
	$ 46,619	$ 8,168	$ (11,572)	$ 43,215	$ 3,549

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

Employees covered by benefit terms: At December 31, 2023 and 2022, the following employees were covered by the benefit terms:

	2023	2022
Active employees not fully eligible for benefits	4,858	4,625
Inactive employees currently receiving benefits	96	99
Active employees fully eligible for benefits	1,238	1,222
	6,192	5,946

(In Thousands)

Note 9. Other Employee Benefits (Continued)

Total retiree health care program liability: HHS' total OPEB liabilities of $19.4 million and $23.0 million as of December 31, 2023 and 2022, respectively, were measured as of December 31, 2022 and 2021, respectively, and were determined by actuarial valuations as of December 31, 2021.

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

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

Funding policy: HHS follows the County's funding policy whereby retiree health care benefits are funded in relation to the ARC on a pay-as-you-go basis. Either the HHS Board or the County Board may change the funding policy at any time. In 2022, HHS paid eligible single premium amounts for the enrolled retirees described above. Eligible retiree family members, as well as ineligible retirees, may pay their full premium to obtain coverage.

Actuarial methods and assumptions: The total OPEB liabilities in the December 31, 2023 and 2022 actuarial report were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Methods and Assumptions	2023	2022
Reporting date	December 31, 2023	December 31, 2022
Measurement date	December 31, 2022	December 31, 2021
Actuarial valuation date	December 31, 2022	December 31, 2021
Discount rate	3.72%	2.06%
Rate of compensation increase	PERA	PERA
Health care cost trend rates	**	**
Inflation rate	PERA	PERA
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Straight-Line	Straight-Line
Amortization period	9.1 Years	9.1 Years
Method used to determine actuarial value of assets	N/A	N/A

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

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

(In Thousands)

Note 9. Other Employee Benefits (Continued)

The actuarial assumptions used in the December 31, 2022 report were based on the results of an actuarial experience study for the year ended December 31, 2021. These actuarial assumptions are based on the presumption that the OPEB Plan will continue. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Changes in the OPEB liability:

	2023	2022
Total OPEB liability, beginning	$ 23,010	$ 26,903
Changes for the year:		
Service cost	1,444	2,022
Interest	474	585
Changes of assumptions or other inputs	(2,680)	(3,789)
Benefit payments	(2,873)	(2,711)
Net changes	(3,635)	(3,893)
Total OPEB liability, ending	$ 19,375	$ 23,010

Changes of assumptions or other inputs reflect a change in the discount rate from 3.72% as of December 31, 2023, and 2.06% as of December 31, 2022.

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

	1% Decrease 2.72%	Discount Rate 3.72%	1% Increase 4.72%
Total OPEB liability	$ 20,961	$ 19,375	$ 17,888

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

	Decreasing to 5.00%	Health Care Cost Trend Current Trend Rate 6.00%	Increasing to 7.00%
Total OPEB liability	$ 17,263	$ 19,375	$ 21,918

(In Thousands)

Note 9. Other Employee Benefits (Continued)

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB: For the years ended December 31, 2023 and 2022, HHS recognized OPEB expense of $1.9 million and $2.6 million, respectively. At December 31, 2023 and 2022, HHS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions or other inputs	$ 4,268	$ (10,924)	$ 4,907	$ (9,868)
Employer contributions subsequent to the measurement date	2,514	-	2,873	-
	$ 6,782	$ (10,924)	$ 7,780	$ (9,868)

Employer contributions subsequent to the measurement date of December 31, 2022 of $2.5 million, which are reported as deferred outflows of resources as of December 31, 2022, will be recognized as a reduction of the OPEB liability in HHS' year ending December 31, 2023. Amounts reported as the deferred outflows of resources and deferred inflows of resources related to OPEB as of December 31, 2023, will be recognized in OPEB expense over the average future service to retirement of plan participants as follows:

	OPEB Expense
Years ending December 31:	
2024	$ (985)
2025	(984)
2026	(974)
2027	(967)
2028	(973)
Thereafter	(1,773)
	$ (6,656)

Note 10. Risk Management

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

(In Thousands)

Note 10. Risk Management (Continued)

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

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

	Years Ended December 31	
	2023	2022
General and professional claims liability at beginning of year	$ 4,589	$ 5,522
Incurred claims (including IBNR estimate)	1,926	2,026
Change in IBNR estimate	59	496
Claims paid during the year	(1,592)	(3,455)
General and professional claims liability at end of year	$ 4,982	$ 4,589

HHRI purchases comprehensive liability coverage on a claims-made basis covering claims of up to $5.0 million per occurrence or $7.0 million in the aggregate, subject to certain deductible and self-retention amounts. Should these claims-made policies not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. HHRI has obtained coverage through January 1, 2025.

Workers' compensation: HHS is self-insured for workers' compensation claims. During 2023 and 2022, $1.9 million and $5.5 million, respectively, in benefits and administrative costs were paid and charged to the workers' compensation expense account. The estimated liability for claims represents an estimate for unpaid claims and for claims incurred but not reported. An actuarial valuation is the basis for the liability and expense. The actuarial calculations assume industry-based exposure rates and client-based statistically reliable and predictable loss data for professional liability. The workers' compensation liability is included in other accrued expenses and other employee benefits in the statements of net position.

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

	Years Ended December 31	
	2023	2022
Estimated liability at beginning of year	$ 18,500	$ 17,900
Estimated incurred claims (including IBNR)	1,942	5,561
Claims payments	(5,442)	(4,961)
Estimated liability at end of year	$ 15,000	$ 18,500

(In Thousands)

Note 10. Risk Management (Continued)

HHS self-insured health and dental program: On January 1, 2011, HHS became self-insured for employee medical and dental claims for its employees. The accrual for estimated claims includes estimates of the ultimate cost for claims incurred but not reported (IBNR) and are based upon estimated cost of settlement. HHS purchased reinsurance on a specific-case basis for 2023 and 2022, in order to reduce its liability on individual risks. All reinsurance contracts are excess-of-loss contracts, which indemnify HHS for losses in excess of stated reinsurance policy limits. As of December 31, 2023 and 2022, the limits were $0.6 million for specific claims and were $120.6 million and $110.9 million for claims in the aggregate, respectively. HHS has recorded a liability of approximately $7.0 million and $5.4 million as of December 31, 2023 and 2022, respectively, for known cases and for estimated claims that have been incurred but not yet reported, which is included in accrued expenses: salaries, wages and benefits in the accompanying statements of net position.

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

	Years Ended December 31	
	2023	2022
Estimated liability at beginning of year	$ 5,386	$ 4,507
Incurred claims (including estimated IBNR)	125,743	100,868
Claims, administrative payments, taxes and fees	(124,129)	(99,989)
Estimated liability at end of year—net of imprest fund	$ 7,000	$ 5,386

HHRI self-insured health program: HHRI is self-insured for its employee health insurance program. HHRI pays annual health care claims up to $0.09 million per employee with a $2.1 million maximum cap. A third-party insurance carrier covers health care claims exceeding maximum limits. Estimated claims, administrative costs, and reserves that have been incurred but are unpaid are reflected as accrued expenses on the statements of net position and totaled $0.2 million and $0.1 million as of December 31, 2023 and 2022, respectively.

Note 11. Commitments and Contingencies

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

HHS has capital commitments outstanding in the amount of approximately $7.9 million at December 31, 2023.

(In Thousands)

Note 12. Condensed Combining Information for Blended Component Units

Presented below are the condensed combining schedules for the blended component units as of December 31, 2023:

Condensed Statement of Net Position

	HHS	HHF	HHRI	Eliminations	Total Organization
Assets and Deferred Outflows					
Current assets	$ 314,193	$ 989	$ 21,142	$ (2,544)	$ 333,780
Noncurrent assets	447,710	41,839	51,521	-	541,070
Total assets	761,903	42,828	72,663	(2,544)	874,850
Deferred outflows	122,528	-	-	-	122,528
	$ 884,431	$ 42,828	$ 72,663	$ (2,544)	$ 997,378
Liabilities, Deferred Inflows and Net Position					
Current liabilities	$ 214,744	$ 1,232	$ 12,528	$ (2,544)	$ 225,960
Noncurrent liabilities	521,910	-	-	-	521,910
Total liabilities	736,654	1,232	12,528	(2,544)	747,870
Deferred inflows	140,081	-	-	-	140,081
	876,735	1,232	12,528	(2,544)	887,951
Net position:					
Net investment in capital assets	241,837	1,119	1,800	-	244,756
Restricted:					
Expendable	4,509	34,079	8,007	-	46,595
Nonexpendable	1,883	5,316	19,201	-	26,400
Unrestricted	(240,533)	1,082	31,127	-	(208,324)
Total net position	7,696	41,596	60,135	-	109,427
	$ 884,431	$ 42,828	$ 72,663	$ (2,544)	$ 997,378

Condensed Statement of Revenues, Expenses and Changes in Net Position

	HHS	HHF	HHRI	Eliminations	Total Organization
Total operating revenue:					
Total net operating revenue	$ 1,369,807	$ 16,084	$ 54,812	$ (6,598)	$ 1,434,105
Total operating expenses	1,433,229	10,681	55,410	(6,598)	1,492,722
(Loss) income from operations	(63,422)	5,403	(598)	-	(58,617)
Nonoperating revenue	3,593	2,983	7,281	-	13,857
Capital contributions	10,255	-	390	-	10,645
Change in net position	(49,574)	8,386	7,073	-	(34,115)
Net position, beginning of year	57,270	33,210	53,062	-	143,542
Net position, end of year	$ 7,696	$ 41,596	$ 60,135	$ -	$ 109,427

(In Thousands)

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

Condensed Statement of Cash Flows

	HHS	HHF	HHRI	Eliminations	Total Organization
Net cash provided by (used in):					
Operating activities	$ (20,334)	$ 7,768	$ 2,188	$ -	$ (10,378)
Noncapital financing activities	1,882	1,144	-	-	3,026
Capital and related financing activi	(40,361)	(127)	(384)	-	(40,872)
Investing activities	175	531	(1)	-	705
Net increase (decrease) in cash and cash equivalents	(58,638)	9,316	1,803	-	(47,519)
Cash and cash equivalents:					
Beginning of year	130,019	13,896	2,950	-	146,865
End of year	$ 71,381	$ 23,212	$ 4,753	$ -	$ 99,346

Presented below are the condensed combining schedules for the blended component units as of December 31, 2022:

Condensed Statement of Net Position

	HHS	HHF	HHRI	Eliminations	Total Organization
Assets and Deferred Outflows					
Current assets	$ 363,261	$ 1,234	$ 20,553	$ (4,804)	$ 380,244
Noncurrent assets	471,226	33,202	44,081	-	548,509
Total assets	834,487	34,436	64,634	(4,804)	928,753
Deferred outflows	179,082	-	-	-	179,082
	$ 1,013,569	$ 34,436	$ 64,634	$ (4,804)	$ 1,107,835
Liabilities, Deferred Inflows and Net Position					
Current liabilities	$ 231,270	$ 1,226	$ 11,572	$ (4,804)	$ 239,264
Noncurrent liabilities	707,774	-	-	-	707,774
Total liabilities	939,044	1,226	11,572	(4,804)	947,038
Deferred inflows	17,255	-	-	-	17,255
	956,299	1,226	11,572	(4,804)	964,293
Net position:					
Net investment in capital assets	240,822	993	1,580	-	243,395
Restricted:					
Expendable	3,770	27,502	11,809	-	43,081
Nonexpendable	1,883	3,711	17,197	-	22,791
Unrestricted	(189,205)	1,004	22,476	-	(165,725)
Total net position	57,270	33,210	53,062	-	143,542
	$ 1,013,569	$ 34,436	$ 64,634	$ (4,804)	$ 1,107,835

(In Thousands)

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

Condensed Statement of Revenues, Expenses and Changes in Net Position

	HHS	HHF	HHRI	Eliminations	Total Organization
Total operating revenue:					
Total net operating revenue	$ 1,291,238	$ 16,198	$ 54,179	$ (6,301)	$ 1,355,314
Total operating expenses	1,327,283	15,373	49,869	(6,301)	1,386,224
(Loss) income from operations	(36,045)	825	4,310	-	(30,910)
Nonoperating revenue	(10,484)	(3,129)	(7,858)	-	(21,471)
Capital contributions	11,522	-	360	-	11,882
Change in net position	(35,007)	(2,304)	(3,188)	-	(40,499)
Net position, beginning of year	92,277	35,514	56,250	-	184,041
Net position, end of year	$ 57,270	$ 33,210	$ 53,062	$ -	$ 143,542

Condensed Statement of Cash Flows

	HHS	HHF	HHRI	Eliminations	Total Organization
Net cash provided by (used in):					
Operating activities	$ (13,269)	$ 2,119	$ 368	$ -	$ (10,782)
Noncapital financing activities	-	28	-	-	28
Capital and related financing activities	(48,449)	(62)	(194)	-	(48,705)
Investing activities	1,387	(542)	1,504	-	2,349
Net increase (decrease) in cash and cash equivalents	(60,331)	1,543	1,678	-	(57,110)
Cash and cash equivalents:					
Beginning of year	190,350	12,353	1,272	-	203,975
End of year	$ 130,019	$ 13,896	$ 2,950	$ -	$ 146,865

Note 13. New Accounting Standards

In May 2022, GASB issued Statement No. 99, *Omnibus 2022.* The Statement provides guidance addressing various accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements, including: accounting and financial reporting for exchange or exchange-like financial guarantees; certain derivative instruments that are neither hedging derivative instruments nor investment derivative instruments; and clarification of certain provisions of: GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* GASB Statement No. 87, *Leases*, as amended, GASB Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.

The requirements of this Statement are effective as follows:

- For GASB Statement No. 34, as amended, and terminology updates related to GASB Statement
- No. 53 and Statement No. 63, they are effective upon issuance.
- For GASB Statement No. 87, GASB Statement No. 94 and GASB Statement No. 96, they are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- For GASB Statement No. 53, they are effective for fiscal years beginning after June 15, 2023.

HHS is evaluating the impact of this Statement on its financial statements.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. The primary objective of GASB No. 100 is to enhance the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This standard is effective for fiscal years beginning after June 15, 2023. HHS is evaluating the impact of this Statement on its financial statements.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. This Statement establishes accounting and reporting requirements for liabilities arising from certain types of compensated absence arrangements. This standard is effective for fiscal years beginning after December 15, 2023. HHS is evaluating the impact of this Statement on its financial statements.

Note 13. New Accounting Standards (Continued)

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged. The Corporation has not yet determined the impact this statement will have on the financial statements.

Required Supplementary Information

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

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

These schedules present historical trend information about HHS' contributions for its employees who participate in the PERA plans. GASB Statement No. 68 was implemented in 2015. Information related to previous years is not available, therefore, trend information will be accumulated going forward to display a 10-year presentation.

GERF Schedule of Contributions

Fiscal years ended December 31,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	$ 20,759	$ 20,759	$ -	$ 286,559	7.2%
2015	23,601	23,601	-	315,068	7.5%
2016	24,962	24,962	-	333,530	7.5%
2017	24,995	24,995	-	333,365	7.5%
2018	25,547	25,547	-	342,328	7.5%
2019	26,388	26,388	-	353,423	7.5%
2020	26,551	26,551	-	355,991	7.5%
2021	28,614	28,614	-	383,652	7.5%
2022	30,536	30,536	-	420,540	7.3%
2023	32,095	32,095	-	431,307	7.4%

PEPFF Schedule of Contributions

Fiscal years ended December 31,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	$ 1,712	$ 1,712	$ -	$ 11,191	15.3%
2015	2,017	2,017	-	12,446	16.2%
2016	2,062	2,062	-	12,728	16.2%
2017	2,166	2,166	-	13,372	16.2%
2018	2,365	2,365	-	14,222	16.6%
2019	2,378	2,378	-	14,164	16.8%
2020	2,457	2,457	-	14,041	17.5%
2021	2,680	2,680	-	15,214	17.6%
2022	2,909	2,909	-	16,691	17.4%
2023	3,178	3,178	-	18,262	17.4%

PECF Schedule of Contributions

Fiscal years ended December 31,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	$ 186	$ 186	$ -	$ 2,126	8.7%
2015	222	222	-	2,533	8.8%
2016	233	233	-	2,667	8.7%
2017	229	229	-	2,620	8.8%
2018	252	252	-	2,871	8.8%
2019	267	267	-	3,066	8.7%
2020	276	276	-	3,171	8.7%
2021	278	278	-	3,188	8.7%
2022	276	276	-	3,295	8.4%
2023	290	290	-	3,338	8.7%

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

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

GERF Schedule of Proportionate Share

Measurement Date June 30,	Proportion (%) of the Net Pension Liability (NPL)	Proportionate Share (Amount) of the NPL (a)	State's Proportionate Share of the NPL Associated with HHS (b)	HHS and State Total Proportionate Share of the NPL NPL Associated with HHS (abs)	Covered Payroll (c)	Proportionate Share of the NPL as a Percentage of the Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	5.3878%	$ 253,092	$ -	$ 253,092	$ 283,309	89.3%	78.8%
2015	4.9916%	258,691	-	258,691	293,869	88.0%	78.2%
2016	5.1308%	416,596	5,441	422,037	319,090	132.3%	68.9%
2017	5.3401%	340,908	4,286	345,194	346,025	99.8%	75.9%
2018	4.9725%	275,854	9,048	284,902	336,058	84.8%	79.5%
2019	4.8846%	270,059	8,394	278,453	347,311	80.2%	80.2%
2020	4.9363%	295,954	9,126	305,080	353,643	86.3%	79.1%
2021	5.0942%	217,545	6,643	224,188	368,837	60.8%	87.0%
2022	5.2094%	412,586	12,096	424,682	403,020	105.4%	76.7%
2023	5.1416%	287,513	7,926	295,439	412,071	71.7%	83.6%

PEPFF Schedule of Proportionate Share

Measurement Date June 30,	Proportion (%) of the Net Pensior Liability (NPL)	Proportionate Share (Amount) of the NPL (a)	Covered Payroll (c)	Proportionate Share of the NPL as a Percentage of the Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	1.223%	$ 13,209	$ 10,986	120.2%	87.1%
2015	1.247%	14,169	11,511	123.1%	86.6%
2016	1.285%	51,569	12,428	414.9%	63.9%
2017	1.281%	17,295	13,386	129.2%	85.4%
2018	1.311%	13,978	13,937	100.3%	88.8%
2019	1.346%	14,332	14,187	101.0%	89.3%
2020	1.237%	16,300	14,067	115.9%	87.2%
2021	1.190%	9,186	14,714	62.4%	93.7%
2022	1.247%	54,273	15,310	354.5%	70.5%
2023	1.288%	22,237	17,262	128.8%	85.8%

PECF Schedule of Proportionate Share

Measurement Date June 30,	Proportion (%) of the Net Pensior Liability (NPL)	Proportionate Share (Amount) of the NPL (a)	Covered Payroll (c)	Proportionate Share of the NPL as a Percentage of the Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	1.25%	$ 94	$ 2,140	4.4%	98.4%
2015	1.26%	195	2,266	8.6%	97.0%
2016	1.41%	5,151	2,646	194.7%	58.2%
2017	1.31%	3,734	2,626	142.2%	67.9%
2018	1.31%	216	2,700	8.0%	97.6%
2019	1.40%	193	2,992	6.5%	98.2%
2020	1.45%	392	3,162	12.4%	96.7%
2021	1.42%	(233)	3,269	-7.1%	101.6%
2022	1.44%	4,782	3,134	152.6%	74.6%
2023	1.34%	604	3,148	19.2%	96.1%

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

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

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

	2023	2022	2021	2020	2019	2018	2017
Total OPEB liability							
Service cost	**$ 1,444**	$ 2,022	$ 1,757	$ 1,692	$ 1,775	$ 1,601	$ 1,614
Interest	**474**	585	720	1,187	1,042	1,118	1,064
Changes of assumptions or other inputs	**(2,680)**	(3,789)	1,241	(2,915)	(1,233)	604	(349)
Benefit payments	**(2,873)**	(2,711)	(2,625)	(2,823)	(2,824)	(2,751)	(2,358)
Net change	**(3,635)**	(3,893)	1,093	(2,859)	(1,240)	572	(29)
Total OPEB liability, beginning	**23,010**	26,903	25,810	28,669	29,909	29,337	29,366
Total OPEB liability, ending	**$ 19,375**	$ 23,010	$ 26,903	$ 25,810	$ 28,669	$ 29,909	$ 29,337
Covered-employee payroll	**$ 595,718**	$ 544,706	$ 519,523	$ 524,771	$ 499,684	$ 485,742	$ 476,292
Total OPEB liability as a percentage of covered-employee payroll	3.25%	4.22%	5.18%	4.92%	5.74%	6.16%	6.16%

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

January 1, 2017	3.57%
December 31, 2017	3.78%
December 31, 2018	3.44%
December 31, 2019	4.10%
December 31, 2020	2.74%
December 31, 2021	2.12%
December 31, 2022	2.06%
December 31, 2023	3.72%

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

`

Supplementary Information

RSM

Independent Auditor's Report on the Supplementary Information

RSM US LLP

Board of Directors
Hennepin Healthcare System, Inc.

Report on the Financial Statements
We have audited the accompanying financial statements of Hennepin Healthcare System, Inc. (the Organization), a component unit of Hennepin County, Minnesota, as of and for the years ended December 31, 2023 and 2022, and have issued our report thereon, dated April 30, 2024, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

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

The other supplementary information on page 59 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

RSM US LLP

Duluth, Minnesota
April 30, 2024

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

Non-GAAP—Management Presentation of Operational Results
Combining Statements of Revenues, Expenses and Changes in Net Position—Blended Component Units
Year Ended December 31, 2023
(Unaudited)
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2023	2022
Operating revenues:						
Net patient service revenue	**$ 1,289,237**	**$ -**	**$ -**	**$ -**	**$ 1,289,237**	$ 1,194,466
Other operating revenue:						
Grants	**27,876**	**15,236**	**54,320**	**-**	**97,432**	111,636
Other	**56,613**	**3,831**	**7,773**	**(6,598)**	**61,619**	33,198
Contributions from related parties	**10,255**	**-**	**390**	**-**	**10,645**	11,882
Net operating revenues	**1,383,981**	**19,067**	**62,483**	**(6,598)**	**1,458,933**	1,351,182
Operating expenses:						
Salaries and benefits	**954,870**	**8,443**	**23,288**	**(3,061)**	**983,540**	919,591
Supplies and services	**304,333**	**1,430**	**28,738**	**(425)**	**334,076**	295,723
Depreciation and amortization	**61,648**	**-**	**554**	**-**	**62,202**	60,173
Utilities and maintenance	**45,357**	**251**	**1,330**	**-**	**46,938**	43,063
Taxes and surcharges	**18,367**	**-**	**-**	**-**	**18,367**	17,982
Other	**14,149**	**557**	**1,500**	**(3,112)**	**13,094**	5,897
Total operating expenses	**1,398,724**	**10,681**	**55,410**	**(6,598)**	**1,458,217**	1,342,429
Income (loss) from operations	**(14,743)**	**8,386**	**7,073**	**-**	**716**	8,753
Nonoperating (revenue) expense	**34,831**	**-**	**-**	**-**	**34,831**	49,252
(Decrease) increase in net position	**(49,574)**	**8,386**	**7,073**	**-**	**(34,115)**	(40,499)
Total net position, beginning of year	**57,270**	**33,210**	**53,062**	**-**	**143,542**	184,041
Total net position, end of year	**$ 7,696**	**$ 41,596**	**$ 60,135**	**$ -**	**$ 109,427**	$ 143,542

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

Combining Statement of Net Position—Blended Component Units
December 31, 2023
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2023
Assets and Deferred Outflows					
Current assets:					
Cash and cash equivalents	$ 71,381	$ 860	$ 4,753	$ -	$ 76,994
Accounts receivable:					
Patient accounts receivable, net of estimated uncollectibles of $67,726	169,584	-	-	-	169,584
Other	22,017	87	14,567	-	36,671
Third-party payor settlements	16,083	-	-	-	16,083
Due from related parties, net	7,280	42	1,415	(2,544)	6,193
Inventories	12,106	-	-	-	12,106
Prepaid expenses and other current assets	15,742	-	407	-	16,149
Total current assets	314,193	989	21,142	(2,544)	333,780
Investments	-	1,325	22,514	-	23,839
Assets limited as to use:					
Cash and cash equivalents	-	22,352	-	-	22,352
Investments	6,392	16,308	27,207	-	49,907
Receivables, other	-	735	-	-	735
Total assets limited as to use	6,392	39,395	27,207	-	72,994
Capital assets:					
Nondepreciable	62,698	1,119	-	-	63,817
Depreciable, net	338,053	-	1,800	-	339,853
Leased assets, net	19,273	-	-	-	19,273
Subscription assets, net	19,806	-	-	-	19,806
	439,830	1,119	1,800	-	442,749
Other assets	1,488	-	-	-	1,488
Total assets	761,903	42,828	72,663	(2,544)	874,850
Deferred outflows	122,528	-	-	-	122,528
Total assets and deferred outflows	$ 884,431	$ 42,828	$ 72,663	$ (2,544)	$ 997,378

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

Combining Statement of Net Position—Blended Component Units (Continued)
December 31, 2023
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2023
Liabilities, Deferred Inflows and Net Position					
Current liabilities:					
Current maturities of long-term debt	$ 19,178	$ -	$ -	$ -	$ 19,178
Accounts payable	44,592	76	9,021	-	53,689
Third-party payor settlements	3,651	-	-	-	3,651
Due to related parties, net	796	1,156	1,145	(2,544)	553
Accrued expenses:					
Salaries, wages and benefits	92,330	-	1,883	-	94,213
Other	54,197	-	479	-	54,676
Total current liabilities	214,744	1,232	12,528	(2,544)	225,960
Employee benefit obligations:					
Retiree health care program	19,375	-	-	-	19,375
Other employee benefits	13,366	-	-	-	13,366
Long-term debt, net of current maturities	178,815	-	-	-	178,815
Net pension liability	310,354	-	-	-	310,354
Total liabilities	736,654	1,232	12,528	(2,544)	747,870
Deferred inflows	140,081	-	-	-	140,081
Total liabilities and deferred inflows	876,735	1,232	12,528	(2,544)	887,951
Net position:					
Net investment in capital assets	241,837	1,119	1,800	-	244,756
Restricted:					
Expendable	4,509	34,079	8,007	-	46,595
Nonexpendable	1,883	5,316	19,201	-	26,400
Unrestricted	(240,533)	1,082	31,127	-	(208,324)
Total net position	7,696	41,596	60,135	-	109,427
Total liabilities, deferred inflows and net position	$ 884,431	$ 42,828	$ 72,663	$ (2,544)	$ 997,378

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

Combining Statement of Net Position—Blended Component Units
December 31, 2022 (Restated)
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2022
Assets and Deferred Outflows					
Current assets:					
Cash and cash equivalents	$ 130,020	$ 217	$ 2,949	$ -	$ 133,186
Accounts receivable:					
Patient accounts receivable, net of estimated uncollectibles of $63,383	147,987	-	-	-	147,987
Other	23,413	33	16,333	(4,804)	34,975
Third-party payor settlements	36,996	-	-	-	36,996
Due from related parties, net	4,099	984	1,016	-	6,099
Inventories	11,296	-	-	-	11,296
Prepaid expenses and other current assets	9,450	-	255	-	9,705
Total current assets	363,261	1,234	20,553	(4,804)	380,244
Investments	-	997	13,494	-	14,491
Assets limited as to use:					
Cash and cash equivalents	-	13,679	-	-	13,679
Investments	5,653	14,143	28,946	-	48,742
Receivables, other	-	3,390	61	-	3,451
Total assets limited as to use	5,653	31,212	29,007	-	65,872
Capital assets:					
Nondepreciable	61,654	993	5	-	62,652
Depreciable, net	346,006	-	1,575	-	347,581
Leased assets, net	30,553	-	-	-	30,553
Subscriptions assets, net	23,659	-	-	-	23,659
	461,872	993	1,580	-	464,445
Other assets	3,701	-	-	-	3,701
Total assets	834,487	34,436	64,634	(4,804)	928,753
Deferred outflows	179,082	-	-	-	179,082
Total assets and deferred outflows	$ 1,013,569	$ 34,436	$ 64,634	$ (4,804)	$ 1,107,835

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

Combining Statement of Net Position—Blended Component Units (Continued)
December 31, 2022 (Restated)
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2022
Liabilities, Deferred Inflows and Net Position					
Current liabilities:					
Current maturities of long-term debt	$ 24,583	$ -	$ -	$ -	$ 24,583
Accounts payable	35,680	1,226	9,194	(4,804)	41,296
Third-party payor settlements	10,709	-	-	-	10,709
Accrued expenses:					
Salaries, wages and benefits	100,649	-	1,753	-	102,402
Other	59,649	-	625	-	60,274
Total current liabilities	231,270	1,226	11,572	(4,804)	239,264
Employee benefit obligations:					
Retiree health care program	23,010	-	-	-	23,010
Other employee benefits	16,656	-	-	-	16,656
Long-term debt, net of current maturities	196,467	-	-	-	196,467
Net pension liability	471,641	-	-	-	471,641
Total liabilities	939,044	1,226	11,572	(4,804)	947,038
Deferred inflows	17,255	-	-	-	17,255
Total liabilities and deferred inflows	956,299	1,226	11,572	(4,804)	964,293
Net position:					
Net investment in capital assets	240,822	993	1,580	-	243,395
Restricted:					
Expendable	3,770	27,502	11,809	-	43,081
Nonexpendable	1,883	3,711	17,197	-	22,791
Unrestricted	(189,205)	1,004	22,476	-	(165,725)
Total net position	57,270	33,210	53,062	-	143,542
Total liabilities, deferred inflows and net position	$ 1,013,569	$ 34,436	$ 64,634	$ (4,804)	$ 1,107,835

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

Combining Statement of Revenues, Expenses and Changes in Net Position—Blended Component Units
Year Ended December 31, 2023
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2023
Operating revenues:					
Net patient service revenue, net of provision					
for bad debts of $171,048	$ 1,289,237	$ -	$ -	$ -	$ 1,289,237
Other operating revenue:					
Grants	27,876	15,236	54,320	-	97,432
Other	52,694	848	492	(6,598)	47,436
Net operating revenues	1,369,807	16,084	54,812	(6,598)	1,434,105
Operating expenses:					
Salaries and benefits excluding pension expense	958,866	8,443	23,288	(3,061)	987,536
Supplies and services	324,891	1,430	28,738	(425)	354,634
Depreciation and amortization	61,648	-	554	-	62,202
Utilities and maintenance	45,357	251	1,330	-	46,938
Taxes and surcharges	18,367	-	-	-	18,367
Other	8,063	557	1,500	(3,112)	7,008
Total operating expenses before pension plans, actuarial impact	1,417,192	10,681	55,410	(6,598)	1,476,685
(Loss) income from operations before pension plans, actuarial impact	(47,385)	5,403	(598)	-	(42,580)
Pension plans, actuarial (loss) gain	(16,037)	-	-	-	(16,037)
(Loss) income from operations	(63,422)	5,403	(598)	-	(58,617)
Nonoperating revenue (expense), net:					
Interest expense	(6,086)	-	-	-	(6,086)
Contributions, net	175	-	-	-	175
Investment (loss)	7,621	2,983	7,281	-	17,885
COVID funding	1,883	-	-	-	1,883
Total nonoperating revenue, net	3,593	2,983	7,281	-	13,857
Excess (deficiency) of revenue over expense	(59,829)	8,386	6,683	-	(44,760)
Capital contributions from related parties, net	10,255	-	390	-	10,645
Increase (decrease) in net position	(49,574)	8,386	7,073	-	(34,115)
Total net position, beginning of year	57,270	33,210	53,062	-	143,542
Total net position, end of year	$ 7,696	$ 41,596	$ 60,135	$ -	$ 109,427

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

Combining Statement of Revenues, Expenses and Changes in Net Position—Blended Component Units
Year Ended December 31, 2022 (Restated)
(In Thousands)

	HHS	HHF	HHRI	Eliminations	2022
Operating revenues:					
Net patient service revenue, net of provision for bad debts of $126,499	$ 1,194,466	$ -	$ -	$ -	$ 1,194,466
Other operating revenue:					
Grants	42,623	15,699	53,314	-	111,636
Other	54,149	499	865	(6,301)	49,212
Net operating revenues	1,291,238	16,198	54,179	(6,301)	1,355,314
Operating expenses:					
Salaries and benefits	889,233	13,694	21,420	(3,151)	921,196
Supplies and services	279,587	1,156	25,500	(169)	306,074
Depreciation and amortization	59,620	-	553	-	60,173
Utilities and maintenance	41,468	230	1,365	-	43,063
Taxes and surcharges	17,982	-	-	-	17,982
Other	8,974	293	1,031	(2,981)	7,317
Total operating expenses before pension plans, actuarial impact	1,296,864	15,373	49,869	(6,301)	1,355,805
(Loss) income from operations before pension plans, actuarial impact	(5,626)	825	4,310	-	(491)
Pension plans, actuarial (loss) gain	(30,419)	-	-	-	(30,419)
(Loss) income from operations	(36,045)	825	4,310	-	(30,910)
Nonoperating revenue (expense), net:					
Interest expense	(5,457)	-	-	-	(5,457)
Contributions, net	67	-	-	-	67
Investment (loss)	(5,094)	(3,129)	(7,858)	-	(16,081)
Total nonoperating (expense), net	(10,484)	(3,129)	(7,858)	-	(21,471)
Loss before capital contributions	(46,529)	(2,304)	(3,548)	-	(52,381)
Capital contributions from related parties	11,522	-	360	-	11,882
Decrease in net position	(35,007)	(2,304)	(3,188)	-	(40,499)
Total net position, beginning of year	92,277	35,514	56,250	-	184,041
Total net position, end of year	$ 57,270	$ 33,210	$ 53,062	$ -	$ 143,542