



Consolidated Financial Statements as of and  
for the Years Ended December 31, 2019 and 2018,  
Supplemental Consolidated Federal Award Information  
as of and for the Year Ended December 31, 2019,  
and Independent Auditors' Reports



SANFORD

TABLE OF CONTENTS

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	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	2-3
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018	
Consolidated Balance Sheets	4-5
Consolidated Statements of Operations	6
Consolidated Statements of Changes in Net Assets	7
Consolidated Statements of Cash Flows	8-9
Notes to Consolidated Financial Statements	10-32
SUPPLEMENTAL CONSOLIDATED FEDERAL AWARD INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019	
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	34-35
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	36-37
Consolidated Schedule of Expenditures of Federal Awards	38-52
Notes to Consolidated Schedule of Expenditures of Federal Awards	53-54
Schedule of Findings and Questioned Costs	55-56
Summary Schedule of Prior Year Audit Findings	57

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Sanford  
Sioux Falls, South Dakota

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Sanford and its subsidiaries ("Sanford"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. As disclosed in Note 1 to the consolidated financial statements, Sanford's consolidated financial statements include the operations of the Sanford foundations, the Sanford health plans, and certain other less significant Sanford subsidiaries and affiliates. These entities were audited by us in accordance with generally accepted auditing standards, but were not audited in accordance with *Government Auditing Standards* and, accordingly, are not covered by our reports in accordance with *Government Auditing Standards*.

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

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

### Opinion

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sanford and its subsidiaries as of December 31, 2019 and 2018, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Consolidated Supplemental Schedule of Expenditures of Federal Awards for the year ended December 31, 2019 as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of Sanford's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. This supplementary information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2020, on our consideration of Sanford'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 for the year ended December 31, 2019. 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 internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sanford's internal control over financial reporting and compliance.

*Deloitte & Touche LLP*

April 16, 2020

SANFORD

CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2019 AND 2018

(In thousands)

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 191,994	\$ 109,306
Short-term investments	352,564	85,028
Accounts receivable, less allowances	684,307	557,208
Inventories	105,657	102,790
Other current assets	80,786	70,176
Total current assets	1,415,308	924,508
INVESTMENTS	1,528,362	1,227,667
ASSETS WHOSE USE IS LIMITED	162,983	114,512
PROPERTY AND EQUIPMENT — NET	3,024,996	1,761,594
OTHER ASSETS		
Right of use asset	86,998	-
Investment in joint ventures	38,614	45,298
Non-operating property	127,318	101,104
Goodwill and intangible assets	83,133	57,253
Notes receivable	39,759	35,334
Other assets	70,178	63,295
Total other assets	446,000	302,284
TOTAL ASSETS	\$ 6,577,649	\$ 4,330,565

See notes to consolidated financial statements.

SANFORD

CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2019 AND 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 64,251	\$ 51,096
Current portion of other liabilities	78,592	31,830
Accounts payable	149,415	96,230
Accrued compensation and benefits	285,036	207,000
Medical claims payable	92,207	84,315
Other accruals	95,449	42,796
Total current liabilities	<u>764,950</u>	<u>513,267</u>
OTHER LIABILITIES		
Operating leases	59,517	-
Deferred compensation	173,165	134,513
Defined benefit pension	62,942	61,694
Residential housing deposits	128,169	-
Other non-current liabilities	101,317	77,236
Total other liabilities	<u>525,110</u>	<u>273,443</u>
LONG-TERM DEBT, LESS CURRENT MATURITIES	1,568,304	862,287
Total liabilities	<u>2,858,364</u>	<u>1,648,997</u>
COMMITMENTS AND CONTINGENCIES (NOTE 15)		
NET ASSETS		
Without donor restrictions - controlling interest	3,358,822	2,435,596
Without donor restrictions - non-controlling interest	24,347	-
With donor restrictions	336,116	245,972
Total net assets	<u>3,719,285</u>	<u>2,681,568</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,577,649</u>	<u>\$ 4,330,565</u>

See notes to consolidated financial statements.

SANFORD

CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In thousands)

	2019	2018
<b>OPERATING REVENUES</b>		
Net patient revenue	\$ 3,602,719	\$ 3,373,342
Net resident revenue	832,986	30,274
Premium revenue	979,964	915,077
Other operating revenue	813,308	500,391
Total operating revenues	6,228,977	4,819,084
<b>OPERATING EXPENSES</b>		
Salaries and benefits	3,202,140	2,396,663
Supplies	1,026,106	853,066
Purchased services and other	900,192	597,032
Medical claims	635,482	592,809
Depreciation and amortization	244,971	168,169
Interest	64,905	38,436
Total operating expenses	6,073,796	4,646,175
<b>INCOME FROM OPERATIONS</b>	155,181	172,909
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Investment return (loss)	118,802	(33,860)
Contributions from business combination	785,232	-
Loss on extinguishment of debt	(77,710)	-
Other expenses	(55,391)	(32,931)
Net non-operating income (expense)	770,933	(66,791)
<b>EXCESS OF REVENUES OVER EXPENSES</b>	926,114	106,118
Plus deficiency of revenues over expenses attributable to non-controlling interest	2,563	-
<b>EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO CONTROLLING INTEREST</b>	\$ 928,677	\$ 106,118

See notes to consolidated financial statements.

SANFORD

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
NET ASSETS WITHOUT DONOR		
RESTRICTIONS - CONTROLLING INTEREST		
Excess of revenues over expenses attributable to controlling interest	\$ 928,677	\$ 106,118
Net assets released from restrictions for acquisition of property and equipment	5,058	12,824
Pension plan related changes	<u>(10,509)</u>	<u>4,798</u>
INCREASE IN NET ASSETS WITHOUT DONOR		
RESTRICTIONS - CONTROLLING INTEREST	923,226	123,740
NET ASSETS WITHOUT DONOR		
RESTRICTIONS - NON-CONTROLLING INTEREST		
Deficiency of revenues over expenses	(2,563)	-
Contributions from non-controlling interests	1,909	-
Contributions from business combination	<u>25,001</u>	<u>-</u>
INCREASE IN NET ASSETS WITHOUT DONOR		
RESTRICTIONS - NON-CONTROLLING INTEREST	24,347	-
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	17,449	47,279
Investment return (loss) and other	19,543	(3,610)
Contributions from business combination	77,584	-
Net assets released from restrictions	<u>(24,432)</u>	<u>(25,703)</u>
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	90,144	17,966
INCREASE IN NET ASSETS	<u>1,037,717</u>	<u>141,706</u>
NET ASSETS — BEGINNING OF YEAR	2,681,568	2,539,862
NET ASSETS — END OF YEAR	<u>\$ 3,719,285</u>	<u>\$ 2,681,568</u>

See notes to consolidated financial statements.

SANFORD

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(In thousands)

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 1,037,717	\$ 141,706
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Net realized and unrealized market (gain) loss on investments	(102,953)	65,952
Depreciation and amortization	242,527	168,169
Loss (gain) on sale or property and equipment	2,444	(4,691)
Pension plan related changes	10,509	(4,798)
Loss on extinguishment of debt	77,710	-
Contributions from business combination	(887,817)	-
Contributions into non-controlling interest	(1,605)	-
Contributions restricted for long-lived purposes	(9,071)	(22,376)
Other changes in net assets	(735)	(13,515)
Changes in other operating elements		
Accounts receivable and other assets	(36,790)	(61,632)
Accounts payable and other current liabilities	38,430	(67,042)
Deferred compensation liability	34,371	2,665
Other liabilities	(4,291)	(16,708)
Cash flows from operating activities	<u>400,446</u>	<u>187,730</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Cash and cash equivalents acquired through business combination	130,490	-
Acquisition of property and equipment	(241,387)	(160,962)
Proceeds from sale of property and equipment	27,466	1,212
Purchases of investments and deferred compensation assets	(503,362)	(259,406)
Proceeds from sale of investments and deferred compensation assets	411,852	263,187
Increase in other assets	(4,826)	(12,508)
Cash flows used in investing activities	<u>(179,767)</u>	<u>(168,477)</u>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Proceeds from issuance of short-term bridge loan	655,007	-
Repayment of short-term bridge loan	(655,007)	-
Proceeds from issuance of long-term debt related to extinguishment	736,975	-
Bond premiums related to extinguishment	69,314	-
Extinguishment of long-term debt	(780,706)	-
Advance refunding escrows	(101,833)	-
Repayment of long-term debt	(57,572)	(43,842)
Net decrease of bond discounts, premiums and deferred financing costs	(7,793)	(1,652)
Proceeds from residential housing deposits and annuities issued	20,079	-
Refunds of residential housing deposits	(14,853)	-
Contributions into non-controlling interest	1,605	-
Proceeds from contributions restricted for long-lived purposes	9,071	7,376
Cash flows used in financing activities	<u>(125,713)</u>	<u>(38,118)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>\$ 94,966</u>	<u>\$ (18,865)</u>

(Continued)

SANFORD

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(In thousands)

	<u>2019</u>	<u>2018</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 94,966	\$ (18,865)
CASH AND CASH EQUIVALENTS — BEGINNING OF YEAR	111,680	130,545
CASH AND CASH EQUIVALENTS — END OF YEAR	<u>\$ 206,646</u>	<u>\$ 111,680</u>
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment funded through accounts payable	\$ 10,661	\$ 7,341
Property and equipment funded through long-term debt	4,945	-
Right of use asset financed by operating lease liabilities	14,410	-
In-kind contributions received	-	24,631
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 64,561	\$ 39,092
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash	\$ 191,994	\$ 109,306
Cash equivalents included in other current assets	2,240	1,332
Cash equivalents included in assets whose use is limited	12,412	1,042
	<u>\$ 206,646</u>	<u>\$ 111,680</u>

(Concluded)

See notes to consolidated financial statements.

## SANFORD

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Dollar amounts in thousands)

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#### 1. NATURE OF ORGANIZATION

Sanford is a nonprofit corporation headquartered in Sioux Falls, South Dakota. Sanford and its wholly owned subsidiaries (collectively referred to as Sanford) is a regionally integrated network of physicians, hospitals, senior care, and healthcare management services. Sanford operates general acute care hospitals, critical access hospitals, primary and specialty care clinics, senior care and housing facilities, retail pharmacies, home health and hospice care programs, fully insured health insurance companies, weight management retail stores, research, and foundations supporting health related services. As of December 31, 2019, Sanford employed 1,478 physicians.

On January 1, 2019, Sanford became the sole corporate member of The Evangelical Lutheran Good Samaritan Society (the Society), a North Dakota nonprofit corporation headquartered in Sioux Falls, South Dakota. The Society, together with its affiliates, provides senior care services across the United States and operates skilled nursing facilities, residential housing for seniors, home and community based health services and affordable housing projects. See Note 18 for further information regarding the business combination.

The consolidated financial statements include the accounts of Sanford, which incorporate both tax-exempt and taxable entities. All material intercompany balances and transactions have been eliminated in the consolidation.

**OBLIGATED GROUP** Sanford and certain of its wholly owned entities have entered into a first amended and restated Master Trust Indenture (MTI) dated November 1, 2019. Members of the Obligated Group are jointly and severally obligated for the debt issued and guaranteed under the MTI. Sanford, as Obligated Group Agent, together with the following are members of the Obligated Group as of December 31, 2019:

Sanford Health	Sanford Health Network North
Sanford North	Sanford Home Health
Sanford West	Sanford Living Centers
Sanford Health of Northern Minnesota	Sanford Health Foundation
Sanford Medical Center	Sanford Health Foundation North
Sanford Medical Center Fargo	Sanford Health Foundation West
Sanford Bismarck	Sanford Health Foundation of Northern Minnesota
Sanford Clinic	The Evangelical Lutheran Good Samaritan Foundation
Sanford Clinic North	The Evangelical Lutheran Good Samaritan Society
Sanford Health Network	

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Such estimates include allowances for contractual adjustments and implicit price concessions (bad debts), medical and self-insured claims payable, post-retirement benefit obligations, and fair value measurement of assets and liabilities acquired through the business combination which affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CASH** Cash consists of deposits in banks and does not include any cash equivalents. At times, cash accounts exceeded federally insured limits. Management believes that the institutions where cash accounts are maintained are financially stable and that the credit risk related to deposits is minimal.

**INVENTORIES** Inventories are reported at lower of cost or market. Inventories include supplies, which are generally based on average cost method, and pharmaceuticals, which are based on the first-in, first-out cost method.

**OTHER CURRENT AND NON-CURRENT ASSETS** Other assets consist of prepaid expenses, beneficial interest in life estates, and the current and non-current portion of notes and contributions receivable.

**INVESTMENTS AND INVESTMENT RETURN (LOSS)** Sanford invests in various securities, including debt and equity instruments. Investment securities are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities could occur and such changes could materially affect the value of investments. Investments are stated at fair value of the underlying securities.

Investment return used to fund initiatives is included in other operating revenue. All other investment return (loss), including realized and unrealized gains and losses, are recorded as non-operating income (expense), unless restricted by donors.

**PROPERTY AND EQUIPMENT** Land, land improvements, buildings, equipment (including software), and construction in process are reported at cost or market value at the time of purchase. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Land and land improvements	8-25 years
Buildings	20-40 years
Building equipment	5-25 years
Moveable equipment	3-20 years

Management annually reviews the carrying value of long-lived assets for potential impairment. There were no impairment losses during the years ended December 31, 2019 and 2018.

**NON-OPERATING PROPERTY** Non-operating property consists primarily of real estate held for future development. Real estate is recorded at cost or market value at the time of purchase.

**RIGHT OF USE ASSET AND OPERATING LEASE LIABILITIES** Sanford leases various facilities and equipment under non-cancelable operating leases expiring at various dates through December 2036, and records the corresponding right of use asset and operating lease liabilities on the balance sheet. Right of use asset is calculated as the lease liability plus any prepaid lease payments and initial direct costs, less any lease incentives. Renewal options to extend the lease term that are reasonably certain to be exercised are included in the measurement of leases. Operating lease liabilities are calculated as the present value of the remaining lease payments, discounted at 5.0%. Sanford excludes operating leases with terms of twelve months or less and includes any fixed non-lease components in lease measurement.

**GOODWILL AND INTANGIBLE ASSETS** Goodwill represents any excess of acquisition price over fair value of net assets acquired. The balance was \$58,272 and \$39,302 as of December 31, 2019 and 2018. The annual impairment test was performed resulting in no impairment charges for the years ended December 31, 2019 and 2018. Intangible assets are amortized over the terms of the agreements. The balance, net of accumulated amortization, was \$24,861 and \$17,951 as of December 31, 2019 and 2018.

**NOTES RECEIVABLE** As part of the recruitment process, notes with forgiveness provisions may be issued to certain providers and employees. Notes are repayable over periods varying from one to ten years and are issued at current interest rates. As of December 31, 2019 and 2018, notes receivable from providers and employees totaled \$47,952 and \$47,994, with balances due or to be forgiven within one year reported within other current assets and non-current balances outstanding reflected as notes receivable.

**MEDICAL CLAIMS PAYABLE** Medical claims payable represents the estimated amount payable to non-Sanford healthcare providers and includes claims reported and actuarial estimates of incurred but not reported claims. The liability for these medical benefits reflects management's best estimate and is based on historical payment patterns as well as current utilization and cost trends. Actuarial adjustments are reflected in the operating results in the period in which the change in estimate is identified.

**OTHER LIABILITIES** Current portion of other liabilities and non-current liabilities primarily consist of professional and general liability claims reserves, workers' compensation insurance reserves, deferred revenue, security deposits, asset retirement obligation, accrued taxes and interest, and the current portion of operating leases and residential housing deposits.

**DEFERRED COMPENSATION** Sanford offers management and providers the ability to participate in non-qualified plans created in accordance with applicable provisions of the Internal Revenue Code. The plans permit deferral of salary, and the accumulated deferred compensation balance is not available to employees until a distributable event, as defined within the plan documents. All amounts of compensation deferred under the plans, and all income attributable to those amounts, are solely the property of Sanford until paid or made available to the employee or other beneficiary. The related assets are reported within assets whose use is limited at their fair market value, and the related liabilities are reported as non-current liabilities.

**RESIDENTIAL HOUSING DEPOSITS** Residential housing deposits received in advance for admittance into residential units typically have varying refundable portions based upon time restrictions and vacancy of the unit. The nonrefundable portion of the deposits are amortized into other operating revenue over the life expectancy of the occupant and fully recognized when the occupant vacates the unit.

**NET ASSETS** Net assets not subject to donor imposed stipulations are reflected as net assets without donor restrictions. Net assets with donor restrictions are those whose use has been limited by donors to a specific purpose, period of time, or that must be maintained in perpetuity. Gifts and other resources with restrictions are recorded as direct additions to net assets with donor restrictions.

When a restriction is met, or a donor-imposed restriction changes, net assets are reclassified and reported as net assets released from restrictions within other operating revenue, non-operating expense, or releases for acquisitions of property and equipment. Donor restricted gifts whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

**NON-CONTROLLING INTEREST** Sanford has less than 100% ownership in ten tax credit limited partnerships and Good Samaritan Insurance Plan, LLC. Sanford controls these entities and accordingly has consolidated them into the financial statements for the year ended December 31, 2019. The net assets attributed to the non-controlling partners are reported as net assets without donor restrictions - non-controlling interest on the consolidated balance sheets.

**OPERATING AND NON-OPERATING ACTIVITIES** Income from operations includes all revenues and expenses related to core operations. The primary objective of operations is to meet the healthcare needs of individuals. All activities directly associated with this objective are considered operating activities. Non-operating items primarily include investment return (loss), contributions from business combination, net rental income from non-operating property, and other expenses which consist of loss on extinguishment of debt, contributions, and income taxes.

**CHARITY CARE AND COMMUNITY BENEFITS** Sanford provides care to patients and residents without charge or at amounts less than its established rates regardless of their ability to pay. These patients and residents meet criteria as defined by Sanford's charity care policies. Sanford does not pursue collection of amounts determined to qualify as charity care. Accordingly, these amounts are not reported as net patient revenue or net resident revenue. The total cost of charity care (estimated by applying an overall cost to charge ratio to the charges incurred) was \$90,581 and \$87,431 for the years ended December 31, 2019 and 2018.

Sanford also provides a variety of services and benefits designed to improve the health in the communities served. These benefits include education and promotion of health activities, civic involvement, community funding, and medical research.

**PREMIUM REVENUE** Premium revenue represents gross premiums earned in the year for which fully insured services are covered. Premium revenue includes amounts paid by employer groups and individual members, as well as state and federal governments. Premiums are contractual and are recognized in the coverage period in which members are entitled to receive healthcare services. Premiums received in advance of a coverage period are recorded as other accrued liabilities.

**OTHER OPERATING REVENUE** Other operating revenue is primarily generated by pharmacies, reference labs, mobile diagnostic services, and various other retail or rental operations and are recognized when services are performed or products are delivered. Other operating revenue also includes contributions without donor restrictions.

**INTEREST EXPENSE** Interest expense includes interest costs incurred on borrowed funds (net of interest income earned on investments held by trustee under bond indenture agreements), deferred financing costs, and fees paid to maintain assets held by trustees under indenture, remarketing, and liquidity facility agreements. Deferred financing costs are amortized over the period the obligation is outstanding using the effective interest method. Interest costs are capitalized during the construction of capital assets as a component of the cost of acquiring those assets, of which no interest costs were capitalized in the years ended December 31, 2019 and 2018.

**INCOME TAXES** Certain wholly owned subsidiaries are subject to income taxes. Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting basis of assets and liabilities based on enacted tax rates and laws. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination.

The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. Deferred tax assets of \$4,761 and \$7,626 have been recorded in other assets and deferred tax liabilities of \$55 and \$89 have been recorded as other non-current liabilities as of December 31, 2019 and 2018.

The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported. Sanford paid an insignificant amount of federal and state income taxes for the years ended December 31, 2019 and 2018.

**NEW ACCOUNTING PRONOUNCEMENTS** In May 2014, the Financial Accounting Standards Board (FASB) issued *Revenue from Contracts with Customers* (Accounting Standards Update (ASU) No. 2014-09), which provides a framework for the recognition of revenue, with the objective that recognized revenue properly reflect amounts an entity is entitled to receive in exchange for goods and services. This guidance, which includes additional disclosure requirements regarding revenue and obligations related to contracts with customers, was effective for Sanford on January 1, 2018. The presentation of the financial statements and respective note disclosure in Note 3 has been adjusted to comply with this standard using a modified retrospective method of application. The most significant impact is presentation of the statement of operations, where the provision for bad debts is now reflected as a direct reduction to net patient and resident revenue and is no longer presented as a separate line item. The standard does not significantly impact how Sanford accounts for net patient revenue, net resident revenue, and other operating revenue and does not apply to the recognition of premium revenue.

In May 2015, the FASB issued *Fair Value Measurement* (ASU 2015-07, Topic 820): *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, which removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value (NAV). This guidance was adopted by Sanford on January 1, 2018 and the presentation of the fair value footnote disclosure has been adjusted to comply with this standard.

In August 2016, the FASB issued *Presentation of Financial Statements of Not-For-Profit Entities* (ASU No. 2016-14), which simplifies and improves how not-for-profit entities classify net assets as well as the information presented in the financial statements and notes about liquidity, financial performance and cash flows. This guidance was effective for Sanford on January 1, 2018, and the presentation of the financial statements Notes 2, 16, and 17 have been adjusted and Note 5 has been added to comply with this standard.

In March 2017, the FASB issued *Compensation-Retirement Benefits* (ASU 2017-07, Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires an employer to report the service cost component in the same line item as other compensation costs arising from services rendered by employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented separately from the service cost component and outside income from operations. This guidance was effective for Sanford on January 1, 2018 and did not significantly affect the financial statements.

In February 2016, the FASB issued *Leases* (ASU No. 2016-02), which is intended to improve financial reporting related to leasing transactions, and in July 2018, the FASB issued *Leases, Targeted Improvements to ASC 842* (ASU 2018-11), which provides relief of implementing certain components of the new lease guidance. Through adoption of this guidance, effective January 1, 2019, Sanford elected the practical expedient package under ASC 842 which allows Sanford to dismiss reassessment of pre-existing contracts entered into prior to January 1, 2019 for determination if those contracts contain lease arrangements defined under the new guidance. Sanford also elected the practical expedient for combining lease and fixed non-lease components in lease measurement. As such, Sanford has measured all existing operating leases as of January 1, 2019 and applied the new guidance to any new contracts entered into after January 1, 2019, resulting in initial recognition of \$93,404 right of use asset (net of deferred lease expense) and corresponding operating lease liabilities. Sanford did not restate prior year to incorporate the new lease guidance as allowed under ASU 2018-11. Accordingly, the lease guidance was only applied to the presentation of the balance sheet as of December 31, 2019 and Note 11 has been added to comply with this standard.

In November 2016, the FASB issued *Restricted Cash* (ASU No. 2016-18), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance was effective for Sanford on January 1, 2019. As a result of the standard, Sanford has included cash equivalents within other current assets and assets whose use is limited with cash when reconciling the beginning of year and end of year amounts shown on the statement of cash flows.

In January 2017, the FASB issued *Business Combinations* (ASU No. 2017-01) effective January 1, 2019 for Sanford, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of businesses. Sanford has evaluated and concluded that this standard does not significantly impact how Sanford reflects business combinations within its financial statements.

**RECLASSIFICATIONS** Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on the reported results of operations and are immaterial in nature.

**SUBSEQUENT EVENTS** In March 2020, the World Health Organization declared the outbreak of novel coronavirus disease (COVID-19) as a pandemic. Sanford expects operations to be affected as the virus continues to proliferate and continues to monitor the situation closely. In light of the uncertainty as to the severity and duration of the pandemic, the impact on Sanford's future operating performance and balance sheet is uncertain at this time.

Sanford has evaluated subsequent events through April 16, 2020, the date this report was issued, and no additional significant events have been identified.

### **3. NET PATIENT REVENUE, NET RESIDENT REVENUE, AND ACCOUNTS RECEIVABLE**

Net patient revenue and net resident revenue is reported at estimated net realizable amounts from patients, residents, third-party payors, and others that Sanford expects to receive in exchange for providing patient and resident care. Sanford determines performance obligations based on the nature of the services provided. Revenue is recognized when those services are rendered and the patient, resident, or third-party payor is billed, usually in advance or within several days of service or discharge. For services provided over a period of time, such as inpatients receiving acute care services or residents receiving post-acute care services, revenue recognition begins when the patient or resident is admitted and concludes at the time of discharge. Remaining performance obligations relating to inpatient acute care services or resident post-acute care services as of December 31, 2019 will be satisfied in full in 2020. As a result, Sanford has applied the optional exemption provided in ASC 606-10-50-14(a) and is not required to disclose these amounts.

The initial estimate of net patient and resident revenue is determined by reducing the gross charge by contractual adjustments arising from various reimbursement arrangements with third-party payors and implicit price concessions (bad debts) provided to self-pay patients or residents for their respective responsibility. As a practical expedient, Sanford has elected to account for third-party payor, patient, and resident contracts as collective groups rather than individual contracts. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Sanford grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. Sanford participates in Medicare, Medicaid, Blue Cross and other third-party payor programs. Contractual adjustments are accrued on an estimated basis in the period in which the services are rendered based on the respective contractual agreements and historical experience. Certain reimbursement arrangements are subject to retroactive audit, and as a result, there is a reasonable possibility that recorded estimates could change upon audit. Differences between amounts estimated and final settlements are included in operations in the year in which the differences become known.

Generally, patients and residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which Sanford estimates the corresponding ability to collect based on historical experience, current market conditions, and information gathered based on the patient or resident's ability to pay. Subsequent changes as a result of adverse changes in the patient or resident's ability to pay are recorded as bad debt expense within operating expenses. Subsequent changes to allowance for bad debts estimates for the years ended December 31, 2019 and 2018 were not material.

As part of Sanford's self-insured health plan benefit, net patient revenue of \$98,550 and \$102,193 was recognized for the years ended December 31, 2019 and 2018.

The percentage of net patient revenue, net resident revenue and net accounts receivable as of and for the years ended December 31 was as follows:

	Patient		Resident	
	2019	2018	2019	2018
Net revenue				
Medicare	33.0 %	33.3 %	15.2 %	0.2 %
Medicaid	10.3	10.1	45.6	59.7
Blue Cross	28.7	28.8	0.0	0.0
Other third-party payors	25.9	25.6	7.6	4.9
Self-pay and other	2.1	2.2	31.6	35.2
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
Net accounts receivable				
Medicare	24.5 %	24.4 %	16.7 %	8.7 %
Medicaid	10.0	8.4	40.8	61.8
Blue Cross	21.6	22.6	0.0	0.0
Other third-party payors	28.0	28.7	25.0	15.2
Self-pay and other	15.9	15.9	17.5	14.3
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

#### 4. **FAIR VALUE MEASUREMENTS**

In accordance with the authoritative guidance, assets and liabilities recorded at fair value in the financial statements are categorized, for disclosure purposes, based upon whether the inputs used to determine their fair values are observable or unobservable. The authoritative guidance establishes a three-level value hierarchy for disclosure of fair value measurements that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under the FASB ASC 820 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Sanford has the ability to access.
- Level 2 Inputs to the valuation methodology include directly or indirectly observable inputs other than Level 1 inputs, such as quoted prices for similar instruments in active or inactive markets, quoted prices for identical instruments in inactive markets, or inputs that are observable or can be corroborated by observable market data. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and are related to the instruments that are supported by little or no market activity using pricing models, discounted cash flow methodologies, or similar valuation techniques.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Sanford's policy for recording transfers is at the end of the period for which the transfer happened. There were no transfers between levels during the years ended December 31, 2019 and 2018.

The following is a description of the valuation methodologies used for assets measured at fair value.

Financial assets include short-term investments, debt service funds and security deposits in other current assets, investments, and assets whose use is limited and are recorded at their estimated fair value. Fair values of debt and equity securities are based on quoted market prices, where available. Information is obtained from custodians of the financial instruments and their third-party pricing services to establish fair value, which generally uses quoted or other observable inputs for the determination of fair value. The information is reviewed, and for many instruments whose pricing inputs are readily observable in the market, the valuation methodology is accepted by market participants and involves little to no judgment. For instruments whose pricing inputs are less observable in the marketplace, inputs can be subjective in nature and involve uncertainties. Management uses this information to distribute the instruments among the three-level hierarchy.

Changes in the reported market values and returns are compared to relevant market indices to test the reasonableness of the reported fair values of the underlying debt and equity securities. This internal review of fair value methodology has not historically resulted in adjustment in the process obtained from the custodians.

Fair values of debt securities that do not trade on a regular basis in active markets but are priced using other observable inputs are classified as Level 2.

Fair value estimates for Level 1 and Level 2 equity securities are based on quoted market prices for actively traded equity securities or other market data for the same or comparable instruments and transactions in establishing the prices. Generally, Level 2 fixed income securities are valued based on quoted prices for similar instruments, including the assets held in the defined benefit plans as referenced in Note 12. There were no financial assets recorded at fair value classified as Level 3 as of December 31, 2019 and 2018.

Financial assets measured at fair value, as of December 31, are summarized in the following tables:

	2019		
	Level 1	Level 2	Total
Assets			
Money market funds	\$ 147,337	\$ -	\$ 147,337
Certificates of deposit	-	36,571	36,571
Equity mutual and exchange traded funds	126,847	-	126,847
Mutual funds (related to deferred compensation)	150,571	-	150,571
Fixed income mutual and exchange traded funds	413,089	-	413,089
U.S. government securities	36,256	-	36,256
Government sponsored enterprise securities	-	51,395	51,395
Government sponsored enterprise mortgage backed securities	-	13,757	13,757
Corporate debt securities	-	625,249	625,249
Municipal bonds	-	330,015	330,015
Other	-	16,662	16,662
Total assets valued at fair value	<u>\$ 874,100</u>	<u>\$ 1,073,649</u>	<u>1,947,749</u>
Investments recorded at fair value based on net asset value			98,400
			<u>\$ 2,046,149</u>
Assets reported as			
Short-term investments			\$ 352,564
Investments			1,528,362
Assets whose use is limited			
Debt service funds and security deposits in other current assets			2,240
Deferred compensation funds			150,571
Affordable housing and other reserves			8,452
Affordable housing escrowed and other trusteed funds			2,617
Resident funds			1,343
			<u>\$ 2,046,149</u>

	2018		
	Level 1	Level 2	Total
Assets			
Money market funds	\$ 57,287	\$ -	\$ 57,287
Certificates of deposit	-	1,837	1,837
Equity mutual and exchange traded funds	84,393	-	84,393
Mutual funds (related to deferred compensation)	113,470	-	113,470
Fixed income mutual and exchange traded funds	318,839	-	318,839
U.S. government securities	16,469	-	16,469
Government sponsored enterprise securities	-	15,112	15,112
Government sponsored enterprise mortgage backed securities	-	14,448	14,448
Corporate debt securities	-	366,204	366,204
Municipal bonds	-	347,253	347,253
Other	-	15,582	15,582
Total assets valued at fair value	<u>\$ 590,458</u>	<u>\$ 760,436</u>	<u>1,350,894</u>
Investments recorded at fair value based on net asset value			<u>77,645</u>
			<u>\$ 1,428,539</u>
Assets reported as			
Short-term investments			\$ 85,028
Investments			1,227,667
Assets whose use is limited			
Debt service funds in other current assets			1,332
Deferred compensation funds			113,470
Affordable housing escrowed and other trusteed funds			1,042
			<u>\$ 1,428,539</u>

The carrying value of contributions receivable and notes receivable approximates fair value.

Fixed rate long-term debt is carried at historical cost, and the fair value is determined by discounting future cash flows at current rates for the debt with similar risks and maturities, a Level 2 measurement. See fair value disclosed in Note 14.

A portion of Sanford's investment portfolio is in alternative investments, which are not readily marketable and are valued at net asset value (NAV). Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, Sanford has concluded that the NAV approximates fair value. The calculation of NAV for certain alternative investment holdings use market valuation techniques that include operating performance, market, and cost approaches relying heavily on management assumptions and qualitative observations.

These alternative investments include domestic and global equities and real estate private equity funds. Domestic and global equities includes investments in certain domestic and global healthcare technologies and companies. Real estate investments include a diversified portfolio primarily focused on opportunities in the acquisition, development, redevelopment, operation, and management of real estate properties, primarily in the hospitality industry.

As of December 31, alternative investments recorded at NAV consisted of the following:

	NAV		Unfunded Commitments	
	2019	2018	2019	2018
Domestic and global equities	\$ 73,755	\$ 55,341	\$ 9,308	\$ 3,735
Real estate private equities	24,645	22,304	-	-
	<u>\$ 98,400</u>	<u>\$ 77,645</u>	<u>\$ 9,308</u>	<u>\$ 3,735</u>

There are limited provisions for Sanford to liquidate these alternative investments. In addition, there are additional unfunded commitments not disclosed above that are contingent upon the respective entity's successful completion of certain progress activities.

## 5. LIQUIDITY AND AVAILABILITY

As part of Sanford's cash management policy, cash and investments feature a high degree of safety and liquidity to support general expenditures and debt service within one year in the normal course of operations. Financial assets available within one year as of December 31 consisted of the following:

	<u>2019</u>	<u>2018</u>
Cash	\$ 191,994	\$ 109,306
Short-term investments	352,564	85,028
Accounts receivable, less allowances	684,307	557,208
Debt service funds in other current assets	1,742	1,332
Notes and contributions receivable in other current assets	22,693	23,697
Investments, less alternative investments	<u>1,429,962</u>	<u>1,150,022</u>
	<u>\$ 2,683,262</u>	<u>\$ 1,926,593</u>

Although Sanford has net assets with donor restrictions that are generally supported by liquid financial assets, the respective financial assets are also available for general expenditure within one year in the normal course of operations and accordingly have been included in the summary above. Financial assets such as assets whose use is limited and non-current notes and contributions receivable are not available for general expenditure and debt service within the next year and are not reflected in the amounts above.

As of December 31, 2019 and 2018, Sanford is in compliance with bond covenants as disclosed in Note 14.

## 6. INVESTMENT RETURN (LOSS)

The following schedule summarizes investment return (loss) and its classification in the consolidated statements of operations and changes in net assets for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Without donor restrictions - other operating revenue		
Dividend and interest income	\$ 32,723	\$ 32,854
Without donor restrictions - non-operating income (expense)		
Dividend and interest income	32,248	24,752
Net realized gain (loss) on sales of investments	3,876	(4,056)
Unrealized gain (loss)	<u>82,678</u>	<u>(54,556)</u>
	<u>118,802</u>	<u>(33,860)</u>
With donor restrictions		
Dividend and interest income	3,336	2,739
Net realized gain on sales of investments	365	2,051
Unrealized gain (loss)	<u>16,034</u>	<u>(9,391)</u>
	<u>19,735</u>	<u>(4,601)</u>
	<u>\$ 171,260</u>	<u>\$ (5,607)</u>

7. **PROPERTY AND EQUIPMENT**

Property and equipment as of December 31 consisted of the following:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 516,255	\$ 239,935
Buildings	3,452,840	1,589,277
Building equipment	413,892	385,861
Movable equipment	1,471,250	1,124,906
Construction in process	107,829	59,983
	<u>5,962,066</u>	<u>3,399,962</u>
Accumulated depreciation	(2,937,070)	(1,638,368)
	<u>\$ 3,024,996</u>	<u>\$ 1,761,594</u>

8. **INVESTMENT IN JOINT VENTURES**

Sanford records investments in joint ventures using the equity method, which reflects the investment at cost, net of Sanford's share of earnings, losses and distributions. Earnings and losses are included in other non-operating expense. As of December 31, 2019 and 2018, investments in joint ventures totaled \$38,614 and \$45,298 and consisted of organizations in which Sanford's ownership interest ranges from 10% to 50%. The collective financial position of the joint ventures as of December 31 is approximately as follows:

	<u>2019</u>	<u>2018</u>
Total assets	\$ 135,436	\$ 134,262
Total operating revenues	88,751	117,950
Loss from operations	(2,247)	(115)

As a result of the business combination, Sanford Good Samaritan Community Health Services, LLC became wholly owned and therefore is no longer classified as a joint venture for the year ended December 31, 2019.

Sanford's share of net losses, new equity contributions, and distributions received from joint ventures are summarized for the years ended December 31 as follows:

	<u>2019</u>	<u>2018</u>
Net loss on investments in joint ventures	\$ (2,271)	\$ (1,118)
New equity contributions into joint ventures	3,284	5,599
Distributions received from joint ventures	1,177	1,006

## 9. CONTRIBUTIONS RECEIVABLE

Contributions are recorded at the time an unconditional promise to give is received and are discounted at rates ranging from 0.64% to 5.00%. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

Contributions receivable as of December 31 consisted of the following:

	<u>2019</u>	<u>2018</u>
Contributions maturities		
Within one year	\$ 6,057	\$ 7,642
One to five years	9,932	13,493
Thereafter	2,821	9,768
	<u>18,810</u>	<u>30,903</u>
Less present value discount and uncollectible allowance	(1,463)	(6,655)
	<u>\$ 17,347</u>	<u>\$ 24,248</u>
Contributions restrictions		
Without donor restrictions	\$ 3,013	\$ 5,073
With donor restrictions	14,334	19,175
	<u>\$ 17,347</u>	<u>\$ 24,248</u>

## 10. MEDICAL CLAIMS PAYABLE

As of December 31, 2019, the estimated medical claims payable of \$92,207 includes \$91,694 for current year claims and \$513 for prior year claims. The estimated claims payable as of December 31, 2018 was \$84,315, of which \$68,282 has since been paid creating favorable prior year claims development of \$15,520 as a result of lower utilization.

Claims activity, net of reinsurance, during the years ended December 31, was as follows:

	<u>2019</u>		
	<u>Current Year Incurred Claims</u>	<u>Prior Year Incurred Claims</u>	<u>Total Incurred Claims</u>
Beginning of year claims payable	\$ -	\$ (84,315)	\$ (84,315)
Paid claims	553,229	68,282	621,511
Retrospective contract reserves	6,079	-	6,079
End of year claims payable	<u>91,694</u>	<u>513</u>	<u>92,207</u>
Total medical claims expense	<u>\$ 651,002</u>	<u>\$ (15,520)</u>	<u>\$ 635,482</u>
	<u>2018</u>		
	<u>Current Year Incurred Claims</u>	<u>Prior Year Incurred Claims</u>	<u>Total Incurred Claims</u>
Beginning of year claims payable	\$ -	\$ (92,285)	\$ (92,285)
Paid claims	516,575	80,261	596,836
Retrospective contract reserves	3,943	-	3,943
End of year claims payable	<u>82,805</u>	<u>1,510</u>	<u>84,315</u>
Total medical claims expense	<u>\$ 603,323</u>	<u>\$ (10,514)</u>	<u>\$ 592,809</u>

## 11. OPERATING LEASES

Future payments due under operating leases are as follows:

Years ending December 31,	
2020	\$ 27,521
2021	19,641
2022	15,642
2023	8,914
2024	4,794
Thereafter	29,863
	<hr/> 106,375
Less present value discounts	(18,976)
	<hr/> <hr/> \$ 87,399

The weighted-average remaining lease term for operating leases is 6.6 years. Lease expense associated with operating leases was \$28,419 and \$36,499 for the years ended December 31, 2019 and 2018.

## 12. PENSION PLANS

**DEFINED CONTRIBUTION RETIREMENT PLANS** Sanford has defined contribution retirement plans that are available to all eligible employees who do not participate in a defined benefit pension plan. Employer contributions are based on a percentage of annual compensation and employee level of contributions. Employee and employer contributions are deposited with the plan trustee who invests the plan assets. Defined contribution retirement costs of \$95,030 and \$77,824 were recognized as part of salaries and benefits for the years ended December 31, 2019 and 2018.

**DEFINED BENEFIT PENSION PLANS** Sanford has defined benefit pension plans that provide benefits based on years of service and compensation (the "Master Plan and the "Bismarck Plan"). The plans are closed to new participants; however, each plan has active employees accruing benefits.

**OBLIGATION AND FUNDED STATUS** Defined benefit pension obligations and funded status are measured as of December 31, and changes for the years then ended are as follows:

	Master Plan		Bismarck Plan	
	2019	2018	2019	2018
<b>Change in benefit obligation</b>				
Benefit obligation, beginning of year	\$ 203,627	\$ 218,699	\$ 121,628	\$ 127,604
Service cost	1,189	1,385	1,167	1,375
Interest cost	8,521	8,264	5,153	4,943
Actuarial loss (gain)	24,387	(14,471)	17,662	(6,279)
Benefits paid	(10,693)	(10,250)	(5,961)	(6,015)
Benefit obligation, end of year	<u>\$ 227,031</u>	<u>\$ 203,627</u>	<u>\$ 139,649</u>	<u>\$ 121,628</u>
<b>Change in plan assets</b>				
Fair value of plan assets, beginning of year	\$ 163,804	\$ 170,393	\$ 99,757	\$ 107,569
Actual gain (loss) on plan assets	25,915	(5,579)	17,776	(5,397)
Employer contributions	9,240	9,240	3,900	3,600
Benefits paid	(10,693)	(10,250)	(5,961)	(6,015)
Fair value of plan assets, end of year	<u>\$ 188,266</u>	<u>\$ 163,804</u>	<u>\$ 115,472</u>	<u>\$ 99,757</u>
<b>Funded status</b>				
Benefit obligation in excess of plan assets	<u>\$ 38,765</u>	<u>\$ 39,823</u>	<u>\$ 24,177</u>	<u>\$ 21,871</u>
<b>Amounts recognized in net assets without donor restrictions consisting of net actuarial loss</b>				
	<u>\$ 63,732</u>	<u>\$ 59,026</u>	<u>\$ 16,574</u>	<u>\$ 10,771</u>
<b>Accumulated benefit obligation</b>				
	<u>\$ 223,465</u>	<u>\$ 200,535</u>	<u>\$ 133,507</u>	<u>\$ 116,627</u>
<b>Weighted average of assumptions used to determine end of year obligations</b>				
Discount rate	3.30 %	4.30 %	3.35 %	4.30 %
Rate of compensation increase	3.00 %	3.00 %	3.00 %	3.00 %

**COMPONENTS OF NET PERIODIC PENSION COST**

	Master Plan		Bismarck Plan	
	2019	2018	2019	2018
Service cost	\$ 1,189	\$ 1,385	\$ 1,167	\$ 1,375
Interest cost	8,521	8,264	5,153	4,943
Expected return on plan assets	(10,401)	(10,062)	(5,917)	(6,167)
Amortization of actuarial loss	4,167	5,110	-	-
Net periodic pension cost	<u>\$ 3,476</u>	<u>\$ 4,697</u>	<u>\$ 403</u>	<u>\$ 151</u>
<b>Weighted average of assumptions used to determine net periodic cost</b>				
Discount rate	4.30 %	4.20 %	4.30 %	4.20 %
Plan assets expected long-term rate of return	6.00 %	6.00 %	6.00 %	6.00 %
Rate of compensation increase	3.00 %	3.00 %	3.00 %	3.00 %

The above assumptions were established by working with an independent actuary.

**PLAN ASSETS** The pension plan weighted-average asset allocations by asset category as of December 31, was as follows:

	Master Plan		Bismarck Plan	
	2019	2018	2019	2018
Equity investments	34 %	30 %	33 %	30 %
Debt investments	63	66	67	70
Cash equivalents	3	4	-	-
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Sanford's policy is to maintain a balanced mix between debt and equity investments in order to maximize its long-term rate of return while producing cash flows required for benefit payments. The expected long-term rate of return for all plans is based on historical experience and management believes this will be an appropriate rate of return going forward.

Financial assets of the qualified plans were measured at fair value on a recurring basis as of December 31 and are summarized in the following tables by type of inputs (see Note 4) applicable to the fair value measurements:

	2019 - Master Plan			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 4,830	\$ -	\$ -	\$ 4,830
Certificates of deposit	-	807	-	807
Equity mutual and exchange traded funds	63,225	-	-	63,225
Fixed income mutual and exchange traded funds	27,846	-	-	27,846
U.S. government securities	9,555	-	-	9,555
Government sponsored enterprise securities	-	11,029	-	11,029
Government sponsored enterprise mortgage backed securities	-	4,716	-	4,716
Corporate debt securities	-	38,246	-	38,246
Municipal bonds	-	27,103	-	27,103
Accrued earnings	-	909	-	909
	<u>\$ 105,456</u>	<u>\$ 82,810</u>	<u>\$ -</u>	<u>\$ 188,266</u>

	2019 - Bismarck Plan			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 382	\$ -	\$ -	\$ 382
Equity mutual and exchange traded funds	37,907	-	-	37,907
Fixed income mutual and exchange traded funds	77,183	-	-	77,183
	<u>\$ 115,472</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,472</u>

2018 - Master Plan				
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 6,239	\$ -	\$ -	\$ 6,239
Certificates of deposit	-	759	-	759
Equity mutual and exchange traded funds	49,200	-	-	49,200
Fixed income mutual and exchange traded funds	23,922	-	-	23,922
U.S. government securities	8,011	-	-	8,011
Government sponsored enterprise securities	-	8,702	-	8,702
Government sponsored enterprise mortgage backed securities	-	4,027	-	4,027
Corporate debt securities	-	33,100	-	33,100
Municipal bonds	-	28,930	-	28,930
Accrued earnings	-	914	-	914
	<u>\$ 87,372</u>	<u>\$ 76,432</u>	<u>\$ -</u>	<u>\$ 163,804</u>

2018 - Bismarck Plan				
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 486	\$ -	\$ -	\$ 486
Equity mutual and exchange traded funds	29,537	-	-	29,537
Fixed income mutual and exchange traded funds	69,734	-	-	69,734
	<u>\$ 99,757</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,757</u>

Sanford expects to recognize \$7,039 of amortization of net actuarial loss during 2020.

**BENEFIT PAYMENTS** The following benefits are expected to be paid:

	Master Plan	Bismarck Plan
Years ending December 31,		
2020	\$ 11,520	\$ 6,305
2021	12,012	6,545
2022	12,487	6,815
2023	12,873	7,133
2024	13,144	7,469
Thereafter	67,154	40,498
	<u>\$ 129,190</u>	<u>\$ 74,765</u>

The expected contributions to be made for the defined benefit plans for the year ending December 31, 2020 are \$9,240 for the Master Plan and \$3,300 for the Bismarck Plan.

### 13. RESIDENTIAL HOUSING DEPOSITS

Residential housing deposits as of December 31 consisted of the following:

	2019
Refundable portion	\$ 123,291
Non-refundable portion	20,058
Total residential housing deposits	<u>143,349</u>
Less current portion	<u>(15,180)</u>
	<u>\$ 128,169</u>

#### 14. LONG-TERM DEBT

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

	<u>2019</u>	<u>2018</u>
Bonds payable	\$ 1,480,144	\$ 850,690
Notes payable	21,081	27,602
Affordable housing	37,369	-
Finance lease obligations	3,964	5,091
Net unamortized bond premiums and deferred financing costs	<u>89,997</u>	<u>30,000</u>
Total debt	1,632,555	913,383
Less current maturities	<u>(64,251)</u>	<u>(51,096)</u>
	<u>\$ 1,568,304</u>	<u>\$ 862,287</u>

Bonds payable as of December 31, 2019 consisted of the following:

	<u>Interest Structure</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Outstanding Principal</u>
Obligated Group				
Series 1997	Variable	1.99%	November 2027	\$ 3,550
Series 2000	Variable	1.99%	November 2025	1,765
Series 2001B	Variable	1.99%	November 2020	4,220
Series 2004B	Variable	1.50%	November 2034	13,710
Series 2010	Fixed	4.71%	December 2025	1,942
Series 2011	Fixed	5.00% to 6.25%	November 2031	82,055
Series 2012A	Fixed	2.74%	September 2024	19,325
Series 2012B	Fixed	2.88%	September 2031	27,495
Series 2012C	Fixed	3.46%	September 2024	3,090
Series 2012D	Fixed	2.64%	September 2032	32,150
Series 2012E	Fixed	4.00% to 5.00%	November 2042	120,000
Series 2014A	Fixed	4.00%	November 2034	52,000
Series 2014B	Fixed	4.00% to 5.00%	November 2044	172,685
Series 2015	Fixed	4.00% to 5.00%	November 2045	163,505
Series 2016	Fixed	1.92%	November 2026	35,000
Series 2019A	Fixed	4.00% to 5.00%	November 2049	352,375
Series 2019B	Fixed	2.08% to 3.85%	November 2049	384,600
North Country Senior Living				
Series 2008	Fixed	5.15%	December 2038	4,266
Series 2009	Fixed	5.15%	December 2038	6,411
				<u>\$ 1,480,144</u>

Notes payable as of December 31, 2019 consisted of the following:

	<u>Interest Structure</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Outstanding Principal</u>
Obligated Group				
Bank notes	Fixed	3.00% to 5.60%	March 2021	\$ 3,026
Other	Fixed	0.00% to 2.85%	June 2031	16,246
Non-Obligated group				
Bank notes	Fixed	6.15%	October 2043	1,809
				<u>\$ 21,081</u>

Fixed rate long-term debt is carried at historical cost, and the fair value is determined by discounting future cash flows at current rates for the debt with similar risks and maturities.

All note obligations related to bond issues are secured by security interests in gross receipts excluding gifts, grants, bequests, donations, and contributions which are designated as to purpose.

During 2019, Sanford obtained a bridge loan to advance refund outstanding bonds of the Society under federal income tax guidance for acquisition financing. In November 2019, Series 2019A tax-exempt bonds and Series 2019B taxable bonds were issued in the aggregate principal amount of \$736,975 to refinance the bridge loan and other debt of Sanford. The refundings resulted in a \$77,710 loss on extinguishment of debt reflected in other non-operating income (expense) in the statements of operations.

The Obligated Group has obtained liquidity facilities related to \$945 of the Series 1997 Note Obligations and the Series 2001B Note Obligation in the form of Standby Bond Purchase Agreements with The First National Bank in Sioux Falls. Under the Standby Bond Purchase Agreements, The First National Bank in Sioux Falls is required, subject to certain conditions, to purchase the Series 1997 and Series 2001B Bonds that have been tendered for purchase and not remarketed, unless the Obligated Group has provided sufficient funds to pay the purchase price. The Standby Bond Purchase Agreements are renewable annually within 45 days of issuance of the audited consolidated financial statements and will expire November 1, 2021. The Obligated Group is providing its own internal liquidity support for \$2,605 of the Series 1997 Note Obligations and the Series 2000 Note Obligation in the event respective bonds are tendered for purchase and not remarketed. Principal in the amount of \$6,953 and \$8,483 as of December 31, 2019 and 2018 related to these obligations has been classified as a current maturity of long-term debt.

Payment of the principal of the Series 2004B Note Obligations plus up to 60 days interest are secured by an irrevocable direct payment letter of credit, issued by U.S. Bank National Association, at the request of the Obligated Group. Draws on the letter of credit are due 367 days after the draw. The letter of credit expires November 1, 2024.

Affordable housing primarily includes mortgages financed or insured by the U.S. Department of Housing and Urban Development.

Debt agreements contain various restrictive covenants related to profitability, financial position and additional indebtedness, among others, as defined in the agreements. Sanford was in compliance with financial covenants as of December 31, 2019 and 2018.

Scheduled principal payments of long-term debt as of December 31, 2019 are as follows:

	<u>Bonds Payable</u>	<u>Notes Payable</u>	<u>Affordable Housing</u>	<u>Lease Obligations</u>	<u>Total</u>
Years ending December 31,					
2020	\$ 49,763	\$ 4,727	\$ 698	\$ 1,351	\$ 56,539
2021	49,841	2,455	907	1,392	54,595
2022	51,570	2,327	938	1,434	56,269
2023	53,328	2,334	970	727	57,359
2024	54,359	2,341	1,002	-	57,702
Thereafter	1,221,283	6,897	32,854	-	1,261,034
Less interest	-	-	-	(940)	(940)
	<u>\$ 1,480,144</u>	<u>\$ 21,081</u>	<u>\$ 37,369</u>	<u>\$ 3,964</u>	<u>\$ 1,542,558</u>

## 15. COMMITMENTS AND CONTINGENCIES

**PROFESSIONAL LIABILITY** Sanford carries professional and general liability insurance through a combination of self-insured retention and commercial insurance carriers. The current claims made policy provides for a self-insured retention for both professional and general liability with a \$14,000 annual aggregate as of December 31, 2019.

Excess coverage of \$80,000 is provided by various carriers and layers. The excess coverage provides a dedicated excess limit of coverage for professional and general liability claims from other liability coverage, such as workers' compensation, aviation, auto and ambulance liability, all of which are covered by the excess insurance program.

**WORKERS' COMPENSATION** Sanford has limited its losses to a maximum of \$1,000 of any one workers' compensation occurrence. Amounts accrued as current portion of other liabilities and other non-current liabilities and charged to expense include plan expenses and estimated losses of claims incurred that will be paid based on prior claims experience. North Dakota Sanford sites are insured through the state operated North Dakota Workforce Safety and Insurance program.

**GROUP HEALTH INSURANCE BENEFIT** For eligible employees who elect to participate, Sanford provides a self-funded insurance program for health benefits. Sanford accrues expense equal to its portion of estimated plan liabilities and has limited its losses on individual claims to \$1,000 per member per year through a stop-loss reinsurance agreement.

**GUARANTEES** The Members of the Obligated Group unconditionally guarantee the principal and interest payments of a loan made to a non-owned nonprofit organization in which Sanford leases facilities from. The guarantee is secured by mortgages on real and personal property of the nonprofit organization. The principal amount of the guaranteed indebtedness was \$1,475 as of December 31, 2019. No liability related to this guarantee have been recorded on Sanford's consolidated financial statements as of December 31, 2019.

**OTHER COMMITMENTS AND CONTINGENCIES** Under the laws of the states of South Dakota, North Dakota, and Minnesota, Sanford is required to maintain a minimum net worth based on the Company Action Level of Risk-Based Capital for the fully insured business lines. Sanford has met the minimum net worth requirements.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to the government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Management believes that Sanford is in substantial compliance with current laws and regulations.

**16. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions include net assets subject to the passage of time, expenditures for specific purposes, and net assets to be held in perpetuity, which consisted of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Net assets subject to the passage of time		
Affordable housing capital advances	\$ 37,328	\$ -
Net assets subject to expenditures for specific purposes		
Women's health	63,663	64,244
Children's fitness	11,352	13,699
Senior care	14,893	-
Programs, services and equipment	99,074	83,183
	<u>188,982</u>	<u>161,126</u>
Net assets to be held in perpetuity		
Endowments, income restricted by donors	104,064	79,996
Endowments, income not restricted by donors	5,742	4,850
	<u>109,806</u>	<u>84,846</u>
Net assets with donor restrictions	<u>\$ 336,116</u>	<u>\$ 245,972</u>

Affordable housing capital advances bear no interest and repayment is not required as long as the applicable affordable housing projects remain available for very low-income elderly persons for a stated period (principally 40 years).

Changes in net assets with donor restrictions that are to be held in perpetuity for the years ended December 31 were as follows:

	<u>2019</u>	<u>2018</u>
Beginning of year	\$ 84,846	\$ 62,330
Contributions	4,896	22,586
Investment loss and other	(268)	(70)
Contributions from business combination	20,332	-
End of year	<u>\$ 109,806</u>	<u>\$ 84,846</u>

Available endowment earnings are appropriated in accordance with donor restrictions. There were no deficiencies reported in net assets with donor restrictions as of December 31, 2019.

Net assets are released from restrictions by incurring expenses or acquiring property and equipment that meet the requirements of donor restrictions. Net assets released from restrictions for the years ended December 31 for the various purposes are as follows:

	<u>2019</u>	<u>2018</u>
Operating expenses	\$ 19,374	\$ 12,879
Property and equipment	5,058	12,824
	<u>\$ 24,432</u>	<u>\$ 25,703</u>

17. **FUNCTIONAL EXPENSES**

Sanford provides general healthcare and senior care services to meet these needs of individuals. The statements of operations reports expenses based on natural classification that are attributable to more than one program or support function. In order to present expenses on a functional basis, each department's purpose is evaluated and analyzed, and expenses are attributed to the respective function accordingly. The costs of providing program and other activities on a functional basis for the years ended December 31, are as follows:

	2019					
	<u>Healthcare</u>	<u>Senior Care</u>	<u>Health Plan</u>	<u>Research and Other</u>	<u>General</u>	<u>Total</u>
Salaries and benefits	\$ 2,337,078	\$ 563,744	\$ 24,991	\$ 55,711	\$ 220,616	\$ 3,202,140
Supplies	900,777	77,367	2,333	35,161	10,468	1,026,106
Purchased services and other	467,530	188,686	47,890	38,883	157,203	900,192
Medical claims	-	-	635,482	-	-	635,482
Depreciation and amortization	137,887	70,846	177	12,415	23,646	244,971
Interest	36,886	26,646	143	285	945	64,905
Total	<u>\$ 3,880,158</u>	<u>\$ 927,289</u>	<u>\$ 711,016</u>	<u>\$ 142,455</u>	<u>\$ 412,878</u>	<u>\$ 6,073,796</u>

  

	2018					
	<u>Healthcare</u>	<u>Senior Care</u>	<u>Health Plan</u>	<u>Research and Other</u>	<u>General</u>	<u>Total</u>
Salaries and benefits	\$ 2,144,505	\$ 20,202	\$ 21,506	\$ 48,126	\$ 162,324	\$ 2,396,663
Supplies	810,790	3,065	250	31,258	7,703	853,066
Purchased services and other	404,142	5,110	48,034	28,787	110,959	597,032
Medical claims	-	-	592,809	-	-	592,809
Depreciation and amortization	137,962	1,982	173	5,623	22,429	168,169
Interest	36,030	1,339	-	-	1,067	38,436
Total	<u>\$ 3,533,429</u>	<u>\$ 31,698</u>	<u>\$ 662,772</u>	<u>\$ 113,794</u>	<u>\$ 304,482</u>	<u>\$ 4,646,175</u>

Healthcare, senior care, health plan, and research and other are program services. Other program services includes weight management retail stores, research, and other health related services. Fundraising expenses are included in general in the above summary.

**18. BUSINESS COMBINATION**

On January 1, 2019, Sanford became the sole corporate member of the Society through an affiliation agreement and as a result, recognized the fair value of the Society's net assets during the year ended December 31, 2019 as inherent contributions from business combination. In valuing the respective assets and liabilities, fair values were based on independent valuation assessments.

The fair value of the Society's assets acquired and liabilities assumed as of January 1, 2019 were as follows:

Cash and investments	\$	443,052
Accounts receivable, less allowances		97,086
Assets whose use is limited		97,001
Other assets		67,471
Property and equipment - net		1,291,955
Current liabilities		(171,867)
Other liabilities		(158,749)
Debt		(778,132)
	\$	<u>887,817</u>

For the year ended December 31, 2019, the Society had a loss from operations of \$21,025 and total operating revenues of \$1,061,652 in the accompanying consolidated statements of operations.

The following unaudited pro forma financial information presents the combined results of operations of Sanford and the Society for the years ended December 31, 2019 and 2018 as though the business combination transaction had occurred as of January 1, 2018. For the year ended as of December 31, 2019, the contributions from business combination were excluded from presentation to ensure comparability year over year. The full-year financial information for 2018 for the Society is derived from the audited consolidated financial statements for the year ended December 31, 2018. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred if the Society were consolidated into Sanford during 2018.

	Actual 2019	Pro forma 2018
Total operating revenues	\$ <u>6,228,977</u>	\$ <u>5,881,825</u>
Excess of revenues over expenses attributable to controlling interest	143,445	71,556

\* \* \* \* \*

SUPPLEMENTAL CONSOLIDATED FEDERAL AWARD INFORMATION

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

To the Board of Trustees of Sanford  
Sioux Falls, SD

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Sanford and its subsidiaries ("Sanford"), which comprise the consolidated balance sheet as of December 31, 2019 and 2018 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 16, 2020.

As disclosed in Note 1 to the consolidated financial statements, Sanford's consolidated financial statements include the operations of the Sanford foundations, the Sanford health plans, and other less significant Sanford subsidiaries and affiliates. These entities were not audited in accordance with *Government Auditing Standards* and accordingly, this report does not include reporting on internal control over financial reporting or instances of noncompliance associated with such subsidiaries.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

Deloitte & Touche LLP

April 16, 2020

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees of Sanford  
Sioux Falls, South Dakota

### **Report on Compliance for Each Major Federal Program**

We have audited Sanford and its subsidiaries ("Sanford") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Sanford's major federal programs for the year ended December 31, 2019. Sanford's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

As discussed in Note 1 to the consolidated financial statements, Sanford's consolidated financial statements include the operations of the Sanford foundations, the Sanford health plans, and certain other less significant Sanford subsidiaries and affiliates. These entities were not audited in compliance with the types of compliance requirements described in the *OMB Compliance Supplement* because the entities did not receive any federal awards.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

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

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

### **Opinion on Each Major Federal Program**

In our opinion, based on our audit, Sanford complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

## Report on Internal Control Over Compliance

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

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

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

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

Deloitte & Touche LLP

April 16, 2020

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
<b>Research and Development Cluster</b>						
<b>National Science Foundation Direct Programs</b>						
Biological Sciences	REU Site in Cellular and Molecular Biology at Sanford Research	47.074	N/A	DBI-1756912	\$ 98,935	\$ -
Social, Behavioral, and Economic Sciences	REU Sites: Social Behavioral Research Training in American Indian Community Based Projects	47.075	N/A	DBI-1559899	27,055	-
<b>Total National Science Foundation Direct Programs</b>					<u>125,990</u>	<u>-</u>
<b>Department of Health and Human Services Direct Programs</b>						
Alcohol Research Programs	Alcohol Related Impairment and Reinforcement after Gastric Bypass Surgery (ETOH2)	93.273	N/A	R01AA022336	264,702	119,279
Minority Health and Health Disparities Research	Collaborative Research Center for American Indian Health	93.307	N/A	U54 MD008164	703,141	355,108
Cancer Cause and Prevention Research	Oncogenic Mechanism of Sox2 in Rb-deficient T tumors	93.393	N/A	R01 CA233661	115,109	-
Cancer Biology Research	PQ1 Molecular circuit of multi-ciliogenesis regulates choroid plexus differentiation and tumor development	93.396	N/A	R01 CA180033	2,874	-
Cancer Control	Sanford Community Cancer Program of the North Central Plains (NCORP)	93.399	N/A	UG1 CA189825	898,143	8,705
Lung Diseases Research	Hyperoxic Modulation of Thioredoxin Signaling	93.838	N/A	R01 HL135112	414,568	52,864
Diabetes, Digestive, and Kidney Diseases Extramural Research	Molecular Regulators of Renal Collecting Duct Differentiation and Maintenance	93.847	N/A	R01 DK106135	388,535	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	Post Surgical Predictors of Depressions and Wiegth Regain after Bariatric Surgery (Bariatric EMA)	93.847	N/A	R01DK112487	754,520	369,232
Diabetes, Digestive, and Kidney Diseases Extramural Research	Psychosocial Issues and Bariatric Surgeries (PsySoc2/LABS3)	93.847	N/A	R01DK084979	56,339	32,306
Extramural Research Programs in the Neurosciences and Neurological Disorders	Novel Mechanisms for Distal T transport in Developing and Mature Neurons	93.853	N/A	R01 NS082283	211,211	37,272
Biomedical Research and Research Training	Center for Cancer Biology Research	93.859	N/A	P20 GM103548	2,122,817	37,416

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Biomedical Research and Research Training	Center for Pediatric Research	93.859	N/A	P20 GM103620	\$ 2,477,164	\$ 23,488
Biomedical Research and Research Training	Evolution and Application of Proximity Protein Labeling	93.859	N/A	R35 GM126949	363,667	-
Biomedical Research and Research Training	Transdisciplinary approaches to American Indian and rural population health research	93.859	N/A	P20 GM121341	1,517,795	25,683
Child Health and Human Development Extramural Research	The Pediatric Biomedical Research Program	93.865	N/A	R25 HD097633	93,415	-
N/A	A New Prospective US Cohort set within the Health Care System Institutions to Study	93.RD	N/A	HHSN2612018000221	123,642	-
<b>Total Department of Health and Human Services Direct Programs</b>					<b>10,507,642</b>	<b>1,061,353</b>
<b>Department of Health and Human Services Pass-through Programs</b>						
Human Genome Research	Integrated, Individualized, Intelligent Prescribing (I3P)	93.172	Vanderbilt University Medical Center	U01 HG007253	45,384	-
Human Genome Research	Integrated, Individualized, Intelligent Prescribing (I3P)	93.172	Vanderbilt University Medical Center	U01 HG010232	84,794	-
Alcohol Research Programs	Native Center for alcohol Research and Education	93.273	Washington State University	P60 AA026112	5,980	-
Discovery and Applied Research for Technological Innovations to Improve Human Health	Substrate Rigidity and Gene Expression: Role of Nuclear Tension	93.286	University of Florida	R01 EB014869	78,911	-
Research Infrastructure Programs	ARC: Building Awareness, Respect and Confidence through Genetics	93.351	Harvard College	R25 OD021895	228	-
Cancer Detection and Diagnosis Research	Detecting Breast Cancer with a Simple Blood Test Using an Accessible and Low-Cost Novel Real-time Platform	93.394	Inanovate, Inc.	R44 CA217447	266,056	-
Cancer Treatment Research	Alliance NCORP Research Base	93.395	Mayo Clinic	UG1 CA189823	16,157	-
Cancer Treatment Research	Neuroimmune Mechanisms of Cancer-Related Symptoms in Oral Squamous Cell Carcinoma	93.395	MD Anderson Cancer Center	R01 CA193522	39,841	-
Cancer Centers Support Grants	Development of Smoking Cessation Curriculum for American Indian Women	93.397	University of Utah	P30 CA042014	10,080	-
Cardiovascular Diseases Research	The ISCHEMIA-CKD Trial-CCC-Lead Application	93.837	New York University	U01 HL117905	2,994	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Lung Diseases Research	Optimizing Treatment for Early Pseudomonas aeruginosa infection in Cystic Fibrosis	93.838	Seattle Children's	U01 HL114623	\$ 3,408	\$ -
Diabetes, Digestive, and Kidney Diseases Extramural Research	Genetic Regulation of Human Beta Cell Destruction	93.847	University of Florida	UC4 DK104194	94,400	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	Mechanisms that Predict Weight Trajectory after Bariatric Surgery: The Interactive Roles of Behavior and Biology (Bio Behavior)	93.847	North Dakota State University	R01DK112585	216,593	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	Teen Longitudinal Assessment of Bariatric Surgery Research Project (Teen Labs)	93.847	University of Colorado	UM1DK072493	53,169	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	Adolescent Bariatric Surgery: Weight and Psychosocial Risk in Young Adulthood (Teen Viewpoint)	93.847	Childrens Hospital Medical Center	R01DK080020	25,149	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	TrialNet Pathway to Prevention	93.847	University of South Florida	UC4 DK117009	17,906	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	Atrial Cardiopathy and Antithrombotic Drugs In prevention After cryptogenicstroke (ARCADIA)	93.853	University of Cincinnati	U01 NS095869	258	-
Allergy and Infectious Diseases Research	Immune Tolerance Network	93.855	Benaroya Research Institute at Virginia Mason	UM 1AI109565	98,165	-
Allergy and Infectious Diseases Research	Advancing a Candidate Human Polyclonal Anti-Thymocyte Globulin Product Produced in Transchromosomal Bovine	93.855	SAB Biotherapeutics, Inc	R44 AI142905	129,461	-
Biomedical Research and Research Training	Dakota Cancer Collaborative on Translational Activity	93.859	University of North Dakota	U54 GM128729	911,735	-
Biomedical Research and Research Training	Dakota Cancer Collaborative on Translational Activity- Biostats, Epidemiology, and Research Design Core (BERDC)	93.859	University of North Dakota	U54GM128729	23,027	-
Biomedical Research and Research Training	Great Plains IDeA-CTR	93.859	University of North Dakota	U54 GM115458	9,741	-
Biomedical Research and Research Training	Pathogenesis of Diseases Caused by Aberrant COPII Megavesicle Assembly	93.859	Iowa State University	R01 GM110373	37,299	-
Biomedical Research and Research Training	South Dakota Biomedical Research Infrastructure Network	93.859	Augustana University	P20 GM103443	832	-

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Child Health and Human Development Extramural Research	NICHD Cooperative Multicenter Neonatal Research Network	93.865	University of Iowa	UG1 HD053109	\$ 84,096	\$ -
Vision Research	Determining the role of CLN3 in the Eye	93.867	University of Rochester	R01 EY030183	5,344	-
<b>Total Department of Health and Human Services Pass-through Programs</b>					<u>2,261,008</u>	<u>-</u>
<b>Total Research and Development Cluster</b>					<u>12,894,640</u>	<u>1,061,353</u>
<b>Student Financial Aid Cluster</b>						
<b>Department of Education Pass-through Programs</b>						
Twenty-First Century Community Learning Centers	VOA, Dakotas 21st Century Community Learning Center Grant (KCC)	84.287	Volunteers of America, Dakotas	N/A	3,133	-
Twenty-First Century Community Learning Centers	VOA, Dakotas 21st Century Community Learning Center Grant (STARS)	84.287	Volunteers of America, Dakotas	N/A	4,877	-
Twenty-First Century Community Learning Centers	VOA, Dakotas 21st Century Kidz Count Program	84.287	Volunteers of America, Dakotas	N/A	1,977	-
<b>Total Department of Education Pass-through Programs</b>					<u>9,987</u>	<u>-</u>
<b>Total Student Financial Aid Cluster</b>					<u>9,987</u>	<u>-</u>
<b>Section 8 Project-Based Cluster</b>						
<b>Department of Housing and Urban Development Direct Programs</b>						
Section 8 Housing Assistance Payments Program	Section 8 Housing Assistance Payment Program (Boise)	14.195	N/A	N/A	141,514	-
<b>Total Department of Housing and Urban Development Pass-through Programs</b>					<u>141,514</u>	<u>-</u>
<b>Total Section 8 Project-Based Cluster</b>					<u>141,514</u>	<u>-</u>
<b>Housing Voucher Cluster</b>						
<b>Department of Housing and Urban Development Direct Programs</b>						
Section 8 Housing Choice Vouchers	Housing Choice Vouchers	14.871	N/A	N/A	449,241	-
<b>Total Department of Housing and Urban Development Pass-through Programs</b>					<u>449,241</u>	<u>-</u>
<b>Total Housing Voucher Cluster</b>					<u>449,241</u>	<u>-</u>

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
<b>Transit Services Programs Cluster</b>						
<b>Department of Transportation Pass-through Programs</b>						
Enhanced Mobility of Seniors and Individuals with Disabilities	Lyons Vehicle Maintenance	20.513	Kansas Department of Transportation	N/A	\$ 5,000	\$ -
<b>Total Department of Transportation Pass-through Programs</b>					<u>5,000</u>	<u>-</u>
<b>Total Transit Services Programs Cluster</b>					<u>5,000</u>	<u>-</u>
<b>Highway Safety Cluster</b>						
<b>Department of Transportation Pass-through Programs</b>						
Formula Grants for Rural Areas and Tribal Transit Program	Albion 5311 Transportation	20.509	Nebraska Department of Transportation	PI1859000	43,216	-
State and Community Highway Safety	Mobile Simulation Grant	20.600	South Dakota Department of Health	19SC090410	20,000	-
<b>Total Department of Transportation Pass-through Programs</b>					<u>63,216</u>	<u>-</u>
<b>Total Highway Safety Cluster</b>					<u>63,216</u>	<u>-</u>
<b>Child Care and Development Fund Cluster</b>						
<b>Department of Health and Human Services Pass-through Programs</b>						
Child Care and Development Block Grant	ABER - Reg. 3 Early Childhood Enrichment State Contract	93.575	South Dakota Department of Social Services	19-0843-606 20-0843-606	246,264	-
Child Care and Development Block Grant	ABER - Region 3 Responsive Parenting	93.575	South Dakota Department of Social Services	19-0800-084 20-0800-084	16,508	-
Child Care and Development Block Grant	Region 5 ECE	93.575	South Dakota Department of Social Services	19-0843-608 20-0843-608	570,740	-
Child Care and Development Block Grant	SF - Reg. 5 Responsive Parenting	93.575	South Dakota Department of Social Services	19SC087005 20SC087005	3,673	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
<b>Other Programs</b>						
<b>Department of Agriculture Pass-through Programs</b>						
Child Care and Development Block Grant	Social Emotional Program	93.575	South Dakota Department of Social Services	19-0843.661 20-0843.661	\$ 61,173	\$ -
Child Care and Development Block Grant	SD CDA - Instructor of Record	93.575	South Dakota Department of Social Services	19SC087001 20SC087001	4,561	-
<b>Total Department of Health and Human Services Pass-through Programs</b>					<u>902,919</u>	<u>-</u>
<b>Total Childcare and Development Fund Cluster</b>					<u>902,919</u>	<u>-</u>
Special Supplemental Nutrition Program for Women, Infants, and Children	Public Health Alliance Deuel County (Clear Lake)	10.557	South Dakota Department of Health	19SC090311	10,567	-
Special Supplemental Nutrition Program for Women, Infants, and Children	UMMHC - Connect Individuals Releasing from Corrections to Recovery Support	10.557	Minnesota Department of Human Services	GRK%130049	753	-
Child and Adult Care Food Program	Family Daycare Network	10.558	South Dakota Department of Education	N/A	1,276,491	-
Child and Adult Care Food Program	Fargo USDA Food Program FY19	10.558	North Dakota Department of Public Instruction	N/A	7,907	-
Child and Adult Care Food Program	Fargo USDA Food Program FY20	10.558	North Dakota Department of Public Instruction	N/A	4,756	-
Child and Adult Care Food Program	Hastings (NE) Daycare Food Program 2019	10.558	Nebraska USDA	201919IN202043	27,391	-
Child and Adult Care Food Program	Women, Infant and Children (WIC) Mayville	10.558	North Dakota Department of Health	G19.1005	41,550	-
Distance Learning and Telemedicine Loans and Grants	EBOLA Grant	10.855	South Dakota Department of Health	16EBA01	90,558	-
<b>Total Department of Agriculture Pass-through Programs</b>					<u>1,459,973</u>	<u>-</u>
<b>Department of Housing and Urban Development Direct Programs</b>						
Supportive Housing for the Elderly	Supportive Housing for the Elderly - Section 2020 Direct Loan, Balance at January 1, 2019	14.157	N/A	N/A	201,569	-
<b>Total Department of Housing and Urban Development Direct Programs</b>					<u>201,569</u>	<u>-</u>

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
<b>Department of Justice Direct Programs</b>						
Crime Victim Assistance	Victims of Crime Act (VOCA) Regionalization Grant	16.575	N/A	N/A	\$ 64,081	\$ -
<b>Total Department of Justice Direct Programs</b>					<u>64,081</u>	<u>-</u>
<b>Department of Justice Pass-through Programs</b>						
Crime Victim Assistance	CACSD VOCA grant	16.575	South Dakota Department of Public Safety	2020-1441-000051	23,077	-
Crime Victim Assistance	CACSD VOCA grant	16.575	South Dakota Department of Social Services	19-0815-694	2,125	-
Crime Victim Assistance	FP VOCA Child's Voice	16.575	South Dakota Department of Public Safety	19SC084658	96,402	-
Crime Victim Assistance	FP VOCA Child's Voice	16.575	South Dakota Department of Public Safety	2020-1441-00025	153,815	-
Crime Victim Assistance/Discretionary Grants	Expanding Victim Services to Young Male Survivors and Families	16.582	White Buffalo Calf Woman Society	2015-VF-GX-K069	36,200	-
Harold Rogers Prescription Drug Monitoring Program	AU AR Monitoring Program	16.754	South Dakota School of Pharmacy	N/A	122,362	-
Improving the Investigation and Prosecution of Child Abuse and the Regional and Local Children's Advocacy Centers	CACSD NCA Grant	16.758	National Children's Alliance	SIOUX-SD-4QIAA19	61,282	-
Improving the Investigation and Prosecution of Child Abuse and the Regional and Local Children's Advocacy Centers	CACSD-MNCAC Grant	16.758	Children's of MN (NCA)	91032-2018-09	15,000	-
Improving the Investigation and Prosecution of Child Abuse and the Regional and Local Children's Advocacy Centers	CACSD-MNCAC Grant	16.758	Children's of MN (NCA)	91033-2019-12	1,473	-
<b>Total Department of Justice Pass-through Programs</b>					<u>511,736</u>	<u>-</u>

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
<b>National Endowment for the Arts Pass-through Programs</b>						
Promotion of the Arts_Partnership Agreements	FP SD ARTS COUNCIL GRANT	45.025	South Dakota Arts Council	19-AISC-XXX	\$ 16,241	\$ -
Promotion of the Arts_Partnership Agreements	FP SD ARTS COUNCIL GRANT	45.025	South Dakota Arts Council	20-AISC-XXX	10,130	-
<b>Total National Endowment for the Arts Pass-through Programs</b>					<b>26,371</b>	<b>-</b>
<b>Department of Health and Human Services Direct Programs</b>						
Research on Research Integrity	Reproducible image processing by improved tool development	93.085	N/A	ORIIR170036	123,514	38,106
Multiple Approaches to Support Young Breast Cancer Survivors and Metastatic Breast Cancer Patients	CDC YBCS Program	93.376	N/A	1NU58DP006676-01-00	6,641	-
<b>Total Department of Health and Human Services Direct Programs</b>					<b>130,155</b>	<b>38,106</b>
<b>Department of Health and Human Services Pass-through Programs</b>						
Public Health Emergency Preparedness	Public Health Alliance Deuel County (Clear Lake)	93.069	South Dakota Department of Health	19SC090311	409	-
Blood Disorder Program: Prevention, Surveillance, and Research	(CDC) SF Hemophilia - ATHN Grant	93.080	Great Lakes Hemophilia	ATHN2015-001-VW-3-573	6,352	-
Blood Disorder Program: Prevention, Surveillance, and Research	CDC Fargo Hemophilia ATHN Grant	93.080	Great Lakes Hemophilia	ATHN2015001-VW-3-562	21,420	-
Healthy Marriage Promotion and Responsible Fatherhood Grants	Dakotas Healthy Marriage Project	93.086	Volunteers of America, Dakotas	90FM0091	58,041	-
Affordable Care Act (ACA) Personal Responsibility Education Program	STI and Teen Pregnancy Prevention Initiative	93.092	Great Plains Tribal Chairman's Health Board	90AT0024	86,459	-
Maternal and Child Health Federal Consolidated Programs	(HRSA) Fargo Hemophilia HTC	93.110	Great Lakes Hemophilia	H30MC24052	9,915	-
Maternal and Child Health Federal Consolidated Programs	(HRSA) SF Hemophilia HTC	93.110	Great Lakes Hemophilia	H30MC24052	9,945	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Maternal and Child Health Federal Consolidated Programs	Community Interdisciplinary Training - NICU	93.110	USD School of Medicine	20-1520-030	\$ 1,000	\$ -
Maternal and Child Health Federal Consolidated Programs	Hemophilia Program Income-Fargo	93.110	Great Lakes Hemophilia Foundation	N/A	536,079	-
Maternal and Child Health Federal Consolidated Programs	Therapy Services - LEND	93.110	USD School of Medicine	N/A	5,000	-
Oral Diseases and Disorders Research	Immune Dysregulation by Human Papillomavirus during Head and Neck	93.121	University of Colorado Denver	R01 DE026125	256,790	-
Injury Prevention and Control Research and State and Community Based Programs	Overdose Date to Action (OD2A)	93.136	University of South Dakota	A20-0033-S001	4,838	-
Injury Prevention and Control Research and State and Community Based Programs	Prescription Drug Overdose: Data Driven Prevention Initiative	93.136	University of South Dakota	NU17CE924866	6,060	-
Injury Prevention and Control Research and State and Community Based Programs	South Dakota Violent Death reporting System (SD-VDRS)	93.136	South Dakota Department of Health	20SC090639	2,126	-
Family Planning Services	Aberdeen Family Medicine	93.217	South Dakota Department of Health	N/A	1,071	-
Family Planning Services	Brookings Family Planning	93.217	South Dakota Department of Health	19SC090742 20SC091742	55,202	-
Family Planning Services	Dickinson Family Planning Clinic	93.217	North Dakota Department of Health	G19.282	2,344	-
Family Planning Services	Midtown Family Planning	93.217	South Dakota Department of Health	20SC090595	62,168	-
Family Planning Services	Watertown Family Planning	93.217	South Dakota Department of Health	20SC091064	26,347	-
Research on Healthcare Costs, Quality and Outcomes	Patient Centered Outcomes Research Partnership	93.226	University of Washington	R25 HS023207	38,935	-
State Rural Hospital Flexibility Program	Flex - Canton	93.241	South Dakota Department of Health	19SC090734	3,000	-
State Rural Hospital Flexibility Program	FLEX - Mental Health First Aid Community Training	93.241	South Dakota Department of Health	19SC097009	17,000	-
State Rural Hospital Flexibility Program	FLEX - PG Improvement Sessions	93.241	South Dakota Department of Health	19SC097010	17,000	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
State Rural Hospital Flexibility Program	SF-TNCC Training 2018-2019	93.241	South Dakota Department of Health	19SC090806	\$ 16,886	\$ -
Mental Health Research Grants	Affective and Neurocognitive Dimensions across Eating Disorder Psychopathology (Lavendar K23)	93.242	University of California	K23MH101342	10,258	-
Mental Health Research Grants	Neuroeffects of Negative Affect on Food Choices and Reward in Individuals with Binge Eating Episodes (Negative Affect)	93.242	University of Colorado	R01MH112681	20,094	-
Mental Health Research Grants	Regional PostDoc Training Grant in Easting Disorders Research (T32)	93.242	University of Minnesota	T32MH082761	131,475	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	Sicangu Native Connections Project	93.243	Sinte Gleska University	H79 SM063489	47,724	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	Tiwahe Glu Kini Pi: Serving the Sicangu Oyate (Rosebud Sioux) of South Dakota	93.243	Sinte Gleska University	H79 SM063407	23,935	-
Advanced Nursing Education Workforce Grant Program	ENT HRSA ANEW Grant	93.247	South Dakota State University	3TB250	127,917	-
Immunization Cooperative Agreements	Improving Pediatric Influenza Vaccination Rates	93.268	North Dakota Department of Health	G19.306	6,377	-
Immunization Cooperative Agreements	Increasing Pediatric Influenza Rates (Dickinson)	93.268	North Dakota Department of Health	G19.307	10,000	-
Immunization Cooperative Agreements	Pediatric Influenza Immunization Improvement Program	93.268	North Dakota Department of Health	G19.308	8,388	-
Immunization Cooperative Agreements	Public Health Alliance Deuel County (Clear Lake)	93.268	South Dakota Department of Health	19SC090311	4,141	-
Small Rural Hospital Improvement Grant Program	Bagley SHIP - Press Ganey	93.301	Minnesota Department of Health	127816	5,839	-
Small Rural Hospital Improvement Grant Program	Canby SHIP	93.301	Minnesota Department of Health	3-66472	217	-
Small Rural Hospital Improvement Grant Program	Canton-Inwood SHIP 340B Audit	93.301	South Dakota Department of Health	19SC093027	3,930	-
Small Rural Hospital Improvement Grant Program	Chamberlain SHIP Press Ganey	93.301	South Dakota Department of Health	19SC093028	10,170	-
Small Rural Hospital Improvement Grant Program	Clear Lake SHIP Signage	93.301	South Dakota Department of Health	19SC093029	10,170	-

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Small Rural Hospital Improvement Grant Program	HILLS SHIP Press Ganey	93.301	North Dakota Department of Health	UND10584	\$ 1,555	\$ -
Small Rural Hospital Improvement Grant Program	Jackson SHIP Telemount ED and Press Ganey	93.301	Minnesota Department of Health	127780	3,130	-
Small Rural Hospital Improvement Grant Program	Mayville SHIP Press Ganey	93.301	North Dakota Department of Health	UND10585	1,728	-
Small Rural Hospital Improvement Grant Program	SHIP - MN Tracy	93.301	Minnesota Department of Health	3000058888	2,394	-
Small Rural Hospital Improvement Grant Program	SHIP - MN Worthington	93.301	Minnesota Department of Health	3000058879	9,717	-
Small Rural Hospital Improvement Grant Program	SHIP - SD Vermillion	93.301	South Dakota Department of Health	19SC093019	949	-
Small Rural Hospital Improvement Grant Program	SHIP - SD Webster	93.301	South Dakota Department of Health	19SC093020	3,930	-
Small Rural Hospital Improvement Grant Program	SHIP-MN Westbrook	93.301	Minnesota Department of Health	3000058882	3,477	-
Small Rural Hospital Improvement Grant Program	Thief River Falls SHIP	93.301	Minnesota Department of Health	3000058830	5,000	-
Small Rural Hospital Improvement Grant Program	Wheaton SHIP	93.301	Minnesota Department of Health	3-66510	9,717	-
Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke-Financed in part by 2018 Prevention and Public Health Funds	Brookings SDOH Grant	93.426	South Dakota Department of Health	20SC090184	13,989	-
Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke-Financed in part by 2018 Prevention and Public Health Funds	FP Diabetes Prev & Control 2018-2019	93.426	South Dakota Department of Health	20SC090011	11,097	-
Transitional Living for Homeless Youth	Dakotas Transitional Living Program	93.550	Volunteers of America, Dakotas	90CX7085	5,602	-
ACA-Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)	BJI Colorectal Cancer Screening Grant	93.638	Iowa Healthcare Collaborative	N/A	6,866	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
ACA-Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)	Cass Lake Colorectal Cancer Screening Grant	93.638	Iowa Healthcare Collaborative	N/A	\$ 5,775	\$ -
ACA-Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)	CMST CPI/PTN Collaborative	93.638	Iowa Healthcare Collaborative	1L1CMS331451-01-00-06	380,298	-
ACA-Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)	FP Lidgerwood Transition Care	93.638	Iowa Healthcare Collaborative	N/A	9,022	-
ACA-Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)	Sanford Pinnacle Practices	93.638	Iowa Healthcare Collaborative	N/A	89,924	-
ACA-Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)	WAHP IHC Colon Cancer Screening	93.638	Iowa Healthcare Collaborative	N/A	7,894	-
ACA-Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)	Walker Colorectal Cancer Screening Grant	93.638	Iowa Healthcare Collaborative	N/A	5,775	-
Sickle Cell Treatment Deomnstration Program	Sickle Cell Treatment Demonstration Program (STORM)	93.365	Children's Hospital Medical Center	139525	3,494	-
Child Abuse and Neglect State Grants	Child Voice Consultant Contract	93.669	South Dakota Department of Social Services	20-0800-085	2,086	-
Child Abuse and Neglect State Grants	First Steps to Healthy Babies, Phase II	93.669	MN Department of Human Services	GRK 164280	18,447	-
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease, and Stroke	Diabetes HTN SDOH Project	93.757	North Dakota Department of Health	G19.190	182,776	-
Opioid State Targeted Response	Targeted Opioid Treatment, Prevention and Recovery Services	93.788	MN Department of Human Services	H55 33493	14,650	-
Organized Approaches to Increase Colorectal Cancer Screening	Sanford Health Plan CRCS grant	93.800	South Dakota Department of Health	19SC090245	966	-
Organized Approaches to Increase Colorectal Cancer Screening	Sanford Health Plan CRCS grant	93.800	South Dakota Department of Health	20SC090846	3,106	-
Organized Approaches to Increase Colorectal Cancer Screening	SF Colorectal Cancer Screening Grant	93.800	South Dakota Department of Health	19SC090626	38,539	-

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Organized Approaches to Increase Colorectal Cancer Screening	SF Colorectal Cancer Screening Grant	93.800	South Dakota Department of Health	20SC091595	\$ 45,338	\$ -
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	Ebola - Special Care Unit	93.817	North Dakota Department of Health	G17.924	81,840	-
Aging Research	GSS Brown University Music and Memory	93.866	Brown University	PUR-0066560	47,400	-
National Bioterrorism Hospital Preparedness Program	Bemidji Ebola Program	93.889	Minnesota Department of Health	102275	29,439	-
National Bioterrorism Hospital Preparedness Program	Bemidji Hospital Preparedness Program	93.889	Minnesota Department of Health	127130	250,324	40,043
National Bioterrorism Hospital Preparedness Program	Canby SWEPT 2018-2019	93.889	Southwest Emergency Medical Services	N/A	1,567	-
National Bioterrorism Hospital Preparedness Program	GSS Mountain Home Generator Repair	93.889	Arkansas North Central Regional Preparedness	N/A	6,007	-
National Bioterrorism Hospital Preparedness Program	Luverne SWEPT 2018-2019	93.889	Southwest Emergency Medical Services	N/A	1,152	-
National Bioterrorism Hospital Preparedness Program	Rock Rapids HPP 2018-2019	93.889	Iowa Department of Health	N/A	13	-
National Bioterrorism Hospital Preparedness Program	SF-HPP Coalition Emergency Preparedness	93.889	South Dakota Department of Health	19SSC090359	25,000	-
National Bioterrorism Hospital Preparedness Program	Sheldon Hospital Response Program	93.889	Iowa Department of Health	N/A	3,949	-
National Bioterrorism Hospital Preparedness Program	Westbrook SWEPT Project	93.889	Southwest Emergency Medical Services	N/A	2,592	-
National Bioterrorism Hospital Preparedness Program	Wheaton HPP Payment	93.889	Centra Care	N/A	6,672	-
National Bioterrorism Hospital Preparedness Program	Worthington Swept	93.889	Southwest Emergency Medical Services	N/A	1,056	-
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	All Women Count	93.898	South Dakota Department of Health	19SC090213	3,750	-
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	All Women Count	93.898	South Dakota Department of Health	20SC090213	5,250	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	Breast and Cervical Cancer Pt Nav Grant	93.898	South Dakota Department of Health	19SC090382	\$ 13,766	\$ -
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	Breast and Cervical Cancer Pt Nav Grant	93.898	South Dakota Department of Health	20SC090885	19,286	-
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	Early Referral to Palliative Care in Advanced GI Cancers	93.898	South Dakota Department of Health	19SC090476	20,000	-
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	Improving Women Cancer Screening in SE ND	93.898	North Dakota Department of Health	G19.371	379	-
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	Nutrition Intervention for Cancer Patients	93.898	South Dakota Department of Health	19SC090633	10,209	-
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	SF - Women's Screening Event	93.898	South Dakota Department of Health	19SC090472	7,049	-
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	One Connect Behavioral Health	93.912	Health Resources Services Administration	D06RH31046	355,453	4,101
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	Rural Health Network Development Planning Grant Program	93.912	Coteau Des Prairies Hospital	P10RH33041-01-01	4,912	-
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	Sheldon, Bagley Mahnomen Medical Home Project	93.912	Health Resources Services Administration	G20RH30546	121,863	-
Block Grants for Prevention and Treatment of Substance Abuse	UMMHC - Connect Individuals Releasing from Corrections to Recovery Support	93.959	Minnesota Department of Human Services	GRK%130049	118,909	-
Maternal and Child Health Services Block Grant to the States	Coordinated Treatment Center Multidisciplinary Clinics-Fargo	93.994	North Department of Health	G17.506	22,954	-
Maternal and Child Health Services Block Grant to the States	Coordinated Treatment Center Multidisciplinary Clinics-Fargo	93.994	North Department of Health	G19.051	35,306	-

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Maternal and Child Health Services Block Grant to the States	FitCare Projects	93.994	South Dakota Department of Social Services	19SC090823 20SC090823	\$ 42,207	\$ -
Maternal and Child Health Services Block Grant to the States	Genetic Outreach Clinic	93.994	South Dakota Department of Health	20SC090783	117,812	-
Maternal and Child Health Services Block Grant to the States	Pediatric Medical Home Coordination 2018-2019	93.994	North Dakota American Academy of Pediatrics	N/A	5,919	-
Maternal and Child Health Services Block Grant to the States	Public Health Alliance Deuel County (Clear Lake)	93.994	South Dakota Department of Health	19SC090311	2,217	-
N/A	Evaluation of Domestic Human Trafficking Demonstration Projects	93.U01	Volunteers of America, Dakotas	HHSP2332009565 1WC	4,435	-
<b>Total Department of Health and Human Services Pass-through Programs</b>					<u>3,920,950</u>	<u>44,144</u>
<b>Corporation for National and Community Service Direct Programs</b>						
Senior Companion Program	Senior Companion Program	94.016	Corporation for National and Community Service	18SCNSD001	320,163	-
<b>Total Corporation for National and Community Service Programs</b>					<u>320,163</u>	<u>-</u>
<b>Department of Homeland Security Pass-through Programs</b>						
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Daytona Disaster Relief Funds	97.036	Florida FEMA	FEMA-4283-DR-FL	73,996	-
Homeland Security Grant Program	FY 2016 SHSP Grant - FMA	97.067	North Dakota Department of Emergency Services	N/A	5,559	-
<b>Total Department of Homeland Security Pass-through Programs</b>					<u>79,555</u>	<u>-</u>
<b>Total Other Programs</b>					<u>6,714,553</u>	<u>82,250</u>
<b>Total Federal Expenditures</b>					\$ <u>21,181,070</u>	\$ <u>1,143,603</u>

See notes to consolidated schedule of expenditures of federal awards.

(Concluded)

SANFORD

NOTES TO CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

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**1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated schedule of expenditures of federal awards (the "Schedule") includes the federal award expenditures of Sanford and its controlled entities under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The Schedule is prepared on the accrual basis of accounting and should be read in conjunction with the consolidated financial statements of Sanford. Expenditures are recognized following the cost principles contained in the Uniform Guidance.

**2. INDIRECT COST RATE**

All Sanford entities, except those disclosed below, use the 10.0% de minimis indirect cost rate allowed under the Uniform Guidance. Sanford Research and Sanford Research North awards may use a provisional indirect rate of 65.0% and 61.5%, respectively, of the modified total direct cost base for direct research programs.

**3. NONCASH FEDERAL AWARDS**

For the year ended December 31, 2019, there were \$10,556 in noncash awards received and included as expenditures in the Schedule.

**4. FEDERAL AGENCY**

For the year ended December 31, 2019, Sanford's expenditures of federal awards by federal agency were as follows:

Corporation for National and Community Service	\$	320,163
Department of Agriculture		1,459,973
Department of Education		9,987
Department of Health and Human Services		17,722,674
Department of Homeland Security		79,555
Department of Housing and Urban Development		792,324
Department of Justice		575,817
Department of Transportation		68,216
National Endowment for the Arts		26,371
National Science Foundation		125,990
	\$	<u>21,181,070</u>

**5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

The regulations and guidelines governing the preparation of federal financial reports vary by agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared as explained in Note 1.

**6. SUBRECIPIENTS**

For the year ended December 31, 2019, amounts provided to subrecipients totaled \$1,143,603 and are listed by program on the Schedule.

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SANFORD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

**Financial Statements**

- A. Type of auditors’ report issued: Unmodified
- B. Internal control over financial reporting:
- Material weaknesses identified? \_\_\_\_\_ Yes  X  No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes  X  None reported
- C. Noncompliance material to consolidated financial statements noted? \_\_\_\_\_ Yes  X  No

**Federal Awards**

- D. Internal control over major federal programs:
- Material weaknesses identified? \_\_\_\_\_ Yes  X  No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes  X  None reported
- E. Types of auditors’ report issued on compliance for major programs: Unmodified
- F. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ Yes  X  No

G. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Research and Development Cluster
93.575	Child Care and Development Fund Cluster
93.638	ACA-Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)

- H. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000
- I. Auditee qualified as low-risk auditee?  X  Yes \_\_\_\_\_ No

SANFORD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

SANFORD

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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**SECTION IV – PRIOR YEAR AUDIT FINDINGS**

No prior year audit findings reported.

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