



Consolidated Financial Statements as of and  
for the Year Ended December 31, 2018,  
Supplemental Consolidated Federal Award Information  
as of and for the Year Ended December 31, 2018,  
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 YEAR ENDED DECEMBER 31, 2018	
Consolidated Balance Sheet	4-5
Consolidated Statement of Operations and Changes in Net Assets	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8-25
SUPPLEMENTAL CONSOLIDATED FEDERAL AWARD INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018	
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	28-29
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	30-31
Consolidated Schedule of Expenditures of Federal Awards	32-47
Notes to Consolidated Schedule of Expenditures of Federal Awards	48-49
Schedule of Findings and Questioned Costs	50-51
Summary Schedule of Prior Year Audit Findings	52

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated financial statements of Sanford and its subsidiaries ("Sanford"), which comprise the consolidated balance sheet as of December 31, 2018 and the related consolidated statements of operations, changes in net assets, and cash flows for the year 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 audit, 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, 2018, and the results of its operations, changes in its net assets, and its cash flows for the year 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, 2018 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 March 28, 2019, 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, 2018. 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*

March 28, 2019

SANFORD  
CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2018  
(In thousands)

	2018
ASSETS	
CURRENT ASSETS	
Cash	\$ 109,306
Short-term investments	85,028
Accounts receivable, less allowances	557,208
Inventories	102,790
Other current assets	70,176
Total current assets	924,508
INVESTMENTS	1,227,667
ASSETS WHOSE USE IS LIMITED	114,512
PROPERTY AND EQUIPMENT — NET	1,761,594
OTHER ASSETS	
Investment in joint ventures	45,298
Non-operating property	101,104
Goodwill and intangible assets	57,253
Notes receivable	35,334
Other assets	63,295
Total other assets	302,284
 TOTAL ASSETS	 \$ 4,330,565

See notes to consolidated financial statements.

SANFORD  
CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2018  
(In thousands)

	2018
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Current maturities of long-term debt	\$ 51,096
Accounts payable	96,230
Accrued compensation and benefits	207,000
Medical claims payable	84,315
Other current liabilities	74,626
Total current liabilities	513,267
<b>OTHER LIABILITIES</b>	
Deferred compensation	134,513
Defined benefit pension	61,694
Other non-current liabilities	77,236
Total other liabilities	273,443
<b>LONG-TERM DEBT, LESS CURRENT MATURITIES</b>	862,287
Total liabilities	1,648,997
<b>COMMITMENTS AND CONTINGENCIES (NOTE 13)</b>	
<b>NET ASSETS</b>	
Without donor restrictions	2,435,596
With donor restrictions	245,972
Total net assets	2,681,568
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 4,330,565

See notes to consolidated financial statements.

SANFORD

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2018

(In thousands)

	<u>2018</u>
<b>OPERATING REVENUES</b>	
Net patient service revenue	\$ 3,403,616
Premium revenue	915,077
Other operating revenue	500,391
Total operating revenues	<u>4,819,084</u>
<b>OPERATING EXPENSES</b>	
Salaries and benefits	2,396,663
Supplies	853,066
Purchased services and other	597,032
Medical claims	592,809
Depreciation and amortization	168,169
Interest	38,436
Total operating expenses	<u>4,646,175</u>
<b>INCOME FROM OPERATIONS</b>	172,909
<b>NON-OPERATING EXPENSE</b>	
Investment loss	(33,860)
Other expenses	(32,931)
Net non-operating expense	<u>(66,791)</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	106,118
Net assets released from restrictions for acquisition of property and equipment	12,824
Pension plan related changes other than net periodic plan expense	<u>4,798</u>
<b>INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	123,740
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>	
Contributions	47,279
Investment loss and other	(3,610)
Net assets released from restrictions	<u>(25,703)</u>
<b>INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	17,966
<b>INCREASE IN NET ASSETS</b>	<u>141,706</u>
<b>NET ASSETS — BEGINNING OF YEAR</b>	2,539,862
<b>NET ASSETS — END OF YEAR</b>	<u>\$ 2,681,568</u>

See notes to consolidated financial statements.



SANFORD

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In thousands)

	2018
CASH FLOWS FROM OPERATING ACTIVITIES	\$ 141,706
Increase in net assets	
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation and amortization	168,169
Net loss on investments in joint ventures	1,118
Net realized and unrealized market loss on investments	65,952
Gain on sale of property and equipment	(4,691)
Pension plan related changes other than net periodic plan expense	(4,798)
Contributions restricted for long-lived purposes	(22,376)
Other changes in net assets	(14,633)
Changes in other operating elements:	
Accounts receivable and other assets	(61,750)
Accounts payable and other current liabilities	(67,042)
Deferred compensation liability	2,665
Other non-current liabilities	(16,708)
Cash flows from operating activities	187,612
 CASH FLOWS USED IN INVESTING ACTIVITIES	
Acquisition of property and equipment	(159,750)
Purchases of investments and assets whose use is limited	(259,464)
Proceeds from sale of investments and assets whose use is limited	263,187
Increase in other assets	(12,508)
Cash flows used in investing activities	(168,535)
 CASH FLOWS USED IN FINANCING ACTIVITIES	
Repayment of long-term debt	(43,842)
Net amortization of bond discounts, premiums and deferred financing costs	(1,652)
Proceeds from contributions restricted for long-lived purposes	7,376
Cash flows used in financing activities	(38,118)
 DECREASE IN CASH	(19,041)
 CASH — BEGINNING OF YEAR	128,347
 CASH — END OF YEAR	\$ 109,306
 SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES	
Property and equipment funded through accounts payable	\$ 7,341
In-kind contributions received	24,631
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest	\$ 39,092

See notes to consolidated financial statements.

SANFORD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018  
(Dollar amounts in thousands)

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**1. NATURE OF ORGANIZATION**

Sanford is a not for profit 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, 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 care programs, fully insured health insurance companies, weight management retail stores, research, and foundations supporting health related services. As of December 31, 2018, Sanford employed 1,453 physicians.

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.

**SANFORD OBLIGATED GROUP** Sanford and certain of its wholly owned entities have entered into a Master Trust Indenture dated July 1, 1997, as amended. Members of the Obligated Group are jointly and severally obligated for the debt issued and guaranteed under the Master Trust Indenture. In addition to Sanford, the following are members of the Obligated Group as of December 31, 2018:

Sanford Health	Sanford Medical Center	Sanford Clinic North
Sanford North	Sanford Medical Center Fargo	Sanford Home Health
Sanford West	Sanford Bismarck	Sanford Health Foundation
Sanford Health Network	Sanford Health of Northern Minnesota	Sanford Health Foundation North
Sanford Health Network North	Sanford Clinic	Sanford Health Foundation West

During 2018, three members of the obligated group, Sanford Hillsboro, Sanford Medical Center Thief River Falls, and Sanford Medical Center Mayville, merged into Sanford Health Network North.

**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 claims payable, and post-retirement benefit obligations, 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 reported based on average cost method, and pharmaceuticals, which are reported based on the first-in, first-out cost method.

**OTHER CURRENT AND NON-CURRENT ASSETS** Other assets consist of the current and non-current portion of notes and contributions receivable and prepaid expenses.

**INVESTMENTS AND INVESTMENT INCOME (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 income used to fund initiatives is included in other operating revenue. All other investment income (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 improvements	8-40 years
Buildings	10-40 years
Building equipment	5-40 years
Moveable equipment	3-20 years

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

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

**GOODWILL AND INTANGIBLE ASSETS** Goodwill represents any excess of acquisition price over fair value of net assets acquired. The balance was \$39,302 as of December 31, 2018. The annual impairment test was performed resulting in no impairment charges for the year ended December 31, 2018. Intangible assets are amortized over the terms of the agreements. The balance, net of accumulated amortization, was \$17,951 as of December 31, 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, 2018, notes receivable from providers and employees totaled \$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** Other current and non-current liabilities primarily consist of deferred revenue, professional and general liability claims reserves, workers' compensation insurance reserves, and accrued taxes and interest.

**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.

**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.

**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 include investment income, net realized and unrealized market gains and losses, net rental income, and other expenses which consist of contributions, income taxes, non-operating depreciation, gains and losses on acquisition, and non-operating releases from restriction.

**CHARITY CARE** To fulfill its mission of community service, Sanford provides care to patients without charge or at amounts less than its established rates. These patients meet criteria as defined by Sanford's charity care policy. Sanford does not pursue collection of amounts determined to qualify as charity care. Accordingly, these amounts are not reported as net patient service revenue.

**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 current liabilities.

**OTHER OPERATING REVENUE** Other operating revenue is primarily generated by pharmacies, reference labs, mobile diagnostic services, and various other retail 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 year ended December 31, 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 \$7,626 have been recorded in other assets and deferred tax liabilities of \$89 have been recorded as other non-current liabilities as of December 31, 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 year ended December 31, 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 revenue and is no longer presented as a separate line item. The standard does not significantly impact how Sanford accounts for net patient 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, 14 and 16 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. This guidance requires a lessee to recognize on the balance sheet assets and liabilities for rights and obligations created by leased assets with lease terms of more than twelve months. This guidance was effective for Sanford beginning January 1, 2019. Sanford has evaluated the effect this guidance will have on its financial statements and related disclosures and believes the adoption will have a material impact on the balance sheet, as lease obligations and the corresponding right of use assets will be required to be presented on the balance sheet. However, Sanford does not expect a material impact on the statement of operations or cash flows. See Note 13 for a summary of Sanford's future minimum lease payments under noncancelable operating leases with an initial term in excess of one year.

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.

**SUBSEQUENT EVENTS** On January 1, 2019, Sanford became the sole corporate member, through an affiliation agreement, of the Evangelical Lutheran Good Samaritan Society (the Society), a North Dakota not for profit corporation that provides housing and services for seniors including skilled and rehab services, senior housing, and home and community based services. The Society will be included in Sanford's consolidated financial statements beginning January 1, 2019. Upon receipt of the final valuation for the acquired assets and liabilities, Sanford will complete the necessary disclosures and the purchase price allocation. In conjunction with the business combination, Sanford changed its year-end from June 30 to December 31, effective January 1, 2019. Sanford has evaluated subsequent events through March 28, 2019, the date this report was issued, and no additional significant events have been identified.

**3. NET PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE**

Net patient service 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 care. Sanford determines performance obligations based on the nature of the services provided. Revenue is recognized when those services are rendered, and the patient or third-party payor is billed usually within several days of service or discharge. For services provided over a period of time, such as inpatients receiving acute care services, revenue recognition begins when the patient is admitted and concludes at the time of discharge. Remaining performance obligations relating to inpatient acute care services as of December 31, 2018 will be satisfied in full in 2019. 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 service 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 for their respective patient responsibility. As a practical expedient, Sanford has elected to account for third-party payor and patient contracts as collective groups rather than individual contracts. The financial statement effects of using this practical expedient are not materially different than an individual contract approach.

Sanford grants credit without collateral to its patients, 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 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's ability to pay. Subsequent changes as a result of adverse changes in the patient's ability to pay are recorded as bad debt expense within operating expenses. Subsequent changes to allowance for bad debts estimates for the year ended December 31, 2018 were not material.

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

The percentage of net patient service revenue for patients and third-party payor programs for the year ended December 31, 2018 was as follows:

Medicare	33.3 %
Medicaid	10.2
Blue Cross	28.7
Other third-party payors	25.5
Self-pay and other	2.3
	<hr/>
	100.0 %
	<hr/>

The percentage of net receivables due from patients and third-party payors as of December 31, 2018 was as follows:

Medicare	24.0 %
Medicaid	8.5
Blue Cross	22.7
Other third-party payors	28.8
Self-pay and other	16.0
	100.0 %

#### 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 year ended December 31, 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 held by trustee 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 11.

As shown in the table below, there were no financial assets recorded at fair value classified as Level 3 as of December 31, 2018.

Financial assets measured at fair value, as of December 31, 2018 are summarized in the following tables:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>\$ -</u>	<u>\$ 1,350,894</u>

Investments recorded at fair value based on net asset value

Total assets	<u>\$ 77,645</u>	<u>\$ 1,428,539</u>
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Assets reported as

Short-term investments	\$ 85,028
Debt service funds in other current assets	1,332
Investments	1,227,667
Assets whose use is limited	114,512
	<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 12.



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, 2018, alternative investments recorded at NAV consisted of the following:

	NAV	Unfunded Commitments
Domestic and global equities	\$ 55,341	\$ 3,735
Real estate private equities	22,304	-
	<u>\$ 77,645</u>	<u>\$ 3,735</u>

There are limited provisions for Sanford to liquidate these alternative investments.

## 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, 2018 consisted of the following:

Cash	\$ 109,306
Short-term investments	85,028
Accounts receivable, less allowances	557,208
Debt service funds in other current assets	1,332
Notes and contributions receivable in other current assets	23,697
Investments, less alternative investments	1,150,022
	<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, 2018, Sanford is in compliance with bond covenants as disclosed in Note 12.

**6. INVESTMENT INCOME (LOSS)**

For the year ended December 31, 2018, the following schedule summarizes investment income (loss) and its classification in the consolidated statements of operations and changes in net assets:

Without donor restrictions - other operating revenue	
Dividend and interest income	\$ 32,854
Without donor restrictions - non-operating expense	
Dividend and interest income	24,752
Net realized losses on sales of investments	(4,056)
Unrealized losses	(54,556)
	<u>(33,860)</u>
With donor restrictions	
Dividend and interest income	2,739
Net realized gains on sales of investments	2,051
Unrealized losses	(9,391)
	<u>(4,601)</u>
Total investment loss	<u>\$ (5,607)</u>

**7. PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2018 consisted of the following:

Land and improvements	\$ 239,935
Buildings	1,589,277
Building equipment	385,861
Movable equipment	1,124,906
Construction in process	59,983
	<u>3,399,962</u>
Accumulated depreciation	(1,638,368)
	<u>\$ 1,761,594</u>

**8. INVESTMENT IN JOINT VENTURES**

Sanford generally 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, 2018, investments in joint ventures amounted to \$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 and for the year ended December 31, 2018 is approximately as follows:

Total assets	\$ 134,262
Total operating revenues	117,950
Loss from operations	115

Sanford's share of earnings on the investment in joint ventures is included in other non-operating revenue in the statement of operations, which is summarized for the year ended December 31, 2018 as follows:

Net loss on investments in joint ventures	\$	1,118
New investments in joint ventures		5,599
Distributions received from joint ventures		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 .68% to 4.85%. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

Contributions receivable as of December 31, 2018 consisted of the following:

Contributions maturities		
Within one year	\$	7,642
One to five years		13,493
After five years		9,768
		<u>30,903</u>
Less present value discount and uncollectible allowance		<u>(6,655)</u>
	\$	<u><u>24,248</u></u>
Contributions restrictions		
Without donor restrictions	\$	5,073
With donor restrictions		19,175
	\$	<u><u>24,248</u></u>

**10. MEDICAL CLAIMS PAYABLE**

As of December 31, 2018, the estimated medical claims payable of \$84,315 includes \$82,805 for current year claims and \$1,510 for prior year claims. The estimated claims payable as of January 1, 2018, was \$92,285, of which \$80,261 has since been paid. Lower claims trends across all business lines drove favorable prior year claims development of \$10,514.

Claims activity, net of reinsurance, during the year ended December 31, 2018 was as follows:

	Current Year <u>Incurred Claims</u>	Prior Year <u>Incurred Claims</u>	Total <u>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><u>\$ 603,323</u></u>	<u><u>\$ (10,514)</u></u>	<u><u>\$ 592,809</u></u>

## 11. PENSION PLANS

**DEFINED CONTRIBUTION PENSION PLANS** Sanford has defined contribution pension plans that are available to all 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 pension costs of \$77,824 were recognized as part of salaries and benefits for the year ended December 31, 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, 2018 and changes for the year then ended are as follows:

	<u>Master Plan</u>	<u>Bismarck Plan</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 218,699	\$ 127,604
Service cost	1,385	1,375
Interest cost	8,264	4,943
Actuarial gain	(14,471)	(6,279)
Benefits paid	(10,250)	(6,015)
Benefit obligation, end of year	<u>\$ 203,627</u>	<u>\$ 121,628</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 170,393	\$ 107,569
Actual loss on plan assets	(5,579)	(5,397)
Employer contributions	9,240	3,600
Benefits paid	(10,250)	(6,015)
Fair value of plan assets, end of year	<u>\$ 163,804</u>	<u>\$ 99,757</u>
Funded status		
Benefit obligation in excess of plan assets	<u>\$ 39,823</u>	<u>\$ 21,871</u>
Amounts recognized in net assets without donor restrictions consist of net actuarial loss	<u>\$ 59,026</u>	<u>\$ 10,771</u>
Accumulated benefit obligation	<u>\$ 200,535</u>	<u>\$ 116,627</u>
Weighted average of assumptions used to determine end of year obligations		
Discount rate	4.30 %	4.30 %
Rate of compensation increase	3.00 %	3.00 %

## COMPONENTS OF NET PERIODIC PENSION COST

	<u>Master Plan</u>	<u>Bismarck Plan</u>
Service cost - salaries and benefits expense	\$ 1,385	\$ 1,375
Interest cost - other non-operating expense	8,264	4,943
Expected return on plan assets - other non-operating expense	(10,062)	(6,167)
Amortization of actuarial loss - other non-operating expense	<u>5,110</u>	<u>-</u>
Net periodic pension cost	<u>\$ 4,697</u>	<u>\$ 151</u>
Weighted average of assumptions used to determine net periodic cost		
Discount rate	4.20 %	4.20 %
Plan assets expected long-term rate of return	6.00 %	6.00 %
Rate of compensation increase	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, 2018 was as follows:

	<u>Master Plan</u>	<u>Bismarck Plan</u>
Equity investments	30 %	30 %
Debt investments	66	70
Cash equivalents	<u>4</u>	<u>-</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, 2018 and are summarized in the following tables by type of inputs (see Note 4) applicable to the fair value measurements:

<u>Master Plan</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>

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 \$4,167 of amortization of net actuarial loss during 2019.

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

	Master Plan	Bismarck Plan
Years ending December 31,		
2019	\$ 10,932	\$ 5,901
2020	11,521	6,217
2021	12,014	6,470
2022	12,476	6,732
2023	12,868	7,041
Thereafter	67,097	39,208
	<u>\$ 126,908</u>	<u>\$ 71,569</u>

The expected contributions to be made for the defined benefit plans for the year ending December 31, 2019, are \$9,240 for the Master Plan and \$3,600 for the Bismarck Plan.

**12. LONG-TERM DEBT**

Long-term debt as of December 31, 2018 consisted of the following:

Bonds payable	\$ 850,690
Promissory notes payable	27,602
Capital lease obligations	5,091
Net unamortized bond premiums and deferred financing costs	30,000
Total debt	<u>913,383</u>
Less current maturities	<u>(51,096)</u>
	<u>\$ 862,287</u>

Bonds payable as of December 31, 2018 consisted of the following:

	Interest Structure	Interest Rate	Final Maturity	Outstanding Principal
Obligated Group				
Series 1997	Variable	2.09%	November 2027	\$ 4,095
Series 2000	Variable	2.09%	November 2025	2,015
Series 2001B	Variable	2.09%	November 2020	5,975
Series 2001C	Variable to Fixed Swap	3.47%	November 2019	4,675
Series 2004B	Variable	1.70%	November 2034	14,080
Series 2009	Fixed	5.00% to 5.50%	November 2040	62,520
Series 2010	Fixed	4.71%	December 2025	2,216
Series 2011	Fixed	5.00% to 6.25%	November 2031	89,025
Series 2012A	Fixed	2.74%	September 2024	21,425
Series 2012B	Fixed	2.88%	September 2031	28,325
Series 2012C	Fixed	3.46%	September 2024	4,200
Series 2012D	Fixed	2.64%	September 2032	34,150
Series 2012E	Fixed	4.00% to 5.00%	November 2042	120,000
Series 2014A	Fixed	4.00%	November 2034	52,000
Series 2014B	Fixed	3.00% to 5.00%	November 2044	176,205
Series 2015	Fixed	4.00% to 5.00%	November 2045	167,260
Series 2016	Fixed	1.92%	November 2026	40,000
North Country Senior Living				
Series 2008	Fixed	5.15%	December 2038	4,398
Series 2009	Fixed	5.15%	December 2038	6,602
Sanford Living Centers				
Series 2014C	Fixed	3.25%	September 2033	7,752
Series 2014D	Fixed	3.25%	November 2024	1,992
Series 2014E	Fixed	3.25%	September 2033	1,780
				<u>\$ 850,690</u>

Promissory notes payable as of December 31, 2018 consisted of the following:

	Interest Structure	Interest Rates	Final Maturity	Outstanding Principal
Obligated Group				
Bank notes	Fixed	3.00% to 5.90%	March 2021	\$ 6,198
Other	Fixed	0.00% to 2.85%	June 2031	18,487
Non-Obligated group				
Bank notes	Fixed	4.25% to 6.15%	October 2043	2,917
				<u>\$ 27,602</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. The estimated fair value of long-term debt was approximately \$881,674 as of December 31, 2018.

All note obligations related to bond issues are secured by first mortgage liens on land, buildings, improvements, and fixtures (excluding personal property and equipment, which may be removed without damage to the real estate) constructed or to be constructed, and security interests in gross receipts excluding gifts, grants, bequests, donations, and contributions which are designated as to purpose.

The Obligated Group has obtained liquidity facilities related to \$1,230 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, 2020. The Obligated Group is providing its own internal liquidity support for \$2,865 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 \$8,483 as of December 31, 2018 related to these obligations has been classified as a current maturity of long-term debt.

Payment of the principal of the Series 2001C and Series 2004B Note Obligations plus up to 60 days interest are secured by irrevocable direct payment letters of credit, issued by U.S. Bank National Association, at the request of the Obligated Group. Draws on the letters of credit are due 367 days after the draw. The letters of credit expire November 1, 2024.

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, 2018.

Scheduled principal payments of long-term debt, excluding capital lease obligations, as of December 31, 2018 are as follows:

	Bonds Payable	Promissory Notes Payable	Total
Years ending December 31,			
2019	\$ 35,876	\$ 6,474	\$ 42,350
2020	34,886	5,218	40,104
2021	34,422	2,420	36,842
2022	35,590	2,291	37,881
2023	36,744	2,297	39,041
Thereafter	673,172	8,902	682,074
	<u>\$ 850,690</u>	<u>\$ 27,602</u>	<u>\$ 878,292</u>

Scheduled payments on capital lease obligations as of December 31, 2018 are as follows:

Years ending December 31,	
2019	\$ 1,671
2020	1,351
2021	1,392
2022	1,434
2023	726
Total payments	<u>6,574</u>
Less interest	<u>(1,483)</u>
	<u>\$ 5,091</u>



### 13. COMMITMENTS AND CONTINGENCIES

**LEASE COMMITMENTS** Sanford leases various facilities and equipment under non-cancelable operating leases expiring at various dates through February 2032. Future minimum lease payments of operating leases as of December 31, 2018 that have initial or remaining lease terms in excess of one year are as follows:

Years ending December 31,	
2019	\$ 25,666
2020	20,387
2021	16,472
2022	12,545
2023	6,689
Thereafter	22,409
	<u>\$ 104,168</u>

Rental expense associated with operating leases was \$36,499 for the year ended December 31, 2018.

**OTHER COMMITMENTS** 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.

**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 of \$2,000 per claim with a \$14,000 annual aggregate as of December 31, 2018.

Excess coverage of \$80,000 is provided by various carriers and layers as follows: \$20,000 (first layer); \$20,000 (second layer); \$15,000 (third layer); and \$25,000 (fourth layer). The excess coverage provides a dedicated excess limit of coverage for professional and general liability claims from other liability coverage, such as aviation, auto and ambulance liability, all of which are also covered by the excess 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.

**WORKERS' COMPENSATION** Sanford has limited its losses for the first \$1,000 of any one workers' compensation occurrence. Amounts accrued as other current 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.

**GUARANTEES** The Members of the Obligated Group have unconditionally guaranteed the principal and interest payments of loans made to other nonprofit organizations. Sanford has relationships with these facilities in which it leases facilities from, manages the operations of, or leases land to the other nonprofit organizations. The guarantees are secured by mortgages on real and personal property of the nonprofit organizations. The principal amount of the guaranteed indebtedness was \$1,650 as of December 31, 2018. No liability related to these guarantees have been recorded on Sanford's consolidated financial statements as of December 31, 2018.

**OTHER CONTINGENCIES** The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to 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.

#### 14. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions include net assets subject to expenditure for specific purposes and net assets to be held in perpetuity, which consisted of the following as of December 31, 2018:

Net assets subject to expenditures for specific purposes	
Women's health	\$ 64,244
Children's fitness	13,699
Programs, services and equipment	83,183
	<u>161,126</u>
Net assets to be held in perpetuity	
Endowments, income restricted by donors	79,996
Endowments, income not restricted by donors	4,850
	<u>84,846</u>
Net assets with donor restrictions	<u>\$ 245,972</u>

Changes in net assets with donor restrictions that are to be held in perpetuity for the year ended December 31, 2018 was as follows:

Beginning of year	\$ 62,330
Contributions	22,586
Investment loss and other	(47)
Net assets released from restrictions	(23)
End of year	<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, 2018.

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 year ended December 31, 2018 for the various purposes are as follows:

Operating expenses	\$ 12,879
Property and equipment	12,824
	<u>\$ 25,703</u>

**15. CHARITY CARE AND COMMUNITY SERVICES**

Sanford provides care to patients regardless of their ability to pay and provides a variety of services and benefits designed to improve the standards of health in the communities served. These benefits include health education programs, health promotion activities, civic involvement, community funding, and medical research.

Records are maintained to identify and monitor the level of community benefit programs it provides. These records include management’s estimate of the direct and indirect cost of services and supplies furnished for community benefit programs, cost of providing charity care (estimated by applying an overall cost to charge ratio to the charges incurred). A summary of the level of community benefit programs provided during the year ended December 31, 2018 is as follows:

Cost of charity care	\$	87,431
Community services		91,949
	\$	<u>179,380</u>

**16. FUNCTIONAL EXPENSES**

Sanford provides general healthcare services to meet the healthcare needs of individuals. The statement 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 year ended December 31, 2018 are as follows:

	<u>Healthcare</u>	<u>Health Plan</u>	<u>Research and other</u>	<u>General</u>	<u>Total</u>
Salaries and benefits	\$ 2,164,707	\$ 21,506	\$ 48,126	\$ 162,324	\$ 2,396,663
Supplies	813,855	250	31,258	7,703	853,066
Purchased services	409,252	48,034	28,787	110,959	597,032
Medical claims	-	592,809	-	-	592,809
Depreciation and amortization	139,944	173	5,623	22,429	168,169
Interest	37,369	-	-	1,067	38,436
Total	<u>\$ 3,565,127</u>	<u>\$ 662,772</u>	<u>\$ 113,794</u>	<u>\$ 304,482</u>	<u>\$ 4,646,175</u>

Healthcare, Health Plan, 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.

\* \* \* \* \*



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, South Dakota

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 subsidiaries ("Sanford"), which comprise the consolidated balance sheet as of December 31, 2018 and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 28, 2019.

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

March 28, 2019

## **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 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, 2018. 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 the 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 and the report of other auditors, 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, 2018.

## **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

March 28, 2019

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

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>						
Social, Behavioral, and Economic Sciences	REU Sites: Social Behavioral Research Training in American Indian Community Based Projects	47.075	N/A	DBI-1559899	\$ 103,136	\$ -
<b>Total National Science Foundation Direct Programs</b>					<u>103,136</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	136,020	37,418
Minority Health and Health Disparities Research	Collaborative Research Center for American Indian Health	93.307	N/A	U54 MD008164	996,238	630,013
Trans-NIH Research Support	Environmental Influences on Child Health Outcomes in the Northern Plains Safe Passage Study Cohort	93.310	N/A	UG3 OD023279	118,191	115,269
Cancer Treatment Research	Sanford Community Cancer Program of the North Central Plains	93.395	N/A	UG1 CA189825	1,150,409	18,132
Cancer Biology Research	PQ1 Molecular circuit of multi-ciliogenesis regulates choroid plexus differentiation and tumor development	93.396	N/A	R01 CA220551	772	-
Cancer Biology Research	PQA1 Molecular Mechanisms by which the Diabetic Drug Metformin Kills Cancer	93.396	N/A	R01 CA180033	128,808	-
Lung Diseases Research	Hyperoxic Modulation of Thioredoxin Signaling	93.838	N/A	R01 HL135112	485,085	46,206
Diabetes, Digestive, and Kidney Diseases Extramural Research	Molecular Regulators of Renal Collecting Duct Differentiation and Maintenance	93.847	N/A	R01DK106135	368,349	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	Post Surgical Predictors of Depressions and Weight Regain after Bariatric Surgery (Bariatric EMA)	93.847	N/A	R01DK112487	231,195	62,665
Diabetes, Digestive, and Kidney Diseases Extramural Research	Psychosocial Issues and Bariatric Surgeries (PsySoc2/LABS3)	93.847	N/A	R01DK084979	39,763	19,097
Extramural Research Programs in the Neurosciences and Neurological Disorders	Novel Mechanisms for Distal Transport in Developing and Mature Neurons	93.853	N/A	R01 NS082283	299,354	26,288

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

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 Cancer Biology Research	93.859	N/A	P20 GM103548	\$ 2,568,585	\$ 83,552
Biomedical Research and Research Training	Center for Pediatric Research	93.859	N/A	P20 GM103620	2,353,338	-
Biomedical Research and Research Training	Developing Methods for Proximity-Dependent Protein Labeling	93.859	N/A	R01 GM102203	245,975	-
Biomedical Research and Research Training	Evolution and Application of Proximity Protein Labeling	93.859	N/A	R35 GM126949	164,372	-
Biomedical Research and Research Training	Transdisciplinary approaches to American Indian and rural population health research	93.859	N/A	P20 GM121341	1,902,127	70,693
Child Health and Human Development Extramural Research	CBPR Initiative in Reducing Infant Mortality in American Indian Communities	93.865	N/A	R01 HD080544	2,771	2,771
Child Health and Human Development Extramural Research	Lipotoxic Effects of Maternal Diabetes and High Fat Diet on the Developing Heart	93.865	N/A	K08 HD078504	72,556	-
A New Prospective US Cohort set within the Health Care System Institutions to Study Cancer	A New Prospective US Cohort set within the Health Care System Institutions to Study Cancer	93.RD	National Institutes of Health	HHSN2612018000221	60,267	-
<b>Total Department of Health and Human Services Direct Programs</b>					<u>11,324,175</u>	<u>1,112,104</u>
<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	68,980	13,998
Human Genome Research	Integrated, Individualized, Intelligent Prescribing (I3P)	93.172	Vanderbilt University Medical Center	U01 HG010232	1,101	-
Alcohol Research Programs	Native Center for alcohol Research and Education	93.273	Washington State University	P60 AA026112	10,951	-
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	123,696	-
Research Infrastructure Programs	ARC: Building Awareness, Respect and Confidence through Genetics	93.351	Harvard College	R25 OD021895	15,452	-
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	111,390	-
Cancer Treatment Research	Alliance NCORP Research Base	93.395	Mayo Clinic	UG1 CA189823	29,015	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Cancer Treatment Research	COG NCTN Network Group Operations Center	93.395	Children's Hospital of Philadelphia	U10 CA180886	\$ 5,600	\$ -
Cancer Treatment Research	Neuroimmune Mechanisms of Cancer-Related Symptoms in Oral Squamous Cell Carcinoma	93.395	MD Anderson Cancer Center	R01 CA193522	95,506	-
Cancer Treatment Research	Alliance NCORP Research Base	93.395	Ohio State University	UG1 CA189823	24,585	-
Cancer Treatment Research	NRG Oncology Network Group Operations Center	93.395	NRG Oncology Foundation	U10 CA180868	4,500	-
Cancer Centers Support Grants	Development of Smoking Cessation Curriculum for American Indian Women	93.397	University of Utah	P30 CA042014	9,920	-
Cancer Control	Eastern Cooperative Oncology Group (ECOG)	93.399	Coalition of Cancer Cooperative Groups	U10 CA037403	8,935	-
Cancer Control	SWOG Community Clinical Oncology Program Research Base	93.399	The Hope Foundation	U10 CA037429	245	-
Cardiovascular Diseases Research	Multi-Release Drug-Coated Balloons for the Treatment of Peripheral Artery Disease with Long, Diffuse, and Multiple Lesions	93.837	Tailored Medical Devices	R43 HL142449	74,249	-
Cardiovascular Diseases Research	The ISCHEMIA-CKD Trial-CCC-Lead Application	93.837	New York University	U01 HL117905	1,878	-
Lung Diseases Research	Optimizing Treatment for Early Pseudomonas aeruginosa infection in Cystic Fibrosis	93.838	Seattle Children's	U01 HL114623	4,249	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	Genetic Regulation of Human Beta Cell Destruction	93.847	University of Florida	UC4DK104194	75,345	-
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	72,887	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	Teen Longitudinal Assessment of Bariatric Surgery Research Project (Teen Labs)	93.847	University of Colorado	UM1DK072493	30,062	-
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	12,151	-

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SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Extramural Research Programs in the Neurosciences and Neurological Disorders	A Novel Treatment of Batten Disease	93.853	Seneb Biosciences, Inc.	R43 NS095376	\$ 39,658	\$ -
Extramural Research Programs in the Neurosciences and Neurological Disorders	Atrial Cardiopathy and Antithrombotic Drugs In prevention After cryptogenicstroke (ARCADIA)	93.853	University of Cincinnati	U01NS095869	2,642	-
Allergy and Infectious Diseases Research	Immune Tolerance Network	93.855	Benaroya Research Institute at Virginia Mason	UM 1AI109565	146,780	-
Biomedical Research and Research Training	Dakota Cancer Collaborative on Translational Activity	93.859	University of North Dakota	U54 GM128729	38,430	-
Biomedical Research and Research Training	Pathogenesis of Diseases Caused by Aberrant COPII Megavesicle Assembly	93.859	Iowa State University	R01 GM110373	23,757	-
Biomedical Research and Research Training	South Dakota Biomedical Research Infrastructure Network	93.859	Augustana University	P20 GM103443	4,680	-
Child Health and Human Development Extramural Research	NICHD Cooperative Multicenter Neonatal Research Network	93.865	University of Iowa	UG1 HD053109	40,719	-
Responding to Intimate Violence in Relationship Programs (RIVIR)	Responding to Intimate Violence in Relationship Programs (RIVIR)	93.RD	Volunteers of America, Dakotas	HHSP2332009565 1WC	4,174	-
<b>Total Department of Health and Human Services Pass-through Programs</b>					<u>1,081,537</u>	<u>13,998</u>
<b>Total Research and Development Cluster</b>					<u>12,508,848</u>	<u>1,126,102</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	18-0843-606	104,275	-
Child Care and Development Block Grant	ABER - Region 3 ECE Contract	93.575	South Dakota Department of Social Services	19-0843-606	127,632	-
Child Care and Development Block Grant	ABER - Region 3 Responsive Parenting	93.575	South Dakota Department of Social Services	18-0800-026	2,728	-
Child Care and Development Block Grant	Region 5 ECE	93.575	South Dakota Department of Social Services	19-0843-608	336,616	-

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Child Care and Development Block Grant	SD Child Development Association Training - Instructor of Record	93.575	South Dakota Department of Social Services	18-0800-028	\$ 3,101	\$ -
Child Care and Development Block Grant	ABER - Region 3 Responsive Parenting	93.575	South Dakota Department of Social Services	19-0800-084	188	-
Child Care and Development Block Grant	SF - Reg. 5 Responsive Parenting	93.575	South Dakota Department of Social Services	18-0800-041	9,631	-
Child Care and Development Block Grant	SF - Reg. 5 Responsive Parenting	93.575	South Dakota Department of Social Services	19-0800-075	5,933	-
Child Care and Development Block Grant	SD Child Development Association Training - Instructor of Record	93.575	South Dakota Department of Social Services	19-0800-076	4,428	-
Child Care and Development Block Grant	SF - Region 5 ECE	93.575	South Dakota Department of Social Services	18-0843-608	235,727	-
Child Care and Development Block Grant	Social Emotional Program	93.575	South Dakota Department of Social Services	19-0843-661	38,351	-
Child Care and Development Block Grant	SF - Social Emotional Project	93.575	South Dakota Department of Social Services	18-0843-661	16,059	-
<b>Total Department of Health and Human Services Pass-through Programs</b>					<u>884,669</u>	<u>-</u>
<b>Total Childcare and Development Fund Cluster</b>					<u>884,669</u>	<u>-</u>
<b>Housing Voucher Cluster</b>						
<b>Department of Housing and Urban Development Pass-through Programs</b>						
Section 8 Housing Choice Vouchers	Housing Choice Vouchers	14.871	Department of Housing and Urban Development	N/A	432,586	-
<b>Total Department of Housing and Urban Development Pass-through Programs</b>					<u>432,586</u>	<u>-</u>
<b>Total Housing Voucher Cluster</b>					<u>432,586</u>	<u>-</u>

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SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
<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	\$ 2,412	\$ -
Twenty-First Century Community Learning Centers	VOA, Dakotas 21st Century Community Learning Center Grant (STARS)	84.287	Volunteers of America, Dakotas	N/A	5,867	-
<b>Total Department of Education Pass-through Programs</b>					<u>8,279</u>	<u>-</u>
<b>Total Student Financial Aid Cluster</b>					<u>8,279</u>	<u>-</u>
<b>Highway Safety Cluster</b>						
<b>Department of Transportation Pass-through Programs</b>						
State and Community Highway Safety	PreHospital Trauma Training 2018	20.600	South Dakota Department of Health	18SCO90042	5,000	-
State and Community Highway Safety	SF Highway Safety Training 2018	20.600	South Dakota Department of Health	18SCO90044	15,000	-
<b>Total Department of Transportation Pass-through Programs</b>					<u>20,000</u>	<u>-</u>
<b>Total Highway Safety Cluster</b>					<u>20,000</u>	<u>-</u>
<b>Other Programs</b>						
<b>Department of Agriculture Pass-through Programs</b>						
Special Supplemental Nutrition Program for Women, Infants, and Children	Chamberlain PHA - SHN Home Health Services	10.557	South Dakota Department of Health	18SC090181	21,132	-
Special Supplemental Nutrition Program for Women, Infants, and Children	Public Health Alliance Deuel County (Clear Lake)	10.557	South Dakota Department of Health	18SC090311	4,484	-
Special Supplemental Nutrition Program for Women, Infants, and Children	Public Health Alliance Deuel County (Clear Lake)	10.557	South Dakota Department of Health	19SC090311	5,253	-
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	6,015	-
Child and Adult Care Food Program	Family Daycare Network	10.558	South Dakota Department of Education	N/A	1,426,152	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Child and Adult Care Food Program	Fargo USDA Food Program FY19	10.558	North Dakota Department of Public Instruction	N/A	\$ 7,906	\$ -
Child and Adult Care Food Program	Fargo USDA Food Program FY18	10.558	North Dakota Department of Public Instruction	09-317	6,580	-
Child and Adult Care Food Program	Women, Infant and Children (WIC) Mayville	10.558	North Dakota Department of Health	G17.1005	43,670	-
Distance Learning and Telemedicine Loans and Grants	Sioux Falls Ebola Care	10.855	South Dakota Department of Health	16EBA01	107,476	-
<b>Total Department of Agriculture Pass-through Programs</b>					<u>1,628,668</u>	<u>-</u>
<b>Department of Defense Pass-through Programs</b>						
Uniformed Services University Medical Research	Gynecologic Cancer Center of Excellence (GYN-COE) with funding from the Uniformed Services University of the Health Sciences and the Defense Health Program (PAIRED)	12.750	Uniformed Services University of the Health Sciences	HU0001-16-2-0006	1,514	-
<b>Total Department of Defense Pass-through Programs</b>					<u>1,514</u>	<u>-</u>
<b>Department of Justice Pass-through Programs</b>						
Crime Victim Assistance	CACSD VOCA Grant	16.575	South Dakota Department of Social Services	19-0815-694	4,925	-
Crime Victim Assistance	SF - VOCA Forensic Interviewer and Family Advocate	16.575	South Dakota Department of Social Services	19SC084658	102,563	-
Crime Victim Assistance	CACSD Watertown VOCA Grant	16.575	South Dakota Department of Social Services	18-0815-694	8,387	-
Crime Victim Assistance	SF - VOCA Forensic Interviewer and Family Advocate	16.575	South Dakota Department of Social Services	18SC084658	43,651	-
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	42,486	-

(Continued)



SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Improving the Investigation and Prosecution of Child Abuse and the Regional and Local Children's Advocacy Centers	CACSD Annual Training Subaward	16.758	Children's of MN (NCA)	91032-2017-09	\$ 15,000	\$ -
Improving the Investigation and Prosecution of Child Abuse and the Regional and Local Children's Advocacy Centers	CACSD Annual Training Subaward	16.758	Children's of MN (NCA)	91032-2018-09	1,750	-
Improving the Investigation and Prosecution of Child Abuse and the Regional and Local Children's Advocacy Centers	CACSD State Chapter Support (PRIME application)	16.758	National Children's Alliance	N/A	75,000	-
<b>Total Department of Justice Pass-through Programs</b>					293,762	-
<b>National Endowment for the Arts Pass-through Programs</b>						
Promotion of the Arts Partnership Agreements	SDAC AISC Program	45.025	South Dakota Arts Council	18-AISC-XXX	17,211	-
Promotion of the Arts Partnership Agreements	Artists in Schools and Communities	45.025	South Dakota Arts Council	19-AISC-XXX	9,937	-
<b>Total National Endowment for the Arts Pass-through Programs</b>					27,148	-
<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	177,860	60,464
<b>Total Department of Health and Human Services Direct Programs</b>					177,860	60,464
<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	18SC090311	17	-
Public Health Emergency Preparedness	Public Health Alliance Deuel County (Clear Lake)	93.069	South Dakota Department of Health	19SC090311	781	-
Blood Disorder Program: Prevention, Surveillance, and Research	(CDC) Fargo Hemophilia - ATHN Grant	93.080	Great Lakes Hemophilia Foundation	ATHN2015-001-VW-3-562	18,910	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Blood Disorder Program: Prevention, Surveillance, and Research	(CDC) SF Hemophilia - ATHN Grant	93.080	Great Lakes Hemophilia Foundation	ATHN2015-001- VW-3-573	\$ 1,918	\$ -
Healthy Marriage Promotion and Responsible Fatherhood Grants	Dakotas Healthy Marriage Project	93.086	Volunteers of America, Dakotas	90FM0091	54,056	-
Affordable Care Act (ACA) Personal Responsibility Education Program	STI and Teen Pregnancy Prevention Initiative	93.092	Great Plains Tribal Chairman's Health Board	90AT0024	92,550	-
Maternal and Child Health Federal Consolidated Programs	(HRSA) Fargo Hemophilia HTC	93.110	Great Lakes Hemophilia Foundation	H30MC24052	18,305	-
Maternal and Child Health Federal Consolidated Programs	(HRSA) SF Hemophilia HTC	93.110	Great Lakes Hemophilia Foundation	H30MC24052	5,037	-
Maternal and Child Health Federal Consolidated Programs	Community Interdisciplinary Training-NICU	93.110	University of South Dakota School of Medicine	18-1520-056	500	-
Maternal and Child Health Federal Consolidated Programs	Community Training Director LEND	93.110	University of South Dakota School of Medicine	U18-230	5,000	-
Maternal and Child Health Federal Consolidated Programs	Hemophilia Program Income - Fargo	93.110	Great Lakes Hemophilia Foundation	H30MC24052	616,835	-
Maternal and Child Health Federal Consolidated Programs	LEND Workshops - Director Positions	93.110	University of South Dakota School of Medicine	U18-098	10,000	-
Maternal and Child Health Federal Consolidated Programs	Aberdeen Family Planning Services 2017-2018	93.110	South Dakota Department of Health	18SC090252	525	-
Maternal and Child Health Federal Consolidated Programs	Community Interdisciplinary Training-NICU	93.110	University of South Dakota School of Medicine	19-1520-047	500	-
Maternal and Child Health Federal Consolidated Programs	LEND Workshops - Director Positions	93.110	University of South Dakota School of Medicine	19-1520-046	10,000	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
Oral Diseases and Disorders Research	Immune Dysregulation by Human Papillomavirus during Head and Neck Cancer Progression	93.121	University of Colorado Denver	R01 DE026125	\$ 297,516	\$ -
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	5,205	-
Research and Training in Complementary and Alternative Medicine	TACT2 Trial to Assess Chelation Therapy	93.213	Mount Sinai Medical Center	UH3 AT009149	3,000	-
Family Planning Services	Aberdeen Family Planning Services 2018-2019	93.217	South Dakota Department of Health	19SC090175	126	-
Family Planning Services	Mitchell Family Planning Clinic	93.217	South Dakota Department of Health	18SC090014	3,376	-
Family Planning Services	SF Midtown Family Planning Clinic	93.217	South Dakota Department of Health	18SC090595	26,168	-
Family Planning Services	SF Midtown Family Planning Clinic 2018-2019	93.217	South Dakota Department of Health	19SC090595	71,773	-
Family Planning Services	Brookings Family Planning Clinic 2018-2019	93.217	South Dakota Department of Health	19SC090742	964	-
Family Planning Services	Watertown Family Planning Clinic	93.217	South Dakota Department of Health	18SC090064	1,938	-
Family Planning Services	Watertown Family Planning 2018-2019	93.217	South Dakota Department of Health	19SC090064	47,399	-
Research on Healthcare Costs, Quality and Outcomes	NICU Performance: Missed Nursing Care and Infant Outcomes	93.226	University of Pennsylvania	R01 HS024918	250	-
Research on Healthcare Costs, Quality and Outcomes	Patient Centered Outcomes Research Partnership	93.226	University of Washington	R25 HS023207	672	-
State Rural Hospital Flexibility Program	SF (FLEX) - TNCC Program	93.241	South Dakota Department of Health	18SC090065	25,000	-
State Rural Hospital Flexibility Program	FLEX - Mental Health First Aid Community Training	93.241	South Dakota Department of Health	18SC097009	7,500	-
State Rural Hospital Flexibility Program	Flex - Mental Health First Aid Training - Clear Lake	93.241	South Dakota Department of Health	18SC097012	7,425	-
State Rural Hospital Flexibility Program	Flex - Mental Health First Aid Training - Webster	93.241	South Dakota Department of Health	18SC097011	7,425	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

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	FLEX -PG Improvement Sessions	93.241	South Dakota Department of Health	18SC097010	\$ 17,000	\$ -
State Rural Hospital Flexibility Program	SF (FLEX) - TNCC Program	93.241	South Dakota Department of Health	19SCO90806	25,000	-
Mental Health Research Grants	Affective and Neurocognitive Dimensions across Eating Disorder Psychopathology (Lavendar K23)	93.242	University of California	K23MH101342	10,521	-
Mental Health Research Grants	Microbiome-Mediated Weight, Anxiety, and Stress Dysregulation in Anorexia Nervosa (UNC AN Micro)	93.242	University of North Carolina	R01MH105684	778	-
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	38,636	-
Mental Health Research Grants	Regional PostDoc Training Grant in Easting Disorders Research (T32)	93.242	University of Minnesota	T32MH082761	51,705	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	New Start Residential Treatment for Pregnant & Postpartum Women Project	93.243	Volunteers of America, Dakotas	H79 TI025571	30,303	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	Sicangu Native Connections Project	93.243	Sinte Gleska University	H79 SM063489	46,242	-
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	22,178	-
Advanced Nursing Education Workforce Grant Program	ENT - APRN Traineeship Immersion: Enhancing the Academic /Practice Partnership for Rural Primary Care	93.247	South Dakota State University	N/A	95,762	-
Immunization Cooperative Agreements	Chamberlain PHA - SHN Home Health Services	93.268	South Dakota Department of Health	18SC090181	2,242	-
Immunization Cooperative Agreements	Public Health Alliance Deuel County (Clear Lake)	93.268	South Dakota Department of Health	18SC090311	1,744	-
Immunization Cooperative Agreements	Public Health Alliance Deuel County (Clear Lake)	93.268	South Dakota Department of Health	19SC090311	2,930	-
Small Rural Hospital Improvement Grant Program	Bagley SHIP - Press Ganey	93.301	Minnesota Department of Health	127816	8,400	-
Small Rural Hospital Improvement Grant Program	SHIP - MN Bagley	93.301	Minnesota Department of Health	3000058103	3,878	-

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

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	Canton-Inwood SHIP 340B Audit	93.301	South Dakota Department of Health	18SC093027	\$ 3,000	\$ -
Small Rural Hospital Improvement Grant Program	Chamberlain SHIP Press Ganey	93.301	South Dakota Department of Health	18SC093028	1,767	-
Small Rural Hospital Improvement Grant Program	Clear Lake SHIP Signage	93.301	South Dakota Department of Health	18SC093029	9,000	-
Small Rural Hospital Improvement Grant Program	HILLS SHIP Press Ganey	93.301	North Dakota Department of Health	UND10584	831	-
Small Rural Hospital Improvement Grant Program	Jackson SHIP Telemount ED and Press Ganey	93.301	Minnesota Department of Health	127780	3,333	-
Small Rural Hospital Improvement Grant Program	SHIP - MN Jackson	93.301	Minnesota Department of Health	3000058293	6,587	-
Small Rural Hospital Improvement Grant Program	Luverne SHIP - Handheld VSCAN Doppler	93.301	Minnesota Department of Health	127784	8,400	-
Small Rural Hospital Improvement Grant Program	SHIP - MN Luverne	93.301	Minnesota Department of Health	3000058391	682	-
Small Rural Hospital Improvement Grant Program	Mayville SHIP Press Ganey	93.301	North Dakota Department of Health	UND10585	998	-
Small Rural Hospital Improvement Grant Program	Rock Rapids SHIP - Ultrasound Cleaning Equipment	93.301	Iowa Department of Health	5888SH01	9,000	-
Small Rural Hospital Improvement Grant Program	Sheldon SHIP - Quality HEN program	93.301	Iowa Department of Health	N/A	9,000	-
Small Rural Hospital Improvement Grant Program	Tracy SHIP - Press Ganey	93.301	Minnesota Department of Health	127750	2,767	-
Small Rural Hospital Improvement Grant Program	SHIP - MN Tracy	93.301	Minnesota Department of Health	3000058888	7,323	-
Small Rural Hospital Improvement Grant Program	TRF SHIP - Press Ganey	93.301	Minnesota Department of Health	127747	8,400	-
Small Rural Hospital Improvement Grant Program	SHIP - ND Hillsboro (PG) (2018-2019)	93.301	North Dakota Department of Health	UND10696	6,760	-
Small Rural Hospital Improvement Grant Program	SHIP - ND Mayville	93.301	North Dakota Department of Health	UND10697	6,587	-
Small Rural Hospital Improvement Grant Program	Webster SHIP Press Ganey	93.301	South Dakota Department of Health	18SC093031	3,000	-
Small Rural Hospital Improvement Grant Program	SHIP - SD Canton	93.301	South Dakota Department of Health	19SC093016	6,240	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

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	SHIP - SD Vermillion	93.301	South Dakota Department of Health	19SC093019	\$ 9,221	\$ -
Small Rural Hospital Improvement Grant Program	SHIP - SD Webster	93.301	South Dakota Department of Health	19SC093020	5,934	-
Small Rural Hospital Improvement Grant Program	Westbrook SHIP - Press Ganey	93.301	Minnesota Department of Health	127740	3,600	-
Small Rural Hospital Improvement Grant Program	SHIP-MN TRF	93.301	Minnesota Department of Health	3000058830	9,717	-
Small Rural Hospital Improvement Grant Program	SHIP-MN Westbrook	93.301	Minnesota Department of Health	3000058882	6,240	-
Small Rural Hospital Improvement Grant Program	SHIP - MN Worthington	93.301	Minnesota Department of Health	3000058879	9,717	-
Small Rural Hospital Improvement Grant Program	Worthington SHIP - EMR Software of Anesthesia	93.301	Minnesota Department of Health	127745	8,400	-
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	NHSN AU/AR Module - Antibiotic Prescribing	93.521	South Dakota Department of Health	18SC090240	168,180	-
Transitional Living for Homeless Youth	Dakotas Transitional Living Program	93.550	Volunteers of America, Dakotas	90CX7085	4,703	-
Basic Center Grant	Dakotas Basic Center Program	93.623	Volunteers of America, Dakotas	90CY6743	7,919	-
ACA-Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)	CMS TCPI/PTN Collaborative	93.638	Iowa Healthcare Collaborative	1L1CMS331451-01-00-06	501,868	-
PPHF: Community Transformation Grants -Small Communities Program financed solely by Public Prevention and Health Funds	Jackson Community Wellness Grant	93.737	Minnesota Department of Health	N/A	6,690	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
PPHF: Community Transformation Grants -Small Communities Program financed solely by Public Prevention and Health Funds	Worthington Community Wellness Grant	93.737	Minnesota Department of Health	N/A	\$ 7,562	\$ -
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	GI7.190	37,302	-
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke	Social Determinants of Health Expansion	93.757	North Dakota Department of Health	N/A	42,255	-
Opioid State Targeted Response	Opioid State Targeted Response	93.788	South Dakota Department of Health	18SC090316	10,000	-
Organized Approaches to Increase Colorectal Cancer Screening	South Dakota Organized Approaches to Increase Colorectal Cancer Screening	93.800	South Dakota Department of Health	18SC090326	114,182	-
	Patient Navigation and Survivorship	93.808	South Dakota Department of Health	180SC090238	170,410	-
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	Bemidji Ebola Preparedness Project	93.817	Minnesota Department of Health	102275	35,686	-
National Bioterrorism Hospital Preparedness Program	Bemidji - NW Region Emergency Preparedness	93.889	Minnesota Department of Health	127130	219,347	-
National Bioterrorism Hospital Preparedness Program	Bemidji Burn Surge Drill Grant	93.889	Minnesota Department of Health	137543	3,000	-
National Bioterrorism Hospital Preparedness Program	Canby SWEPT 2017-2018	93.889	Southwest Emergency Medical Services	N/A	1,540	-
National Bioterrorism Hospital Preparedness Program	Canby SWEPT Project 2018-2019	93.889	Southwest Emergency Medical Services	N/A	575	-
National Bioterrorism Hospital Preparedness Program	Clear Lake HPP Special Funds - Ipad	93.889	South Dakota Department of Health	N/A	318	-
National Bioterrorism Hospital Preparedness Program	Luverne SWEPT 2017-2018	93.889	Southwest Emergency Medical Services	N/A	2,472	-
National Bioterrorism Hospital Preparedness Program	Luverne SWEPT Project 2018-2019	93.889	Southwest Emergency Medical Services	N/A	1,615	-

(Continued)

SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Cluster/Program	Program Title	Federal CFDA Number	Pass-through Agency	Grantor Agency or Pass-through Identification Number	Expenditures	Expenditures Passed-through to Subrecipients
National Bioterrorism Hospital Preparedness Program	Rock Rapids HPP Grant	93.889	Iowa Department of Health	N/A	\$ 5,920	\$ -
National Bioterrorism Hospital Preparedness Program	SF-HPP Coalition	93.889	South Dakota Department of Health	N/A	50,000	-
National Bioterrorism Hospital Preparedness Program	Sheldon Hospital Response Program	93.889	Iowa Department of Health	N/A	8,192	-
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	Nutrition Intervention for Cancer Patients	93.898	South Dakota Department of Health	N/A	9,791	-
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	All Women Count 2017-2018	93.898	South Dakota Department of Health	18SC090213	3,750	-
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	All Women Count 2018-2019	93.898	South Dakota Department of Health	19SC090213	5,250	-
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	Breast and Cervical Cancer Patient Navigation	93.898	South Dakota Department of Health	19SC090382	9,171	-
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 and Services Administration	D06RH31046	95,339	-
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 and Services Administration	G20RH30546	246,852	-
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	Vermillion - Virtual Infusion	93.912	Health Resources and Services Administration	D04RH28431	169,985	-
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	174,332	-
Maternal and Child Health Services Block Grant to the States	2017-2019 CTC Clinic Fargo	93.994	North Dakota Department of Health	G17.506	44,655	-
Maternal and Child Health Services Block Grant to the States	Chamberlain PHA - SHN Home Health Services	93.994	South Dakota Department of Health	18SC090181	3,118	-

(Continued)



SANFORD

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

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	FAR - CSHS Medical Home Quality Improvement	93.994	North Dakota Department of Health	G17.573	\$ 1,852	\$ -
Maternal and Child Health Services Block Grant to the States	FitCare Projects	93.994	South Dakota Department of Social Services	18SC090823	53,028	-
Maternal and Child Health Services Block Grant to the States	FitCare Projects	93.994	South Dakota Department of Social Services	19SC090823	43,129	-
Maternal and Child Health Services Block Grant to the States	Genetics Outreach Clinic	93.994	South Dakota Department of Health	18SCO90783	6,945	-
Maternal and Child Health Services Block Grant to the States	Genetics Outreach Clinic	93.994	South Dakota Department of Health	19SCO90783	7,029	-
Maternal and Child Health Services Block Grant to the States	Newborn Metabolic Screening (SF)	93.994	South Dakota Department of Health	18SC090911	42,806	-
Maternal and Child Health Services Block Grant to the States	Newborn Metabolic Screening (SF)	93.994	South Dakota Department of Health	19SCO90911	22,129	-
Maternal and Child Health Services Block Grant to the States	Public Health Alliance Deuel County (Clear Lake)	93.994	South Dakota Department of Health	18SC090311	470	-
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	1,195	-
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	55	-
<b>Total Department of Health and Human Service Pass-through Programs</b>					<u>4,185,111</u>	<u>-</u>
<b>Total Other Programs</b>					<u>6,314,063</u>	<u>60,464</u>
<b>Total Federal Expenditures</b>					<u>\$ 20,168,445</u>	<u>\$ 1,186,566</u>

See notes to consolidated schedule of expenditures of federal awards.

(Concluded)

NOTES TO CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

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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, 2018. 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, Sanford Research North, and Sanford Medical Center Fargo awards may use a provisional indirect rate of 64.0%, 61.5%, and 66.0%, respectively, of the modified total direct cost base for direct research programs.

**3. NONCASH FEDERAL AWARDS**

For the year ended December 31, 2018, there were no noncash awards received or included as expenditures in the Schedule.

**4. FEDERAL AGENCY**

For the year ended December 31, 2018, Sanford's expenditures of federal awards by federal agency were as follows:

Department of Agriculture	\$ 1,628,668
Department of Defense	1,514
Department of Education	8,279
Department of Health and Human Services	17,653,352
Department of Housing and Urban Development	432,586
Department of Justice	293,762
Department of Transportation	20,000
National Endowment for the Arts	27,148
National Science Foundation	103,136
	<u>\$ 20,168,445</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 above.

**6. SUBRECIPIENTS**

For the year ended December 31, 2018, amounts provided to subrecipients totaled \$1,186,566 and are listed by program on the Schedule.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

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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

- 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, 2018

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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, 2018

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**SECTION IV – PRIOR YEAR AUDIT FINDINGS**

No prior year audit findings reported.

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