ProMedica Health System and Subsidiaries

Consolidated Financial Report
with Supplemental Information
December 31, 2020

Contents

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Independent Auditor's Report

To the Board of Directors
ProMedica Health System and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ProMedica Health System and Subsidiaries (the "System"), which comprise the consolidated balance sheet as of December 31, 2020 and 2019 and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of ProMedica Insurance Corporation and ProMedica Indemnity Company were not audited 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ProMedica Health System and Subsidiaries as of December 31, 2020 and 2019 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
ProMedica Health System and Subsidiaries

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the historical paid and incurred loss data for the years ended December 31, 2018 to December 31, 2020, included in Note 14 to the consolidated financial statements, be presented to supplement the basic consolidated financial statements. Such information, although not a required part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2021 on our consideration of ProMedica Health System and Subsidiaries' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ProMedica Health System and Subsidiaries' internal control over financial reporting and compliance.

Plante & Moran, PLLC

April 21, 2021

Consolidated Balance Sheet

December 31, 2020 and 2019
(In Thousands)

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	$ 944,675	$ 379,698
Marketable securities (Note 19)	248,672	260,616
Assets limited as to use or restricted (Notes 7 and 19)	16,995	11,501
Accounts receivable - Net	529,216	617,347
Estimated third-party payor receivable	17,404	43,850
Supplies	43,766	32,150
Assets held for sale (Note 26)	40,300	-
Other current assets	204,654	148,812
Total current assets	2,045,682	1,493,974
Noncurrent Assets Limited as to Use or Restricted - Net of amount required to meet current obligations (Notes 7 and 19)		
Restricted funds (Note 16)	150,349	145,160
Professional liability and workers' compensation insurance funds	66,094	56,005
Internally designated for capital acquisition	974,362	618,420
Other segregated investments	290,609	367,201
Total noncurrent assets limited as to use or restricted	1,481,414	1,186,786
Property and Equipment - Net (Note 8)	1,655,090	1,672,508
Right-of-use Operating Lease Assets (Note 11)	2,077,875	2,077,311
Other Assets		
Goodwill (Note 9)	1,098,769	1,149,383
Intangible assets (Note 9)	166,413	181,406
Pension (Note 15)	41,928	7,936
Investment in affiliated companies (Note 23)	620,950	640,460
Other	64,919	85,592
Total other assets	1,992,979	2,064,777
Total assets	**$ 9,253,040**	**$ 8,495,356**

See notes to consolidated financial statements.

Consolidated Balance Sheet (Continued)

December 31, 2020 and 2019
(In Thousands)

	2020	2019
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and other accrued expenses	$ 600,746	$ 439,841
Contractual current installments of long-term debt (Note 10)	17,425	15,810
Contingent current installments of long-term debt (Note 10)	433,247	439,900
Estimated third-party payor settlements	59,026	58,561
Current portion of lease liabilities - Financing (Note 11)	4,056	3,109
Current portion of lease liabilities - Operating (Note 11)	115,193	95,442
Accrued liabilities and other:		
Compensation and benefits	336,110	319,638
Professional liability and workers' compensation (Note 12)	103,367	109,846
Claims expense (Note 13)	143,033	119,295
Other current liabilities	381,762	5,534
Total current liabilities	2,193,965	1,606,976
Long-term Debt - Less current installments (Note 10)	1,866,446	1,868,563
Lease Liabilities - Financing (Note 11)	27,411	23,489
Lease Liabilities - Operating (Note 11)	2,045,218	2,033,162
Other Liabilities		
Accrued professional liability and workers' compensation - Less current portion (Note 12)	260,187	276,734
Deferred compensation (Note 15)	50,188	44,010
Pension (Note 15)	713	745
Other	93,177	47,696
Total other liabilities	404,265	369,185
Total liabilities	6,537,305	5,901,375
Net Assets		
Without donor restrictions:		
Controlling interest	2,552,671	2,400,056
Noncontrolling interest	12,715	48,763
Total without donor restrictions	2,565,386	2,448,819
With donor restrictions (Note 16)	150,349	145,162
Total net assets	2,715,735	2,593,981
Total liabilities and net assets	**$ 9,253,040**	**$ 8,495,356**

See notes to consolidated financial statements.

Consolidated Statement of Operations and Changes in Net Assets

Years Ended December 31, 2020 and 2019

(In Thousands)

	2020	2019
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue (Note 6)	$ 4,385,323	$ 4,801,184
Premium revenue	1,985,950	1,933,569
Other	477,699	110,224
Net assets released for use in operations	12,293	13,108
Total unrestricted revenue, gains, and other support	6,861,265	6,858,085
Expenses		
Salaries, wages, and employee benefits	2,899,734	2,974,317
Food and drugs	322,846	347,009
Medical expenses	1,408,839	1,489,816
Contracted fees	711,008	620,473
Supplies	301,265	288,309
Insurance	92,434	84,654
Utilities	90,393	96,322
Other	753,824	759,774
Total expenses (Note 18)	6,580,343	6,660,674
Operating Income before Depreciation, Amortization, and Impairment Expense	280,922	197,411
Depreciation, Amortization, and Impairment	229,704	195,295
Operating Income	51,218	2,116
Other (Loss) Income		
Interest expense	(114,644)	(109,923)
Investment income	161,763	151,003
Income tax expense (Note 17)	(8,326)	(2,660)
Inherent contribution	-	4,126
Other	(1,478)	14,091
Total other income - Net	37,315	56,637
Excess of Revenue Over Expenses before Restructuring, Severance, and Acquisition Costs	88,533	58,753
Restructuring, Severance, and Acquisition Costs (Note 2)	(1,307)	(1,294)
Excess of Revenue Over Expenses	**$ 87,226**	**$ 57,459**

Consolidated Statement of Operations and Changes in Net Assets (Continued)

Years Ended December 31, 2020 and 2019

(In Thousands)

	Net Assets without Donor Restrictions - Controlling Interest	Net Assets without Donor Restrictions - Noncontrolling Interest	Total Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Net Assets - January 1, 2019	$ 2,319,062	$ 50,525	$ 2,369,587	$ 128,407	$ 2,497,994
Excess of revenue over (under) expenses	57,851	(392)	57,459	-	57,459
Restricted investment income	-	-	-	13,729	13,729
Restricted contributions and transfers - Net	-	-	-	20,897	20,897
Net assets released from restrictions for operations	-	-	-	(13,108)	(13,108)
Net assets released from restrictions for fixed assets	4,763	-	4,763	(4,763)	-
Capital contributions by noncontrolling members	(59)	64	5	-	5
Distributions to noncontrolling interests	-	(1,434)	(1,434)	-	(1,434)
Pension and other postretirement adjustments	24,605	-	24,605	-	24,605
Loss on discontinued operations (Note 24)	(6,166)	-	(6,166)	-	(6,166)
Increase (decrease) in net assets	80,994	(1,762)	79,232	16,755	95,987
Net Assets - December 31, 2019	2,400,056	48,763	2,448,819	145,162	2,593,981
Excess of revenue over (under) expenses	122,678	(35,452)	87,226	-	87,226
Restricted investment income	-	-	-	10,167	10,167
Restricted contributions and transfers - Net	-	-	-	13,623	13,623
Net assets released from restrictions for operations	-	-	-	(12,293)	(12,293)
Net assets released from restrictions for fixed assets	6,592	-	6,592	(6,592)	-
Capital contributions by noncontrolling members	-	680	680	-	680
Distributions to noncontrolling interests	-	(1,276)	(1,276)	-	(1,276)
Pension and other postretirement adjustments	24,054	-	24,054	-	24,054
Loss on discontinued operations (Note 24)	(709)	-	(709)	-	(709)
Other	-	-	-	282	282
Increase (decrease) in net assets	152,615	(36,048)	116,567	5,187	121,754
Net Assets - December 31, 2020	**$ 2,552,671**	**$ 12,715**	**$ 2,565,386**	**$ 150,349**	**$ 2,715,735**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended December 31, 2020 and 2019
(In Thousands)

	2020	2019
Cash Flows from Operating Activities		
Increase in net assets	$ 121,754	$ 95,987
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	193,942	177,508
Gain on sale of equipment	(13,373)	(2,785)
Asset impairment	35,762	17,788
Accelerated depreciation	7,265	5,066
Noncontrolling interests in acquisitions	-	(64)
Investment income, including realized and unrealized gains	(133,238)	(134,876)
Distributions to noncontrolling interests	596	1,434
Restricted contributions and other	(13,623)	(20,897)
Amortization of debt discounts, premiums, and issuance costs	737	1,041
Changes in operating assets and liabilities that provided (used) cash - Net of business combinations:		
Accounts receivable and estimated third-party payor receivables	88,131	24,959
Supplies and other current assets	(67,458)	(2,705)
Other assets	212	(32,677)
Accounts payable and accrued expenses	169,738	2,828
Estimated third-party payor settlements	26,911	16,987
Pension	(34,024)	(31,653)
Other liabilities	427,092	(46,876)
Operating right-of-use assets and lease liabilities	31,243	50,570
Net cash provided by operating activities	841,667	121,635
Cash Flows from Investing Activities		
Acquisition of property and equipment	(172,408)	(236,689)
Proceeds from sale of equipment	15,128	4,278
Payments for business combinations - Net of cash acquired	(8,484)	-
Distributions from joint ventures	51,415	38,134
Investments in joint ventures	(7,871)	(4,039)
Purchase of investments	(1,507,195)	(2,113,622)
Proceeds from sale of investments	1,392,225	2,279,157
Decrease in total assets limited as to use or restricted	(34,587)	(33,932)
Net cash used in investing activities	(271,777)	(66,713)
Cash Flows from Financing Activities		
Proceeds from long-term debt	7,502	-
Repayment of long-term debt	(14,064)	(19,219)
Payments on capital lease obligations	(5,995)	(2,758)
Distributions to noncontrolling interests	(596)	(1,434)
Restricted contributions and other	13,623	20,897
Net cash provided by (used in) financing activities	470	(2,514)
Net Increase in Cash and Cash Equivalents	570,360	52,408
Cash and Cash Equivalents - Beginning of year	391,020	338,612
Cash and Cash Equivalents - End of year	**$ 961,380**	**$ 391,020**
Supplemental Cash Flow Information		
Cash paid for interest - Net of amount capitalized	$ 114,935	$ 114,219
Cash paid for taxes	10,487	5,673
Acquisition of property through accounts payable	7,665	1,535
Significant Noncash Transactions		
Recognition of operating lease right-of-use assets and liabilities on January 1, 2019	$ -	$ 2,187,524
Recognition of new operating lease right-of-use assets and liabilities	15,212	13,901
Recognition of new finance leases	11,040	1,720

See notes to consolidated financial statements.

Note 1 - Basis of Presentation and Affiliated Entities

ProMedica Health System (ProMedica), an Ohio not-for-profit corporation, and its subsidiaries (collectively, the "System") constitute a comprehensive health care system offering medical, surgical, psychiatric, rehabilitative, skilled nursing, home health, and hospice services across 28 states. The System includes a large employed physician group, practices, and insurance for health and dental coverage. ProMedica is the sole member or parent of the sole member of the following subsidiaries:

- The Toledo Hospital (Toledo), which includes the accounts of Toledo Children's Hospital, Wildwood Orthopedic and Spine Hospital, and Flower Hospital (Flower)
- Fostoria Hospital Association (Fostoria)
- Defiance Hospital, Inc. (Defiance)
- Bay Park Community Hospital (Bay Park)
- Emma L. Bixby Medical Center (Bixby)
- Herrick Memorial Hospital, Inc. (Herrick)
- Lenawee Long Term Care
- Memorial Hospital (Memorial)
- Mercy Memorial Hospital Corporation (Monroe)
- ProMedica Physician Group (PPG)
- ProMedica Continuum Services (PCS)
- ProMedica Continuing Care Services Corp. (PCCSC)
- ProMedica Indemnity Corporation (Indemnity)
- ProMedica Foundation (Foundation)
- ProMedica Insurance Corporation (PIC)
- ProMedica Coldwater Regional Hospital (Coldwater)
- HCR ManorCare, Inc. and Subsidiaries (HCR)
- ProMedica Charles and Virginia Hickman Hospital (Hickman)

Emma L. Bixby Medical Center (Bixby) and Herrick Memorial Hospital, Inc. (Herrick) were merged into one location at the new ProMedica Charles and Virginia Hickman Hospital (Hickman) in September 2020. The financial information for Hickman in the supplemental schedules include the 2020 results for all three entities.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of ProMedica and its controlled subsidiaries. Investments in entities not controlled by the System are reflected in the accompanying consolidated financial statements on the equity method. All significant intercompany transactions have been eliminated in the consolidated financial statements.

Investments in Affiliated Companies

Under the equity method, the investment is originally recorded at cost and is adjusted to recognize the System's share of the net earnings or losses of the affiliate as they occur. Losses are limited to the extent of the System's investments in, advances to, and guarantees for the entity.

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The System considers liquid investments, including money market accounts, with an original maturity of three months or less, exclusive of those whose use is limited or restricted, to be cash equivalents.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheet to the amounts reported on the consolidated statement of cash flows (in thousands):

	2020	2019
Cash and cash equivalents	$ 944,675	$ 379,698
Cash and cash equivalents included in assets limited as to use	16,705	11,322
Total	$ 961,380	$ 391,020

Investments

Marketable securities and assets limited as to use (held by trustees) primarily represent cash equivalents, commercial paper, fixed-income securities, bank notes, certificates of deposit, governmental securities, real estate, and equity securities.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Purchases and sales of investments are accounted for as of the trade date, and sales are accounted for using the first-in, first-out method. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenue over expenses, unless the income or loss is restricted by donor or law.

Based on the System's investment strategy and philosophies, management has elected to classify substantially all of its investments in equity securities with readily determinable fair values and investments in debt securities as trading securities.

Investment Risks

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying consolidated balance sheet and consolidated statement of operations and changes in net assets.

- Quoted prices for similar assets in active markets
- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.)
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.)
- Inputs that are derived principally from or corroborated by other observable market data

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair values of trading securities are based on quoted market prices, where available. The System obtains pricing for each security from investment managers and the custodian or a third-party pricing service (the "pricing service"), which generally uses Level 1 or Level 2 inputs for the determination of fair value in accordance with the fair value hierarchy. Security prices are normally derived through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, nonbinding broker quotes, benchmark yields, credit spread, default rates, and prepayment spreads. As the System is responsible for the determination of fair value, it performs analyses on the prices received from the pricing service relative to the prices expected by the investment managers to determine whether the prices are reasonable estimates of fair value. As a result of these reviews, the System has not adjusted the prices obtained from the pricing service.

In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The System's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including consideration of inputs specific to the asset. Investments measured at fair value using net asset value (NAV) per share as a practical expedient are not categorized within the fair value hierarchy.

Assets Limited as to Use or Restricted

Assets limited as to use or restricted include the restricted assets of the foundations and other subsidiaries of the System, assets held by trustees under indenture agreements and self-insurance trust arrangements, and assets set aside by the board of trustees for future capital improvements and other designated purposes.

Fair Value of Financial Instruments

The System follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*. This guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The fair value hierarchy is as follows:

Level 1 - Quoted (unadjusted) prices for identical assets in active markets

Level 2 - Other observable inputs, either directly or indirectly

Level 3 - Unobservable inputs that cannot be corroborated by observable market data

Concentrations of Credit Risk

Financial instruments, which potentially subject the System to concentrations of credit risk, consist principally of cash and cash equivalents, marketable securities, patient accounts receivable, and assets limited as to use or restricted.

The System places its cash and cash equivalents with high-quality financial institutions. Concentration of credit risk with respect to marketable securities and assets limited as to use is restricted so that no one investment or group of similar investments, outside of those backed by the U.S. government, creates a significant concentration.

Note 2 - Summary of Significant Accounting Policies (Continued)

Concentration of credit risk relating to patient accounts receivable is limited to some extent by the diversity and number of the System's patients and payors. Patient accounts receivable consist of amounts due from governmental programs, commercial insurance companies, self-pay patients, and other group insurance programs. Excluding governmental programs, no one payor source represents more than 10 percent of the System's patient accounts receivable.

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of health care providers. The System is subject to these regulatory efforts. Management is currently unaware of any regulatory matters that may have a material adverse effect on the System's consolidated financial position or results of operations.

Supplies

Supplies (e.g., drugs, medical, and surgical supplies) are stated at the lower of cost (average cost) and net realizable value.

Property and Equipment

Property and equipment acquisitions (including capitalized internal-use software) are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under financing leases is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Estimated useful lives for each of the categories of assets are as follows:

Land improvements	2-25 years
Buildings and improvements	2-40 years
Equipment	2-20 years

Impairment of Long-lived Assets and Long-lived Assets to be Disposed Of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Asset Retirement Obligations

The fair value of the liability for legal obligations associated with asset retirements is recorded in the period in which it is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability, which is included in other long-term liabilities, is accreted to its present value, and the associated capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statement of operations and changes in net assets.

Goodwill

The excess of purchase price over the fair value of net tangible and intangible assets of an entity acquired in a business combination is recorded as goodwill. The System tests goodwill annually for impairment as of October 1.

Intangible Assets

Intangible assets that have finite useful lives are amortized over said useful lives on a straight-line basis over periods ranging from 1 to 50 years. The System tests intangible assets determined to have an indefinite useful life annually for impairment as of October 1.

Note 2 - Summary of Significant Accounting Policies (Continued)

Accrued Claims

Accrued claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported (IBNR).

Premium Deficiency Reserves

The reserve for premium deficiency, included in accrued claims, and the related expense are recognized when it is probable that expected future health care costs, under a group of existing contracts, will exceed future premiums and stop-loss coverage recoveries anticipated over the remaining term of the contract. The methods for making such estimates and for establishing the resulting reserves are periodically reviewed and updated. Any adjustments resulting therein are reflected in current operations. Estimates in reserves are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. The System had no premium deficiency reserves accrued at December 31, 2020 and 2019.

Centers for Medicare & Medicaid Services (CMS) Payable

The System, through its wholly owned subsidiary, PIC, serves as a plan sponsor offering Medicare Part D prescription drug insurance coverage under a contract with CMS. In general, pharmacy benefits under Medicare Part D plans may vary in terms of coverage levels and out-of-pocket costs for beneficiary premiums, deductibles, and coinsurance. However, all Medicare Part D plans must offer either "standard coverage" or its actuarial equivalent (with out-of-pocket threshold and deductible amounts that do not exceed those of standard coverage). These defined standard benefits represent the minimum level of benefits required under law. Depending on the insurance risk, payments received by PIC for coverage under the Medicare Part D plan are recorded as net premium revenue or accrued claims.

In addition to defined standard plans, other prescription drug plans are offered containing benefits in excess of the standard coverage limits, in many cases, for an additional beneficiary premium. Pharmacy benefit costs and administrative costs under the contract are expensed as incurred and are recognized in medical expenses in the consolidated statement of operations and changes in net assets.

Accounts Receivable

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges, reduced by explicit price concessions provided to third-party payors, discounts provided to qualifying individuals as part of our financial assistance policy, and implicit price concessions provided primarily to self-pay patients. Estimates for explicit price concessions are based on provider contracts, payment terms for relevant prospective payment systems, and historical experience adjusted for economic conditions and other trends affecting the System's ability to collect outstanding amounts.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records significant implicit price concessions in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition - Patient Service Revenue

Patient care service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others. The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients. Generally, the System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides an accurate depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute services or patients receiving services in our outpatient centers, senior living facilities, or other clinical settings. The System measures the performance obligation from admission into the hospitals or the commencement of an outpatient service, senior living facilities, or other visit, to the point when it is no longer required to provide services to that patient under the contract, which is generally at the time of discharge or completion of the outpatient services, day of services at the senior living facilities, or other visit. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to patients and customers in a retail setting (for example, pharmaceuticals and medical equipment), and the System does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14 (a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute-care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Other Operating Revenue

Nonpatient service revenue consists of retail pharmacy, cafeteria, and other sales to patients, employees, and visitors; grants; gifts; rental income; unrestricted contributions; and other miscellaneous income.

Note 2 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management of the System to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The System considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including, but not limited to, the following: recognition of net patient service revenue; recorded values of investments and goodwill; reserves for losses and expenses related to health care professional and general liability; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates.

Charity Care

The System provides care without charge to patients who meet certain criteria under its financial assistance policy. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Premium Revenue and Medical Expenses

The System has certain agreements with various health maintenance organizations (HMO) or through its wholly owned subsidiary, PIC, to provide medical services to subscribing participants. Premiums are recognized as income in the month that subscribing participants and enrollees are eligible to receive health care services. Medical expenses represent expenses incurred under contracts with health care providers; such costs are charged to expense in the month in which the service is rendered. These expenses include liabilities for reported claims and an estimate of IBNR claims using past experience adjusted for current trends.

CMS deploys a risk-adjustment model that apportions premiums paid to all health plans according to health severity and certain demographic factors. The CMS risk adjustment model pays more for members whose medical history indicates they have certain medical conditions. Under this risk-adjustment methodology, CMS calculates the risk-adjusted premium payment using diagnosis data from hospital inpatient, hospital outpatient, and physician treatment settings. PIC and health care providers collect, capture, and submit the necessary and available diagnosis data to CMS within prescribed deadlines. PIC estimates risk-adjustment revenue based upon the diagnosis data submitted and expected to be submitted to CMS.

Cost of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets, net of applicable interest income for tax-exempt borrowed funds, is capitalized as a component of the costs of acquiring those assets. Net capitalized interest was $3,375,000 and $10,676,000 in 2020 and 2019, respectively. Deferred debt financing costs are expensed over the life of the bonds using the bonds outstanding method.

Sick Pay Benefit

The System provides a sick time benefit to certain employees of Toledo, Bay Park, PCCSC, HCR, and the System's corporate staff. The benefit generally includes a capped payout provision at retirement or after attainment of a specified age or attendance level. The liability is an estimate based on the accrued benefits at year end, adjusted for expected employee turnover, and a discount rate of 0.75 percent and 2.25 percent for 2020 and 2019, respectively. At December 31, 2020 and 2019, the System recorded a liability of $1,256,000 and $1,495,000, respectively. Payments made under the program amounted to $199,000 and $326,000 for the years ended December 31, 2020 and 2019, respectively.

Note 2 - Summary of Significant Accounting Policies (Continued)

Income Taxes

Income taxes for the for-profit entities are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The System is subject to audit by various taxing authorities, and such audits could result in additional taxes. The System may, from time to time, engage in transactions in which the tax consequences are subject to uncertainty. Significant judgment is required in assessing and estimating the tax consequences of any such transactions. The System determines whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The System believes that the tax positions of its entities comply, in all material respects, with applicable tax law and that they have adequately provided for any reasonably foreseeable outcome related to these matters.

Excess of Revenue Over Expenses

The System’s consolidated statement of operations and changes in net assets includes the performance indicator of excess of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice, include contributions and investment income on restricted funds; pension and other postretirement adjustments; transfers of assets to and from affiliates for other than goods and services; contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purposes of acquiring such assets); and changes in noncontrolling interests in consolidated subsidiaries.

Gifts and Net Assets with Donor Restrictions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net asset activity restricted by donors if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets and reported in the consolidated statement of operations and changes in net assets.

Regulatory Risk-based Capital and Statutory Deposit

PIC's regulated insurance subsidiaries are subject to minimum net worth under the regulations of the Ohio Department of Insurance (ODI), the State of Michigan Department of Financial and Insurance Services (DIFS), and the Indiana Department of Insurance (IDOI). The minimum net worth requirements were met at December 31, 2020 and 2019. The regulated insurance subsidiaries are also subject to certain risk-based capital (RBC) requirements, as specified by the National Association of Insurance commissioners (NAIC). Under those requirements, the amount of capital and surplus required to be maintained is determined based on various risk factors relating to each insurance company. RBC requirements were met at December 31, 2020 and 2019.

Related Party Transactions

Certain board members of the System own or manage corporations that provide services to the System. The System enters into transactions with related parties only upon terms comparable to those that would be available from unaffiliated third parties. Related party transactions are reviewed on a sample basis for fair market value by the audit and compliance department.

Note 2 - Summary of Significant Accounting Policies (Continued)

Restructuring, Severance, and Acquisition Costs

The System has embarked on a cross-functional effort to improve and enhance its operating model, achieve long-term strategic objectives, and gain greater efficiencies. Costs related to this effort of $1,307,000 and $933,000 for the years ended December 31, 2020 and 2019, respectively, are included in restructuring, severance, and acquisition costs in the consolidated statement of operations and changes in net assets.

Litigation

The System is involved in litigation and regulatory investigations arising in the course of business. Based in part on consultation with legal counsel, management believes that these matters will be resolved without material adverse effect on the System's consolidated financial position or results of operations.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including April 21, 2021, which is the date the consolidated financial statements were available to be issued.

On November 19, 2020, Paramount Advantage submitted an application to the Ohio Department of Medicaid to continue participating in the Ohio Medicaid Managed Care Program beginning in 2022. Paramount Advantage has continuously served the Medicaid beneficiaries of Ohio since 1993. On April 9, 2021, Paramount Advantage received formal notice from the Ohio Department of Medicaid that it had not been selected as a future Managed Care Plan for Ohioans. Paramount Advantage is currently in the process of filing a formal protest with the Ohio Department of Medicaid and will pursue all available options to have the initial decision reversed. Revenue earned related to this contract in 2020 was approximately $1.5 billion.

Note 3 - Impact of Disease Outbreak

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and known now as COVID-19, the outbreak has impacted hundreds of thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. During the second quarter of 2020, the System's operations were significantly impacted, as shelter-in-place orders and a government mandate to suspend elective procedures reduced volumes during the period. The System mitigated the impact by managing workforce productivity, delaying capital expenditures, actively managing cash disbursements, and implementing other cost reduction measures.

Enacted on March 27, 2020, the CARES Act was established, which authorizes $100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare- and Medicaid-enrolled suppliers and institutional providers. The purpose of these funds is to reimburse providers for lost revenue attributable to the coronavirus disease pandemic, such as forgone revenue from canceled procedures, and to provide support for related health care expenses, such as constructing temporary structures or emergency operation centers; retrofitting facilities; purchasing medical supplies and equipment, including personal protective equipment and testing supplies; and increasing workforce. Further, these relief funds ensure uninsured patients are receiving testing and treatment for COVID-19.

Note 3 - Impact of Disease Outbreak (Continued)

On April 10, 2020, the U.S. Department of Health and Human Services (HHS) began making payments to health care providers from the $100 billion appropriation. These are payments to health care providers that will not need to be repaid as long as the System complies with certain terms and conditions outlined by HHS. The System relied upon guidance issued by HHS through April 5, 2021. The terms and conditions first require the health care provider to identify health care-related expenses attributed to COVID-19 that another source has not reimbursed or is obligated to reimburse. If those expenses do not exceed the funding received, the health care provider then applies the funds to patient care lost revenue. HHS' January 15, 2021 notice, *Post-Payment Notice of Reporting Requirements*, provided health care providers three options to calculate patient care lost revenue. To determine the total distributions to be recognized as revenue as of December 31, 2020, the System totaled unreimbursed related expenses attributed to COVID-19 and calculated patient care lost revenue based on the difference between 2020 budgeted and 2020 actual patient care revenue for hospitals and physician services and 2020 actual compared to 2019 actual patient care revenue for nursing home and senior care services.

The System received approximately $320,000,000 of payments as part of general and targeted distributions of the CARES Act Provider Relief Fund. As of December 31, 2020, the System recognized $320,000,00 as other operating revenue on the consolidated statement of operations and changes in net assets. the System has asserted that it has met the conditions and restrictions outlined within HHS' published terms and conditions for the CARES Act as of December 31. 2020. The System has an additional six months from January 1, 2021 to June 30, 2021 in which to use amounts remaining toward expenses attributable to COVID-19 but not reimbursed by other sources and/or lost patient care revenue. HHS is entitled to recoup Provider Relief Fund that are unused as for the purposes disclosed above.

HHS' requirements for the uses of the CARES Act funds are subject to change and are open to interpretation and clarification and, therefore, may result in changes in the amounts recognized as unrestricted revenue, gains, and other support during the year ended December 31, 2020. Any changes in amounts recognized as a result of new guidance, interpretation, or clarification will be recognized in the period in which the change occurred. There is at least a reasonable possibility that amounts recorded under the CARES Act by the System may change in future periods.

Medicare Advance Payments

The System requested accelerated Medicare payments, as provided for in the CARES Act, which allows for eligible health care facilities to request up to 6 months of advance Medicare payments for acute-care hospitals or up to 3 months of advance Medicare payments for other health care providers. The repayment terms of the accelerated Medicare payments begin one year after the first payment was issued, at which point these amounts will be repaid at 25 percent of the Medicare payments to the System for 11 months. After 11 months, the recoupment will increase to 50 percent of the Medicare payments for 6 additional months (or until all amounts are repaid). Any unapplied accelerated payment amounts that are unpaid after this 17-month period are due to CMS, plus interest at a rate of 4 percent on the outstanding balance. As of December 31, 2020, the System received approximately $330,235,000 from these accelerated Medicare payment requests, which is reflected on the consolidated balance sheet as a refund liability within other current liabilities.

Deferred Payroll Withholdings

The System has elected to defer the deposit and payment of the employer's share of Social Security taxes allowed under the CARES Act. Through December 31, 2020, the System has deferred approximately $92,877,000 of such payment with the related liability recorded in accrued employee compensation and related expenses and other long-term liabilities on the consolidated balance sheet. The deferred employer payroll taxes under this program will be paid in 2021 and 2022.

Note 4 - Accounts Receivable

The System grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	2020	2019
Commercial and other payors	28 %	30 %
Medicare	42	37
Self-pay	10	12
Medicaid	20	21
Total	100 %	100 %

Note 5 - Charity Care

The System maintains records to identify and monitor the level of direct patient charity care it provides. These records include the charges forgone for services and supplies furnished under its charity care policy and equivalent service statistics. During 2020 and 2019, gross charges forgone, based on established rates, approximated $53,175,000 and $57,357,000, respectively. The cost of charity care provided approximated $9,989,000 and $9,937,000 in 2020 and 2019, respectively.

The System calculates a cost-to-charge ratio of adjusted total costs to gross charges for each subsidiary, then reduces this by supplemental payments to determine the aggregate system cost of charity care.

Note 5 - Charity Care (Continued)

In addition to providing direct patient charity care, the System demonstrates its exempt purpose to benefit the community by operating emergency rooms that are open to the public, regardless of ability to pay, 24 hours a day, seven days per week. Additionally, ProMedica offers urgent care facilities for non-life threatening emergencies, a pediatric urgent care for children ages 18 and younger, and a telehealth option for patients to speak to a physician using their computer or mobile device. Through its academic affiliation, the System provides facilities for the education and training of health care professionals and the development of an academic medical center while maintaining research programs for the study of new patient procedures, drugs, and innovative medical devices that offer the promise of improving health care. The System also provides community health services, such as free or low cost clinics, the Northwest Ohio Hemophilia Center, a heart failure clinic and a structural heart clinic, and a lung cancer clinic; women's health programs, such as free or low cost mammograms; and multiple health promotion and wellness programs, such as free community lectures, free public health and infant mortality screenings; and services to combat food insecurity. For more than 10 years, ProMedica has pioneered efforts and has become an industry leader in thought, innovation and action in addressing the social determinants of health (SDOH). The ProMedica Ebeid Center (the "Center") is committed to building healthy communities and includes Market on the Green, a full-service grocery that provides nutritious meal options to residents in a designated food desert. The Center also provides cooking and nutrition classes and financial counseling services through its financial opportunity center. As part of its efforts to combat food insecurity, the System also operates three food clinics in the Metro Toledo region and brings fresh produce to Lenawee County (Michigan) residents from August through October through vouchers to ProMedica Farms or the Veggie Mobile. These programs provide nutritious food to patients who screen positive for food insecurity. Additionally, the ProMedica Ebeid Promise initiative has been developed to address social determinants of health and create a model for neighborhood revitalization. This model focuses on improving health outcomes, providing stable housing, increasing access to educational opportunities, and offering job training opportunities. Through grants from the ProMedica Hospice Memorial Fund (the "Fund"), grief camps for children and adults are offered, as well as educational sessions and life celebration events such as the Heart's Desire program, which helps skilled nursing residents with a terminal illness have their final dreams come true. The Fund also provides stabilizing resources for hospice patients and families in financial distress due to the lack of or reduction in income from a terminal illness or disease. Skilled nursing and rehabilitation facilities provide home assessments and community resources for safe and healthy living for older adults. In some markets, the centers also partner with local food organizations to ensure patients return home with a healthy meal. The System also subsidizes necessary health services, including emergency and medically necessary care; Neonatal Intensive Care; the Cullen Center, which supports children who have suffered trauma; the Cystic Fibrosis Center, an adult sickle cell anemia clinic for patients transitioning from pediatric to adult care; and Finnegan Family Autism Center, as well as diabetes treatment and support services at the ProMedica Mary Ellen Falzone Diabetes Center.

Note 6 - Net Patient Service Revenue

Patient service revenue generated by major payor source for the years ended December 31, 2020 and 2019 is as follows is (in thousands):

	2020	2019
Medicare	$ 2,002,473	$ 2,206,231
Medicaid	1,225,263	974,185
Commercial and other payors	859,822	1,271,157
Self-pay	297,765	349,611
Total	$ 4,385,323	$ 4,801,184

Note 6 - Net Patient Service Revenue (Continued)

The composition of patient care service revenue based on its lines of business and timing of revenue recognition for the years ended December 31, 2020 and 2019 (in thousands) is as follows:

	2020	2019
Service lines:		
Hospital	$ 1,410,663	$ 1,434,647
Nursing home and senior care	1,949,011	2,276,657
Physician services	201,398	219,463
Home health and hospice	667,349	670,963
Other	156,902	199,454
Total	$ 4,385,323	$ 4,801,184
Timing of revenue recognition:		
At time services are rendered	$ 70,395	$ 64,905
Over time services are transferred	4,314,928	4,736,279
Total	$ 4,385,323	$ 4,801,184

Certain subsidiaries of the System have agreements with third-party payors that provide for payment to the System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Commercial and Other

Certain subsidiaries of the System have also entered into payment agreements with certain commercial insurance carriers, HMOs, and preferred provider organizations. The basis for payment under these agreements includes capitation fees, prospectively determined rates per discharge or per diem, and discounts from established charges.

Medicare

Inpatient acute-care, psychiatric, and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Critical access hospitals (Defiance, Fostoria, and Herrick) and medical education costs are reimbursed at prospective rates, but traditional Medicare payments are later settled during the annual cost reporting process. Outpatient services are paid based upon either the Ambulatory Payment Classification (APC) methodology or a prospectively determined fee schedule for therapy and laboratory services. Under APCs, the hospital is paid a prospectively determined rate based on the procedures provided to patients. Outpatient services are reimbursed based upon either the Enhanced Ambulatory Payment Group (EAPG) methodology or prospectively determined fee schedules.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are reimbursed based upon prospectively determined fee schedules.

Program examination of cost reports has been finalized for various facilities with dates ranging from 2016 to 2019 for the Medicare program and with dates ranging from 2013 to 2019 for the Medicaid program. Cost reports for the Blue Cross Blue Shield program (Michigan providers only) have been finalized through 2019. Provisions for estimated reimbursement adjustments have been made in the accompanying consolidated financial statements.

Note 6 - Net Patient Service Revenue (Continued)

System hospitals participate in various state supplemental payment programs designed to assist hospitals that have a disproportionate amount of uncompensated care. Ohio hospitals (Toledo, Defiance, Fostoria, Bay Park, Flower, and Memorial) participate in the Hospital Care Assurance and Medicaid Supplemental Payments programs. Michigan hospitals (Bixby, Herrick, Hickman, Monroe, and Coldwater) participate in the Disproportionate Share Hospital Payment and Quality Assurance Assessment programs. During 2020 and 2019, the System received distributions of approximately $40,035,000 and $52,459,000, respectively. All hospitals are subject to assessments used to fund state supplemental payment programs. During 2020 and 2019, the System incurred assessments of approximately $39,763,000 and $39,279,000, respectively.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care entities have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in entities entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available) or as years are settled or are no longer subject to such audits, reviews, and investigations. As a result, there is at least a reasonable possibility that recorded estimates could change in the near term. In 2020 and 2019, such changes in estimates increased (decreased) patient service revenue by approximately $4,092,000 and $(2,376,000), respectively.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2020 and 2019, changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

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

Note 7 - Assets Limited as to Use or Restricted

As of December 31, 2020 and 2019, restricted assets of the foundations and other subsidiaries of the System, assets held by trustees under indenture agreements and self-insurance trust arrangements, and assets set aside by the board of trustees for future capital improvements and other designated purposes consisted of the following (in thousands):

	2020	2019
Cash and cash equivalents	$ 26,409	$ 48,886
Equity securities	585,505	422,582
Fixed-income securities	706,309	557,946
Long-short equity hedge funds	64,368	60,998
Real return strategy funds	58,750	39,776
Real estate	3,847	10,201
Beneficial interest in perpetual trusts	35,958	34,696
Other	17,263	23,202
Total	$ 1,498,409	$ 1,198,287

Assets limited as to use, which are required for obligations classified as current liabilities, are reported in current assets.

Note 8 - Property and Equipment

Property and equipment as of December 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Land and improvements	$ 152,998	$ 157,460
Building and improvements	1,921,539	1,862,828
Equipment	1,004,086	979,247
Construction in progress	64,829	122,549
Total cost	3,143,452	3,122,084
Less accumulated depreciation and amortization	1,488,362	1,449,576
Property and equipment - Net	$ 1,655,090	$ 1,672,508

Property and equipment include assets recorded under finance leases of $49,960,000 and $39,220,000 with accumulated amortization for such assets of $18,260,000 and $14,190,000 as of December 31, 2020 and 2019, respectively. The associated charges to income are recorded in depreciation and amortization expense.

As of December 31, 2020 and 2019, construction contract commitments of $16,605,000 and $44,385,000, respectively, exist for the construction and remodeling of system facilities.

Note 9 - Goodwill and Intangible Assets

Intangibles as of December 31, 2020 and 2019 consisted of the following (in thousands):

		2020			2019		
	Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:							
Physician charts	10	$ 2,036	$ (1,430)	$ 606	$ 1,930	$ (1,340)	$ 590
Customer relationships	5-50	40,447	(12,162)	28,285	40,447	(9,538)	30,909
Trademark	10	59,135	(8,377)	50,758	59,135	(2,464)	56,671
Other	1-50	25,733	(6,020)	19,713	25,733	(5,238)	20,495
Total		$ 127,351	$ (27,989)	$ 99,362	$ 127,245	$ (18,580)	$ 108,665

	2020	2019
	Gross Carrying Amount	Gross Carrying Amount
Carrying amount of intangible assets not subject to amortization:		
Goodwill	$ 1,098,769	$ 1,149,383
Certificate of need	38,276	43,265
Hospice and home care licenses	28,309	29,009
Other	466	467
Total	$ 1,165,820	$ 1,222,124

During 2020, the System recorded an impairment charge of $30,060,000 related to goodwill of a subsidiary. The impairment charge was the result of a change in expected future cash flows related and was calculated using a present value methodology.

During 2019, the System finalized the allocation of provisional goodwill that was recorded in 2018 related to the HCR acquisition. The System recorded indefinite-lived intangible assets of $74,700,000 related to the fair values of certificates of need and hospice and home health licenses, as well as $59,100,000 related to the fair value of acquired HCR trademarks and trade names. After allocations, the final goodwill balance related to the HCR acquisition was $1,051,000,000. During 2019, management determined that the HCR trademark and trade name assets had a remaining life of 10 years and began amortizing those assets. The System recorded an impairment charge of $12,400,000 related to an acquired health plan trade name and a loss of $3,500,000 related to the disposal of several home health and hospice licenses during 2019.

Aggregate amortization expense for the years ended December 31, 2020 and 2019 was $9,832,000 and $7,052,000, respectively.

Estimated amortization expense for each of the next five years and thereafter is as follows (in thousands):

Years Ending	Amount
2021	$ 9,103
2022	8,873
2023	8,873
2024	8,841
2025	8,841
Thereafter	54,831
Total	$ 99,362

Note 10 - Debt

Long-term debt as of December 31, 2020 and 2019, net of unamortized bond discount, premium, and debt issuance costs, consisted of the following (in thousands):

	2020	2019
Hospital Revenue Bonds - Series 2018A, interest at 4.13 to 5.25 percent, payable semiannually	$ 249,859	$ 250,045
Taxable Bonds - Series 2018B, interest at 5.33 to 6.02 percent, payable semiannually	1,203,634	1,202,954
Hospital Revenue Bonds - Series 2017A, interest at 3.36 percent, payable monthly	54,675	54,634
Hospital Revenue Bonds - Series 2017B, interest at 3.36 percent, payable monthly	119,976	119,936
Hospital Revenue Bonds - Series 2017C, interest at 3.29 percent, payable monthly	84,946	84,906
Hospital Revenue Bonds - Series 2017D, interest at 3.29 percent, payable monthly	39,714	39,692
Hospital Revenue Bonds - Series 2017F, based on the 30-day London Interbank Offered Rate (LIBOR) index and interest payable monthly (1.31 percent as of December 31, 2020)	62,474	62,443
Hospital Refunding Revenue Bonds - Series 2017H, interest at 3.12 percent, payable monthly	24,912	24,874
Taxable Bonds - Series 2015A, interest at 4.98 percent, payable semiannually	270,670	270,576
Hospital Revenue Bonds - Series 2015B, interest at 4.00 percent, payable semiannually	45,336	45,279
Taxable Hospital Refunding Revenue Bonds - Series 2015C, based on the 30-day LIBOR index and interest payable monthly (0.89 percent as of December 31, 2020)	4,947	9,781
Taxable Bonds - Series 2015E, based on the 30-day LIBOR index and interest payable monthly (.94 percent as of December 31, 2020)	29,110	31,044
Hospital Refunding Revenue Bonds - Series 2011D, interest at 4.00 to 5.25 percent, payable semiannually	88,680	94,814
Qualified Low-Income Community Investment Loans - 2015, interest at 1.00 to 2.58 percent, payable quarterly	14,406	14,392
Other	23,779	18,903
Total	2,317,118	2,324,273
Less current installments of long-term debt, net of current portion of unamortized bond discount, premium, and debt issuance costs - Contractual current installments	17,425	15,810
Contingent current installments	433,247	439,900
Total	$ 1,866,446	$ 1,868,563

Note 10 - Debt (Continued)

Certain subsidiaries of the System are participants in a Master Trust Indenture (the "Indenture"), amended and restated as of October 1, 2018, pursuant to which the System's revenue bonds are general obligations of the ProMedica Healthcare Obligated Group (the "Obligated Group"). The Obligated Group consists of the following subsidiaries: Toledo, Bay Park, Defiance, Fostoria, Bixby, Herrick, Hickman Memorial, Monroe, PCCSC, HCR Holding Co, and Lenawee Long Term Care.

The bonds were issued by the County of Lucas, Ohio (Lucas County) and the County of Lenawee, Michigan and are payable solely pursuant to related loan agreements or leases between the borrowing subsidiaries and the issuing authority. The Indenture and related loan agreements and leases require compliance with certain financial covenants each year by the Obligated Group. The Obligated Group has complied with the requirements of the financial covenants each year.

In connection with the issuance of the revenue bonds through Lucas County, the Ohio members of the Obligated Group have entered into a lease agreement (the "Lease") to lease its hospital facilities to, and lease back its hospital facilities from, Lucas County. Pursuant to the Lease, the Obligated Group agrees to make payments of basic rent in amounts sufficient to pay the principal and interest on the Lucas County revenue bonds issued for the benefit of the Obligated Group.

Hospital Revenue Bonds - 2018A

In October 2018, the Obligated Group issued $253,315,000 of tax-exempt fixed-rate bonds, Series 2018A, through Lucas County. At December 31, 2020, outstanding bonds consist of $24,915,000 term bonds that mature on November 15, 2042 and $219,575,000 term bonds that mature on November 15, 2048. The proceeds of the Series 2018A bonds were used to refinance the 2011C and 2017G bonds with the remainder used for the construction and equipping certain health care facilities of the Obligated Group located in Ohio. Balances reported at December 31, 2020 and 2019 include unamortized bond premium of $7,580,000 and $7,853,000, respectively. Balances reported at December 31, 2020 and 2019 include unamortized debt issuance costs of $2,211,000 and $2,298,000, respectively.

Taxable Bonds - 2018B

In October 2018, the Obligated Group issued $1,219,845,000 in fixed-rate taxable bonds, Series 2018B. The bonds mature $319,845,000 on November 15, 2028; $500,000,000 on November 15, 2038; and $400,000,000 on November 15, 2018. The proceeds of the Series 2018B bonds were used for refinance the 2018 bridge loan used to finance the HCR ManorCare acquisition and for other authorized corporate purposes of the System's subsidiaries.

Balances reported at December 31, 2020 and 2019 include unamortized bond premium of $14,940,000 and $15,778,000, respectively. Balances reported at December 31, 2020 and 2019 include unamortized debt issuance costs of $31,151,000 and $32,669,000, respectively.

Hospital Revenue Bonds - 2017A

In December 2017, the Obligated Group issued $54,710,000 in fixed-rate bonds, Series 2017A, through Lucas County with a direct placement bank loan with a base term of four years. The Series 2017A bond direct loan is included in contingent current installments of long-term debt at December 31, 2020 based on certain subjective acceleration definitions within the agreement. The proceeds from the 2017A bonds were used to advance refund the Series 2008D bonds. At December 31, 2020, outstanding bonds consist of $54,710,000 that mature in increasing amounts from $6,480,000 on November 15, 2035 to $6,970,000 on November 15, 2040. Balances reported at December 31, 2020 and 2019 include unamortized debt issuance costs of $35,000 and $76,000, respectively.

Note 10 - Debt (Continued)

Hospital Revenue Bonds - 2017B

In December 2017, the Obligated Group issued $120,010,000 in fixed-rate bonds, Series 2017B, through Lucas County with a direct placement bank loan with a base term of four years. The Series 2017B bond direct loan is included in contingent current installments of long-term debt at December 31, 2020 based on certain subjective acceleration definitions within the agreement. The proceeds from the 2017B bonds were used to advance refund a portion of the Series 2011A bonds. At December 31, 2020, outstanding bonds consist of $120,010,000 that mature in increasing amounts from $2,385,000 on November 15, 2022 to $19,080,000 on November 15, 2041. Balances reported at December 31, 2020 and 2019 include unamortized debt issuance costs of $34,000 and $74,000, respectively.

Hospital Revenue Bonds - 2017C

In December 2017, the Obligated Group issued $84,980,000 in fixed-rate bonds, Series 2017C, through Lucas County with a direct placement bank loan with a base term of four years. The Series 2017C bond direct loan is included in contingent current installments of long-term debt at December 31, 2020 based on certain subjective acceleration definitions within the agreement. The proceeds from the 2017C bonds were used to advance refund a portion of the Series 2011A bonds. At December 31, 2020, outstanding bonds consist of $84,980,000 that mature in increasing amounts from $1,685,000 on November 15, 2022 to $13,520,000 on November 15, 2041. Balances reported at December 31, 2020 and 2019 include unamortized debt issuance costs of $34,000 and $74,000, respectively.

Hospital Revenue Bonds - 2017D

In December 2017, the Obligated Group issued $39,800,000 in fixed-rate bonds, Series 2017D, through Lucas County with a direct placement bank loan with a base term of seven years. The Series 2017D bond direct loan is included in contingent current installments of long-term debt at December 31, 2020 based on certain subjective acceleration definitions within the agreement. The proceeds from the 2017D bonds were used to advance refund a portion of the Series 2011D bonds. At December 31, 2020, outstanding bonds consist of $39,800,000 that mature in increasing amounts from $820,000 on November 15, 2022 to $6,090,000 on November 15, 2029. Balances reported at December 31, 2020 and 2019 include unamortized debt issuance costs of $86,000 and $108,000, respectively.

Hospital Revenue Bonds - 2017F

In December 2017, the Obligated Group issued $62,500,000 in variable-rate bonds, Series 2017C, through Lucas County with a direct placement bank loan with a base term of four years. The Series 2017F bond direct loan is included in contingent current installments of long-term debt at December 31, 2020 based on certain subjective acceleration definitions within the agreement. The proceeds from the 2017F bonds were used to refinance the Series 2008A bonds. At December 31, 2020, outstanding bonds consist of $62,500,000 that mature in increasing amounts from $11,600,000 on November 15, 2030 to $13,450,000 on November 15, 2034. Balances reported at December 31, 2020 and 2019 include unamortized debt issuance costs of $26,000 and $57,000, respectively.

Hospital Refunding Revenue Bonds - 2017H

In December 2017, the Obligated Group issued $24,945,000 in fixed-rate bonds, Series 2017H, through the County of Lenawee Hospital Financing Authority with a direct placement bank loan with a base term of four years. The Series 2017H bond direct loan is included in contingent current installments of long-term debt at December 31, 2020 based on certain subjective acceleration definitions within the agreement. The proceeds from the 2017H bonds were used to advance refund a portion of the Series 2011B and 2011E bonds. At December 31, 2020, outstanding bonds consist of $24,945,000 that mature in increasing amounts from $690,000 on November 15, 2022 to $6,450,000 on November 15, 2035. Balances reported at December 31, 2020 and 2019 include unamortized debt issuance costs of $30,000 and $71,000, respectively.

Note 10 - Debt (Continued)

Taxable Bonds

Series 2015A, with an outstanding principal of $273,000,000 at December 31, 2020, was issued in September 2015. The taxable fixed rate bonds mature on November 15, 2045 and are subject to optional redemption prior to maturity. The proceeds of the Series 2015A bonds were used for authorized corporate purposes of the System's subsidiaries, including financing or refinancing capital expenditures and paying current operating expenditures. Balances reported at December 31, 2020 and 2019 include unamortized debt issuance costs of $2,330,000 and $2,424,000, respectively.

Hospital Revenue Bonds

Series 2015B, with an outstanding principal of $46,755,000 at December 31, 2020, was issued in September 2015 and consists of tax-exempt fixed-rate bonds. The bonds mature on November 15, 2045 and are subject to optional redemption prior to maturity. The proceeds of the Series 2015B bonds were used for acquiring and improving health care facilities in Ohio. Balances reported at December 31, 2020 and 2019 include unamortized bond discount of $969,000 and $1,008,000, respectively, and debt issuance costs of $450,000 and $468,000, respectively.

Taxable Hospital Revenue Refunding Bonds

Series 2015C, with an outstanding principal of $4,960,000 at December 31, 2020, was issued in November 2015 as a taxable directly placed bank loan with a base term of six years. The final annual principal payment of $4,960,000 is due November 15, 2021. The proceeds of the Series 2015C bonds were used to extinguish the Hospital Refunding Revenue Bonds - Series 2005B. Balances reported at December 31, 2020 and 2019 include unamortized debt issuance costs of $13,000 and $29,000, respectively.

Taxable Bonds

Series 2015E, with an outstanding principal of $29,165,000 as of December 31, 2020, was issued in November 2015 as a taxable directly placed bank loan with a base term of 10 years. Principal payments range from $1,945,000 due on November 15, 2021 to $21,385,000 in 2025. The contractual current portion of the Series 2015E bonds is $1,945,000 at December 31, 2020, with the remaining $27,220,000 included in contingent current installments of long-term debt based on certain subjective acceleration definitions within the agreement. The proceeds of the Series 2015E bonds were used to pay off a temporary bank line of credit that was used to extinguish the Monroe Hospital Finance Authority 2006 Revenue and Refunding bonds. Balances reported at December 31, 2020 and 2019 include unamortized debt issuance costs of $54,000 and $66,000, respectively.

Hospital Refunding Revenue Bonds

Series 2011D was partially refunded in December 2017 using the proceeds from the Series 2017D bonds. The remaining outstanding principal of $86,855,000 at December 31, 2020 consists of bonds, which mature in varying amounts from $7,205,000 due on November 15, 2021 to $880,000 in 2030. Balances reported at December 31, 2020 and 2019 include unamortized bond premium of $2,353,000 and $2,591,000, respectively, and debt issuance costs of $528,000 and $582,000, respectively. In December 2011, the Obligated Group issued the fixed-rate bonds through Lucas County. The proceeds from the Series 2011D Bonds were used to extinguish the remaining maturities of Series 1999 Hospital Revenue Bonds that were not refunded with Series 2011C issuance.

Note 10 - Debt (Continued)

Qualified Low-income Community Investment (QLICI) Loans

The 2015 loans, with an outstanding principal balance of $14,740,000 at December 31, 2020, mature in December 2045 and were issued to finance the acquisition and rehabilitation of the System's corporate headquarters. The loans require quarterly interest-only payments through December 2022, with principal and interest payments beginning thereafter until the loans mature. The loans are included in contingent current installments of long-term debt based on certain subjective acceleration definitions within the loan agreement. Balances reported at December 31, 2020 and 2019 include unamortized debt issuance costs of $334,000 and $348,000, respectively.

Other

Other long-term debt consists of additional bonds, a Jobs Ohio Revitalization loan, an equipment loan, and a note payable.

The table below indicates the future maturities on long-term debt at December 31, 2020. While presentation in the consolidated balance sheet of current maturities of long-term debt includes certain amounts contingently payable, the schedule below has been prepared based on contractual maturities of the debt outstanding at December 31, 2020. Accordingly, if covenants are violated, debt repayments may become more accelerated than presented below (in thousands):

Years Ending	Amount
2021	$ 17,425
2022	21,640
2023	22,409
2024	23,052
2025	43,211
Thereafter	2,189,381
Total	$ 2,317,118

Note 11 - Leases

The System is obligated under operating leases primarily for various equipment and facilities, expiring at various dates through September 22, 2081. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 2.97 percent to 5.51 percent. The majority of the leases require the System to pay taxes, insurance, utilities, and maintenance costs.

The System leases various equipment and information technology under long-term lease arrangements that are classified as finance leases. Under the terms of the lease agreements, payments ranging from $2,583 to $1,861,864 are due monthly through November 30, 2036. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 1.16 percent to 18.44 percent.

Master Lease

In 2018, ProMedica and a subsidiary of Welltower (NYSE: WELL), agreed to a triple-net master lease with an initial term of 15 years. The lease may be renewed at the option of the tenant for two five-year terms and a four-year, 11-month term. The master lease includes substantially all of the System's skilled nursing and assisted living facilities. The System has guaranteed the payment obligations under the lease. The base rent payable includes annually escalators of 2.75 percent. Base rent for the renewal periods is to be reset to the then-current market value, taking into consideration specific factors set forth in the lease. The lease is accounted for as an operating lease, with rent expense recognized on a straight-line basis over each year of the initial lease term. Rent expense related to the lease was $212,665,000 and $215,134,000 in 2020 and 2019, respectively.

Note 11 - Leases (Continued)

Lease expense under all leases consist of the following (in thousands):

	Operating Leases	Finance Leases		
Years Ending December 31	Lease Expense	Amortization Expense	Interest Expense	Total Expense
2019	$ 236,731	$ 4,487	$ 1,668	$ 242,886
2020	231,851	6,069	1,944	239,864

Future minimum cash payments on noncancelable leases as of December 31, 2020 for each of the next five years, and in the aggregate, are as follows (in thousands):

Years Ending December 31	Operating Leases	Financing Leases	Total Payments
2021	$ 203,235	$ 5,893	$ 209,128
2022	204,192	9,094	213,286
2023	204,962	4,907	209,869
2024	205,858	5,226	211,084
2025	210,145	2,528	212,673
Thereafter	1,775,393	14,141	1,789,534
Total	2,803,785	41,789	2,845,574
Less amount representing interest	643,374	10,322	653,696
Present value of net minimum lease payments	2,160,411	31,467	2,191,878
Less current obligations	115,193	4,056	119,249
Long-term obligations under leases	$ 2,045,218	$ 27,411	$ 2,072,629

Note 12 - Estimated Self-insurance Costs

Certain subsidiaries of the System are self-insured or are insured by Indemnity up to certain amounts for the purpose of providing for workers' compensation, medical malpractice claims, general liability, and property coverage. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents. Professional insurance consultants have been retained to determine appropriate funding requirements and medical malpractice and workers' compensation liabilities. The amounts funded have been placed in self-insurance fund accounts, which are reported in assets limited as to use or restricted in the accompanying consolidated balance sheet.

The System has recorded a medical malpractice liability of $319,237,000 and $336,881,000 at December 31, 2020 and 2019, respectively. The workers' compensation liability was $44,317,000 and $49,699,000 in 2020 and 2019, respectively. The recorded liability for workers' compensation and medical malpractice represents anticipated losses stated at their present value.

The System is also self-insured for the purpose of providing medical health insurance benefits for certain employees. An accrual of $33,544,000 and $30,856,000 has been recorded for claims that have been incurred, but not yet received, at December 31, 2020 and 2019, respectively, and is included in accounts payable and accrued liabilities in the consolidated balance sheet.

Note 12 - Estimated Self-insurance Costs (Continued)

It is the opinion of management that estimated self-insurance cost accrued as of December 31, 2020 and 2019 are adequate to provide for potential losses resulting from pending or threatened litigation.

Note 13 - Accrued Claims

PIC contracts with various health care providers for the provision of certain medical care related to its members. PIC compensates those providers on a variety of bases, including capitation, fixed fee for service, and discounted charges. Medical expenses include all amounts incurred by PIC under membership contracts with individual members and employer groups. Contracts with providers for medical services are executed between the providers and PIC.

Cost of medical claims represents expenses incurred under contracts with health care providers; such costs are charged to expense in the month in which the service is rendered. These expenses include liabilities for incurred and reported claims and an estimate of incurred, but not reported, claims using past experience adjusted for current trends.

Activity in accrued claims expense for the years ended December 31, 2020 and 2019 is summarized as follows (in thousands):

	2020	2019
Balance - Beginning of year	$ 119,295	$ 108,562
Incurred related to:		
Current year	1,421,655	1,486,333
Prior years	(12,816)	3,484
Total incurred	1,408,839	1,489,817
Paid related to:		
Current year	(1,282,016)	(1,368,214)
Prior years	(103,085)	(110,870)
Total paid	(1,385,101)	(1,479,084)
Balance - End of year	$ 143,033	$ 119,295

PIC estimates the amount of the accrued claims liability costs IBNR in accordance with GAAP and using standard actuarial developmental methodologies based upon historical data, including the period between the date services are rendered and the date claims are received and paid, denied claim activity, expected medical cost inflation, seasonality patterns, and changes in membership, among other things. PIC's IBNR best estimate also includes a provision for adverse deviation, which is an estimate for known environmental factors that are reasonably likely to affect the required level of IBNR reserves. This provision for adverse deviation is intended to capture the potential adverse development from factors, such as changes in current payment patterns versus historical payment patterns, potential unknown high cost cases, increased usage of higher cost services, accelerated utilization of services, and/or exceptional situations that require judgmental adjustments in setting the reserves for claims.

Note 13 - Accrued Claims (Continued)

PIC consistently applies the IBNR estimation methodology from period to period. The IBNR best estimate is made on an accrual basis and adjusted in future periods as required. Any adjustments to the prior-period estimates are included in the current period. As additional information becomes known, assumptions are adjusted accordingly to change the estimate of IBNR. The degree of uncertainty in the estimates of incurred claims is greater for the most recent months' incurred services. Revised estimates for prior periods are determined in each year based on the most recent updates of paid claims for prior periods. Estimates for service costs IBNR are subject to the impact of changes in the regulatory environment, economic conditions, changes in claims trends, and numerous other factors. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts estimated. Management believes that the liability for accrued claims expenses is adequate to cover the ultimate net cost of medical expenses.

Note 14 - Liability for Unpaid Claims and Claim Adjustment Expenses

The following presents information about incurred and paid claims development as of December 31, 2020, net of reinsurance, as well as IBNR and cumulative reported claims by loss year for ProMedica Insurance Corporation (health insurance). The information relates to incurred and paid claims development and is presented as supplemental information.

	Incurred Claims and Claims Adjustment Expenses - Net of Reinsurance for the Years Ended December 31 (in Thousands)			As of December 31, 2020	
Claim Year	2018	2019	2020	Total IBNR and Bulk Reserves (in Thousands)	Cumulative Number of Reported Claims
2018	$ 1,299,084	$ 1,302,568	$ 1,302,568	$ -	5,772,000
2019		1,486,332	1,473,516	2,833	6,633,000
2020			1,421,655	140,200	5,434,000
Total			$ 4,197,739		

	Cumulative Paid Claims and Allocated Claims Adjustment Expenses - Net of Reinsurance, for the Years Ended December 31 (in Thousands)		
Claim Year	2018	2019	2020
2018	$ 1,190,522	$ 1,301,392	$ 1,301,392
2019		1,368,214	1,471,299
2020			1,282,015
Total			$ 4,054,706
Total liability for claims and claim adjustment expenses - Net of reinsurance			$ 143,033

Note 15 - Pension

Noncontributory Defined Benefit Pension Plans (Pension Plans)

The System sponsors a noncontributory qualified defined benefit pension plan that covers certain full-time and part-time employees of the System who have more than 1,000 hours of service during the year. Benefits are based on each employee's compensation and length of service. The System makes contributions to the plan required to satisfy the Employee Retirement Income Security Act of 1974 (ERISA) funding standards. The System is not required to make a plan contribution in 2020 and reserves the right to make contributions that exceed ERISA funding standards.

The System froze plan participation effective December 31, 2014 for all plan participants and froze benefit accruals for all plan participants as of December 31, 2016.

The System also participates in a supplemental defined benefit plan (the "supplemental plan") for a small group of retirees. Participation in the supplemental plan and determination of benefits is at the discretion of the System. The pension costs for this plan are not prefunded.

Defined Contribution Benefits

The System sponsors defined contribution pension plans established under Section 401(k) and Section 403(b) of the Internal Revenue Code (IRC), which covers certain full-time and part-time employees. Employer contributions are based upon each employee's deferrals and service-based accruals. The pension expense under these plans for 2020 and 2019 was approximately $50,404,000 and $48,176,000, respectively.

Deferred Compensation

The System sponsors deferred compensation plans established under Section 457 of the IRC. The System's liability under the plans is primarily funded with assets held in a grantor trust and by an insurance company.

The System has nonqualified deferred compensation plans that permit eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash based on completion of length of service requirements, retirement, or termination of employment. At December 31, 2020 and 2019, the assets and liabilities under these plans totaled $50,188,000 and $44,010,000, respectively.

Note 15 - Pension (Continued)

The changes in projected benefit obligations, changes in plan assets, and funded status for the pension plans for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	Pension Plans	
	2020	2019
Change in benefit obligation:		
Benefit obligation - Beginning of year	$ 484,239	$ 474,282
Interest cost	14,048	18,425
Actuarial loss	23,056	24,452
Benefits paid	(13,051)	(13,461)
Other	1,918	1,551
Settlements	(20,518)	(21,010)
Benefit obligation - End of year	489,692	484,239
Change in plan assets:		
Fair value of plan assets - Beginning of year	491,395	449,757
Actual return on plan assets	72,951	75,661
Employer contributions	68	448
Benefits paid	(13,051)	(13,461)
Settlements	(20,518)	(21,010)
Fair value of plan assets - End of year	530,845	491,395
Net asset recognized	$ 41,153	$ 7,156

Amounts recognized in the consolidated balance sheet (in thousands) are as follows:

	Pension Plans	
	2020	2019
Other assets - Long term	$ 41,928	$ 7,936
Other liabilities - Current	(62)	(35)
Other liabilities - Long term	(713)	(745)
Net asset	41,153	7,156
Amounts recognized in net assets without donor restrictions	99,130	122,975
Net amount recognized	$ 140,283	$ 130,131

Amounts recognized in net assets without donor restrictions as of December 31, 2020 and 2019 consist of the following (in thousands):

	Pension Plans	
	2020	2019
Beginning balance	$ 122,975	$ 147,716
Recognized in net periodic benefit cost - Amortization of net loss	(2,297)	(1,582)
Settlement cost	(4,157)	(5,327)
Net gain	(17,391)	(17,832)
Ending balance	$ 99,130	$ 122,975

Note 15 - Pension (Continued)

Components of net periodic benefit cost for the years ended December 31, 2020 and 2019 consisted of the following (in thousands):

	Pension Plans	
	2020	2019
Interest cost	$ 14,048	$ 18,425
Expected return on plan assets	(30,652)	(31,826)
Recognized net actuarial loss	2,297	1,582
Settlement costs	4,157	5,327
Net benefit	$ (10,150)	$ (6,492)

During 2021, $2,607,000 is expected to be amortized from net assets without donor restrictions into net periodic benefit cost.

	Pension Plans	
	2020	2019
Benefit obligations:		
Discount rate	2.0%-2.5%	3.00%-3.25%
Rate of compensation increase	N/A	3.00%
Net periodic benefit cost:		
Discount rate	3.00%	4.00%
Expected long-term return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	3.00%

For 2020 and 2019, the System assumed a long-term asset rate of 7.00 percent. In developing the expected long-term rate of return assumption, the System evaluated input from investment advisers, including a review of asset class return expectations based on historical compounded returns for such asset classes.

For the years ended December 31, 2020 and 2019, the total accumulated benefit obligation for the pension was $531,620,000 and $484,239,000, respectively.

Plan Assets

Assets of the defined benefit plans, which consist primarily of U.S. government and corporate obligations, listed common stocks, and money market funds, are held in a separate trust with investment management provided by various outside managers. The System invests the assets of the plans in a diversified portfolio consisting of an array of asset classes that attempt to maximize returns while minimizing volatility. The System targets to hold two years of beneficiary payments in short-term securities with the balance in a longer duration allocation.

The System's overall investment strategy is to maximize total return while providing for expected retirement payments over a two-year horizon utilizing a wide diversification of asset types, fund strategies, and fund managers. The target allocations for plan assets are 51 percent equity securities, 43 percent fixed-income securities, and 6 percent real return strategy funds. Equity securities primarily include investments in large-cap and mid-cap companies located in the United States, as well as global and international strategies, and a long-short equity manager. Fixed-income securities include investment-grade corporate bonds of companies from diversified industries and U.S. Treasurys and agencies. Real return strategy funds include all asset mutual funds and a private capital investment.

Note 15 - Pension (Continued)

The fair values of the System's pension plan assets at December 31, 2020 and 2019 by major asset classes are as follows (in thousands):

	Fair Value Measurements at December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Category				
Cash and cash equivalents	$ 1,493	$ 3,018	$ -	$ 4,511
U.S. equity securities:				
U.S. equity mutual funds	36,442	-	-	36,442
Marketable equity securities	25,882	-	-	25,882
International equity securities:				
International equity mutual fund	10,774	-	-	10,774
Marketable international securities	31,056	-	-	31,056
Fixed-income securities:				
U.S. Treasuries and agencies	-	5,099	-	5,099
Corporate obligations	-	8,468	-	8,468
Real return strategy funds:				
All asset mutual funds	18,725	-	-	18,725
Private capital	-	-	1,967	1,967
Total investments at fair value	$ 124,372	$ 16,585	$ 1,967	142,924
Investments measured at net asset value:				
International equity commingled fund				55,928
Long-short equity hedge funds				36,741
U.S. fixed-income commingled fund				273,785
U.S. equity commingled fund				21,467
Total				$ 530,845

Note 15 - Pension (Continued)

	Fair Value Measurements at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Category				
Cash and cash equivalents	$ 1,016	$ 3,021	$ -	$ 4,037
U.S. equity securities:				
U.S. equity mutual funds	35,502	-	-	35,502
Marketable equity securities	43,492	-	-	43,492
International equity securities:				
International equity mutual fund	9,700	-	-	9,700
Marketable international securities	30,454	-	-	30,454
Fixed-income securities:				
U.S. Treasuries and agencies	-	18,741	-	18,741
Corporate obligations	-	17,835	-	17,835
Domestic fixed-income mutual funds	605	-	-	605
Real return strategy funds:				
All asset mutual funds	17,272	-	-	17,272
Private capital	-	-	3,239	3,239
Total investments at fair value	$ 138,041	$ 39,597	$ 3,239	180,877
Investments measured at net asset value:				
International equity commingled fund				48,398
Long-short equity hedge funds				29,345
U.S. fixed-income commingled fund				232,775
Total				$ 491,395

Cash Flow

Expected Contributions

The System expects to contribute $62,000 to its pension plans to pay anticipated benefit payments in 2021. The System may elect to make additional contributions.

Required Contributions

The System is not required to contribute to its pension plan in 2021.

Expected Benefit Payments

The System expects to pay the following for pension benefits, which reflect expected future service, as appropriate, net of participant contributions (in thousands):

Years Ending December 31	Pension Plans
2021	$ 39,449
2022	39,360
2023	34,191
2024	33,482
2025	31,239
Thereafter	141,196

Note 16 - Net Assets with Donor Restrictions

As of December 31, 2020 and 2019, net assets with donor restrictions relate to the following (in thousands):

	2020	2019
Net assets with donor restrictions:		
Hospital operations support	$ 104,545	$ 103,306
Hospital capital support	16,176	19,405
Research	7,590	7,452
Health care and other services	22,038	14,999
Total	$ 150,349	$ 145,162

Donor-restricted net assets include those net assets that can later be reclassified into net assets without donor restrictions due to time and purpose restriction being fulfilled and those held in perpetuity, the income from which is expendable to support health care services. All endowed assets are included within the net assets with donor restrictions class; therefore, no distributions from them are permitted in order to maintain the endowed corpus. Certain restricted net asset investments are included with the System's pooled investments, following the same investment policies and objectives.

System Endowment Funds

The System's endowments consist of funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. The System considers various factors in making a determination to appropriate or accumulate donor-restricted endowment funds. The System employs a diversified investment approach in order to minimize risk and maximize returns, utilizing both intermediate and long-term portfolios. The System's asset allocation objective for the long-term portfolio is to maximize total return while preserving capital values. The short-term portfolio is intended to preserve the principal of the fund and to meet current liquidity requirements.

The System can appropriate each year all available earnings in accordance with donor restrictions. The endowment corpus is to be maintained in perpetuity. Certain donor-restricted endowments require a portion of annual earnings to be maintained in perpetuity along with the corpus. Only amounts exceeding the amounts required to be maintained in perpetuity are expended.

Net assets without donor restrictions include board-designated quasi-endowment funds as of December 31, 2020 and 2019 are $21,318,000 and $18,421,000, respectively.

Note 16 - Net Assets with Donor Restrictions (Continued)

Changes in endowment net assets for the fiscal years ended December 31, 2020 and 2019 are as follows (in thousands):

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Endowment net assets - December 31, 2018	$ 15,776	$ 35,193	$ 50,969
Investment income	775	-	775
Contributions and transfers - Net	-	10	10
Change in net realized and unrealized losses	1,870	4,043	5,913
Endowment net assets - December 31, 2019	18,421	39,246	57,667
Investment income	629	1	630
Contributions and transfers - Net	-	2	2
Change in net realized and unrealized losses	2,268	915	3,183
Other	-	(500)	(500)
Endowment net assets - December 31, 2020	$ 21,318	$ 39,664	$ 60,982

Funds with Deficiencies

Periodically, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the System retain for a perpetual duration. Deficiencies of this nature would be reported in unrestricted net assets. These deficiencies could result from unfavorable market fluctuations and/or continued appropriation for certain programs that were deemed prudent by the System. As of December 31, 2020 and 2019, the System did not have funds with deficiencies.

Pledges Receivable

The System occasionally receives unconditional promises to give with payments due in future periods. Pledges receivable are recorded in assets limited as to use or restricted. As of December 31, 2020 and 2019, the System had pledges receivable of $14,161,000 and $20,106,000, respectively, net of an allowance of $717,000 and $619,000, respectively, for uncollectibility and discounted at 2.47 percent, with amounts due as follows (in thousands):

Years Receivable	Amount
2021	$ 5,672
2022-2023	4,519
2024-2025	1,277
2026 and thereafter	2,693
Total	$ 14,161

Note 17 - Income Taxes

PIC is an entity of the System that is for-profit and is subject to federal income taxes. PIC's provision for income taxes for the years ended December 31, 2020 and 2019 consists of the following (in thousands):

	2020	2019
Current income tax expense	$ 9,025	$ 6,613
Deferred income tax benefit	(699)	(3,953)
Income tax expense	$ 8,326	$ 2,660

Note 17 - Income Taxes (Continued)

The income tax expense differed from the amounts computed by applying the statutory U.S. federal income tax rate of 21 percent to pretax income as a result of the following (in thousands):

	2020	2019
Income (loss) before income taxes	$ 94,327	$ (52,906)
Statutory U.S. federal income tax rate	$ 19,808	$ (11,257)
State income taxes - Net of federal benefit	(814)	(338)
Exempt income adjustments	(11,278)	14,064
Impact of rate change	-	(11)
Other	610	202
Income tax expense	$ 8,326	$ 2,660
Effective tax rate	8.80 %	5.00 %

In 2020 and 2019, PIC recorded (favorable) unfavorable adjustments of $(11,278,000) and $14,064,000, respectively, due to exempt earnings related to the Paramount Advantage subsidiary. Paramount Advantage is tax exempt under IRC Section 501(c)(4). It obtained its exemption on October 1, 2015.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands):

	2020	2019
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	$ 132	$ 111
Unearned premium reserves	192	226
Accrued compensation	1,250	802
General accruals	700	459
Other	769	572
Total deferred tax assets - Net of any applicable allowances	3,043	2,170
Deferred tax liabilities:		
Goodwill and intangibles	(9,202)	(8,948)
Prepaid expense	(3)	(2)
Unrealized gains	(441)	(532)
Basis in fixed assets	(592)	(578)
Other liabilities	(52)	(56)
Deferred tax liabilities	(10,290)	(10,116)
Net deferred tax liability	$ (7,247)	$ (7,946)

Note 18 - Functional Expenses

The System provides general health care services and insurance to residents within its geographic locations, including medical/surgical, pediatric, crucial emergency, skilled nursing, home health, and hospice care. The financial statements report certain expense categories that are attributable to more than one health care service or support function; therefore, these expenses required an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, and interest, are allocated based on total expenses by category. Total expenses, including depreciation, amortization, and interest, related to providing these services for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	Program Services				Support Services		
	Provider	Senior Care	Insurance	Other	Management and General	Fundraising	Total
Salaries, wages, and employee benefits	$ 851,173	$ 1,650,827	$ 51,345	$ 5,291	$ 339,407	$ 1,691	$ 2,899,734
Food and drugs	200,802	120,668	-	1,075	301	-	322,846
Medical expenses	-	-	1,408,839	-	-	-	1,408,839
Contracted fees	159,795	269,893	35,890	2,206	242,473	751	711,008
Supplies	195,483	102,711	-	27	3,039	5	301,265
Insurance	9,626	72,544	-	2	10,262	-	92,434
Utilities	2,221	61,637	-	61	26,474	-	90,393
Other	129,776	477,765	1,909	4,496	137,839	2,039	753,824
Depreciation, amortization, and impairment	132,287	45,478	-	-	51,934	5	229,704
Interest expense	38,893	69,303	-	-	6,439	9	114,644
Total	$ 1,720,056	$ 2,870,826	$ 1,497,983	$ 13,158	$ 818,168	$ 4,500	$ 6,924,691

	Program Services				Support Services		
	Provider	Senior Care	Insurance	Other	Management and General	Fundraising	Total
Salaries, wages, and employee benefits	$ 818,518	$ 1,775,879	$ 51,549	$ 4,951	$ 321,670	$ 1,750	$ 2,974,317
Food and drugs	156,335	187,797	-	354	2,523	-	347,009
Medical expenses	-	-	1,489,816	-	-	-	1,489,816
Contracted fees	155,706	232,683	9,639	1,440	220,261	744	620,473
Supplies	199,599	85,687	-	16	2,999	8	288,309
Insurance	8,280	68,913	-	-	7,461	-	84,654
Utilities	2,306	65,586	-	55	28,375	-	96,322
Other	84,815	510,737	2,632	10,059	149,144	2,387	759,774
Depreciation, amortization, and impairment	92,810	37,658	-	-	64,817	10	195,295
Interest expense	33,539	69,699	-	-	6,676	9	109,923
Total	$ 1,551,908	$ 3,034,639	$ 1,553,636	$ 16,875	$ 803,926	$ 4,908	$ 6,965,892

Note 19 - Fair Value Measurements

The following methods and assumptions were used to estimate fair value of each class of financial instruments in accordance with FASB ASC 820, *Fair Value Measurement*:

Cash Equivalents

The carrying value of cash equivalents approximates fair value as maturities are less than three months. Fair values of cash equivalent instruments that do not trade on a regular basis in active markets are classified as Level 2.

Note 19 - Fair Value Measurements (Continued)

Equity and Fixed-income Securities

The estimated fair values of debt securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in the establishing the prices. Fair values of debt securities that do not trade on a regular basis in active markets are classified as Level 2. Fair value estimates for publicly traded equity securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices.

Exchange-traded/Mutual Funds

Exchange-traded funds are valued at the closing price reported on the applicable exchange on which the fund is traded or estimated using quoted market prices for similar securities. Mutual funds are valued using NAV based on the value of the underlying assets owned by the funds, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned.

Commingled Funds

Commingled funds are for investment by institutional investors only and, therefore, do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value, based on the underlying investments having a readily determinable market value or based on NAV, which is calculated using the most recent fund financial statements.

Hedge Funds

Hedge fund utilizes a fund-of-funds approach resulting in diversified multistrategy, multimanager investment. Underlying investments in these funds are equity securities. These funds are valued at net asset value, which is calculated using the most recent financial statements.

Real Estate Held for Investment

The estimated fair market value of real estate held for investment is obtained using fair market appraisals.

Private Capital

Private capital is invested in discounted loans and structured credit tied to residential and commercial real estate markets in the United States and Europe. Management's estimates of the fair value of this investment are provided by the third-party administrator and the fund manager/general partner. Management obtains and considers the audited financial statements of this investment when evaluating the overall reasonableness of the fair value. In addition to a review of external information provided, management's internal procedures include reviews of returns against benchmarks and discussions with fund managers of performance, change in personnel or process, and evaluations of current market conditions for these investments. Investment managers also meet with system management on a periodic basis. Because of the inherent uncertainty, valuations may differ materially from those obtained had an active market existed. The investment is a closed-end fund and has significant redemption restrictions that prohibit redemptions during the fund's life, which has an initial term of five years with two optional one and one-half year extension options exercisable at the sole discretion of the general partner. As of December 31, 2020 and 2019, unfunded capital commitments totaled $6,500,000 and $2,500,000, respectively.

Beneficial Interests in Perpetual Trusts

Beneficial interests in perpetual trusts are valued using net asset value of the underlying assets multiplied by the System's percentage share in the applicable trust.

Note 19 - Fair Value Measurements (Continued)

The following tables present information about the fair value of the System's financial instruments as of December 31, 2020 and 2019, according to the valuation techniques used by the System. The assets are included in marketable securities and assets limited as to use current and noncurrent (in thousands).

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
Assets				
Cash and cash equivalents	$ 65,045	$ 19,811	$ -	$ 84,856
U.S. equity securities:				
U.S. equity mutual funds	135,558	-	-	135,558
Marketable equity securities	59,389	-	-	59,389
International equity securities:				
International equity mutual funds	31,376	-	-	31,376
Marketable international equity securities	88,938	-	-	88,938
Fixed-income securities:				
U.S. Treasurys and agencies	-	271,913	-	271,913
Corporate, municipal, and other governmental bonds	-	464,392	-	464,392
Domestic fixed-income mutual funds	144,080	-	-	144,080
International fixed-income mutual funds	296	-	-	296
Real return strategy funds:				
All asset mutual funds	51,881	-	-	51,881
Private capital	-	-	6,868	6,868
Other	19,789	-	-	19,789
Beneficial interests in perpetual trusts	-	-	35,959	35,959
Domestic real estate	-	-	3,846	3,846
Total	$ 596,352	$ 756,116	$ 46,673	1,399,141
Investments measured at net asset value:				
U.S. equity commingled funds				109,899
International equity commingled funds				150,372
Long-short equity hedge funds				64,368
Global fixed income commingled funds				23,301
Total assets limited as to use and marketable securities				$ 1,747,081

Note 19 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Assets				
Cash and cash equivalents	$ 78,120	$ 10,382	$ -	$ 88,502
U.S. equity securities:				
U.S. equity mutual funds	77,034	-	-	77,034
Marketable equity securities	99,503	-	-	99,503
International equity securities:				
International equity mutual funds	28,287	-	-	28,287
Marketable international equity securities	67,241	-	-	67,241
Fixed-income securities:				
U.S. Treasurys and agencies	-	261,250	-	261,250
Corporate, municipal, and other governmental bonds	-	350,821	-	350,821
Domestic fixed-income mutual funds	117,063	-	-	117,063
International fixed-income mutual funds	24,824	-	-	24,824
Real return funds:				
All asset mutual funds	30,521	-	-	30,521
Private capital	-	-	9,255	9,255
Other	26,111	-	-	26,111
Beneficial interests in perpetual trusts	-	-	34,696	34,696
Domestic real estate	-	-	10,201	10,201
Total	$ 548,704	$ 622,453	$ 54,152	1,225,309
Investments measured at net asset value:				
U.S. equity commingled funds				51,608
International equity commingled funds				120,988
Long-short equity hedge funds				60,998
Total assets limited as to use and marketable securities				$ 1,458,903

The following is a summary of the fair value of system investments with a reported NAV per share as of December 31, 2020 and 2019 (in thousands):

	Investments Held at December 31, 2020		
	Fair Value	Redemption Frequency, if Eligible	Redemption Notice Period
U.S. equity commingled funds	$ 109,899	Monthly	0-5 days
International equity commingled funds	150,372	Daily/Monthly	0-6 days
Long-short equity hedge funds	64,368	Monthly/Quarterly	60-90 days
Global fixed-income commingled fund	23,301	Quarterly	60 days
Total	$ 347,940		

Note 19 - Fair Value Measurements (Continued)

	Investments Held at December 31, 2019		
	Fair Value	Redemption Frequency, if Eligible	Redemption Notice Period
U.S equity commingled funds	$ 51,608	Monthly	0-5 days
International equity commingled funds	120,988	Daily/Monthly	0-6 days
Long-short equity hedge funds	60,998	Monthly/Quarterly	60-90 days
Total	$ 233,594		

U.S. Equity Commingled Funds

These funds are composed of shares or units in commingled funds that are not publicly traded. Underlying assets in these funds include publicly traded options that are valued at their NAV calculated by the fund manager.

International Equity Commingled Funds and Global Fixed-Income Commingled Fund

These funds are composed of shares or units in commingled funds that are not publicly traded. Underlying assets in these funds primarily include publicly traded equity securities that are valued at their NAV calculated by the fund manager and have daily liquidity.

Long-short Equity Hedge Funds

These funds are composed of investments in a hedge fund that invest both in long and short U.S. and international equities. Management of the hedge fund has the ability to shift investments from value-to-growth strategies, from small-to-large capitalization stocks, and from a net long position to a net short position. The fair value of investments in this class has been estimated using the NAV per share of the investments.

There are no unfunded commitments of system investments with a reported NAV per share.

Note 20 - Liquidity

The System has $2,017,328,000 and $1,519,072,000 of financial assets available within one year of December 31, 2020 and 2019 to meet cash needs for general expenditure consisting of cash of $944,675,000 and $379,698,000, short-term investments of $543,437,000 and $522,027,000, and accounts receivable of $529,216,000 and $617,347,000, respectively. Of the short-term investments, $248,672,000 and $260,616,000, respectively, is included as current assets, and the remaining $294,765,000 and $261,411,000, respectively, is included in noncurrent assets whose use is limited on the consolidated balance sheet. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated balance sheet date. The contributions receivable is subject to implied time restrictions but are expected to be collected within one year. The System has certain board-designated assets that are not included in amounts available for expenditure in the next year. However, the board-designated amounts could be made available, if necessary.

The System has a goal to maintain financial assets, which consist of cash and marketable securities and certain designated fixed-income investments included in internally designated funds, on hand at a minimum 60 days of normal operating expenses, which are, on average, approximately $1,081,700,000 and $1,094,904,000 at December 31, 2020 and 2019, respectively. The System has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the System invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

Note 21 - Asset Retirement Obligations

FASB ASC 410, *Asset Retirement and Environmental Obligations*, requires that the fair value of the liability for an asset retirement obligation be recognized in the period in which it is incurred and the settlement date is estimable and capitalized as part of the carrying amount of the related tangible long-lived asset. The liability is recorded at fair value, and the capitalized cost is depreciated over the remaining useful life of the related asset.

The System has determined it has legal obligations to perform certain asset retirement activities associated with planned and estimated demolition and remediation at various hospitals, long-term care facilities, medical office buildings, and other facilities. During 2020 and 2019, changes to the asset retirement obligation are as follows (in thousands):

	2020	2019
Balance - January 1	$ 28,779	$ 28,359
Additions	1	7
Accretion expense	296	621
Settlements	(1,166)	(208)
Balance - December 31	$ 27,910	$ 28,779

Note 22 - Leasing Revenue Activity

The System leases space to tenants under various operating lease agreements. These agreements, without giving effect to renewal options, have expiration dates ranging from 2021 to 2038. The rental revenue for the years ended December 31, 2020 and 2019 was $6,233,000 and $7,504,000, respectively. As of December 31, 2020, the aggregate future minimum base rental payments to the System under noncancelable operating leases by year are as follows (in thousands):

Years Ending	Amount
2021	$ 4,874
2022	3,062
2023	2,855
2024	2,609
2025	2,151
Thereafter	5,993
Total	$ 21,544

Note 23 - Investments in Affiliated Companies

The summarized financial position and results of operations for the entities accounted for under the equity method, excluding the System's investment in Welltower, as of and for the years ended December 31 are as follows (in thousands):

	2020	2019
Total assets	$ 378,973	$ 371,636
Total liabilities	169,143	144,581
Net assets	209,830	227,055
Revenue - Net	371,706	412,868
Net income	18,819	25,145

HCR purchases various pharmaceutical supplies from an affiliate accounted for as an equity investment. Total purchases for 2020 and 2019 are approximately $32,742,000 and $56,115,000, respectively. The amounts accrued for unpaid pharmaceutical supplies purchases at December 31, 2020 and 2019 are $5,391,000 and $7,959,000, respectively.

Note 23 - Investments in Affiliated Companies (Continued)

The summarized financial position and results of operations for the System's joint venture with Welltower, as of and for the years ended December 31, 2020 and 2019, are as follows (in thousands):

	2020	2019
Total assets	$ 2,483,312	$ 2,532,175
Total liabilities	88	315
Net assets	2,483,224	2,531,860
Revenue - Net	212,693	215,183
Net income	198,526	153,586

Note 24 - Discontinued Operations

The System’s acquisition of HCR ManorCare included assets that were planned for divestiture. All of these assets were divested subsequent to the acquisition. The postacquisition results of operations and loss on sale have been classified as discontinued operations.

Following is a summary of discontinued operations from the acquisition date through December 31, 2020 and 2019 (in thousands):

	2020	2019
Net patient service revenue	$ (180)	$ (1,046)
Operating expenses	(529)	(5,120)
Loss from operations	$ (709)	$ (6,166)

The System retains risk for loss contingencies related to the discontinued operations. Such liabilities are estimated based on the best available evidence. The System’s future estimate of loss settlements may change, and actual losses may be more or less than the current estimate. Subsequent changes to the estimates will be recorded in discontinued operations.

Note 25 - University of Toledo College of Medicine and Life Sciences Affiliation

ProMedica and the University of Toledo are partners in a 50-year Academic Affiliation Agreement (the "Agreement") to support the academic programs of the College of Medicine and Life Sciences (including research, education of medical students, and residency programs) which is anticipated to develop Toledo Hospital and Toledo Children’s Hospital into a premier academic medical center and preeminent quaternary center.

The Agreement includes a financial commitment by ProMedica to provide academic support to The University of Toledo through payments for certain defined services, research, branding rights, and other related services for value and benefits to ProMedica. ProMedica made initial payments totaling $40 million over the three-year period ending in 2017, which have been deferred and are being expensed over 30 years to match the estimated years of benefit realization. In addition, ProMedica incurred transitional payments expense of $35,307,000 in 2019 and $40,529,000 in 2020. Beginning in 2021 through 2065, annual support payments will be at least $50,000,000 and calculated based on the aggregate of: (i) 3 percent of base year 2015 net patient service revenue; plus (ii) 2 percent of the difference in the current year net patient service revenue, excluding net patient service revenue generated from facilities acquired by ProMedica after 2015, and the base year of 2015; plus (iii) one-quarter of 1 percent of net patient service revenue generated in the then-current year from facilities acquired by ProMedica after 2015. Per the First Amendment to the Academic Affiliation Agreement, net patient service revenue generated by HCR shall be excluded from the annual support payment calculation. The amount of annual support payments will be reassessed every five years, starting in the academic year 2030.

Note 25 - University of Toledo College of Medicine and Life Sciences Affiliation (Continued)

In addition, ProMedica also committed $250,000,000 to construct and renovate certain lab and teaching space on The University of Toledo and Toledo Hospital campuses, with $100,000,000 expended by 2027, and the remaining $150,000,000 expended by 2040.

As of December 31, 2020 and 2019, the carrying amount of the deferred payments is $34,205,000 and $35,547,000, respectively, and is included in intangible assets and other.

Management has evaluated the expected future benefits to be received under the Agreement in relation to future payments. It is expected that future payments beyond 2018 will be expensed as incurred and will approximate the annual benefits received.

Note 26 - Assets Held for Sale

In 2020, ProMedica entered into an agreement to sell nonstrategic leased long-term care facilities. The assets related to the 25 facilities have been classified as held for sale at the lower of book value or fair value. The results of operations of these facilities were reported in excess of revenue over expenses because their disposal does not qualify for reporting as discontinued operations as it does not represent a strategic shift with a major effect on ProMedica's operations. The net loss reflected in the change in net assets related to facilities held for sale was $27,581,000 and $29,627,000 in 2020 and 2019, respectively. The sale is expected to be completed in 2021.

Assets held for sale were as follows as of December 31, 2020 (in thousands):

Net property and equipment	$ 12,300
Goodwill	23,700
Intangible assets	4,300
Total	$ 40,300

Supplemental Information

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Independent Auditor's Report on Supplemental Information

To the Board of Directors
ProMedica Health System and Subsidiaries

We have audited the consolidated financial statements of ProMedica Health System and Subsidiaries as of and for the years ended December 31, 2020 and 2019 and have issued our report thereon dated April 21, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purpose of additional analysis rather than to present the financial position, results of operations, and cash flows of the Obligated Group entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

April 21, 2021

Consolidating Balance Sheet - Obligated Group

December 31, 2020

(In Thousands)

	The Toledo Hospital	Defiance Hospital, Inc.	Bay Park Community Hospital	Charles & Virgina Hickman Hospital	HCR Holding Company	Fostoria Hospital Association	Memorial Hospital	Mercy Memorial Hospital Corporation	ProMedica Continuing Care Services Corp.	Eliminations	Total Obligated Group
Assets											
Current Assets											
Cash and cash equivalents	$ 183,352	$ 7,168	$ 7,093	$ 20,014	$ 7,935	$ 4,202	$ 8,570	$ 24,347	$ 3,614	$ -	$ 266,295
Marketable securities	6,422	193	-	-	-	-	-	-	-	-	6,615
Accounts receivable - Net	159,235	8,893	11,883	15,219	1,306	4,827	8,428	17,998	(3,946)	-	223,843
Intercompany accounts receivable	118,488	473	790	80,692	2,817	435	809	4,252	12,647	(14,403)	207,000
Estimated third-party payor receivable	-	-	7	481	(520)	-	-	1,834	-	-	1,802
Supplies	21,333	670	1,408	1,920	-	716	1,221	1,831	20	-	29,119
Assets held for sale	-	-	-	-	28,000	-	-	-	-	-	28,000
Other current assets	6,796	134	1,134	308	2	364	382	138	5	-	9,263
Total current assets	495,626	17,531	22,315	118,634	39,540	10,544	19,410	50,400	12,340	(14,403)	771,937
Noncurrent Assets Limited as to Use or Restricted - Net of amounts required to meet current obligations											
Restricted funds	2,111	-	(1)	163	-	-	-	67	-	-	2,340
Internally designated for capital acquisition	838,474	-	-	-	-	-	-	131,713	-	-	970,187
Other segregated investments	13,018	-	1	(163)	-	-	1	(41)	-	-	12,816
Total noncurrent assets limited as to use or restricted	853,603	-	-	-	-	-	1	131,739	-	-	985,343
Property and Equipment - Net	844,483	29,816	39,976	152,340	5,006	16,660	38,200	62,456	124	-	1,189,061
Right-of-use Operating Lease Assets	11,603	42	633	685	-	15	98	949	-	-	14,025
Other Assets											
Goodwill	17,008	-	-	-	1,023,265	-	282	-	-	-	1,040,555
Intangible assets	-	-	-	-	116,243	-	100	1,100	-	-	117,443
Investment in affiliated companies	2,351	-	75	117	496,645	-	260	713	651	-	500,812
Other	-	-	-	-	-	75	482	-	-	-	557
Total other assets	19,359	-	75	117	1,636,153	75	1,124	1,813	651	-	1,659,367
Total assets	**$ 2,224,674**	**$ 47,389**	**$ 62,999**	**$ 271,776**	**$ 1,680,699**	**$ 27,294**	**$ 58,833**	**$ 247,357**	**$ 13,115**	**$ (14,403)**	**$ 4,619,733**

Consolidating Balance Sheet - Obligated Group (Continued)

December 31, 2020

(In Thousands)

	The Toledo Hospital	Defiance Hospital, Inc.	Bay Park Community Hospital	Charles & Virgina Hickman Hospital	HCR Holding Company	Fostoria Hospital Association	Memorial Hospital	Mercy Memorial Hospital Corporation	ProMedica Continuing Care Services Corp.	Eliminations	Total Obligated Group
Liabilities and Net Assets											
Current Liabilities											
Accounts payable and other accrued expenses	$ 89,766	$ 3,666	$ 6,888	$ 8,479	$ 833	$ 1,765	$ 3,853	$ 9,073	$ 1,026	$ -	$ 125,349
Intercompany payable	172,435	4,274	5,600	85,130	12,477	2,550	4,547	11,748	9,653	(14,403)	294,011
Contractual current installments of long-term debt	10,388	1,471	2,075	585	-	71	-	1,945	10	-	16,545
Contingent current installments of long-term debt	313,944	15,034	24,879	22,560	2,352	10,673	-	27,166	2,233	-	418,841
Estimated third-party payor settlements	11,398	1,097	515	6,943	-	1,196	481	5,646	-	-	27,276
Current portion of lease liabilities - Financing	198	-	-	-	-	-	488	-	-	-	686
Current portion of lease liabilities - Operating	3,534	42	297	333	-	14	121	434	-	-	4,775
Accrued liabilities and other:											
Compensation and benefits	35,626	1,702	2,351	3,119	685	1,076	1,911	4,848	2,130	-	53,448
Other current liabilities	113,873	3,361	6,364	10,794	-	2,721	6,243	15,973	416	-	159,745
Total current liabilities	751,162	30,647	48,969	137,943	16,347	20,066	17,644	76,833	15,468	(14,403)	1,100,676
Long-term Debt - Less current installments	1,751,359	16,337	21,516	49,325	-	(1)	19,870	-	-	-	1,858,406
Lease Liabilities - Financing	-	-	-	-	-	-	3,720	-	-	-	3,720
Lease Liabilities - Operating	8,191	-	336	352	-	1	(23)	515	-	-	9,372
Other Liabilities											
Deferred compensation	4,319	-	-	-	-	-	-	-	-	-	4,319
Pension	276	-	-	-	-	-	-	-	-	-	276
Other	23,264	404	857	3,436	210	1,587	2,602	2,891	416	-	35,667
Total other liabilities	27,859	404	857	3,436	210	1,587	2,602	2,891	416	-	40,262
Total liabilities	2,538,571	47,388	71,678	191,056	16,557	21,653	43,813	80,239	15,884	(14,403)	3,012,436
Net Assets											
Without donor restrictions - Controlling interest	$ (316,008)	$ 1	$ (8,678)	$ 80,557	$ 1,664,142	$ 5,641	$ 15,020	$ 167,051	$ (2,769)	$ -	$ 1,604,957
With donor restrictions	2,111	-	(1)	163	-	-	-	67	-	-	2,340
Total net assets	(313,897)	1	(8,679)	80,720	1,664,142	5,641	15,020	167,118	(2,769)	-	1,607,297
Total liabilities and net assets	**$ 2,224,674**	**$ 47,389**	**$ 62,999**	**$ 271,776**	**$ 1,680,699**	**$ 27,294**	**$ 58,833**	**$ 247,357**	**$ 13,115**	**$ (14,403)**	**$ 4,619,733**

Consolidating Statement of Operations and Changes in Unrestricted Net Assets - Obligated Group

Year Ended December 31, 2020
(In Thousands)

	The Toledo Hospital	Defiance Hospital, Inc.	Bay Park Community Hospital	Charles & Virgina Hickman Hospital	HCR Holding Company	Fostoria Hospital Association	Memorial Hospital	Mercy Memorial Hospital Corporation	ProMedica Continuing Care Services Corp.	Eliminations	Total Obligated Group
Unrestricted Revenue, Gains, and Other Support											
Net patient service revenue	$ 1,094,214	$ 68,083	$ 77,376	$ 103,355	$ 14,130	$ 33,456	$ 62,058	$ 124,321	$ 27	$ (13,695)	$ 1,563,325
Other	56,583	6,568	21,247	17,608	41,255	7,654	7,617	15,234	82	(54)	173,794
Net assets released for use in operations	5,956	15	8	321	5	13	35	36	-	-	6,389
Total unrestricted revenue, gains, and other support	1,156,753	74,666	98,631	121,284	55,390	41,123	69,710	139,591	109	(13,749)	1,743,508
Expenses											
Salaries, wages, and employee benefits	383,445	21,960	28,732	37,150	10,347	11,208	21,060	60,223	1,731	(13,749)	562,107
Food and drugs	91,665	6,323	5,173	6,991	685	4,614	5,766	12,090	37	-	133,344
Contracted fees	117,536	7,531	9,933	16,735	2,155	4,389	8,588	19,719	167	-	186,753
Supplies	121,470	3,965	7,787	7,590	589	2,405	3,893	10,088	-	-	157,787
Insurance	5,333	349	507	623	28	203	343	1,236	351	-	8,973
Utilities	9,811	761	760	2,011	340	578	1,021	1,600	4	-	16,886
Other	295,436	15,896	22,727	28,127	6,261	9,472	16,342	35,852	(587)	-	429,526
Total expenses	1,024,696	56,785	75,619	99,227	20,405	32,869	57,013	140,808	1,703	(13,749)	1,495,376
Operating Income (Loss) before Depreciation, Amortization, and Impairment Expense	132,057	17,881	23,012	22,057	34,985	8,254	12,697	(1,217)	(1,594)	-	248,132
Depreciation, Amortization, and Impairment	76,559	4,109	4,107	6,544	6,429	2,005	5,264	6,068	44	-	111,129
Operating Income (Loss)	55,498	13,772	18,905	15,513	28,556	6,249	7,433	(7,285)	(1,638)	-	137,003
Other (Loss) Income											
Interest expense	(33,107)	(1,357)	(1,983)	(166)	(67,708)	(335)	(1,150)	(445)	(71)	-	(106,322)
Investment income	88,395	225	26	346	596	98	(15)	11,875	17	-	101,563
Other	5,347	(96)	260	(5,704)	(10)	1	(19)	1,856	108	-	1,743
Total other income (loss) - Net	60,635	(1,228)	(1,697)	(5,524)	(67,122)	(236)	(1,184)	13,286	54	-	(3,016)
Excess of Revenue Over (Under) Expenses before Restructuring, Severance, and Acquisition Costs	116,133	12,544	17,208	9,989	(38,566)	6,013	6,249	6,001	(1,584)	-	133,987
Restructuring, Severance, and Acquisition Costs Expense	-	-	-	-	-	-	-	-	-	-	-
Restricted Contributions	2,728	-	8	350	-	-	-	-	-	-	3,086
Capital Contribution (to) from Affiliate	(2,541)	(9)	(9)	(278)	-	(17)	-	(25)	-	-	(2,879)
Transfer from (to) Affiliate	473,388	(119,674)	(39,664)	(106,071)	(22,618)	(54,468)	(69,163)	12,443	(14,448)	-	59,725
Net Assets Released from Restrictions	3,417	25	-	2,484	-	758	223	-	-	-	6,907
Pension and Other Postretirement Adjustments	(161)	-	-	(3)	-	-	-	-	-	-	(164)
Increase (Decrease) in Net Assets without Donor Restrictions	**$ 592,964**	**$ (107,114)**	**$ (22,457)**	**$ (93,529)**	**$ (61,184)**	**$ (47,714)**	**$ (62,691)**	**$ 18,419**	**$ (16,032)**	**$ -**	**$ 200,662**

ProMedica Health System and Subsidiaries

Federal Awards Supplemental Information
December 31, 2020

Contents

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

Independent Auditor's Report

To the Board of Trustees
ProMedica Health System and Subsidiaries

We have audited the consolidated financial statements of ProMedica Health System and Subsidiaries as of and for the year ended December 31, 2020 and have issued our report thereon dated April 21, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to April 21, 2021.

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

Plante & Moran, PLLC

March 28, 2022

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

Independent Auditor's Report

To Management and the Board of Trustees
ProMedica Health System and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of ProMedica Health System and Subsidiaries (ProMedica or the "System"), which comprise the consolidated balance sheet as of December 31, 2020 and the related consolidated statements of operations and 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 April 21, 2021. The financial statements of ProMedica Insurance Corporation and ProMedica Indemnity Company 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 reportable noncompliance associated with ProMedica Insurance Corporation and ProMedica Indemnity Company.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System'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 the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 System's consolidated 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 the System'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*.

To Management and the Board of Trustees
ProMedica Health System and Subsidiaries

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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

April 21, 2021

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Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Trustees
ProMedica Health System and Subsidiaries

Report on Compliance for Each Major Federal Program

We have audited ProMedica Health System and Subsidiaries' (the "System") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2020. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 the System'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 the System's compliance.

Opinion on Each Major Federal Program

In our opinion, the System 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 the major federal programs for the year ended December 31, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance, which are described in the accompanying schedule of findings and questioned costs as Findings 2020-001 and 2020-003. Our opinion on each major federal program is not modified with respect to these matters.

The System’s responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The System's responses were not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on them.

To the Board of Trustees
ProMedica Health System and Subsidiaries

Report on Internal Control Over Compliance

Management of the System 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 the System'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 the System's internal control over compliance.

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

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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2020-001 and 2020-003 to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2020-002 to be a significant deficiency.

The System's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The System's responses were not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on them.

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.

Plante & Moran, PLLC

March 28, 2022

Federal Agency/Pass-through Agency/Program Title	Assistance Listing Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
Clusters:				
Research and Development Cluster -				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES -				
National Institutes of Health:				
Direct Award - Cancer Detection and Diagnosis Research	93.394		$ -	$ 2,925
Passed through The Children's Hospital of Philadelphia - Cancer Treatment Research	93.395	U10CA180886	-	55,100
Passed through the University of Toledo - Cardiovascular Diseases Research	93.837	R01MH110483	-	7,378
Passed through the University of Rochester - Cardiovascular Diseases Research	98.837	R01HL140588-01A1	-	2,817
Subtotal			-	10,195
Passed through the Washington University - Blood Diseases and Resources Research	93.839	1UG3HL138325-01	-	3,905
Passed through the Mayo Clinic - Jacksonville - Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	5U01NS080168-04	-	3,890
Total Research and Development Cluster			-	76,015
Highway Safety Cluster -				
U.S. DEPARTMENT OF TRANSPORTATION - Passed through the Ohio Department of Health - National Priority Safety Programs	20.616	04830024BB0320	-	51,000
SNAP Cluster -				
U.S. DEPARTMENT OF AGRICULTURE:				
Direct Award - Veggie Mobile SNAP/EBT Sales - Supplemental Nutrition Assistance Program	10.551		-	5,043
Direct Award - Market on the Green SNAP Sales - Supplemental Nutrition Assistance Program	10.551		-	143,957
Total SNAP Cluster			-	149,000
Food Distribution Cluster -				
U.S. DEPARTMENT OF AGRICULTURE - Office of Food and Nutrition Service - Passed through the Seagate Foodbank - Emergency Food Assistance Program	10.569	N/A	-	222,285
Total clusters			-	498,300
Other programs:				
U.S. DEPARTMENT OF AGRICULTURE -				
National Institute of Food and Agriculture -				
Passed through the Produce Perks Midwest, Inc. - Food Insecurity Nutrition Incentive Grants Program	10.331	FINI-MOG001	-	3,411

Federal Agency/Pass-through Agency/Program Title	Assistance Listing Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
Other programs (continued):				
Office of Food and Nutrition Service:				
Passed through the Lucas County Regional Health District - Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	048-1-001-1-WA-05	$ -	$ 4,020,366
Passed through the Lucas County Regional Health District - Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	N/A	-	235
Passed through the Lucas County Regional Health District - Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2OH700005	-	317,590
Subtotal			-	4,338,191
Total U.S. Department of Agriculture			-	4,341,602
U.S. DEPARTMENT OF JUSTICE -				
Office of Justice Programs:				
Passed through the Ohio Attorney General's Office - Crime Victim Assistance	16.575	2020-VOCA-132922206	-	162,020
Passed through the Ohio Attorney General's Office - Crime Victim Assistance	16.575	2021-VOCA-133924913	-	20,147
Total U.S. Department of Justice			-	182,167
U.S. DEPARTMENT OF THE TREASURY:				
Passed through Michigan Department of Health and Human Services - COVID-19 Coronavirus Relief Fund	21.019	ST0040	-	513,224
Passed through Orange County Health Care Agency (California) - COVID-19 Coronavirus Relief Fund	21.019	SLT012	-	58,373
Passed through RAP Foundation - COVID-19 Coronavirus Relief Fund	21.019	20-10014; 20-10015	-	717,331
Passed through York County Board Of Commissioners (PA) - COVID-19 Coronavirus Relief Fund	21.019	Dallastown; Kingston; York North; York South	-	40,000
Passed through Michigan Department of Health and Human Services - COVID-19 Coronavirus Relief Fund	21.019	N/A	-	169,714
Total U.S. Department of the Treasury and Coronavirus Relief Fund			-	1,498,642
FEDERAL COMMUNICATIONS COMMISSION - Direct Award - COVID-19 Telehealth Program	32.006		-	707,298
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES -				
Office of Centers for Disease Control and Prevention:				
Passed through Hospital Council of Northwest Ohio - Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	04860042RP1320	-	16,893
Passed through Hospital Council of Northwest Ohio - Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	04860042RP1421	-	1,480
Subtotal			-	18,373

See notes to schedule of expenditures of federal awards.

Federal Agency/Pass-through Agency/Program Title	Assistance Listing Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
Other programs (continued):				
Passed through Hemophilia Foundation of Michigan - Blood Disorder Program: Prevention, Surveillance, and Research	93.080	CDC 19-20-437	$ -	$ 18,982
Passed through Hemophilia Foundation of Michigan - Blood Disorder Program: Prevention, Surveillance, and Research	93.080	CDC 437 20-21	-	3,264
Subtotal			-	22,246
Passed through Ohio Department of Health - Injury Prevention and Control Research and State and Community Based Programs	93.136	04830024VW1320	-	33,100
Passed through Ohio Department of Health - Injury Prevention and Control Research and State and Community Based Programs	93.136	04830024VW1219	-	8,500
Subtotal			-	41,600
Passed through Ohio Department of Health - Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758	04830024VW1320	-	4,650
Passed through Ohio Department of Health - Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758	04830024VW1219	-	2,750
Subtotal			-	7,400
Passed through Ohio Department of Health - Preventive Health and Health Services Block Grant	93.991	04830024IC0220	18,750	125,000
Passed through Ohio Department of Health - Preventive Health and Health Services Block Grant	93.991	04830024IF0220	-	100,000
Subtotal			18,750	225,000
Office of Health Resources and Services Administration:				
Direct Award - Telehealth Programs	93.211		-	225,580
Direct Award - COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured - Testing for the Uninsured	93.461		-	996,606
Direct Award - Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement	93.912		56,744	150,494
Passed through Local Initiatives Support Corporation - Temporary Assistance for Needy Families	93.558	191OHTANF; 48-20-TANF-22	-	80,799
Passed through Ohio Department of Health - Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	42306	-	4,500
Immediate Office of the Secretary:				
Passed through Ohio Hospital Association - COVID-19 - National Bioterrorism Hospital Preparedness Program	93.889	1 U3REP200665-01-06	-	64,893
Passed through Ohio Hospital Association - COVID-19 - National Bioterrorism Hospital Preparedness Program	93.889	1 U3REP200665-01-00	-	94,032
Passed through Michigan Health & Hospital Association - COVID-19 - National Bioterrorism Hospital Preparedness Program	93.889	1 U3REP200661-01-00	-	60,261
Passed through Hospital Council of Northwest Ohio - COVID-19 - National Bioterrorism Hospital Preparedness Program	93.889	04860042RP1320	-	40,445
Subtotal			-	259,631

Federal Agency/Pass-through Agency/Program Title	Assistance Listing Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
Other programs (continued):				
Office of Substance Abuse and Mental Health Services Administration:				
Direct Award - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		$ 25,428	$ 248,625
Direct Award - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		-	70,273
Subtotal			25,428	318,898
Passed through Hemophilia Foundation of Michigan - Maternal and Child Health Federal Consolidated Programs	93.110	MCHB 437 19-20	-	6,260
Passed through Hemophilia Foundation of Michigan - Maternal and Child Health Federal Consolidated Programs	93.110	MCHB 437 20-21	-	8,555
Subtotal			-	14,815
Passed through Ohio Department of Health - Small Rural Hospital Improvement Grant Program	93.301	1H3JRH374540100	-	252,951
Passed through Ohio Department of Health - Small Rural Hospital Improvement Grant Program	93.301	5 H3HRH00045-19-00	-	35,565
Passed through Michigan Center for Rural Health - Small Rural Hospital Improvement Grant Program	93.301	H3JRH37414	-	252,540
Passed through Michigan Center for Rural Health - Small Rural Hospital Improvement Grant Program	93.301	H3HRH31119	-	10,400
Subtotal			-	551,456
Direct Award - Opioid STR	93.788		7,284	45,848
Passed through Ohio Department of Health - Opioid STR	93.788	04830024IN0221	2,174	29,000
Subtotal			9,458	74,848
Total U.S. Department of Health and Human Services			110,380	2,992,246
U.S. DEPARTMENT OF HOMELAND SECURITY -				
Federal Emergency Management Agency:				
Passed through Ohio Emergency Management Agency - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	136364	-	2,691,767
Passed through Ohio Emergency Management Agency - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	136720	-	3,938,348
Total U.S. Department of Homeland Security and Disaster Grants - Public Assistance (Presidentially Declared Disasters)			-	6,630,115
Total other federal awards			110,380	16,352,070
Total federal awards			**$ 110,380**	**$ 16,850,370**

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of ProMedica Health System and Subsidiaries (the "System") under programs of the federal government for the year ended December 31, 2020. The information in the 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* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the System.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on an accrual basis of accounting with the exception of expenditures passed through the Ohio Department of Health (ODH). The ODH expenditures are reported on a cash basis in accordance with guidance provided by ODH. Expenditures are recognized following the cost principles contained in 45 U.S. Code of Federal Regulations (CFR) Appendix E to Part 75, *Principles for Determining Cost Applicable to Research and Development Under Grants and Contracts with Hospitals,* wherein certain types of expenditures are not allowable or are limited as to reimbursement, except for expenditures related to ALN 21.019, Coronavirus Relief Fund (CRF). CRF does not apply the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, but rather applies the U.S. Department of the Treasury's guidance and frequently asked questions as outlined in the 2020 Compliance Supplement Addendum. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The pass-through entity identifying numbers are presented where available.

The System had a federally negotiated rate until November 2020 and did not renegotiate the agreement and elected to use the 10 percent *de minimis* indirect cost rate from that point forward to recover indirect costs, as allowed under the Uniform Guidance.

Note 3 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of the Uniform Guidance.

The grantee received the following noncash assistance during the year ended December 31, 2020 that is included in the schedule of expenditures of federal awards:

Federal Program	ALN	Description	Amount
Special Supplemental Food Program for Women, Infants, and Children	10.557	Assistance vouchers	$ 4,020,601
Supplemental Nutrition Assistance Program	10.551	Food commodities	149,000
Emergency Food Assistance Program	10.569	Food commodities	222,285
		Total	$ 4,391,886

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Year Ended December 31, 2020

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	___ Yes	X No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes	X None reported
Noncompliance material to financial statements noted?	___ Yes	X None reported

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	X Yes	___ No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	X Yes	___ None reported
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	X Yes	___ No

Identification of major programs:

ALN Number	Name of Federal Program or Cluster	Opinion
93.461	COVID-19 - Testing for the Uninsured	Unmodified
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Unmodified
21.019	COVID-19 - Coronavirus Relief Fund	Unmodified

Dollar threshold used to distinguish between type A and type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X Yes	___ No

Section II - Financial Statement Audit Findings

Reference Number	Finding
Current Year	None

Section III - Federal Program Audit Findings

Reference Number	Finding
2020-001	**ALN, Federal Agency, and Program Name** - 21.019, U.S. Department of the Treasury, COVID-19 - Coronavirus Relief Fund and 32.006, Federal Communications Commission, COVID-19 - Telehealth Program

Federal Award Identification Number and Year - Various

Pass-through Entity - Various

Finding Type - Material weakness and material noncompliance with laws and regulations

Repeat Finding - No

Criteria - Per 2 CFR 200.510(b), a schedule of expenditures of federal awards (the "Schedule") must be prepared to cover the same period as the financial statement audit and include the total federal awards expended as determined in accordance with 2 CFR 200.502.

Condition - The Schedule, as originally provided by management, did not accurately report total expenditures for ALN 21.019 and did not include the federal expenditures for ALN 32.006.

Questioned Costs - $11,223 on ALN 21.019 - Award #20-10015 passed through RAP Foundation

Identification of How Questioned Costs Were Computed - The System could not provide support for costs of $4,071 and costs of $7,152 were incurred in January 2021 after the end of the grant period.

Context - The Schedule was initially overstated by $61,740 related to errors in reporting award expenditure totals within the COVID-19 - Coronavirus Relief Fund (ALN 21.019) and understated by $707,298 related to errors in reporting the COVID-19 - Telehealth Program (ALN 32.006). The errors were due to incorrect calculation of funding amounts received (ALN 21.019) and misidentification of the funds as relating to a period outside of the audit scope (ALN 32.006). The required adjustment of approximately $646,000, made up less than 5 percent of total expenditures included in the Schedule.

Cause and Effect - Although the System had processes in place to prepare the Schedule, controls in place were not effective in identifying accurate federal grant expenditures for inclusion in the Schedule, resulting in the Schedule initially being understated.

Recommendation - The System should implement necessary changes to the current process for identifying and evaluating grant expenditures related to federal awards, including ensuring appropriate levels of review take place.

Views of Responsible Officials and Planned Corrective Actions - The System will implement a review process of the Schedule after preparation.

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2020-002	**ALN, Federal Agency, and Program Name** - 93.461, Department of Health and Human Services, COVID-19 - Testing for the Uninsured

Federal Award Identification Number and Year - Not applicable

Pass-through Entity - Not applicable

Finding Type - Significant deficiency

Repeat Finding - No

Criteria - The COVID-19 - Testing for the Uninsured grant is to be used for "reimbursement of payment for COVID-19 testing and testing-related items for individuals who do not have coverage through an individual or employer-sponsored plan," per the 2020 Compliance Supplement Addendum.

Condition - The System initially reported costs on the Schedule for expenditures that were unallowable, as the individuals were ultimately ineligible because they were insured at the time that COVID-19-related procedures were performed.

Questioned Costs - None

Context - In 1 of 40 individuals sampled, the claim submitted by the System for services performed related to the individual was improperly reimbursed by HRSA because the individual was determined to have insurance at the time procedures were performed. These expenditures, totaling approximately $4,000, were initially included in the Schedule provided by management, but were subsequently removed.

Cause and Effect - While the System had a process in place to review individuals for eligibility and allowability prior to claims being submitted initially, there was not a process to subsequently evaluate changes in determination of insurance status that may result in repayment of previously reimbursed claims back to HRSA.

Recommendation - The System should review the reports of both paid and unpaid services for the year under audit to determine and identify any necessary repayments and to ensure that correct amounts are recorded to be reported on the Schedule.

Views of Responsible Officials and Corrective Action Plan - The System will implement a review of paid and unpaid services when determining the amount to record on the Schedule. The System will also work with the funder to repay the ineligible costs back.

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2020-003	**ALN, Federal Agency, and Program Name** - 21.019, U.S. Department of the Treasury, COVID-19 - Coronavirus Relief Fund

Federal Award Identification Number and Year - 20-10014

Pass-through Entity - RAP Foundation

Finding Type - Material weakness and material noncompliance with laws and regulations

Repeat Finding - No

Criteria - Costs under this program are required to be incurred during the period that began on March 1, 2020 and ended on December 30, 2020 per section 601(d) of the Social Security Act, as added by section 5001 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Condition - The System included certain expenditures on the Schedule that were not incurred during the period noted above.

Questioned Costs - $49,572

Identification of How Questioned Costs Were Computed - Total amount of invoice identified that was canceled.

Context - In 1 of 40 samples, the invoice submitted as an allowable cost by the System for goods and services was canceled and therefore not paid.

Cause and Effect - The System did not have a close-out process in place to ensure that invoices claimed as allowable costs were paid resulting in funding received for costs that were not incurred.

Recommendation - The System should put in place a process to close out grants and ensure that all costs were liquidated in a timely manner.

Views of Responsible Officials and Planned Corrective Actions - The System will implement a grants close-out process and ensure that all costs are liquidated in a timely manner. The System will also work with the funder to resubmit paid invoices or to repay the unallowable costs back.

ProMedica Health System and Subsidiaries
12/31/2020
Corrective Action Plan

Finding Number: 2020-001
Condition: The Schedule, as originally provided by management, did not accurately report total expenditures for ALN 21.019 and did not include the federal expenditures for ALN 32.006.
Planned Corrective Action: The System will implement a review process of the Schedule after preparation.
Contact person responsible for corrective action: Robert Sharon,Vice President, Corporate Finance; Stephanie Cihon, Director, Grants and Public Policy
Anticipated Completion Date: 6/30/2022

Finding Number: 2020-002
Condition: The System initially reported costs on the Schedule for expenditures that were unallowable, as the individuals were ultimately ineligible because they were insured at the time that COVID related procedures were performed.
Planned Corrective Action: The System will implement a review of paid and unpaid services when determining the amount to record on the Schedule. The System will also work with the funder to repay the ineligible costs back.
Contact person responsible for corrective action: Kevin Sharp, VP Revenue Cycle
Anticipated Completion Date: 6/30/2022

Finding Number: 2020-003
Condition: The System included certain expenditures on the Schedule that were not incurred during the period noted above.
Planned Corrective Action: The System will implement a grants close out process and ensure that all costs are liquidated in a timely manner. The System will also work with the funder to resubmit paid invoices or to repay the unallowable costs back.
Contact person responsible for corrective action: Stephanie Cihon, Director, Grants and Public Policy
Anticipated Completion Date: 6/30/2022