ProMedica Health System and Subsidiaries

Consolidated Financial Report
with Supplemental Information
December 31, 2021

Contents

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Independent Auditor's Report

To the Board of Directors
ProMedica Health System and Subsidiaries

Report on the Audits of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of ProMedica Health System and Subsidiaries (the "System"), which comprise the consolidated balance sheet as of December 31, 2021 and 2020 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the System as of December 31, 2021 and 2020 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

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

To the Board of Directors
ProMedica Health System and Subsidiaries

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

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

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

Required Supplement 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, 2019 to December 31, 2021, 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 20, 2022 on our consideration of ProMedica Health System and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ProMedica Health System and Subsidiaries' 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 20, 2022

ProMedica Health System and Subsidiaries

Consolidated Balance Sheet

December 31, 2021 and 2020
(In Thousands)

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	$ 569,151	$ 944,675
Marketable securities (Note 19)	262,271	248,672
Assets limited as to use or restricted (Notes 7 and 19)	14,120	16,995
Accounts receivable - Net	610,649	529,216
Estimated third-party payor receivable	26,438	17,404
Supplies	40,670	43,766
Assets held for sale (Note 26)	15,629	40,300
Other current assets	252,083	204,654
Total current assets	1,791,011	2,045,682
Noncurrent Assets Limited as to Use or Restricted - Net of amount required to meet current obligations (Notes 7 and 19)		
Restricted funds (Note 16)	160,405	150,349
Professional liability and workers' compensation insurance funds	59,586	66,094
Internally designated for capital acquisition	965,790	974,362
Other segregated investments	308,871	290,609
Total noncurrent assets limited as to use or restricted	1,494,652	1,481,414
Property and Equipment - Net (Note 8)	1,609,150	1,655,090
Right-of-use Operating Lease Assets (Note 11)	2,101,929	2,077,875
Other Assets		
Goodwill (Note 9)	1,097,698	1,098,769
Intangible assets (Note 9)	157,406	166,413
Pension (Note 15)	50,563	41,928
Investment in affiliated companies (Note 23)	668,347	620,950
Other	64,231	64,919
Total other assets	2,038,245	1,992,979
Total assets	**$ 9,034,987**	**$ 9,253,040**

See notes to consolidated financial statements.

Consolidated Balance Sheet (Continued)

December 31, 2021 and 2020
(In Thousands)

	2021	2020
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and other accrued expenses	$ 669,287	$ 600,746
Contractual current installments of long-term debt (Note 10)	21,404	17,425
Contingent current installments of long-term debt (Note 10)	400,441	433,247
Estimated third-party payor settlements	88,102	59,026
Current portion of lease liabilities - Financing (Note 11)	4,020	4,056
Current portion of lease liabilities - Operating (Note 11)	133,303	115,193
Accrued liabilities and other:		
Compensation and benefits	348,317	336,110
Professional liability and workers' compensation (Note 12)	101,545	103,367
Claims expense (Note 13)	160,044	143,033
Other current liabilities	187,062	381,762
Total current liabilities	2,113,525	2,193,965
Long-term Debt - Less current installments (Note 10)	1,851,734	1,866,446
Lease Liabilities - Financing (Note 11)	23,590	27,411
Lease Liabilities - Operating (Note 11)	2,098,897	2,045,218
Other Liabilities		
Accrued professional liability and workers' compensation - Less current portion (Note 12)	261,233	260,187
Deferred compensation (Note 15)	58,181	50,188
Pension (Note 15)	157	713
Other	51,576	93,177
Total other liabilities	371,147	404,265
Total liabilities	6,458,893	6,537,305
Net Assets		
Without donor restrictions:		
Controlling interest	2,401,044	2,552,671
Noncontrolling interest	14,645	12,715
Total without donor restrictions	2,415,689	2,565,386
With donor restrictions (Note 16)	160,405	150,349
Total net assets	2,576,094	2,715,735
Total liabilities and net assets	**$ 9,034,987**	**$ 9,253,040**

Consolidated Statement of Operations and Changes in Net Assets

Years Ended December 31, 2021 and 2020
(In Thousands)

	2021	2020
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue (Note 6)	$ 4,694,153	$ 4,385,323
Premium revenue	1,979,927	1,985,950
Other	240,363	477,699
Net assets released for use in operations	13,763	12,293
Total unrestricted revenue, gains, and other support	6,928,206	6,861,265
Expenses		
Salaries, wages, and employee benefits	2,937,985	2,899,734
Food and drugs	334,120	322,846
Medical expenses	1,374,115	1,408,839
Contracted fees	954,021	711,008
Supplies	314,569	301,265
Insurance	102,161	92,434
Utilities	93,920	90,393
Other	764,140	753,824
Total expenses (Note 18)	6,875,031	6,580,343
Operating Income before Depreciation, Amortization, and Impairment Expense	53,175	280,922
Depreciation, Amortization, and Impairment	189,126	229,704
Operating (Loss) Income	(135,951)	51,218
Other (Loss) Income		
Interest expense	(117,029)	(114,644)
Investment income	100,737	161,763
Income tax expense (Note 17)	(4,089)	(8,326)
Other	9,386	(1,478)
Total other (loss) income - Net	(10,995)	37,315
Excess of Revenue (Under) Over Expenses before Restructuring, Severance, and Acquisition Costs	(146,946)	88,533
Restructuring, Severance, and Acquisition Costs (Note 2)	-	(1,307)
Excess of Revenue (Under) Over Expenses	**$ (146,946)**	**$ 87,226**

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

Years Ended December 31, 2021 and 2020

(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, 2020	$ 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
Excess of revenue (under) over expenses	(150,317)	3,371	(146,946)	-	(146,946)
Restricted investment income	-	-	-	9,249	9,249
Restricted contributions and transfers - Net	-	-	-	18,142	18,142
Net assets released from restrictions for operations	-	-	-	(13,763)	(13,763)
Net assets released from restrictions for fixed assets	3,572	-	3,572	(3,572)	-
Capital contributions by noncontrolling members	-	20	20	-	20
Distributions to noncontrolling interests	-	(1,461)	(1,461)	-	(1,461)
Pension and other postretirement adjustments	(4,628)	-	(4,628)	-	(4,628)
Loss on discontinued operations (Note 24)	(254)	-	(254)	-	(254)
(Decrease) increase in net assets	(151,627)	1,930	(149,697)	10,056	(139,641)
Net Assets - December 31, 2021	**$ 2,401,044**	**$ 14,645**	**$ 2,415,689**	**$ 160,405**	**$ 2,576,094**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended December 31, 2021 and 2020
(In Thousands)

	2021	2020
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (139,641)	$ 121,754
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation and amortization	188,282	201,207
Loss (gain) on sale of equipment	10,677	(13,373)
Asset impairment	844	35,762
Investment income, including realized and unrealized gains	(70,488)	(133,238)
Income from joint ventures	(45,319)	(24,037)
Net distributions to noncontrolling interests	1,441	596
Restricted contributions and other	(18,142)	(13,623)
Amortization of debt discounts, premiums, and issuance costs	(897)	737
Changes in operating assets and liabilities that (used) provided cash - Net of business combinations:		
Accounts receivable and estimated third-party payor receivables	(81,433)	88,131
Supplies and other current assets	(50,418)	(67,458)
Other assets	2,420	24,249
Accounts payable and accrued expenses	75,702	169,738
Estimated third-party payor settlements	20,042	26,911
Pension	(9,191)	(34,024)
Other liabilities	(210,552)	427,092
Operating right-of-use assets and lease liabilities	47,662	31,243
Net cash (used in) provided by operating activities	(279,011)	841,667
Cash Flows from Investing Activities		
Acquisition of property and equipment	(134,239)	(172,408)
Proceeds from sale of equipment	28,350	15,128
Payments for business combinations - Net of cash acquired	(3,506)	(8,484)
Distributions from joint ventures	75,661	51,415
Investments in joint ventures	(77,737)	(7,871)
Purchase of investments	(929,460)	(1,507,195)
Proceeds from sale of investments	1,020,830	1,392,225
Decrease in total assets limited as to use or restricted	(46,805)	(34,587)
Net cash used in investing activities	(66,906)	(271,777)
Cash Flows from Financing Activities		
Proceeds from long-term debt	79,328	7,502
Repayment of long-term debt	(122,335)	(14,064)
Payments on finance lease obligations	(5,262)	(5,995)
Distributions to noncontrolling interests	(1,441)	(596)
Restricted contributions and other	18,142	13,623
Net cash (used in) provided by financing activities	(31,568)	470
Net (Decrease) Increase in Cash and Cash Equivalents	(377,485)	570,360
Cash and Cash Equivalents - Beginning of year	961,380	391,020
Cash and Cash Equivalents - End of year	**$ 583,895**	**$ 961,380**
Supplemental Cash Flow Information		
Cash paid for interest - Net of amount capitalized	$ 117,125	$ 114,935
Cash paid for taxes	2,923	10,487
Acquisition of property through accounts payable	6,276	7,665
Significant Noncash Transactions		
Recognition of new operating lease right-of-use assets and liabilities	$ 242,512	$ 15,212
Recognition of new finance leases	249	11,040

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), d.b.a ProMedica Charles and Virginia Hickman Hospital (Hickman)
- 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) and HCR Holding Co.

Emma L. Bixby Medica Center and Herrick Memorial Hospital, Inc. were merged into one location at the new ProMedica Charles and Virginia Hickman Hospital (Hickman) in September 2020.

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.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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):

	2021	2020
Cash and cash equivalents	$ 569,151	$ 944,675
Cash and cash equivalents included in assets limited as to use	14,744	16,705
Total	$ 583,895	$ 961,380

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.

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

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.

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 directors 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.

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.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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, 2021 and 2020.

Note 2 - Summary of Significant Accounting Policies (Continued)

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 include 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.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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 $233,000 and $3,375,000 in 2021 and 2020, respectively. Deferred debt financing costs are expensed over the life of the bonds using the bonds outstanding method.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

Contributions 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.

Donor-restricted contributions whose restrictions are met year in the in which the gift is given are reported within other operating revenue as contributions without donor restrictions in the accompanying financial statements.

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, 2021 and 2020. 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, 2021 and 2020.

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.

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 $0 and $1,307,000 for the years ended December 31, 2021 and 2020, respectively, are included in restructuring, severance, and acquisition costs in the consolidated statement of operations and changes in net assets.

Upcoming Accounting Pronouncement

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 was issued to provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments of ASU No. 2020-04 only apply to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in ASU No. 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including April 20, 2022, which is the date the consolidated financial statements were available to be issued.

Effective January 24, 2022, Welltower purchased 25 percent of ProMedica's 20 percent interest in the joint venture that holds the skilled nursing and assisted living facility real estate subject to the master lease. Welltower increased its membership interest in the joint venture from 80 percent to 85 percent in exchange for proceeds of $137,400,000. In conjunction with this change, the initial lease term of the master lease was also amended and extended through December 31, 2036.

Paramount Advantage was not awarded the Medicaid contracts for the plan years 2022-2027 by the Ohio Department of Medicaid. As a result, effective February 11, 2022, Paramount Advantage entered into an agreement with Community Insurance Company, d/b/a Anthem Blue Cross Blue Shield of Ohio, whereby Paramount Advantage has agreed to sell certain assets related to its current Ohio Medicaid Contract for a selling price of $50,000,000. In conjunction with this agreement, the parties entered into a transition services agreement under which Paramount Advantage will continue to provide all services under the current Ohio Medicaid Contract up to the cutover date, which is the date the 2022 Ohio Medicaid Contract becomes effective. In addition, effective after the cutover date, Paramount Advantage will provide certain data migration and run-out services.

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 now known 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. Throughout 2021, the System's operations were significantly impacted as a result of the pandemic. The System experienced staffing shortages, rising costs to retain and attract employees, and varying volumes among other impacts.

Provider Relief Fund

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. There was also an additional $8.5 billion in funds appropriated under American Rescue Plan (ARP) Act of 2021, which were distributed in November and December 2021 to eligible health care providers.

Note 3 - Impact of Disease Outbreak (Continued)

As of December 31, 2021 and 2020, the System received approximately $98,911,000 and $320,000,000, respectively, as part of general and targeted distributions of the CARES Act Provider Relief Fund, which were distributed between April 2020 and December 2021. These payments are not subject to repayment, provided the System is able to attest to and comply with the terms and conditions of the funding outlined in the HHS' June 11, 2021 *Post-Payment Notice of Reporting Requirements*, including demonstrating that the distributions received have been used for health care-related expenses or lost revenue attributed to COVID-19. Based on an analysis of compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on the System's operating results through December 31, 2021, the System believes there is reasonable assurance the applicable terms and conditions required to retain the funds are met as of December 31, 2021 and 2020. The System has recognized $93,018,000 and $320,000,000 as other revenue on the consolidated statement of operations and changes in net assets for the years ended December 31, 2021 and 2020, respectively, related to the Provider Relief Fund and other funding sources.

The System recorded approximately $5,893,000 within other current liabilities as deferred revenue in the consolidated balance sheet as of December 31, 2021 where conditions for recognition have not yet been met. No such liability was recorded as of December 31, 2020. The System will continue to monitor the terms and conditions of the CARES Act funds and the impact of the pandemic on revenue and expenses.

HHS' requirements for the uses of the CARES Act funds are subject to change and are open to interpretation and clarification; therefore, there may be changes in the amounts recognized as unrestricted revenue, gains, and other support during the year ended December 31, 2021 and 2020. If the System is unable to attest to or comply with future terms and conditions, the ability to retain some or all of the distributions received may be impacted. 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.

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. As of December 31, 2021, $124,831,000 remained outstanding and 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, which was reflected within accrued employee compensation and related expenses and other long-term liabilities. As of December 31, 2021, $49,547,000 remained outstanding and is reflected with the related liability recorded in accrued employee compensation and related expenses on the consolidated balance sheet. The deferred employer payroll taxes under this program will be paid in 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. As of December 31, 2021; December 31, 2020; and January 1, 2020, patient accounts receivable totaled approximately $611 million, $529 million, and $617 million, respectively. The composition of receivables from patients and third-party payors was as follows:

	2021	2020
Commercial and other payors	29 %	28 %
Medicare	41	42
Self-pay	10	10
Medicaid	20	20
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 2021 and 2020, gross charges forgone, based on established rates, approximated $53,789,000 and $53,175,000, respectively. The cost of charity care provided approximated $13,150,000 and $9,989,000 in 2021 and 2020, 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, 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. Most recently, ProMedica’s National Institute of Social Determinants partnered with Green and Healthy Homes Initiative (GHH) to launch a national healthy housing initiative to improve the health of individuals and communities by improving the safety and energy efficiency of homes. Additionally 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, 2021 and 2020 is as follows is (in thousands):

	2021	2020
Medicare	$ 2,123,218	$ 2,002,473
Medicaid	1,258,326	1,225,263
Commercial and other payors	1,007,427	859,822
Self-pay	305,182	297,765
Total	$ 4,694,153	$ 4,385,323

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, 2021 and 2020 (in thousands) is as follows:

	2021	2020
Service lines:		
Hospital	$ 1,692,816	$ 1,410,663
Nursing home and senior care	1,914,015	1,949,011
Physician services	263,570	201,398
Home health and hospice	666,311	667,349
Other	157,441	156,902
Total	$ 4,694,153	$ 4,385,323
Timing of revenue recognition:		
At time services are rendered	$ 57,242	$ 70,395
Over time services are transferred	4,636,911	4,314,928
Total	$ 4,694,153	$ 4,385,323

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, skilled nursing, 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 2017 to 2019 for the Medicare program and with dates ranging from 2014 to 2019 for the Medicaid program. Cost reports for the Blue Cross Blue Shield program (Michigan providers only) have been finalized through 2020. 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 2021 and 2020, the System received distributions of approximately $79,404,000 and $40,035,000, respectively. All hospitals are subject to assessments used to fund state supplemental payment programs. During 2021 and 2020, the System incurred assessments of approximately $48,176,000 and $39,763,000, 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 2021 and 2020, such changes in estimates increased patient service revenue by approximately $9,248,000 and $4,092,000, 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, 2021 and 2020, 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, 2021 and 2020, restricted assets of the foundations and other subsidiaries of the System, assets held by directors under indenture agreements and self-insurance trust arrangements, and assets set aside by the board of directors for future capital improvements and other designated purposes consisted of the following (in thousands):

	2021	2020
Cash and cash equivalents	$ 28,830	$ 26,409
Equity securities	659,318	585,505
Fixed-income securities	623,415	706,309
Long-short equity hedge funds	62,691	64,368
Real return strategy funds	67,700	58,750
Real estate	6,533	3,847
Beneficial interest in perpetual trusts	39,653	35,958
Other	20,632	17,263
Total	$ 1,508,772	$ 1,498,409

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, 2021 and 2020 consisted of the following (in thousands):

	2021	2020
Land and improvements	$ 154,028	$ 152,998
Building and improvements	1,956,508	1,921,539
Equipment	1,043,307	1,004,086
Construction in progress	103,093	64,829
Total cost	3,256,936	3,143,452
Less accumulated depreciation and amortization	1,647,786	1,488,362
Property and equipment - Net	$ 1,609,150	$ 1,655,090

Property and equipment include assets recorded under finance leases of $50,452,000 and $49,960,000 with accumulated amortization for such assets of $22,534,000 and $18,260,000 as of December 31, 2021 and 2020, respectively. The associated charges to income are recorded in depreciation and amortization expense.

As of December 31, 2021 and 2020, construction contract commitments of $34,240,000 and $16,605,000, respectively, exist for the construction and remodeling of system facilities. Additionally, certain facilities that are leased have active remodeling contracts with various levels of commitments.

Note 9 - Goodwill and Intangible Assets

Intangibles as of December 31, 2021 and 2020 consisted of the following (in thousands):

		2021			2020		
	Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:							
Physician charts	10	$ 2,136	$ (1,534)	$ 602	$ 2,036	$ (1,430)	$ 606
Customer relationships	5-50	40,447	(14,578)	25,869	40,447	(12,162)	28,285
Trademark	10	59,135	(14,291)	44,844	59,135	(8,377)	50,758
Other	1-50	25,755	(6,707)	19,048	25,733	(6,020)	19,713
Total		$ 127,473	$ (37,110)	$ 90,363	$ 127,351	$ (27,989)	$ 99,362

	2021 Gross Carrying Amount	2020 Gross Carrying Amount
Carrying amount of intangible assets not subject to amortization:		
Goodwill	$ 1,097,698	$ 1,098,769
Certificate of need	38,286	38,276
Hospice and home care licenses	28,309	28,309
Other	448	466
Total	$ 1,164,741	$ 1,165,820

During 2021, the System recorded goodwill of $989,000 related predominately to the acquisition of an ambulatory surgery center. The System recorded various impairment charges of $990,000 related to goodwill. The impairment charge was the result of a change in expected future cash flows and was calculated using a present value methodology.

During 2020, the System recorded an impairment charge of $30,060,000 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.

Aggregate amortization expense for the years ended December 31, 2021 and 2020 was $10,108,000 and $9,832,000, respectively.

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

Years Ending	Amount
2022	$ 8,880
2023	8,885
2024	8,852
2025	8,852
2026	8,852
Thereafter	46,042
Total	$ 90,363

Note 10 - Debt

Long-term debt as of December 31, 2021 and 2020, net of unamortized bond discount, premium, and debt issuance costs, consisted of the following (in thousands):

	2021	2020
Hospital Revenue Bonds - Series 2018A, interest at 4.13 to 5.25 percent, payable semiannually	$ 249,674	$ 249,859
Taxable Bonds - Series 2018B, interest at 5.33 to 6.02 percent, payable semiannually	1,204,313	1,203,634
Hospital Revenue Bonds - Series 2017A, interest at 3.36 percent, payable monthly	54,710	54,675
Hospital Revenue Bonds - Series 2017B, interest at 3.36 percent, payable monthly	120,010	119,976
Hospital Revenue Bonds - Series 2017C, interest at 3.29 percent, payable monthly	84,980	84,946
Hospital Revenue Bonds - Series 2017D, interest at 3.29 percent, payable monthly	39,736	39,714
Hospital Revenue Bonds - Series 2017F, based on the 30-day London Interbank Offered Rate (LIBOR) index and interest payable monthly (1.26 percent as of December 31, 2021)	62,500	62,474
Hospital Refunding Revenue Bonds - Series 2017H	-	24,912
Taxable Bonds - Series 2015A, interest at 4.98 percent, payable semiannually	270,764	270,670
Hospital Revenue Bonds - Series 2015B, interest at 4.00 percent, payable semiannually	45,393	45,336
Taxable Hospital Refunding Revenue Bonds - Series 2015C, based on the 30-day LIBOR index and interest payable monthly	-	4,947
Taxable Bonds - Series 2015E, based on the 30-day LIBOR index and interest payable monthly (0.88 percent as of December 31, 2021)	27,177	29,110
Hospital Refunding Revenue Bonds - Series 2011D	-	88,680
Hospital Refunding Revenue Bonds - Series 2021A, 2021B, and 2021C, interest at 2.50 percent	79,343	-
Qualified Low-Income Community Investment Loans - 2015, interest at 1.00 to 2.58 percent, payable quarterly	14,419	14,406
Other	20,560	23,779
Total	2,273,579	2,317,118
Less current installments of long-term debt - Net of current portion of unamortized bond discount, premium, and debt issuance costs - Contractual current installments	21,404	17,425
Contingent current installments	400,441	433,247
Total	$ 1,851,734	$ 1,866,446

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 d.b.a Hickman, 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, 2021, 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, 2021 and 2020 include unamortized bond premium of $7,308,000 and $7,580,000, respectively. Balances reported at December 31, 2021 and 2020 include unamortized debt issuance costs of $2,124,000 and $2,211,000, 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, 2048. The proceeds of the Series 2018B bonds were used for refinance the 2018 bridge loan used to finance the HCR ManorCare, Inc. and Subsidiaries acquisition and for other authorized corporate purposes of the System's subsidiaries.

Balances reported at December 31, 2021 and 2020 include unamortized bond premium of $14,102,000 and $14,940,000, respectively. Balances reported at December 31, 2021 and 2020 include unamortized debt issuance costs of $29,634,000 and $31,151,000, 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, 2021 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, 2021, 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, 2021 and 2020 include unamortized debt issuance costs of $0 and $35,000, 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 contractual current portion of the Series 2017B bonds is $2,385,000 at December 31, 2021, with the remaining $117,625,000 included in contingent current installments of long-term debt 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, 2021, 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, 2021 and 2020 include unamortized debt issuance costs of $0 and $34,000, 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 proceeds from the 2017C bonds were used to advance refund a portion of the Series 2011A bonds. The contractual current portion of the Series 2017B bonds is $1,685,000 at December 31, 2021, with the remaining $83,295,000 included in contingent current installments of long-term debt based on certain subjective acceleration definitions within the agreement. At December 31, 2021, 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, 2021 and 2020 include unamortized debt issuance costs of $0 and $34,000, 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 proceeds from the 2017D bonds were used to advance refund a portion of the Series 2011D bonds. The contractual current portion of the Series 2017D bonds is $820,000 at December 31, 2021, with the remaining $38,980,000 included in contingent current installments of long-term debt based on certain subjective acceleration definitions within the agreement. At December 31, 2021, 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, 2021 and 2020 include unamortized debt issuance costs of $64,000 and $86,000, 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, 2021 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, 2021, 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, 2021 and 2020 include unamortized debt issuance costs of $0 and $26,000, respectively.

Note 10 - Debt (Continued)

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, 2021 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. On November 1, 2021, the Company redeemed the $24,945,000 in aggregate original principal amount of the bonds. Balances reported at December 31, 2021 and 2020 include unamortized debt issuance costs of $0 and $30,000, respectively.

Taxable Bonds - 2015A

Series 2015A, with an outstanding principal of $273,000,000 at December 31, 2021, 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, 2021 and 2020 include unamortized debt issuance costs of $2,236,000 and $2,330,000, respectively.

Hospital Revenue Bonds - 2015B

Series 2015B, with an outstanding principal of $46,755,000 at December 31, 2021, 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, 2021 and 2020 include unamortized bond discount of $930,000 and $969,000, respectively, and debt issuance costs of $432,000 and $450,000, respectively.

Taxable Hospital Revenue Refunding Bonds - 2015C

Series 2015C, 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 was paid on 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, 2021 and 2020 include unamortized debt issuance costs of $0 and $13,000, respectively.

Taxable Bonds - 2015E

Series 2015E, with an outstanding principal of $27,220,000 as of December 31, 2021, 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, 2022 to $21,385,000 in 2025. The contractual current portion of the Series 2015E bonds is $1,945,000 at December 31, 2021, with the remaining $25,275,000 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, 2021 and 2020 include unamortized debt issuance costs of $43,000 and $54,000, respectively.

Note 10 - Debt (Continued)

Hospital Refunding Revenue Bonds - 2011D

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. Series 2011D was partially refunded in December 2017 using the proceeds from the Series 2017D bonds. On August 17, 2021, the System refunded the remaining outstanding principal of $79,650,000 via bank direct placements with a fixed rate of 2.5 percent. A gain on defeasance of $751,000 was recognized in other income for the year ended December 31, 2021. Balances reported at December 31, 2021 and 2020 include unamortized bond premium of $0 and $2,353,000, respectively, and debt issuance costs of $0 and $528,000, respectively.

Hospital Refunding Revenue Bonds - 2021A,B,C

Series 2021A,B,C bank direct placements with outstanding principal of $79,650,000 at December 31, 2021 were used to refund the Series 2011D bonds. Principal payments of $12,440,000 are due in 2022 with final maturity on November 15, 2029. Balances reported at December 31, 2021 include unamortized debt issuance costs of $307,000.

Qualified Low-income Community Investment (QLICI) Loans

The 2015 loans, with an outstanding principal balance of $14,740,000 at December 31, 2021, 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, 2021 and 2020 include unamortized debt issuance costs of $321,000 and $334,000, respectively.

The table below indicates the future maturities on long-term debt at December 31, 2021. 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, 2021. Accordingly, if covenants are violated, debt repayments may become more accelerated than presented below (in thousands):

Years Ending	Amount
2022	$ 21,404
2023	22,399
2024	22,837
2025	42,796
2026	20,639
Thereafter	2,143,504
Total	$ 2,273,579

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 $3,750,000 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.

Note 11 - Leases (Continued)

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. Subsequent to year end, the initial lease term of the master lease was amended and extended through December 31, 2036. 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 annual 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 $225,916,000 and $212,665,000 in 2021 and 2020, respectively.

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
2020	$ 231,851	$ 6,069	$ 1,944	$ 239,864
2021	241,402	4,253	1,751	247,406

Future minimum cash payments on noncancelable leases as of December 31, 2021 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
2022	$ 225,197	$ 9,354	$ 234,551
2023	227,375	4,919	232,294
2024	230,188	5,204	235,392
2025	234,649	2,536	237,185
2026	238,696	2,540	241,236
Thereafter	1,698,061	11,602	1,709,663
Total	2,854,166	36,155	2,890,321
Less amount representing interest	621,966	8,545	630,511
Present value of net minimum lease payments	2,232,200	27,610	2,259,810
Less current obligations	133,303	4,020	137,323
Long-term obligations under leases	$ 2,098,897	$ 23,590	$ 2,122,487

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 $323,052,000 and $319,237,000 at December 31, 2021 and 2020, respectively. The workers' compensation liability was $39,726,000 and $44,317,000 in 2021 and 2020, 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 $32,885,000 and $33,544,000 has been recorded for claims that have been incurred, but not yet received, at December 31, 2021 and 2020, respectively, and is included in accounts payable and accrued liabilities in the consolidated balance sheet.

It is the opinion of management that estimated self-insurance cost accrued as of December 31, 2021 and 2020 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, 2021 and 2020 is summarized as follows (in thousands):

	2021	2020
Balance - Beginning of year	$ 143,033	$ 119,295
Incurred related to:		
Current year	1,404,537	1,421,655
Prior years	(30,422)	(12,816)
Total incurred	1,374,115	1,408,839
Paid related to:		
Current year	(1,248,464)	(1,282,016)
Prior years	(108,640)	(103,085)
Total paid	(1,357,104)	(1,385,101)
Balance - End of year	$ 160,044	$ 143,033

Note 13 - Accrued Claims (Continued)

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.

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, 2021, 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, 2021	
Claim Year	2019	2020	2021	Total IBNR and Bulk Reserves (in Thousands)	Cumulative Number of Reported Claims
2019	$ 1,486,332	$ 1,473,516	$ 1,473,516	$ -	6,798,000
2020		1,421,655	1,391,233	3,123	5,664,000
2021			1,404,537	156,921	6,206,000
Total			$ 4,269,286		

Note 14 - Liability for Unpaid Claims and Claim Adjustment Expenses (Continued)

	Cumulative Paid Claims and Allocated Claims Adjustment Expenses - Net of Reinsurance, for the Years Ended December 31 (in Thousands)		
Claim Year	2019	2020	2021
2019	$ 1,367,037	$ 1,470,122	$ 1,470,122
2020		1,282,016	1,390,656
2021			1,248,464
Total			$ 4,109,242
Total liability for claims and claim adjustment expenses - Net of reinsurance			$ 160,044

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 2021 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 2021 and 2020 was approximately $51,350,000 and $50,404,000, 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, 2021 and 2020, the assets and liabilities under these plans totaled $58,181,000 and $50,188,000, 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, 2021 and 2020 are as follows (in thousands):

	Pension Plans	
	2021	2020
Change in benefit obligation:		
Benefit obligation - Beginning of year	$ 489,692	$ 484,239
Interest cost	10,581	14,048
Actuarial (gain) loss	(3,758)	23,056
Benefits paid	(13,431)	(13,051)
Other	1,721	1,918
Settlements	(19,494)	(20,518)
Benefit obligation - End of year	465,311	489,692
Change in plan assets:		
Fair value of plan assets - Beginning of year	530,845	491,395
Actual return on plan assets	17,720	72,951
Employer contributions	48	68
Benefits paid	(13,431)	(13,051)
Settlements	(19,494)	(20,518)
Fair value of plan assets - End of year	515,688	530,845
Net asset recognized	$ 50,377	$ 41,153

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

	Pension Plans	
	2021	2020
Other assets - Long term	$ 50,563	$ 41,928
Other liabilities - Current	(29)	(62)
Other liabilities - Long term	(157)	(713)
Net asset	50,377	41,153
Amounts recognized in net assets without donor restrictions	103,672	99,130
Net amount recognized	$ 154,049	$ 140,283

Amounts recognized in net assets without donor restrictions as of December 31, 2021 and 2020 consist of the following (in thousands):

	Pension Plans	
	2021	2020
Beginning balance	$ 99,130	$ 122,975
Recognized in net periodic benefit cost - Amortization of net loss	(2,620)	(2,297)
Settlement cost	(4,303)	(4,157)
Net loss (gain)	11,465	(17,391)
Ending balance	$ 103,672	$ 99,130

Note 15 - Pension (Continued)

Components of net periodic benefit cost for the years ended December 31, 2021 and 2020 consisted of the following (in thousands):

	Pension Plans 2021	Pension Plans 2020
Interest cost	$ 10,581	$ 14,048
Expected return on plan assets	(31,156)	(30,652)
Recognized net actuarial loss	2,620	2,297
Settlement costs	4,303	4,157
Net benefit	$ (13,652)	$ (10,150)

During 2022, $2,620,000 is expected to be amortized from net assets without donor restrictions into net periodic benefit cost.

	Pension Plans 2021	Pension Plans 2020
Benefit obligations:		
Discount rate	2.50%	2.0%-2.5%
Rate of compensation increase	N/A	N/A
Net periodic benefit cost:		
Discount rate	2.25%	3.00%
Expected long-term return on plan assets	4.75% - 7.0%	7.00%
Rate of compensation increase	N/A	N/A

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, 2021 and 2020, the total accumulated benefit obligation for the pension was $515,875,000 and $531,620,000, respectively.

Plan Assets

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 67 percent cash and short-term fixed income and 33 percent liability hedging fixed-income securities at December 31, 2021. The target allocations for plan assets are 51 percent equity securities, 43 percent fixed-income securities, and 6 percent real return strategy funds at December 31, 2020. 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, 2021 and 2020 by major asset classes are as follows (in thousands):

	Fair Value Measurements at December 31, 2021			
	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	$ 23	$ 338,399	$ -	$ 338,422
U.S. equity securities -				
U.S. equity mutual funds	545	-	-	545
International equity securities				
Fixed-income securities:				
Domestic fixed-income mutual funds	505	-	-	505
U.S. fixed income commingled fund	-	174,502	-	174,502
Real return strategy funds				
Private equity funds	-	-	1,714	1,714
Total investments at fair value	$ 1,073	$ 512,901	$ 1,714	515,688
Total				$ 515,688

	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. Treasurys 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 equity funds	-	-	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)

Cash Flow

Expected Contributions

The System expects to contribute $29,000 to its pension plans to pay anticipated benefit payments in 2022. The System may elect to make additional contributions.

Required Contributions

The System is not required to contribute to its pension plan in 2022.

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
2022	$ 39,761
2023	37,034
2024	34,168
2025	35,846
2026	31,273
Thereafter	136,427

Note 16 - Net Assets with Donor Restrictions

As of December 31, 2021 and 2020, net assets with donor restrictions relate to the following (in thousands):

	2021	2020
Net assets with donor restrictions:		
Hospital operations support	$ 108,601	$ 104,545
Hospital capital support	16,624	16,176
Research	7,470	7,590
Health care and other services	27,710	22,038
Total	$ 160,405	$ 150,349

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.

Note 16 - Net Assets with Donor Restrictions (Continued)

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, 2021 and 2020 are $23,125,000 and $21,318,000, respectively.

Changes in endowment net assets for the fiscal years ended December 31, 2021 and 2020 are as follows (in thousands):

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
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
Investment income	694	1	695
Contributions and transfers - Net	-	2	2
Change in net realized and unrealized losses	1,144	3,349	4,493
Other	(31)	-	(31)
Endowment net assets - December 31, 2021	$ 23,125	$ 43,016	$ 66,141

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, 2021 and 2020, 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, 2021 and 2020, the System had pledges receivable of $16,839,000 and $14,161,000, respectively, net of an allowance of $1,069,000 and $717,000, respectively, for uncollectibility and discounted at 2.94 percent, with amounts due as follows (in thousands):

Years Receivable	Amount
2022	$ 5,855
2023-2024	5,079
2025-2026	2,690
2027 and thereafter	3,215
Total	$ 16,839

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, 2021 and 2020 consists of the following (in thousands):

	2021	2020
Current income tax expense	$ 3,402	$ 9,025
Deferred income tax expense (benefit)	1,034	(699)
Income tax expense	$ 4,436	$ 8,326

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):

	2021	2020
Income before income taxes	$ 96,240	$ 94,327
Statutory U.S. federal income tax rate	$ 20,210	$ 19,808
State income taxes - Net of federal benefit	204	(814)
Exempt income adjustments	(16,049)	(11,278)
Other	71	610
Income tax expense	$ 4,436	$ 8,326
Effective tax rate	4.60 %	8.80 %

In 2021 and 2020, PIC recorded favorable adjustments of $16,049,000 and $11,278,000, 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):

	2021	2020
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	$ 139	$ 132
Unearned premium reserves	262	192
Accrued compensation	1,309	1,250
General accruals	586	700
Other	1,133	769
Total deferred tax assets - Net of any applicable allowances	3,429	3,043
Deferred tax liabilities:		
Goodwill and intangibles	(7,266)	(9,202)
Prepaid expense	(2)	(3)
Unrealized gains	(418)	(441)
Basis in fixed assets	(3,970)	(592)
Other liabilities	(53)	(52)
Deferred tax liabilities	(11,709)	(10,290)
Net deferred tax liability	$ (8,280)	$ (7,247)

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 require 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. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Total expenses, including depreciation, amortization, and interest, related to providing these services for the years ended December 31, 2021 and 2020 are as follows (in thousands):

	Program Services				Support Services		
	Provider	Senior Care	Insurance	Other	Management and General	Fundraising	Total
Salaries, wages, and employee benefits	$ 912,395	$ 1,588,809	$ 51,490	$ 3,445	$ 379,472	$ 2,374	$ 2,937,985
Food and drugs	218,622	115,389	-	755	(646)	-	334,120
Medical expenses	-	-	1,374,115	-	-	-	1,374,115
Contracted fees	231,123	447,596	19,863	2,906	251,599	934	954,021
Supplies	217,853	92,444	-	51	4,211	10	314,569
Insurance	8,534	67,456	3	-	26,168	-	102,161
Utilities	1,266	64,375	-	52	28,227	-	93,920
Other	127,618	512,055	861	1,470	114,964	7,172	764,140
Depreciation, amortization, and impairment	98,402	40,680	-	28,688	21,356	-	189,126
Interest expense	40,791	69,566	-	-	6,486	186	117,029
Total	$ 1,856,604	$ 2,998,370	$ 1,446,332	$ 37,367	$ 831,837	$ 10,676	$ 7,181,186

	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

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.

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 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, 2021 and 2020, unfunded capital commitments totaled $15,675,000 and $6,500,000, respectively.

Note 19 - Fair Value Measurements (Continued)

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.

The following tables present information about the fair value of the System's financial instruments as of December 31, 2021 and 2020, 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, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2021
Assets				
Cash and cash equivalents	$ 38,316	$ 14,700	$ -	$ 53,016
U.S. equity securities:				
U.S. equity mutual funds	148,980	-	-	148,980
Marketable equity securities	77,523	-	-	77,523
International equity securities:				
International equity mutual funds	34,592	-	-	34,592
Marketable international equity securities	102,883	-	-	102,883
Fixed-income securities:				
U.S. Treasurys and agencies	-	252,303	-	252,303
Corporate, municipal, and other governmental bonds	-	410,541	-	410,541
Domestic fixed-income mutual funds	148,623	-	-	148,623
International fixed-income mutual funds	276	-	-	276
Real return strategy funds:				
All asset mutual funds	59,707	-	-	59,707
Private capital	-	-	7,993	7,993
Other	21,729	-	-	21,729
Beneficial interests in perpetual trusts	-	-	39,653	39,653
Domestic real estate	-	-	6,534	6,534
Total	$ 632,629	$ 677,544	$ 54,180	1,364,353
Investments measured at net asset value:				
U.S. equity commingled funds				153,857
International equity commingled funds				155,429
Long-short equity hedge funds				62,691
Global fixed income commingled funds				34,713
Total assets limited as to use and marketable securities				$ 1,771,043

Note 19 - Fair Value Measurements (Continued)

	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 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)

The following is a summary of the fair value of system investments with a reported NAV per share as of December 31, 2021 and 2020 (in thousands):

	Investments Held at December 31, 2021		
	Fair Value	Redemption Frequency, if Eligible	Redemption Notice Period
U.S. equity commingled funds	$ 153,857	Monthly	0-5 days
International equity commingled funds	155,429	Daily/Monthly	0-6 days
Long-short equity hedge funds	62,691	Monthly/Quarterly	60-90 days
Global fixed-income commingled fund	34,713	Quarterly	60 days
Total	$ 406,690		

	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
Globally fixed-income commingled fund	23,301	Quarterly	60 days
Total	$ 347,940		

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.

Note 20 - Liquidity

The System has $1,651,024,000 and $2,017,328,000 of financial assets available within one year of December 31, 2021 and 2020 to meet cash needs for general expenditure consisting of cash of $569,151,000 and $944,675,000, short-term investments of $471,224,000 and $543,437,000, and accounts receivable of $610,649,000 and $529,216,000, respectively. Of the short-term investments, $262,271,000 and $248,672,000, respectively, is included as current assets, and the remaining $208,953,000 and $294,765,000, 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 are 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 $1,130,142,000 and $1,081,700,000 at December 31, 2021 and 2020, 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 2021 and 2020, changes to the asset retirement obligation are as follows (in thousands):

	2021	2020
Balance - January 1	$ 27,910	$ 28,779
Additions	134	1
Accretion expense	1,894	296
Settlements	-	(1,166)
Balance - December 31	$ 29,938	$ 27,910

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 2022 to 2038. The rental revenue for the years ended December 31, 2021 and 2020 was $5,821,000 and $6,233,000, respectively. As of December 31, 2021, the aggregate future minimum base rental payments to the System under noncancelable operating leases by year are as follows (in thousands):

Years Ending	Amount
2022	$ 5,040
2023	2,915
2024	2,649
2025	2,137
2026	1,822
Thereafter	3,821
Total	$ 18,384

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 investments with Welltower, as of and for the years ended December 31 are as follows (in thousands):

	2021	2020
Total assets	$ 411,219	$ 378,973
Total liabilities	181,959	169,143
Net assets	229,260	209,830
Revenue - Net	389,402	371,706
Net income	28,418	18,819

HCR purchases various pharmaceutical supplies from an affiliate accounted for as an equity investment. Total purchases for 2021 and 2020 are approximately $39,309,000 and $32,742,000, respectively. The amounts accrued for unpaid pharmaceutical supplies purchases at December 31, 2021 and 2020 are $7,763,000 and $5,391,000, respectively.

The summarized financial position and results of operations for the System's joint ventures with Welltower, as of and for the years ended December 31, 2021 and 2020, are as follows (in thousands):

	2021	2020
Total assets	$ 2,563,779	$ 2,483,312
Total liabilities	1,382	88
Net assets	2,562,397	2,483,224
Revenue - Net	238,209	212,693
Net income	198,932	198,526

Note 24 - Discontinued Operations

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

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 ended 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 a transitional payment expense of $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. The actual 2021 payment of $43,331,000 was prorated due to fewer residents transitioning than originally contemplated. Per the First Amendment to the Academic Affiliation Agreement, net patient service revenue generated by HCR ManorCare, Inc. and Subsidiaries 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.

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, 2021 and 2020, the carrying amount of the deferred payments is $32,864,000 and $34,205,000, 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. During 2021, the sale of 21 facilities was completed with the last 4 expected to close by the end of 2022. In addition, ProMedica has plans to divest certain other assets representing an insignificant portion of the organization's net assets. The net loss reflected in the consolidated statement of operations and changes in net assets related to facilities held for sale was $56,111,000 and $27,581,000 in 2021 and 2020, respectively.

Assets held for sale were as follows as of December 31, 2021 and 2020 (in thousands):

	2021	2020
Net property and equipment	$ 3,796	$ 12,300
Supplies	6,085	-
Goodwill	4,754	23,700
Intangible assets	994	4,300
Total	$ 15,629	$ 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, 2021 and 2020 and have issued our report thereon dated April 20, 2022, 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 20, 2022

Consolidating Balance Sheet - Obligated Group

December 31, 2021
(In Thousands)

	The Toledo Hospital	Defiance Hospital, Inc.	Bay Park Community Hospital	Promedica Charles and Virgina Hickman Hospital	HCR Holding Co.	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	$ 64,939	$ 5,253	$ 4,924	$ 10,623	$ 4,261	$ 5,545	$ 7,065	$ 6,681	$ 1,504	$ -	$ 110,795
Marketable securities	6,450	193	-	-	-	-	-	-	-	-	6,643
Accounts receivable - Net	187,887	11,255	12,835	17,535	8,150	6,190	9,354	19,704	462	-	273,372
Estimated third-party payor receivable	11,552	413	849	944	-	221	498	1,532	-	-	16,009
Supplies	21,798	839	1,300	2,557	-	785	1,374	2,100	1	-	30,754
Assets held for sale	-	-	-	-	5,748	-	-	-	-	-	5,748
Other current assets	15,263	158	100	329	24	261	683	107	-	-	16,925
Total current assets	307,889	18,111	20,008	31,988	18,183	13,002	18,974	30,124	1,967	-	460,246
Noncurrent Assets Limited as to Use or Restricted - Net of amounts required to meet current obligations											
Restricted funds	2,450	-	11	487	-	-	-	125	-	-	3,073
Internally designated for capital acquisition	809,298	-	-	-	-	-	-	149,744	-	-	959,042
Other segregated investments	7,399	-	(11)	(487)	-	-	-	(102)	-	-	6,799
Total noncurrent assets limited as to use or restricted	819,147	-	-	-	-	-	-	149,767	-	-	968,914
Property and Equipment - Net	799,935	26,657	36,400	146,137	6,117	15,335	34,994	57,909	92	-	1,123,576
Right-of-use Operating Lease Assets	23,569	180	1,578	1,048	207	335	562	1,417	-	-	28,896
Other Assets											
Goodwill	17,958	-	-	-	1,023,304	-	282	-	-	-	1,041,544
Intangible assets	-	-	-	-	110,339	-	-	1,100	-	-	111,439
Investment in affiliated companies	3,104	-	123	133	528,963	-	256	694	629	-	533,902
Other	-	-	-	-	-	50	482	-	-	-	532
Total other assets	21,062	-	123	133	1,662,606	50	1,020	1,794	629	-	1,687,417
Total assets	**$ 1,971,602**	**$ 44,948**	**$ 58,109**	**$ 179,306**	**$ 1,687,113**	**$ 28,722**	**$ 55,550**	**$ 241,011**	**$ 2,688**	**$ -**	**$ 4,269,049**

Consolidating Balance Sheet - Obligated Group (Continued)

December 31, 2021
(In Thousands)

	The Toledo Hospital	Defiance Hospital, Inc.	Bay Park Community Hospital	Promedica Charles and Virgina Hickman Hospital	HCR Holding Co.	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	$ 63,661	$ 2,581	$ 3,663	$ 4,521	$ 2,105	$ 1,666	$ 3,884	$ 9,168	$ (81)	$ -	$ 91,168
Intercompany payable	142,001	6,864	8,191	85,731	81,871	3,477	9,931	19,860	(6,786)	-	351,140
Contractual current installments of long-term debt	12,051	2,727	3,800	-	-	160	-	1,945	23	-	20,706
Contingent current installments of long-term debt	308,803	14,802	24,458	-	-	10,516	-	25,232	2,211	-	386,022
Estimated third-party payor settlements	8,899	3,259	563	5,420	987	2,748	489	5,279	-	-	27,644
Current portion of lease liabilities - Financing	1,962	11	125	13	-	36	419	44	-	-	2,610
Current portion of lease liabilities - Operating	4,689	36	261	240	-	71	122	410	-	-	5,829
Accrued liabilities and other:											
Compensation and benefits	41,852	1,764	2,783	2,720	860	1,232	2,136	5,358	(39)	-	58,666
Claims expense	-	-	-	-	-	13	25	-	-	-	38
Other current liabilities	76,411	2,575	4,108	6,549	-	1,811	4,215	10,170	437	-	106,276
Total current liabilities	660,329	34,619	47,952	105,194	85,823	21,730	21,221	77,466	(4,235)	-	1,050,099
Long-term Debt - Less current installments	1,743,905	13,417	17,654	49,362	-	-	19,878	-	-	-	1,844,216
Lease Liabilities - Financing	4,100	23	274	29	-	75	3,389	96	-	-	7,986
Lease Liabilities - Operating	18,256	144	1,317	807	209	264	447	950	-	-	22,394
Other Liabilities											
Deferred compensation	4,555	-	-	-	-	-	-	-	-	-	4,555
Pension	157	-	-	-	-	-	-	-	-	-	157
Other	11,173	21	-	2,718	217	1,377	2,402	1,839	-	-	19,747
Total other liabilities	15,885	21	-	2,718	217	1,377	2,402	1,839	-	-	24,459
Total liabilities	2,442,475	48,224	67,197	158,110	86,249	23,446	47,337	80,351	(4,235)	-	2,949,154
Net Assets											
Without donor restrictions - Controlling interest	(473,210)	(3,276)	(9,099)	20,709	1,600,864	5,276	8,213	160,535	6,923	-	1,316,935
With donor restrictions	2,337	-	11	487	-	-	-	125	-	-	2,960
Total net assets	(470,873)	(3,276)	(9,088)	21,196	1,600,864	5,276	8,213	160,660	6,923	-	1,319,895
Total liabilities and net assets	**$ 1,971,602**	**$ 44,948**	**$ 58,109**	**$ 179,306**	**$ 1,687,113**	**$ 28,722**	**$ 55,550**	**$ 241,011**	**$ 2,688**	**$ -**	**$ 4,269,049**

ProMedica Health System and Subsidiaries

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

Year Ended December 31, 2021
(In Thousands)

	The Toledo Hospital	Defiance Hospital, Inc.	Bay Park Community Hospital	Promedica Charles and Virgina Hickman Hospital	HCR Holding Co.	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	$ 1,281,971	$ 81,609	$ 102,065	$ 131,105	$ 27,672	$ 41,879	$ 73,106	$ 148,625	$ (9)	$ (23,175)	$ 1,864,848
Other	25,639	1,645	907	6,069	38,326	3,315	3,644	4,633	46	(1,385)	82,839
Net assets released for use in operations	4,983	7	-	290	173	18	54	80	-	-	5,605
Total unrestricted revenue, gains, and other support	1,312,593	83,261	102,972	137,464	66,171	45,212	76,804	153,338	37	(24,560)	1,953,292
Expenses											
Salaries, wages, and employee benefits	441,095	22,733	30,291	38,491	29,852	11,809	22,627	64,209	1,269	(24,560)	637,816
Food and drugs	92,766	5,909	5,960	9,297	341	4,813	6,075	14,062	(2)	-	139,221
Contracted fees	148,453	8,477	10,911	17,493	7,300	5,992	11,117	35,015	89	-	244,847
Supplies	132,451	4,196	11,393	8,719	871	3,131	4,142	11,579	(29)	-	176,453
Insurance	9,046	602	898	1,057	113	360	578	2,222	218	-	15,094
Utilities	9,721	805	782	1,998	505	598	1,048	1,661	1	-	17,119
Other	269,193	13,980	21,872	22,080	4,639	8,483	15,260	32,319	(795)	-	387,031
Total expenses	1,102,725	56,702	82,107	99,135	43,621	35,186	60,847	161,067	751	(24,560)	1,617,581
Operating Income (Loss) before Depreciation, Amortization, and Impairment Expense	209,868	26,559	20,865	38,329	22,550	10,026	15,957	(7,729)	(714)	-	335,711
Depreciation, Amortization, and Impairment	74,234	3,968	3,911	7,632	6,519	1,923	4,877	5,859	33	-	108,956
Operating Income (Loss)	135,634	22,591	16,954	30,697	16,031	8,103	11,080	(13,588)	(747)	-	226,755
Other (Loss) Income											
Interest expense	(32,515)	(1,173)	(1,742)	(3,359)	(67,695)	(318)	(1,148)	(266)	(77)	-	(108,293)
Investment income	60,064	(9)	106	(3)	2	(5)	8	5,913	(22)	-	66,054
Other	4,887	151	370	765	(3)	(25)	(121)	1,832	171	-	8,027
Total other income (loss) - Net	32,436	(1,031)	(1,266)	(2,597)	(67,696)	(348)	(1,261)	7,479	72	-	(34,212)
Excess of Revenue Over (Under) Expenses before Restructuring, Severance, and Acquisition Costs	168,070	21,560	15,688	28,100	(51,665)	7,755	9,819	(6,109)	(675)	-	192,543
Restructuring, Severance, and Acquisition Costs Expense	-	-	-	-	-	-	-	-	-	-	-
Transfer (to) from Affiliate	(328,010)	(24,855)	(16,135)	(88,335)	(11,613)	(8,142)	(16,654)	(407)	10,367	-	(483,784)
Net Assets Released from Restrictions	2,716	18	26	318	-	22	28	-	-	-	3,128
Pension and Other Postretirement Adjustments	22	-	-	69	-	-	-	-	-	-	91
(Decrease) Increase in Net Assets without Donor Restrictions	**$ (157,202)**	**$ (3,277)**	**$ (421)**	**$ (59,848)**	**$ (63,278)**	**$ (365)**	**$ (6,807)**	**$ (6,516)**	**$ 9,692**	**$ -**	**$ (288,022)**

ProMedica Health System and Subsidiaries

Federal Awards Supplemental Information

December 31, 2021

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 Directors
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, 2021 and have issued our report thereon dated April 20, 2022, 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 20, 2022.

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

Plante & Moran, PLLC

September 20, 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 Directors
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, 2021 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 20, 2022. The financial statements of ProMedica Insurance Corporation and ProMedica Indemnity Company were not audited in accordance with *Government Auditing Standards*. 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.

Report on 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) as a basis for designing 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 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2021-001, that we consider to be a material weakness.

Report on 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The System's Response to the Finding

Government Auditing Standards require the auditor to perform limited procedures on the System's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we express no opinion on it.

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 20, 2022

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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 Directors
ProMedica Health System and Subsidiaries

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited ProMedica Health System and Subsidiaries' (the "System") compliance with the types of compliance requirements identified as subject to audit in the Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the System's major federal program for the year ended December 31, 2021. The System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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"). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor’s Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the System and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the System's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the System's federal program.

To the Board of Directors
ProMedica Health System and Subsidiaries

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the System's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the System's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the System's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

To the Board of Directors
ProMedica Health System and Subsidiaries

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

September 20, 2022

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

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:				
Passed through the University of Toledo - Cardiovascular Diseases Research	93.837	R01MH110483	$ -	$ 6,121
Passed through the University of Rochester - Cardiovascular Diseases Research	93.837	R01HL140588-01A1	-	2,062
Subtotal ALN 93.837				8,183
Passed through the Mayo Clinc - Cancer Detection and Diagnosis Research	93.394	1R01CA239200-01A1	-	6,584
Passed through the Children's Hospital of Philadelphia - Cancer Treatment Research	93.395	U10CA180886	-	40,625
Passed through the Washington University - Blood Diseases and Resources Research	93.839	1UG3HL138325-01	-	11,000
Total Research and Development Cluster			-	66,392
Highway Safety Cluster -				
U.S. DEPARTMENT OF TRANSPORTATION - Passed through the Ohio Department of Health - National Priority Safety Programs	20.616	04830024BB0421	-	58,560
SNAP Cluster -				
U.S. DEPARTMENT OF AGRICULTURE:				
Direct Award - Supplemental Nutrition Assistance Program - Veggie Mobile SNAP/EBT Sales	10.551	N/A	-	5,028
Direct Award - Supplemental Nutrition Assistance Program - Market on the Green SNAP Sales	10.551	N/A	-	222,705
Total SNAP Cluster			-	227,733
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	-	185,482
Total clusters			-	538,167
Other programs:				
U.S. DEPARTMENT OF AGRICULTURE -				
Office of Food and Nutrition Service:				
Direct Award - Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		-	45
Passed through the Lucas County Regional Health District - Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2OH700005	-	321,411
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	-	3,715,420
Subtotal ALN 10.557			-	4,036,876
U.S. DEPARTMENT OF JUSTICE -				
Office of Justice Programs:				
Passed through the Ohio Attorney General's Office - Crime Victim Assistance	16.575	2021-VOCA-133924913	-	70,639
Passed through the Ohio Attorney General's Office - Crime Victim Assistance	16.575	2022-VOCA-134718438	-	30,043
Subtotal ALN 16.575			-	100,682

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
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	04860042RP1421	$ -	$ 20,939
Passed through Hemophilia Foundation of Michigan - Blood Disorder Program: Prevention, Surveillance, and Research	93.080	CDC 437 20-21	-	11,541
Passed through Hemophilia Foundation of Michigan - Blood Disorder Program: Prevention, Surveillance, and Research	93.080	CDC 437 21-22	-	4,595
Subtotal ALN 93.080			-	16,136
Passed through Ohio Department of Health - Injury Prevention and Control Research and State and Community Based Programs	93.136	04830024EC0221	6,844	793,469
Passed through Ohio Department of Health - Injury Prevention and Control Research and State and Community Based Programs	93.136	04830024VW1320	-	20,154
Passed through Ohio Department of Health - Injury Prevention and Control Research and State and Community Based Programs	93.136	04830024VW1421	-	39,115
Subtotal ALN 93.136			6,844	852,738
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	-	1,896
Passed through Ohio Department of Health - Preventive Health and Health Services Block Grant	93.991	04830024VW1421	-	7,285
Passed through Ohio Department of Health - Preventive Health and Health Services Block Grant	93.991	04830024IF0321	-	88,544
Passed through Ohio Department of Health - Preventive Health and Health Services Block Grant	93.991	04830024IC0321	7,489	125,000
Subtotal ALN 93.991			7,489	220,829
Immediate Office of the Secretary -				
Passed through Hospital Council of Northwest Ohio - National Bioterrorism Hospital Preparedness Program - Emergency Pharmacy	93.889	04860042RP1522	-	34,402
Office of Health Resources and Services Administration:				
Direct Award - COVID-19 Testing for the Uninsured	93.461		-	2,565,930
Direct Award - COVID-19 Provider Relief Fund	93.498		-	317,010,892
Direct Award - Grants for Primary Care Training and Enhancement	93.884		-	118,069
Direct Award - Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement	93.912		140,556	249,656
Passed through Ohio Department of Health - Small Rural Hospital Improvement Grant Program	93.301	5 H3HRH00045-19-00	-	35,565
Passed through Hemophilia Foundation of Michigan - Maternal and Child Health Federal Consolidated Programs	93.110	MCHB 437 20-21	-	7,445
Passed through Hemophilia Foundation of Michigan - Maternal and Child Health Federal Consolidated Programs	93.110	MCHB 437 21-22	-	7,851
Subtotal ALN 93.110			-	15,296
Administration for Children and Families:				
Passed through Local Initiatives Support Corporation - Temporary Assistance for Needy Families	93.558	1901OHTANF	-	19,623
Passed through Local Initiatives Support Corporation - Temporary Assistance for Needy Families	93.558	48-21-TANF-22	-	42,000
Passed through Local Initiatives Support Corporation - Temporary Assistance for Needy Families	93.558	47520-0024	-	10,701
Subtotal ALN 93.558			-	72,324
Office of Substance Abuse and Mental Health Services Administration:				
Direct Award - Opioid STR	93.788		-	65,966
Direct Award - Opioid STR	93.788		3,492	69,000
Passed through Ohio Department of Health - Opioid STR	93.788	04830024IN0322	40,722	271,517
Subtotal ALN 93.788			44,214	406,483
Total other federal awards			199,103	325,758,713
Total federal awards			**$ 199,103**	**$ 326,296,880**

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

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, 2021. 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 93.498, Provider Relief Fund (PRF). PRF 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 Health and Human Services' (HHS) guidance and frequently asked questions outlined in the Compliance Supplement. For the PRF program, HHS has indicated that the amounts on the Schedule should be reported in correspondence with reporting requirements of the HHS PRF Reporting Portal. Payments from HHS for PRF are assigned a payment received period based upon the date each PRF payment was received. Each period has a specified period of availability and timing of reporting requirements. The pass-through entity identifying numbers are presented where available.

The System has elected to use the 10 percent *de minimis* indirect cost rate 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, 2021 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	$ 3,715,465
Supplemental Nutrition Assistance Program	10.551	Food commodities	227,733
Emergency Food Assistance Program	10.569	Food commodities	185,482
		Total	$ 4,128,680

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Year Ended December 31, 2021

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?	X Yes	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?	Yes	X No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes	X None reported
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	Yes	X No

Identification of major programs:

ALN	Name of Federal Program or Cluster	Opinion
93.498	COVID-19 Provider Relief Fund	Unmodified

Dollar threshold used to distinguish between type A and type B programs:	$3,000,000	
Auditee qualified as low-risk auditee?	Yes	X No

Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2021

Section II - Financial Statement Audit Findings

Reference Number	Finding
2021-001	**Finding Type** - Material weakness

Criteria - Cash and accounts payable balances should be reconciled and reviewed timely to ensure the balances in the general ledger are correct.

Condition - There were insufficient controls in place during the year under audit to ensure cash and accounts payable were properly stated in the consolidated balance sheet.

Context - Due to various issues that occurred as part of an overall information technology system conversion to the Infor platform, there was an inability to timely complete reconciliations from July 2021 through December 2021 for the significant general cash accounts, accrued liabilities, and trade accounts payable.

Cause - Appropriate review and monitoring procedures were unable to be in place as of the time of the system conversion for cash and accounts payable. The system was unable to generate an outstanding check listing to allow cash balances to be timely reconciled. The inability to timely reconcile cash balances also impacted the ability to reconcile various payroll-related liability accounts and trade accounts payable.

In addition, as part of the system conversion, the System transitioned to utilizing the parent entity as the common paymaster for cash and accounts payable transactions. However, subsequent to conversion, automated transactions for relief of accounts payable were posted to entities within the System different than intended. The transaction to relieve accounts payable was posted to a different entity than the transaction to originally record accounts payable. Subsequent to year end, the System was able to obtain the appropriate tools to allow the balances to be reconciled and accurately reflected.

Effect - Significant adjustments to cash and accounts payable were identified and recorded to adjust the balances to accurate balances as of year end.

Recommendation - We recommend cash and accounts payable be reconciled on a timely basis each month to ensure the balance in the general ledger is accurate.

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2021-001 (Continued)	**Views of Responsible Officials and Planned Corrective Actions** - During July 2021, the ProMedica launched a new enterprise resource planning system, Infor Cloud Suite (Infor), which consolidated the legacy accounting, supply chain, and human resources platforms that had carried over from the combination of ProMedica and HCR ManorCare three years prior. The launch of Infor was a substantial accomplishment after more than two years of planning and implementation efforts by the information systems, supply chain, finance, treasury, and human resources teams. As part of this effort, we consolidated 14 pay companies into one (one pay company), a change that was designed to streamline our payment processes while strengthening our related internal controls. Certain challenges associated with various interfaces between Infor and other software applications resulted in ongoing post-launch efforts to optimize how we use Infor, both in original intent and through continuous improvement. As a result of these challenges, we were unable to reconcile the general ledger accounts associated with the one pay company approach as part of our interim month-end closing processes. For example, we were unable to receive an electronic interface into Infor of canceled check information from the ‘one pay company’ bank until December 2021. Management acknowledges the importance of completing timely reconciliations of these general ledger accounts. These account reconciliations were completed subsequent to fiscal year end as part of our annual closing process. Following our annual closing process, we have implemented a process to complete these account reconciliations monthly in a timely manner.

Section III - Federal Program Audit Findings

Reference Number	Finding	Questioned Costs
Current Year	None	

ProMedica Health Systems and Subsidiaries

December 31, 2021

Summary Schedule of Prior Audit Findings

Prior Year Finding Number:
2020-001

Fiscal Year in Which the Finding Initially Occurred:
2020

Federal Program, Assistance Listing Number and Name:
21.019, U.S. Department of the Treasury, COVID-19 Coronavirus Relief Fund
32.006, Federal Communication, COVID-19 Telehealth Program

Original Finding Description:
The Schedule, as originally provided by management, did not accurately report total expenditures for ALN 21.019 and did not include federal expenditures for ALN 32.006.

Status/Partial Corrective Action (as applicable):
Fully corrected: A procedure for reviewing the SEFA by staff members in various departments with federal expenditures has been implemented.

Planned Corrective Action:
N/A

Prior Year Finding Number:
2020-002

Fiscal Year in Which the Finding Initially Occurred:
2020

Federal Program, Assistance Listing Number and Name:
93.461, Department of Health and Human Services, COVID-19 Testing for the Uninsured

Original Finding Description:
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.

Status/Partial Corrective Action (as applicable):
Fully corrected: The ProMedica Central Business Office instituted a new policy and procedure titled “HRSA Reimbursed Covid Expenses”. In summary, it requires a periodic review for up to 12 months of each uninsured patient encounter reimbursed through HRSA funds. This periodic review is designed to monitor for alternate payment sources and then take appropriate refund action if an alternate payment source is identified.

Planned Corrective Action:
N/A

Prior Year Finding Number:
2020-003

Fiscal Year in Which the Finding Initially Occurred:
2020

Federal Program, Assistance Listing Number and Name:
21.019, U.S. Department of the Treasury, COVID-19 Coronavirus Relief Fund

Original Finding Description:
The System included certain expenditures on the Schedule that were not incurred during the period.

Status/Partial Corrective Action (as applicable):
Fully corrected: The System has implemented will implement a grants close out process and ensure that all costs are liquidated in a timely manner. The System submitted new paid invoices to the funder that occurred during the period of performance and were allowable expenses.

Planned Corrective Action:
N/A

ProMedica Health System and Subsidiaries
12/31/2021

Corrective Action Plan

Finding Number: 2021-01
Condition: There were insufficient controls in place during the year under audit to ensure cash and accounts payable were properly stated in the consolidated balance sheet.
Planned Corrective Action: These account reconciliations were completed subsequent to fiscal year-end as part of our annual closing process. Following our annual closing process, we have implemented a process to complete these account reconciliations monthly in a timely manner.

Contact person responsible for corrective action: Kyle Kickbusch, Director of Enterprise Accounting & Reporting

Anticipated Completion Date: 03/31/2022