

# SINGLE AUDIT REPORT

Premier Health Partners and Subsidiaries  
Year Ended December 31, 2022  
With Report of Independent Auditors

Ernst & Young LLP



Premier Health Partners and Subsidiaries

Single Audit Report

Year Ended December 31, 2022

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## Report of Independent Auditors

Senior Management and The Board of Trustees  
Premier Health Partners and Subsidiaries

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the consolidated financial statements of Premier Health Partners and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, 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 (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 Company’s ability to continue as a going concern for one year after the date that the financial statements are issued.

#### *Auditor’s Responsibilities for the Audit of the Financial Statements*

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

### ***Supplementary Information***

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

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

In accordance with *Government Auditing Standards*, we also have issued our report dated March 10, 2023, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.



March 10, 2023, except for our report on the  
Schedule of Expenditures of Federal Awards,  
for which the date is July 25, 2023

Premier Health Partners and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands)

	December 31	
	2022	2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 121,193	\$ 280,080
Patient accounts receivable	346,432	328,396
Inventories	21,208	23,057
Prepaid expenses	23,003	33,850
Estimated receivable from third-parties	2,464	—
Other current assets	35,375	26,699
Total current assets	<u>549,675</u>	<u>692,082</u>
Assets limited as to use: (Note D)		
Board-designated investments	868,256	1,013,563
Other investments	119,126	148,109
Total assets limited as to use	<u>987,382</u>	<u>1,161,672</u>
Property and equipment, net (Note E)	852,443	909,610
Right-of-use assets (Note F)	37,476	41,281
Intangible assets, net (Note M)	44,932	44,066
Other assets	155,892	190,290
Total assets	<u>\$ 2,627,800</u>	<u>\$ 3,039,001</u>

Premier Health Partners and Subsidiaries

Consolidated Balance Sheets (continued)

(Dollars in Thousands)

	December 31	
	2022	2021
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 109,355	\$ 101,189
Accrued expenses	133,899	142,522
Current portion of long-term debt (Note H)	12,315	7,326
Line of credit (Note C)	15,000	–
Estimated payable to third-parties	–	99,225
Other current liabilities	49,850	43,677
Total current liabilities	<u>320,419</u>	393,939
Long-term debt, less current portion (Note H)	956,603	953,153
Operating lease liabilities (Note F)	30,194	34,211
Pension obligation (Note I)	89,058	25,202
Reserve for professional liability (Note G)	28,153	28,624
Interest rate swap liability (Note J)	25,802	55,938
Other liabilities	112,586	147,941
Total liabilities	<u>1,562,815</u>	1,639,008
Net assets:		
Without donor restrictions	985,111	1,311,026
With donor restrictions	79,874	88,967
Total net assets	<u>1,064,985</u>	1,399,993
Total liabilities and net assets	<u>\$ 2,627,800</u>	<u>\$ 3,039,001</u>

See accompanying notes.

Premier Health Partners and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets  
(Dollars in Thousands)

	Year Ended December 31	
	2022	2021
<b>Operating revenue</b>		
Patient service revenue	\$ 2,048,079	\$ 2,052,005
Other operating revenue	76,737	99,128
Total operating revenue	<u>2,124,816</u>	<u>2,151,133</u>
<b>Operating expenses</b>		
Salaries and wages	1,104,936	1,015,402
Employee benefits	184,313	197,842
Supplies	399,505	390,986
Purchased services, insurance and other	402,214	396,110
Hospital franchise tax	45,138	37,896
Depreciation and amortization	123,982	123,862
Interest	30,268	29,215
Total operating expenses	<u>2,290,356</u>	<u>2,191,313</u>
Loss from operations before impairment and other costs	(165,540)	(40,180)
Impairment and other costs	(14,799)	(1,927)
Loss from operations	<u>(180,339)</u>	<u>(42,107)</u>
Non-operating (losses) gains, net (Note K)	(89,404)	100,055
(Deficiency) excess of revenue over expenses	<u>(269,743)</u>	<u>57,948</u>
Change in plan assets and benefit obligations of pension plan	(60,315)	44,713
Change in net assets with donor restrictions and other	<u>(4,950)</u>	<u>12,409</u>
(Decrease) increase in net assets	(335,008)	115,070
Net assets at beginning of year	1,399,993	1,284,923
Net assets at end of year	<u>\$ 1,064,985</u>	<u>\$ 1,399,993</u>

See accompanying notes.

## Premier Health Partners and Subsidiaries

### Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31	
	2022	2021
<b>Operating activities</b>		
(Decrease) increase in net assets	\$ (335,008)	\$ 115,070
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	123,982	123,862
Change in the valuation of swap agreements	(30,136)	(9,730)
Change in plan assets and benefit obligations of pension plan	60,315	(44,713)
Change in unrealized losses (gains) on assets limited as to use	141,241	31,927
Gain on disposal of assets	(1,237)	(360)
Impairment of assets	7,523	–
Losses (gains) from alternative investments	27,514	(63,229)
Purchase of alternative investments	(56,982)	(40,047)
Distribution from alternative investments	21,191	86,625
Pension plan contribution	(10,000)	(10,000)
Centers for Medicare & Medicaid Services advance payments recoupment	(87,428)	(61,584)
Net change in assets and liabilities:		
Accounts receivable	(18,036)	(56,083)
Assets limited as to use	41,326	(12,527)
Other assets	20,034	(37,084)
Accounts payable and other accruals	(677)	18,716
Pension plan liability	13,541	28,711
Other liabilities	(46,060)	(15,832)
Net cash (used in) provided by operating activities	<u>(128,897)</u>	<u>53,722</u>
<b>Investing activities</b>		
Proceeds from the sale of assets	3,018	1,482
Purchases of property and equipment	(64,861)	(75,007)
Investment in joint ventures and other	–	(5,000)
Net cash used in investing activities	<u>(61,843)</u>	<u>(78,525)</u>
<b>Financing activities</b>		
Proceeds from line of credit	15,000	–
Proceeds from financing transaction	–	4,325
Return of interest rate swap collateral	13,220	4,440
Repayment of long-term debt and finance leases	(9,587)	(6,039)
Net cash provided by financing activities	<u>18,633</u>	<u>2,726</u>
Decrease in cash, cash equivalents and restricted cash	(172,107)	(22,077)
Cash, cash equivalents and restricted cash at beginning of year	293,300	315,377
Cash, cash equivalents and restricted cash at end of year	<u>\$ 121,193</u>	<u>\$ 293,300</u>

See accompanying notes.

# Premier Health Partners and Subsidiaries

## Notes to Consolidated Financial Statements

December 31, 2022

### A. Organization and Significant Accounting Policies

#### Organization

On January 1, 2018, MedAmerica Health Systems (MAHS), Catholic Health Initiatives (CHI), Atrium Health System (AHS) and Upper Valley Medical Center Parent and Controlled Affiliates (UVMC Parent) (collectively and altogether, the Parent Organizations) contributed nearly all of their interests in their respective affiliates, subsidiaries and other assets to Premier Health Partners (PHP), a not-for-profit organization, in accordance with the Definitive System Reorganization Agreement (DSRA). Pursuant to the DSRA, the Parent Organizations are the member organizations of PHP.

PHP owns and operates organizations that provide healthcare services and support to communities in Southwest Ohio.

- Miami Valley Hospital (MVH)
- Atrium Medical Center (AMC)
- Upper Valley Medical Center (UVMC)
- Fidelity Health Care (FHC) and its wholly owned subsidiary Premier Community Health (PCH)
- CompuNet Clinical Labs (CCL)
- Samaritan Behavioral Health, Inc. (SBHI)
- Premier Health Holding Company (PHHC), which owns Premier Health Specialists, Inc. (PHS), MVHE, Inc., (and its wholly owned subsidiary Extended Care), Samaritan Family Care, Inc. (SFC), and Premier Health Urgent Care, Inc. (PHUC)
- UVMC Nursing Care, Inc. (UVNC)
- Upper Valley Professional Corporation (UVPC) and its wholly owned subsidiary UVPC Specialists, Inc. (UVPCSI)

Organizations owned and operated by PHP that support the mission of the healthcare services include: Premier Health International Insurance Limited (PHIL), Miami Valley Hospital Foundation, Good Samaritan Foundation, Premier Health Group, LLC, and UVMC Management Corporation (closed June 2022).

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

Certain entities are financially interrelated to PHP. These entities include: Atrium Medical Center Foundation, UVMC Foundation and certain assets of UVMC Parent.

#### **Principles of Consolidation**

The financial statements of PHP have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements of PHP include the accounts of PHP and its controlled entities. Joint ventures at the consolidated level of PHP greater than 50% owned and controlled are consolidated in the PHP financial statements. Joint ventures that are owned 50% or less, and not controlled at the consolidated level of PHP, are not consolidated in the PHP financial statements. These investments are accounted for using the equity method of accounting and are included in other assets on the consolidated balance sheets. The consolidated financial statements also include the entities for which management has determined are financially interrelated entities. All material intercompany accounts and transactions are eliminated between affiliates upon consolidation of the PHP consolidated financial statements.

#### **Reclassification**

Certain balances in the prior year footnote disclosure items have been reclassified to conform to the current year's presentation.

#### **Net Assets Without Donor Restrictions**

Net assets that are not subject to donor-imposed restrictions may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of PHP's management and the board of trustees.

#### **Net Assets With Donor Restrictions**

Net assets with donor restrictions consist of those assets whose use has been restricted by donors. Some restrictions are temporary in nature, meaning those resources can only be used after a specified date, for a particular program or service, or to acquire buildings or equipment. Other restrictions require that PHP maintain resources in perpetuity. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the associated net assets are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets. Donor restricted net assets that have met their restriction and the income from donor restricted net assets are used primarily to support healthcare services and capital needs.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### A. Organization and Significant Accounting Policies (continued)

##### Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the revenue and expenses of the periods reported. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

##### Claims and Contingencies

In the normal course of business, PHP is subject to various lawsuits, actions, proceedings, claims, and other matters asserted under laws and regulations. Management believes the amounts recorded in its consolidated financial statements are adequate in light of the probable and estimable contingencies. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims, and other matters, and to comply with applicable laws and regulations will not exceed the amounts reflected in its consolidated financial statements and, therefore, it is possible that recorded estimates may change by a material amount.

##### Cash and Cash Equivalents

PHP considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, excluding the short-term investments within assets limited as to use.

The following table is a reconciliation of cash, cash equivalents, and restricted cash reported in the consolidated balance sheets as of December 31:

	<b>2022</b>	<b>2021</b>
	<i>(Dollars in Thousands)</i>	
Cash and cash equivalents	\$ 121,193	\$ 280,080
Restricted cash included in other assets	—	13,220
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	<u>\$ 121,193</u>	<u>\$ 293,300</u>

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

##### **Patient Accounts Receivable and Patient Service Revenue**

Patient accounts receivable and patient service revenue have been adjusted to the estimated amounts expected to be collected.

PHP has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, negotiated discounts from established rates, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews, and investigations. The differences between the estimated and actual adjustments are recorded as part of patient service revenue in future periods, as the amounts become known or as years are no longer subject to such audits, reviews and investigations.

For uninsured patients who do not qualify for charity care, PHP recognizes revenue based on established rates, subject to certain discounts as determined by PHP. The estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to patient service revenue and are being reported at the net amount expected to be received in the consolidated statements of operations and changes in net assets.

##### **Inventories**

Inventories, carried at average cost, include pharmacy and other medical supplies that are used in hospital operations.

##### **Fair Value Measurements**

PHP follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, and as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs utilize quoted market prices in active markets for identical assets or liabilities.
- Level 2 – Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.
- Level 3 – Inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. PHP's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

In order to meet the requirements of ASC 820, PHP uses three basic valuation approaches to determine the fair value of its assets and liabilities which are required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to pay to replace the respective asset or liability. The second approach is the market approach, which looks at how a market participant would value an exact or similar asset or liability to that of PHP, including those traded on exchanges. The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of PHP's respective asset or liability expected by a market participant and discounts those cash flows back to present value (more typically referred to as a discounted cash flow approach).

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### A. Organization and Significant Accounting Policies (continued)

##### Assets Limited as to Use

Assets limited as to use consist of board-designated and other investments, which are used to support capital and operating needs of the organization. Investments consist of short-term investments, equity securities, mutual funds, common trust funds (CTFs), corporate and other bonds, U.S. government securities, and alternative investments in limited liability companies, hedge funds, and private equities.

PHP has elected to account for CTFs at fair value as allowed under ASC 825, *Financial Instruments*, due to the nature of these investments and their similarity to exchange-traded mutual funds. The carrying value of limited liability companies, hedge funds, and private equities, collectively alternative investments, are based on valuations provided by the administrators of the specific financial instruments. Alternative investments are accounted for using the equity method of accounting based on the net asset value (NAV) provided by the administrators. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity investments. The underlying investments are subject to various risks including market, credit, liquidity, and foreign exchange risk. PHP believes the carrying amount of these financial instruments in the consolidated balance sheets is a reasonable estimate of its ownership interest in the alternative investments. Because some of these financial instruments are not readily marketable, the estimated carrying value is subject to uncertainty, and therefore, may differ from the value that would have been used had a public market for such financial instruments existed. Such differences could be material. PHP's risk related to alternative investments is limited to its carrying value plus amounts committed to private equity as disclosed in Note D.

Some of PHP's alternative investments have liquidity restrictions, meaning amounts can be divested only at specific times based on the terms of the respective partnership agreements. Certain general resources are designated by the governing board for capital and other expenditures or are limited under the terms of the bond indenture and are reported as other investments on the consolidated balance sheets.

Gains and losses consist of realized gains and losses on the sale of investments, market valuation changes in investments, as well as dividend and interest income. These gains and losses are included in the (deficiency) excess of revenue over expenses unless the income or loss is restricted by donor or law. Investment income or loss that is restricted by donor or law is included in the change in net assets with donor restrictions and other, as appropriate. Changes in unrealized gains and losses on investments that have been designated as trading securities are also included in the (deficiency) excess of revenue over expenses as non-operating (losses) gains, net.

The global financial markets and the banking system are subject to volatility, which could adversely affect PHP. Certain PHP assets and liabilities are exposed to various risks such as interest rate, market, and credit risks.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

PHP's collective investment program includes trust assets relating to its self-insurance program for professional liability claims. These trust assets provide funds for professional liability claims under a self-insurance program and are reported as an asset limited as to use.

#### **Property and Equipment**

Property and equipment are stated at historical cost or, if donated, fair value at the date of receipt. Depreciation and amortization are calculated on a straight-line basis over the estimated asset lives. Depreciation taken on assets recorded as finance leases is determined over the shorter of the period of the lease term or the useful life of the underlying asset and is included as a component of accumulated depreciation and depreciation and amortization expense in the consolidated balance sheets and consolidated statements of operations and changes in net assets, respectively. Interest on construction-in-process is capitalized and amortized over the estimated lives of the related depreciable assets. Depreciation expense was \$123.3 million and \$123.0 million for the years ended December 31, 2022 and 2021, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

PHP evaluates the carrying value of long-lived assets, including property and equipment, and the related estimated remaining lives when events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. PHP may evaluate its business operations from time to time and determine that certain organization changes are required to meet the future strategic goals of PHP. Any resulting impairment losses or additional required depreciation due to shortened useful lives are recorded in the accompanying consolidated statements of operations and changes in net assets if those long-term assets are related to continuing operations. There were impairments recognized of \$7.5 million for the year ended December 31, 2022. No impairments were recognized for the year ended December 31, 2021.

#### **Leases**

PHP determines if an arrangement is a lease at inception. Operating leases are included in other assets, other current liabilities, and operating lease liabilities in the consolidated balance sheets. Finance leases are included in property and equipment and in the current portion and long-term debt in the consolidated balance sheets.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, PHP generally uses the U.S. Treasury Yield Curve Rates using a period comparable with the lease term. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. The operating lease ROU asset also includes any lease payments made and is reported net of lease incentives. Operating lease expense is recognized on a straight-line basis over the lease term. Finance lease depreciation expense is recognized on a straight-line basis over the shorter of the period of the lease term or the useful life of the underlying asset. The lease terms may include options to extend or terminate the lease. The ROU asset calculations and related liabilities include those options when it is reasonably certain PHP will exercise an option. PHP has elected the practical expedient to not separate lease and non-lease components for all asset classes.

#### **Impairment and Other Costs**

Management continually evaluates its business and has implemented cost savings initiatives and reorganization efforts to react to changes affecting the business to better align its operations to its strategic plan. PHP impaired fixed assets by \$7.5 million during the year ended December 31, 2022. Other cost savings initiatives were implemented during 2022 and 2021 that resulted in impairment and other costs of \$7.3 million and \$1.9 million, respectively. These amounts are reflected in impairment and other costs in the consolidated statements of operations and changes in net assets.

#### **Intangible Assets**

Intangible assets consist of goodwill and other identifiable intangible assets such as non-compete agreements and acquisition costs of purchased entities. Definite-lived intangible assets are amortized using the straight-line method, which allocates the cost over the estimated useful lives of generally three to five years. Goodwill is tested annually for impairment. PHP performed its goodwill impairment test on October 1, its annual goodwill evaluation test date. The evaluation by management determined no events or circumstances existed to conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

##### **Derivative Financial Instruments**

PHP uses derivative financial instruments (interest rate swaps) in managing its capital costs. The interest rate swaps are valued and recorded at fair market value based on the contractual terms, including the period to maturity, and observable market-based inputs.

The net cost and change in fair value of such interest rate swaps is recognized as a component of non-operating (losses) gains, net in the consolidated statements of operations and changes in net assets. The interest rate swap agreements are exposed to counterparty risk, which is the risk that contractual obligations of the counterparty will not be fulfilled. Collateralization requirements mitigate some of the credit risk associated with PHP's interest rate swap agreements.

##### **Pension**

PHP utilizes an approach that discounts the individual expected cash flows underlying interest and service costs using the applicable spot rates derived from the yield curve used to determine the benefit obligation to the relevant projected cash flows. This method provides a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows and the corresponding spot yield curve rates. The use of disaggregated discount rates results in a different amount of weightings given to each subset of payments. The use of disaggregated discount rates affects the amount of service cost, because the benefit payments associated with new service credits for active employees tend to be of longer duration than the overall benefit payments associated with the plan's benefit obligation. As a result, the payments are associated with longer-term spot rates on the yield curve, resulting in lower present values than the calculations using the traditional single weighted-average discount rate.

##### **Hospital Franchise Tax**

The Ohio Hospital Franchise Fee program requires Ohio hospitals to pay a provider tax to the state in order to draw down federal Medicaid matching funds. For the years ended December 31, 2022 and 2021, PHP recorded as expense \$45.1 million and \$37.9 million, respectively, for the hospital franchise tax.

Ohio hospitals receive funds in the form of inpatient and outpatient-based rate add-ons through traditional Medicaid and Medicaid managed care plans from the Ohio Hospital Franchise Fee program. The base rate add-ons are recorded as part of patient service revenue.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### A. Organization and Significant Accounting Policies (continued)

##### Functional Expenses

The consolidated financial statements report certain categories of expenses that are primarily attributable to providing healthcare services and supporting functions. Some expenses require allocation on a reasonable basis that is consistently applied. Employee benefits are allocated on the basis of estimates of time and effort. Expenses reported in the consolidated statements of operations and changes in net assets are as follows for the years ended December 31:

	2022			2021		
	Healthcare Services	Management and General	Total	Healthcare Services	Management and General	Total
	<i>(Dollars in Thousands)</i>					
Salaries and wages	\$ 993,564	\$ 111,372	\$ 1,104,936	\$ 907,950	\$ 107,452	\$ 1,015,402
Employee benefits	160,101	24,212	184,313	171,563	26,279	197,842
Supplies	398,775	730	399,505	390,029	957	390,986
Purchased services, insurance and other	328,715	73,499	402,214	296,459	99,651	396,110
Hospital franchise tax	45,138	–	45,138	37,896	–	37,896
Depreciation and amortization	121,948	2,034	123,982	121,026	2,836	123,862
Interest	30,268	–	30,268	29,215	–	29,215
Total operating expenses	<u>\$ 2,078,509</u>	<u>\$ 211,847</u>	<u>\$ 2,290,356</u>	<u>\$ 1,954,138</u>	<u>\$ 237,175</u>	<u>\$ 2,191,313</u>

##### (Deficiency) Excess of Revenue Over Expenses

The consolidated statements of operations and changes in net assets include the line (deficiency) excess of revenue over expenses, which represents the performance indicator for PHP. Consistent with industry practice, changes in net assets that are excluded from the (deficiency) excess of revenue over expenses include change in plan assets and benefit obligations of pension plan and change in net assets with donor restrictions and other.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### A. Organization and Significant Accounting Policies (continued)

##### Income Taxes

PHP has been determined by the Internal Revenue Service to be a tax-exempt non-profit corporation under Section 501(c)(3) of the Internal Revenue Code. As a tax-exempt organization, its income is exempt from federal income tax except to the extent of any unrelated business activities. PHP consolidates certain subsidiaries which are for-profit corporations subject to federal income taxes. These are:

- Premier Health Insuring Co. (PHIC), and Premier Health Holding Company (PHHC) – (wholly owned subsidiaries of PHP)
- Premier Health Plan (PHPlan) (a wholly owned subsidiary of PHIC)
- MVHE, Inc., Samaritan Family Care, Inc., Premier Health Specialists, Inc. and Premier Health Urgent Care, Inc. (subsidiaries of PHHC)
- Premier Health ACO of Ohio and UVMC Management Corporation – closed June 2022 (subsidiaries of PHP)

Management annually reviews the tax positions and has determined there are no material uncertain tax positions.

##### Impact of COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of Coronavirus Disease 2019 (COVID-19), a disease caused by a novel strain of coronavirus, a global pandemic. Federal and state governments enacted legislation and administrative actions to assist health care facilities in providing care to patients during the pandemic. On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was enacted. Among other provisions, the CARES Act authorized relief funding to health care providers through the Public Health and Social Services Emergency Fund (Provider Relief Fund) and expanded the Medicare Accelerated and Advance Payment Program through which eligible providers may request accelerated Medicare payments of up to 100% of historical Medicare payments for a six-month period, to be repaid through withholdings against future Medicare fee-for-services payments. During the years ended December 31, 2022 and 2021, PHP received distributions and payments from the Provider Relief Fund and Medicare Accelerated and Advance Payment Program, along with other state and local programs.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

The ongoing extent of the COVID-19 pandemic's impact on PHP's operations, cash flows and financial position will be driven by many factors, most of which are beyond PHP's control or ability to forecast. These factors resulted in higher costs for PHP during 2022 and 2021, specifically in labor and supply costs. The U.S. Federal Government has announced its intention to end the national emergency and public health emergency declarations on May 11, 2023.

#### *CARES Act Provider Relief and Other Funding*

Distributions from the Provider Relief Fund are intended to reimburse health care providers for lost revenue and increased expenses related to the pandemic and are not subject to repayment; however, the company must attest to certain terms and conditions set forth by the legislation, including, among other things, that distributions received were used for expenses and lost revenue resulting from COVID-19. Distributions provided by the CARES Act Provider Relief Fund are recognized as income once there is reasonable assurance that the applicable terms and conditions required to retain the distributions are met.

Management performs ongoing analyses of the impact of the pandemic on PHP's operations and considers the compliance and reporting requirements set forth by the CARES Act, including subsequent issuance of all frequently asked questions and interpretive guidance issued by the U.S. Department of Health and Human Services (HHS), to determine the amount of government funds to recognize. The Provider Relief Fund Payment Terms and Conditions distributed by the HHS directs recipients to use distributed funds to prevent, prepare for, and respond to the COVID-19 pandemic and reimburses recipients only for health care expenses and lost revenues attributable to the pandemic. Guidance on the recognition and reporting of government stimulus funds continues to evolve through the issuance of Post-Payment Notices of Reporting Requirements, each of which supplements and supersedes previously issued notices.

Since the inception of the pandemic, Premier has received \$117.2 million of Provider Relief Fund distributions from phases 1-4 as well as other state and local funds. During years ended December 31, 2022 and 2021, Premier recognized \$10.0 million and \$12.1 million, respectively, as other operating revenue in the consolidated statements of operations and changes in net assets. Issuance of new guidance and/or amended interpretations of existing guidance may result in changes to management's estimate of government stimulus income and, in certain cases, may result in delaying recognition of funds received in income until clearer guidance is issued or derecognition of amounts previously recognized.

During 2022 and 2021, PHP recognized \$6.0 million and \$13.1 million, respectively, of Federal Emergency Management Agency funds as other operating revenue in the consolidated statements of operations and changes in net assets.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

##### *Medicare Accelerated and Advance Payments*

In April 2020, PHP received Medicare accelerated payments of \$149.0 million. Payments under the Medicare Accelerated and Advance Payment Program represent consideration that must be repaid. Effective October 1, 2020, providers were required to repay Medicare accelerated payments in accordance with the Centers for Medicare and Medicaid Services (CMS) regulations. During 2022, CMS recouped the remaining \$87.4 million of the accelerated payments. At December 31, 2022, there is no outstanding balance. At December 31, 2021, the outstanding balance of \$87.4 million was recorded as estimated payable to third-parties on PHP's consolidated balance sheets.

##### *Deferred Employer Portion of Social Security Taxes*

During 2022, PHP repaid \$17.3 million of the deferred payments related to its portion of Social Security taxes as provided for by the CARES Act. At December 31, 2022, PHP had deferred payments of \$15.7 million recorded in accrued expenses on PHP's consolidated balance sheets. At December 31, 2021, PHP had deferred payments totaling \$33 million; \$16.5 million was recorded in other liabilities to accurately present the long-term portion of the deferred amount with the remaining \$16.5 million balance reported in accrued expenses on the consolidated balance sheets.

#### **B. Patient Service Revenue**

Patient service revenue is reported at the amount that reflects the consideration to which PHP 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 and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, PHP bills the patients and third-party payors several days after the services are performed and/or the patients are discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by PHP. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. PHP believes that this method provides a faithful 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 the hospital receiving inpatient acute care services. PHP measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and PHP does not believe it is required to provide additional goods or services to the patient.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **B. Patient Service Revenue (continued)**

Because all of its performance obligations relate to contracts with a duration of less than one year, PHP 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 typically occurs within days or weeks of the end of the reporting period.

PHP 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 PHP's policy, and/or implicit price concessions provided to uninsured patients. PHP determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. PHP determines its estimate of implicit price concessions based on its historical collection experience with each class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare: Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payments using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **B. Patient Service Revenue (continued)**

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretations. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations 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 PHP'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 PHP.

In addition, the contracts PHP 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 considerations 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 PHP'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 with contracted payors, including Medicare and Medicaid, are adjusted in future periods as new information becomes available, or as years are settled or are no longer subject to such audits, reviews, and investigations. The effect of these settlements was recognition of patient service revenue of \$3.2 million and \$1.0 million in 2022 and 2021, respectively.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. PHP also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. PHP estimates the transaction price for patients with deductibles and coinsurance and for 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 applicable 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, 2022 and 2021, the changes to the estimates of implicit price concessions 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 as a deduction within patient service revenue in the consolidated statements of operation and changes in net assets. Bad debt expense for the years ended December 31, 2022 and 2021, was not significant.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### B. Patient Service Revenue (continued)

Consistent with PHP's mission, care is provided to patients regardless of their ability to pay. Therefore, PHP has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts PHP expects to collect based on its collection history with those patients. Patients who meet PHP's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The estimated cost incurred by PHP to provide these services to patients, based on a cost to charge ratio, who were unable to pay was \$28.9 million and \$31.8 million for the years ended December 31, 2022 and 2021, respectively.

PHP recorded charity care subsidies of \$20.1 million and \$15.3 million for the years ended December 31, 2022 and 2021, respectively, which were recognized as a component of patient service revenue in the consolidated statements of operations and changes in net assets. Charity care subsidies comprise the Ohio Hospital Care Assurance program and the Montgomery County Human Services Levy.

The composition of patient service revenue by payor is as follows for the years ended December 31:

	<b>2022</b>	<b>2021</b>
	<i>(Dollars in Thousands)</i>	
Medicare	\$ 731,134	\$ 717,245
Medicaid	262,512	260,090
Commercial	1,025,497	1,045,168
Self-pay	28,936	29,502
	<b><u>\$ 2,048,079</u></b>	<b><u>\$ 2,052,005</u></b>

PHP has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to PHP's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, PHP does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### C. Financial Assets and Liquidity

For the years ended December 31, 2022 and 2021, PHP had a working capital surplus of \$229.3 million and \$298.1 million, respectively.

Financial assets available for general expenditure within one year of the balance sheet date consist of the following:

	<u>2022</u>	<u>2021</u>
	<i>(Dollars in Thousands)</i>	
Cash and cash equivalents	\$ 121,193	\$ 280,080
Patient accounts receivable	346,432	328,396
Assets limited as to use:		
Board-designated investments	763,404	911,505
Other investments	32,288	37,561
	<u>\$ 1,263,317</u>	<u>\$ 1,557,542</u>

PHP has certain board-designated and donor-restricted assets limited as to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. PHP has other assets limited as to use for donor-restricted purposes, debt service, professional and general liability captive insurance program and other board designated purposes, which are included in other investments on the consolidated balance sheets. These assets limited as to use, which are more fully described in Note D, are not available for general expenditure within the next year and are not reflected in the amounts above. As part of PHP's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds.

On June 23, 2021, PHP entered into a \$70.0 million revolving commitment agreement with expiration on June 23, 2023. No draws were made on this line of credit during the year ended December 31, 2021. During 2022, PHP made a \$15.0 million draw on this line of credit which remained outstanding at December 31, 2022, as reported in the consolidated balance sheets. On October 31, 2022, PHP entered into an additional \$50.0 million revolving commitment agreement with expiration on October 31, 2023. No draws were made on this additional line of credit during the year ended December 31, 2022.

Premier Health Partners and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**D. Assets Limited as to Use and Fair Value of Assets and Liabilities**

The carrying amount reported in the consolidated balance sheets for current assets (other than investments, which are separately disclosed) and current liabilities are reasonable estimates of fair value due to their short-term nature and therefore are not disclosed in the accompanying table. Assets and liabilities measured at fair value on a recurring basis as of December 31, 2022, are as follows:

	<b>Fair Value Measurements <sup>(a)</sup></b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<i>(Dollars in Thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents	\$ 121,193	\$ 121,193	\$ –	\$ –
Assets limited as to use:				
Short-term investments	8,882	8,882	–	–
Equity securities	35,462	35,462	–	–
Mutual funds:				
Domestic large cap	11,817	11,817	–	–
Domestic small cap	470	470	–	–
International	49,365	49,365	–	–
Fixed income	138,444	138,444	–	–
Corporate and other bonds:				
Corporate and other bonds	66,770	–	66,770	–
Asset-backed securities	29,907	–	29,907	–
U.S. government securities:				
U.S. government securities	8,386	–	8,386	–
U.S. government agencies	25,152	–	25,152	–
Subtotal fair value measurements	<u>374,655</u>	<u>244,440</u>	<u>130,215</u>	<u>–</u>
Alternative investments at NAV:				
Limited liability companies	113,839			
Hedge funds	57,529			
Private equity <sup>(b)</sup>	89,092			
Interest in financially interrelated entities <sup>(c)</sup>	215,479			
CTFs measured at NAV <sup>(d)</sup>	136,788			
Total assets limited as to use	<u>987,382</u>			
Total assets	<u>\$ 1,108,575</u>			
<b>Liabilities</b>				
Interest rate swap liability	\$ 25,802	\$ –	\$ –	\$ 25,802

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2021, are as follows:

	Total	Fair Value Measurements <sup>(a)</sup>		
		Level 1	Level 2	Level 3
<i>(Dollars in Thousands)</i>				
<b>Assets</b>				
Cash and cash equivalents	\$ 280,080	\$ 280,080	\$ –	\$ –
Assets limited as to use:				
Short-term investments	19,083	19,083	–	–
Equity securities	47,333	47,333	–	–
Mutual funds:				
Domestic large cap	18,604	18,604	–	–
Domestic small cap	586	586	–	–
International	57,323	57,323	–	–
Fixed income	160,219	160,219	–	–
Corporate and other bonds:				
Corporate and other bonds	94,615	–	94,615	–
Asset-backed securities	33,511	–	33,511	–
U.S. government securities:				
U.S. government securities	9,027	–	9,027	–
U.S. government agencies	18,638	–	18,638	–
Subtotal fair value measurements	458,939	303,148	155,791	–
Alternative investments at NAV:				
Limited liability companies	133,710			
Hedge funds	33,424			
Private equity <sup>(b)</sup>	86,776			
Interest in financially interrelated entities <sup>(c)</sup>	253,790			
CTFs measured at NAV <sup>(d)</sup>	195,033			
Total assets limited as to use	1,161,672			
Total assets	\$ 1,441,752			
<b>Liabilities</b>				
Interest rate swap liability	\$ 55,938	\$ –	\$ –	\$ 55,938

<sup>(a)</sup> There were no securities transferred between Level 1, 2 or 3 during 2022 or 2021.

<sup>(b)</sup> PHP has committed capital yet to be called of \$39.9 million and \$48.6 million at December 31, 2022 and 2021, respectively, to private equity funds over the next one to three years.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)**

<sup>(c)</sup> Interest in financially interrelated entities are valued in accordance with ASC 820 and are included with the overall investment portfolio of PHP. Asset allocation specific to these entities is 54% marketable equity securities, 33% alternative investments, 11% marketable fixed-income securities and 2% cash at December 31, 2022, and 59% marketable equity securities, 27% alternative investments, 11% marketable fixed-income securities and 3% cash at December 31, 2021.

<sup>(d)</sup> In accordance with ASC 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

PHP maintains diversification in its investment programs by allocating assets to various asset classes and market segments and retaining multiple professional investment firms with different philosophies, styles, and approaches. Accordingly, based on this diversification, management does not believe there are any material concentrations of credit risk at December 31, 2022 and 2021. Funds restricted by donors for charitable purposes, included in other investments on the consolidated balance sheets, were \$80.3 million and \$91.4 million at December 31, 2022 and 2021, respectively.

#### **Cash and Cash Equivalents and Assets Limited as to Use**

PHP's cash and cash equivalents and assets limited as to use are comprised of short-term investments, equity securities, mutual funds (domestic, international and fixed), corporate and other bonds, asset-backed securities, U.S. government securities, and U.S. government agencies. With the exception of alternative investments, which are accounted for using the equity method of accounting, these holdings are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources, primarily matrix pricing, with reasonable levels of price transparency. Matrix pricing, primarily used for marketable fixed-income securities, is based on quoted prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the specific security. The types of financial instruments based on quoted market prices in active markets include most cash and short-term investments, equity securities, and mutual funds. Such instruments are generally classified within Level 1 of the fair value hierarchy. PHP does not adjust the quoted market price for such financial instruments.

The types of financial instruments valued based on quoted market prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include corporate and other bonds, asset-backed securities, U.S. government securities, and U.S. governmental agencies. Such financial instruments are generally classified within Level 2 of the fair value hierarchy. Primarily all of PHP's corporate and other bonds, asset-backed securities, U.S. government

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)

securities, and U.S. government agencies are actively traded, and the recorded fair value reflects current market conditions. However, due to the inherent volatility in the investment market, there is at least a possibility that recorded investment values may change by a material amount in the near term.

Following is the summary of the inputs and valuation techniques as of December 31, 2022 and 2021, used for valuing Level 2 securities in the portfolio:

<u>Securities</u>	<u>Input</u>	<u>Valuation Technique</u>
Corporate and other bonds	Broker/dealer	Market
Asset-backed securities	Broker/dealer	Market/income
U.S. government securities	Broker/dealer	Market
U.S. government agencies	Broker/dealer	Market

The CTFs are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of fair value of the CTFs at December 31, 2022 and 2021, based on the fact that the CTFs are audited and accounted for at fair value by the administrators of the respective CTFs. There are no restrictions on the ability of PHP to redeem any of the CTFs at December 31, 2022 or 2021.

Some alternative investments are subject to lock-up provisions that are generally imposed upon initial investment in the fund. Investments that have lock-up provisions longer than one year as of December 31, 2022 and 2021, were \$112.8 million and \$109.6 million, respectively. The remaining alternative investments are not subject to lock-up restrictions.

#### Interest Rate Swap Agreements

PHP uses interest rate swaps to manage its exposure to fluctuations in interest rates and the overall long-term debt portfolio. PHP's interest rate swap agreements are not traded on an exchange. The valuation of interest rate swap agreements is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap agreement based on the London Interbank Offered Rate (LIBOR) or the Securities Industry and Financial Markets Association (SIFMA) yield curve and respective fixed rates. The valuation of PHP's interest rate swap agreements is performed by PHP's counterparty and validated through the use of independent third-party valuation, including the unobservable inputs used in the calculation.

Premier Health Partners and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)**

The following is a summary of key inputs used to determine the fair value for each interest rate swap agreement at December 31:

Interest Rate Swap Agreement	Receiving Fixed/ Floating Rate		Paying Fixed/ Floating Rate		Discount Rate
	2022	2021	2022	2021	
May 2011	<b>67% of LIBOR</b>	67% of LIBOR	<b>3.260%</b>	3.260%	Avg. of LIBOR curve
May 2011	<b>67% of LIBOR</b>	67% of LIBOR	<b>3.225%</b>	3.225%	Avg. of LIBOR curve
May 2011	<b>67% of LIBOR<sup>(1)</sup></b>	67% of LIBOR <sup>(1)</sup>	<b>SIFMA</b>	SIFMA	Avg. of LIBOR curve
May 2011	<b>67% of LIBOR<sup>(2)</sup></b>	67% of LIBOR <sup>(2)</sup>	<b>SIFMA</b>	SIFMA	Avg. of LIBOR curve
August 2016	<b>5.00%</b>	5.00%	<b>LIBOR<sup>(3)</sup></b>	LIBOR <sup>(3)</sup>	Avg. of LIBOR curve
September 2019	<b>70% of LIBOR</b>	70% of LIBOR	<b>3.711%</b>	3.711%	Avg. of LIBOR curve
September 2019	<b>70% of LIBOR</b>	70% of LIBOR	<b>3.708%</b>	3.708%	Avg. of LIBOR curve

<sup>(1)</sup>Receiving rate is 67% of LIBOR plus a spread of 0.6395%.

<sup>(2)</sup>Receiving rate is 67% of LIBOR plus a spread of 0.6045%.

<sup>(3)</sup>Paying rate is 70% of LIBOR plus a spread of 0.78%.

The discounted cash flow analysis reflects the contractual terms of the interest rate swap agreement, including the period to maturity, and uses observed market-based inputs, including interest rate curves and implied volatilities. Valuation adjustments are required to be considered in the determination of fair value. This includes amounts to reflect counterparty credit quality and liquidity risk. Although PHP has determined that certain inputs used to value the interest rate swap agreements fall within Level 2 of the fair value hierarchy, certain inputs and the credit valuation adjustment associated with the interest rate swap agreements utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by PHP or the counterparty. As a result, PHP has determined that the interest rate swap agreements will be classified in Level 3 of the fair value hierarchy.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)

##### Level 3 Liabilities

The following table represents the changes in fair value of PHP's Level 3 liabilities (interest rate swap liability) for the years ended December 31:

	<u>2022</u>	<u>2021</u>
	<i>(Dollars in Thousands)</i>	
Balance at January 1	\$ (55,938)	\$ (65,668)
Total unrealized gains and adjustments included in net income:		
Mark-to-market adjustment	30,767	11,192
Credit valuation adjustment	(631)	(1,462)
Balance at December 31	<u>\$ (25,802)</u>	<u>\$ (55,938)</u>

All realized and unrealized gains on interest rate swap agreements, including payments due to and from a counterparty, are presented net and included in the consolidated statements of operations and changes in net assets as non-operating (losses) gains, net.

#### E. Property and Equipment, Net

The composition of property and equipment, net is as follows as of December 31:

	<u>Average Life</u>	<u>2022</u>	<u>2021</u>
		<i>(Dollars in Thousands)</i>	
Land		\$ 76,319	\$ 76,073
Land improvements	5-15 years	47,247	46,888
Buildings	10-25 years	1,418,400	1,422,189
Equipment	3-10 years	935,328	912,701
Right-of-use assets – finance leases		97,911	75,359
Construction-in-process		17,822	29,109
		<u>2,593,027</u>	<u>2,562,319</u>
Less allowances for depreciation		1,740,584	1,652,709
Property and equipment, net		<u>\$ 852,443</u>	<u>\$ 909,610</u>

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### E. Property and Equipment, Net (continued)

PHP had commitments related to property and equipment of \$35.5 million and \$42.0 million outstanding at December 31, 2022 and 2021, respectively.

At December 31, 2022, PHP had assets held for sale totaling \$12.0 million, included in other current assets on the consolidated balance sheets.

#### F. Leases

PHP has operating and finance leases for real estate and certain equipment. The leases have remaining lease terms of one year to sixteen years, some of which include options to extend the leases for up to five years, and some of which include the options to terminate the leases within one year. Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheets. At December 31, 2022 and 2021, PHP had ROU assets of \$37.5 million and \$41.3 million, respectively and lease liabilities for operating leases totaling approximately \$38.4 million and \$42.1 million, respectively, on the consolidated balance sheets. PHP had ROU assets for finance leases totaling approximately \$59.6 million (net of \$38.3 million of accumulated depreciation) and \$46.8 million (net of \$28.6 million of accumulated depreciation) as of December 31, 2022 and 2021, respectively. PHP has lease liabilities for finance leases totaling approximately \$73.0 million and \$59.1 million as of December 31, 2022 and 2021, respectively.

Operating expenses for the leasing activity of PHP as lessee for the years ending December 31:

		<b>Classification</b>	<b>2022</b>	<b>2021</b>
			<i>(Dollars in Thousands)</i>	
Operating lease expense	Purchased services, insurance and other	\$	<b>8,923</b>	\$ 8,472
Finance lease amortization	Depreciation and amortization		<b>9,774</b>	6,769
Finance lease interest	Interest		<b>2,352</b>	2,210
Total lease cost		\$	<b>21,049</b>	\$ 17,451

Supplemental cash flow information for the years ended December 31:

	<b>2022</b>	<b>2021</b>
	<i>(Dollars in Thousands)</i>	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ <b>8,821</b>	\$ 8,171
Operating cash flows from finance leases	<b>2,352</b>	2,210
Financing cash flows from finance leases	<b>8,582</b>	5,238
Total	\$ <b>19,755</b>	\$ 15,619

Premier Health Partners and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**F. Leases (continued)**

The following are the ROU assets obtained in exchange for lease obligations for the years ended December 31:

	<u>2022</u>	<u>2021</u>
	<i>(Dollars in Thousands)</i>	
Operating leases	\$ 6,818	\$ 5,377
Finance leases	22,424	6,547
Total	<u>\$ 29,242</u>	<u>\$ 11,924</u>

The aggregate future lease payments for operating and finance leases were as follows:

	<u>December 31, 2022</u>	
	<u>Operating</u>	<u>Finance</u>
	<i>(Dollars in Thousands)</i>	
2023	\$ 8,213	\$ 10,549
2024	7,494	8,917
2025	6,876	8,969
2026	5,452	8,245
2027	4,661	7,288
Thereafter	8,232	52,025
Total lease payments	<u>40,928</u>	<u>95,993</u>
Less imputed interest	2,551	22,997
Total	<u>\$ 38,377</u>	<u>\$ 72,996</u>

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Weighted Average Remaining Lease Term (Years)		
Operating leases	6	7
Finance leases	11	10
Weighted Average Discount Rates		
Operating leases	2.2%	2.4%
Finance leases	3.8%	3.8%

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **G. Reserve for Professional Liability**

PHP and its subsidiaries maintain professional liability coverage through Premier Health International Insurance Limited (PHIIL). The Premier Health physician companies (MVHE, SFC, PHS, UVPC and UVPCSI) are also covered by PHIIL for all liability claims, including professional liability, beginning December 1, 2022. Previously this coverage had been obtained from a commercial carrier. PHIIL provides professional liability (PL), general liability (GL), directors and officers, employment insurance and cyber coverage to the organization and its subsidiaries. The liability represents the estimated ultimate cost of all asserted and unasserted claims incurred through the consolidated balance sheet dates. The reserve for unpaid losses and loss adjustment expenses is estimated using individual case-based valuations, statistical analyses, and the expertise of an independent actuary. The reserve of \$28.2 million and \$28.6 million at December 31, 2022 and 2021, respectively, is included in the reserve for professional liability in the consolidated balance sheets and is undiscounted and based on management's best estimate, which is subject to change. The reserve includes professional liability, general liability, directors and officers, employment insurance and cyber coverage. PHIIL has excess insurance through commercial carriers in the amount of \$40.0 million for claims in excess of the self-insured retention: \$10.0 million per claims made (PL), \$5.0 million per occurrence (GL), and \$28.5 million combined aggregate for PL and GL. The excess policy also provides coverage for underlying policies not insured through PHIIL, such as auto and helipad.

PHP recorded an increase in insurance expense of approximately \$3.3 million and a decrease of \$12.1 million for the years ended December 31, 2022 and 2021, respectively, related to changes in actuarial estimates reflecting claim activity, closed claims, tort reform and other environmental factors, and improved claim resolution history. Insurance expense is reported in purchased services, insurance and other in the consolidated statements of operations and changes in net assets.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### H. Long-Term Debt

The details of long-term debt, net of original issue premium and issuance costs, are as follows:

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<i>(Dollars in Thousands)</i>	
<b>Bonds</b>		
City of Middletown, Ohio, Fixed Rate Revenue Bonds – 2016 Series A, final maturity in 2045, fixed interest rate was 5.00% (net of unamortized issue cost of \$297 and \$310 in 2022 and 2021, respectively)	\$ <b>82,643</b>	\$ 82,630
County of Montgomery, Ohio, Fixed Rate Revenue Bonds – 2016 Series G, final maturity in 2046, fixed interest rate was 3.09% (net of unamortized issue cost of \$1,046 and \$1,308 in 2022 and 2021, respectively)	<b>298,954</b>	298,692
County of Montgomery, Ohio, Fixed Rate Revenue Bonds – 2019 Series A, final maturity in 2045, fixed interest rate was 4.43% (net of unamortized premium of \$36,375 and \$40,335 in 2022 and 2021, respectively, and unamortized issue cost of \$2,495 and \$2,680 in 2022 and 2021, respectively)	<b>322,085</b>	325,859
County of Montgomery, Ohio, Variable Rate Revenue Bonds – 2019 Series B, final maturity in 2045, average interest rate was 1.20% and 0.05% in 2022 and 2021, respectively (net of unamortized issue cost of \$254 and \$265 in 2022 and 2021, respectively)	<b>42,246</b>	42,235
County of Montgomery, Ohio, Variable Rate Revenue Bonds – 2019 Series C, final maturity in 2045, average interest rate was .97% and 0.02% in 2022 and 2021, respectively (net of unamortized issue cost of \$254 and \$265 in 2022 and 2021, respectively)	<b>42,246</b>	42,235
State of Ohio, Fixed Rate Revenue Bonds – 2020 Series, final maturity in 2041, fixed interest rate was 4.45% (net of unamortized premium of \$10,293 and \$11,306 in 2022 and 2021, respectively, and unamortized issue cost of \$1,215 and \$1,306 in 2022 and 2021, respectively)	<b>94,578</b>	95,500
Total bonds, including current portion	<b>882,752</b>	887,151
<b>Notes payable</b>		
Various notes payable, fixed interest rates ranging from 0% to 1.79%, including current portion	<b>13,170</b>	14,185
<b>Short-term debt</b>		
Line of credit	<b>15,000</b>	–
<b>Finance lease obligations</b>		
Total finance lease obligations, including current portion	<b>72,996</b>	59,143
<b>Total debt</b>	<b>983,918</b>	960,479
<b>Less current portion of debt</b>		
Total current portion of debt	<b>27,315</b>	7,326
Total long-term debt	<b>\$ 956,603</b>	\$ 953,153

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### H. Long-Term Debt (continued)

Maturities of long-term bonds for the five years succeeding December 31, 2022, and thereafter are as follows (*dollars in thousands*):

2023	\$ 3,425
2024	11,750
2025	12,280
2026	263,355
2027	14,575
Thereafter	<u>536,260</u>
Minimum payments before premiums and issue costs	841,645
Premiums	46,668
Issue costs	<u>(5,561)</u>
Minimum payments on bonds	<u><u>\$ 882,752</u></u>

On August 1, 2016, PHP amended and restated its Master Trust Indenture with The Bank of New York Mellon Trust Company, N.A. (Master Trustee), and formed Premier Health Partners Obligated Group (PHPOG), which comprises MVH, AMC and UVMC (Members). Under terms of the master indenture, substantially all of the MVH, AMC and UVMC properties, buildings and equipment are leased from the governmental issuer (County of Montgomery, Ohio; City of Middletown, Ohio; and County of Miami, Ohio) of all outstanding bonds. Members of the PHPOG are jointly and severally liable for all outstanding bonds, except for the notes payable. PHPOG is also responsible for the performance of all debt covenants.

On September 15, 2020, PHPOG issued the State of Ohio, Hospital Revenue Bonds, 2020 Series fixed rate bonds in the amount of \$85.5 million (issued with a \$12.6 million premium). The 2020 Series bonds were issued pursuant to a Bond Trust Indenture dated as of September 1, 2020, between PHPOG and The Bank of New York Mellon Trust Company, N.A. and underwritten by Barclays Capital Inc. and PNC Capital Markets LLC. The 2020 Series bonds have a final maturity of November 15, 2041. The 2020 Series bonds were used to call and extinguish the 2011 Series A bonds.

On September 24, 2019, PHPOG issued the County of Montgomery, Ohio Hospital Facilities Revenue Refunding Bonds, 2019 Series A fixed rate bonds and 2019 Series B and C variable rate bonds in the amounts of \$288.2 million (issued with a \$49.3 million premium), \$42.5 million and \$42.5 million, respectively. The 2019 Series A, B and C bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2019, between PHPOG and The Bank of New York Mellon Trust Company, N.A. and underwritten by Barclays Capital Inc. and PNC Capital Markets LLC. The 2019 Series A, B and C bonds have a final maturity of November 15, 2045. The 2019 Series B and C variable rate revenue bonds are backed by a Letter of Credit from PNC and this will expire on September 24, 2024. The 2019 Series A, B and C bonds were used to call and extinguish several previously issued bond series in years 2009 through 2018.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **H. Long-Term Debt (continued)**

On August 31, 2016, PHPOG issued \$82.9 million of the City of Middletown, Ohio Hospital Facilities Revenue Bonds, 2016 Series A fixed rate bonds. The 2016 Series A bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2016, between PHPOG and The Bank of New York Mellon Trust Company, N.A. and underwritten by Barclays Bank PLC. The 2016 Series A bonds will expire on November 15, 2045.

On August 31, 2016, PHPOG issued \$300.0 million of the County of Montgomery, Ohio Taxable Hospital Revenue Bonds, 2016 Series G fixed rate bonds. The 2016 Series G bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2016, between PHPOG and The Bank of New York Mellon Trust Company, N.A. and underwritten by Barclays Bank PLC. PHPOG will pay a taxable rate of 2.911% on \$250.0 million and a taxable rate of 3.992% on the remaining \$50.0 million. The 2016 Series G bond agreement has \$250.0 million that will expire November 15, 2026, and \$50.0 million that will expire on November 15, 2046.

Bond agreements and letters of credit include certain restrictive covenants, which include among other things, minimum requirements for leverage ratio, cash, and revenues available for debt service. At December 31, 2022 and 2021, PHPOG was in compliance with its financial debt covenants.

For the years ended December 31, 2022 and 2021, net interest paid on bonds and the line of credit was \$31.6 million and \$32.4 million, respectively. For the years ended December 31, 2022 and 2021, there was no capitalized interest.

#### **I. Pension Plan**

The Premier Health Partners Employees Retirement Plan (PHP Plan) was formed on January 1, 2013. Participants of the PHP Plan earn benefits using formulas that existed under the defined benefit plans for MAHS Plan, Good Samaritan Hospital Plan, AHS Plan, and UVMC Plan for employees hired before January 1, 2008. In December 2016, PHP's board approved an amendment to the PHP Plan for participants hired prior to January 1, 2008. For these affected participants, their formulas were frozen as of January 1, 2018, and from that date forward they are covered under the cash balance formula.

Individuals hired after January 1, 2008, earn benefits based on a percentage of compensation and with escalating percentages related to years of service (cash balance formula). Individuals earning benefits under this formula shall become 100% vested in all amounts credited to their accounts upon completion of three vesting years, as defined in the PHP Plan. If a participant's employment is terminated, other than by death or disability, prior to such participant becoming 100% vested in his or her account, the account shall be forfeited as of the date of termination. Vested benefits for individuals hired after January 1, 2008, are fully portable upon termination of employment.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### I. Pension Plan (continued)

PHP's funding policy is to contribute amounts to the PHP Plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA). PHP recognizes in the consolidated balance sheets the funded status of its defined benefit pension plan, measured as the difference between the fair value of plan assets and the projected benefit obligation. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic cost in the same periods will be recognized as a component of net assets without donor restrictions.

The following table sets forth the funded status of PHP's pension plan and the amounts recognized in the consolidated balance sheets for the years ended December 31:

	<b>2022</b>	<b>2021</b>
	<i>(Dollars in Thousands)</i>	
Accumulated benefit obligation	<b>\$ 712,802</b>	\$ 880,612
<b>Change in projected benefit obligation</b>		
Projected benefit obligation at beginning of year	<b>\$ 886,150</b>	\$ 898,085
Service cost	<b>21,556</b>	22,128
Interest cost	<b>20,909</b>	17,251
Actuarial gain	<b>(174,919)</b>	(16,044)
Benefits paid	<b>(36,439)</b>	(35,270)
Projected benefit obligation at end of year	<b>717,257</b>	886,150
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	<b>860,948</b>	846,881
Actual return on plan assets	<b>(206,310)</b>	39,337
Contributions	<b>10,000</b>	10,000
Benefits paid	<b>(36,439)</b>	(35,270)
Fair value of plan assets at end of year	<b>628,199</b>	860,948
Funded status and net pension liability	<b>\$ (89,058)</b>	\$ (25,202)

The increase in the discount rate resulted in a \$209.1 million change in the actuarial gain of the projected benefit obligation between December 31, 2022 and 2021.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### I. Pension Plan (continued)

Included as a reduction in net assets without donor restrictions are the following amounts that have not yet been recognized in net periodic pension expense as of December 31:

	<u>2022</u>	<u>2021</u>
	<i>(Dollars in Thousands)</i>	
Net prior service credit	\$ 13,748	\$ 16,957
Net actuarial loss	<u>(233,641)</u>	<u>(176,535)</u>
	<u>\$ (219,893)</u>	<u>\$ (159,578)</u>

Net actuarial loss is amortized as a component of net periodic pension cost only if the losses exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. Net prior service credit is amortized on a straight-line basis over the estimated life of the PHP Plan's participants.

The following amounts related to pension benefit activity have been recognized in net assets without donor restrictions for the years ended December 31:

	<u>2022</u>	<u>2021</u>
	<i>(Dollars in Thousands)</i>	
Net actuarial (loss) gain	\$ (81,564)	\$ 10,264
Amortization of actuarial loss	24,458	37,658
Amortization of unrecognized prior service credit	<u>(3,209)</u>	<u>(3,209)</u>
Change in plan assets and benefit obligations of pension plan	<u>\$ (60,315)</u>	<u>\$ 44,713</u>

Net pension expense included the following components for the years ended December 31:

	<u>2022</u>	<u>2021</u>
	<i>(Dollars in Thousands)</i>	
Service cost	\$ 21,556	\$ 22,128
Interest cost	20,909	17,251
Expected return on assets	(50,174)	(45,117)
Amortization of unrecognized prior service credit	(3,209)	(3,209)
Amortization of actuarial loss	24,458	37,658
Net pension expense	<u>\$ 13,540</u>	<u>\$ 28,711</u>

The components of net pension expense, other than the service cost component, are recorded in non-operating (losses) gains, net in the consolidated statements of operations and changes in net assets.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### I. Pension Plan (continued)

Weighted-average assumptions to determine the benefit obligation for the PHP Plan are as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Discount rate	<b>5.21%</b>	2.95%
Average salary increase rate	<b>3.97</b>	3.98
Interest credit rate	<b>4.01</b>	4.01

Weighted-average assumptions to determine the net periodic benefit expense for the PHP Plan are as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Discount rate	<b>2.96%</b>	2.64%
Interest cost discount rate on benefit obligations	<b>2.41</b>	1.95
Service cost discount rate	<b>3.06</b>	2.79
Interest cost discount rate on service cost	<b>2.53</b>	2.09
Long-term rate of return	<b>6.50</b>	6.25
Average salary increase rate	<b>3.97</b>	3.97
Interest credit rate	<b>4.01</b>	4.01

In selecting the expected long-term return on plan assets for the PHP Plan, management considered the average rate of earnings on the funds invested or to be invested to provide for the benefits of the plan. This includes the asset allocation and the expected returns that are anticipated to be earned over the life of the plan. This basis is consistent with the prior year.

Projected benefit payments for the ten years succeeding December 31, 2022, are as follows (*dollars in thousands*):

2023	\$ 41,514
2024	49,788
2025	51,290
2026	53,855
2027	55,169
2028–2032	<u>284,105</u>
	<u>\$ 535,721</u>

Premier Health Partners and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**I. Pension Plan (continued)**

PHP expects to make a \$23.0 million contribution to its pension plan in 2023.

The fair values of the PHP Plan's assets at December 31, 2022, by asset category, are as follows:

Asset Category	Total	Fair Value Measurements <sup>(a)</sup>		
		Level 1	Level 2	Level 3
<i>(Dollars in Thousands)</i>				
Short-term investments	\$ 11,219	\$ 11,219	\$ –	\$ –
Mutual funds:				
Domestic small cap	26,404	26,404	–	–
International	56,330	56,330	–	–
Corporate and other bonds:				
Corporate and other bonds	160,072	–	160,072	–
U.S. government securities:				
U.S. government securities	134,468	–	134,468	–
Subtotal fair value measurements	<b>388,493</b>	<b>93,953</b>	<b>294,540</b>	<b>–</b>
Alternative investments measured at NAV:				
Limited liability companies	94,173			
Hedge funds	31,850			
CTFs measured at NAV <sup>(b)</sup>	113,683			
Total PHP Plan assets	<b>\$ 628,199</b>			

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### I. Pension Plan (continued)

The fair values of the PHP Plan's assets at December 31, 2021, by asset category, are as follows:

Asset Category	Total	Fair Value Measurements <sup>(a)</sup>		
		Level 1	Level 2	Level 3
<i>(Dollars in Thousands)</i>				
Short-term investments	\$ 44,469	\$ 44,469	\$ –	\$ –
Mutual funds:				
Domestic small cap	37,147	37,147	–	–
International	61,236	61,236	–	–
Corporate and other bonds:				
Corporate and other bonds	217,697	–	217,697	–
U.S. government securities:				
U.S. government securities	185,883	–	185,883	–
Subtotal fair value measurements	546,432	142,852	403,580	–
Alternative investments measured at NAV:				
Limited liability companies	123,573			
Hedge funds	30,698			
CTFs measured at NAV <sup>(b)</sup>	160,245			
Total PHP Plan assets	<u>\$ 860,948</u>			

<sup>(a)</sup> There were no securities transferred between Level 1, 2 or 3 during 2022 or 2021.

<sup>(b)</sup> In accordance with ASC 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the fair value of plan assets at year end.

Fair value methodologies for short-term investments, mutual funds, corporate and other bonds, and U.S. government securities sections included in Level 1 and Level 2 are consistent with the inputs described in Note D.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### I. Pension Plan (continued)

Following is the summary of the inputs and valuation techniques as of December 31, 2022 and 2021, used for valuing Level 2 securities in the portfolio:

<u>Securities</u>	<u>Input</u>	<u>Valuation Technique</u>
Corporate and other bonds	Broker/dealer	Market
U.S. government securities	Broker/dealer	Market

The CTFs are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of the fair value of the CTFs at December 31, 2022 and 2021, based on the fact the CTFs are audited and accounted for at fair value by the administrators of the respective CTFs. There are no restrictions on the ability of PHP to redeem any of the CTFs at December 31, 2022 or 2021.

Alternative investments, which consist of hedge funds and limited liability companies, are not necessarily readily marketable and may include short sales on securities and trading in future contracts, options, foreign currency contracts, other derivative instruments, and private equity investments. However, management has determined that the NAV is an appropriate estimate of the fair value of these investments at December 31, 2022 and 2021, based on the fact that the alternative investments are audited and accounted for at fair value by the administrators of the respective alternative investments. Alternative investments can be divested only at specified times in accordance with the terms of the partnership agreements. Hedge funds and limited liability companies' redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution while the underlying investments are liquidated.

PHP's objective for the pension plan is to provide the payment of all future participant benefits. To meet this objective, the plan assets are invested in a manner that considers asset and liability movements and prudent efforts are made to exceed growth in liabilities. The PHP Plan is actively invested to achieve growth of capital and capital preservation. PHP maintains diversification in its plan assets by allocating assets to various asset classes and market segments and retaining multiple professional investment firms with different philosophies, styles, and approaches. Consideration is given to variables such as productivity, inflation, global competitiveness, and market risk. PHP's objective for the PHP Plan is to be in the range of 35% to 68% invested in return-seeking assets and 32% to 65% invested in liability-driven investments. Within those ranges, the Plan's target allocation for December 31, 2022, by asset category, is 50% return-seeking assets and 50% liability-driven investments. Accordingly, based on this diversification, management does not believe there are any concentrations of credit risk at the measurement date.

For the years ended December 31, 2022 and 2021, PHP recognized costs for its defined contribution plans of \$14.7 million and \$14.4 million, respectively.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### J. Interest Rate Swaps

The following table summarizes the notional and valuation assets (liabilities) of PHP's interest rate swaps as of December 31 (*dollars in millions*):

Interest Rate Swap Agreement	Transaction Type	Termination Date	Notional Amount		Valuation Amount	
			2022	2021	2022	2021
May 2011	Fixed Pay	2045	\$ 42.5	\$ 42.5	\$ (5.3)	\$ (17.3)
May 2011	Fixed Pay	2045	42.5	42.5	(5.1)	(17.0)
May 2011	Basis Swap	2037	50.0	50.0	(0.9)	1.5
May 2011	Basis Swap	2037	50.0	50.0	(1.1)	1.2
August 2016	Total Return	2026	82.9	82.9	(4.8)	0.5
September 2019	Fixed Pay	2045	41.5	41.5	(4.3)	(12.4)
September 2019	Fixed Pay	2045	41.5	41.5	(4.3)	(12.4)
Total liability					\$ (25.8)	\$ (55.9)

PHP's interest rate swap agreements include certain collateralization requirements based on the market value of these transactions. The amount required for collateral is determined daily based on the current market value of the interest rate swap agreements. PHP has no collateral posted with a designated custodian at December 31, 2022 (\$13.2 million at December 31, 2021) commensurate with the valuation of the interest rate swap agreements. All collateral posted is in the form of cash and cash equivalents and is included in other assets on the consolidated balance sheets, restricted for interest rate swap agreements collateral requirements. Interest earned while collateralized funds are held by the custodian is shown in non-operating (losses) gains, net on the consolidated statements of operations and changes in net assets.

#### K. Non-operating (Losses) Gains, Net

Non-operating (losses) gains, net are as follows:

	Year Ended December 31,	
	2022	2021
	<i>(Dollars in Thousands)</i>	
Interest income, net of investment fees	\$ 12,032	\$ 12,342
Realized gains on assets limited as to use	11,289	124,097
Change in unrealized losses on assets limited as to use	(141,241)	(31,927)
Unrealized gains on interest rate swaps	30,136	9,730
Other losses	(1,620)	(14,187)
Non-operating (losses) gains, net	\$ (89,404)	\$ 100,055

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### L. Concentration of Credit Risk

PHP's primary purpose is to provide healthcare services. PHP grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows at December 31:

	<u>2022</u>	<u>2021</u>
Medicare	29%	24%
Medicaid	11	10
Anthem	18	22
United HealthCare	10	11
Other third-party payors	23	24
Patients' responsibility	9	9
Total	<u>100%</u>	<u>100%</u>

#### M. Intangible Assets, Net

Goodwill and intangible assets have been generated primarily from the acquisition of certain businesses. The following table sets forth the related carrying values of goodwill and other intangibles, as of December 31:

	<u>2022</u>	<u>2021</u>
	<i>(Dollars in Thousands)</i>	
Goodwill balance, January 1,	\$ 43,955	\$ 43,706
Goodwill acquired	757	249
Goodwill balance, December 31,	<u>44,712</u>	43,955
Intangible assets, December 31,	871	1,560
Intangible assets – accumulated amortization	<u>(651)</u>	<u>(1,449)</u>
Net intangible assets	220	111
Total goodwill and intangible assets, December 31,	<u>\$ 44,932</u>	<u>\$ 44,066</u>

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### N. Subsequent Events

PHP has evaluated subsequent events through March 10, 2023, which is the date the consolidated financial statements were issued and made available. No recognized or unrecognized subsequent events were identified for recognition or disclosure in the consolidated financial statements.

#### O. Cost of Community Benefits (Unaudited)

<b>Cost of Community Benefit</b>	<b>2022 PHP</b>	<b>PHP % of Operating Expense</b>	<b>2021 PHP</b>	<b>PHP % of Operating Expense</b>
<i>(Dollars in Thousands)</i>				
<b>Charity care and means-tested government programs</b>				
Charity care at cost	\$ 8,745		\$ 16,578	
Unreimbursed Medicaid	178,449		158,162	
Unreimbursed costs – other means-tested government programs	11,160		7,024	
Total charity care and means-tested government programs	<b>198,354</b>	<b>8.7%</b>	181,764	8.3%
<b>Other benefits</b>				
Community health improvement and community benefit operations	3,250		3,593	
Subsidized health services	38,490		34,256	
Cash and in-kind contributions to community groups	7,163		6,395	
Total other benefits	<b>48,903</b>	<b>2.1%</b>	44,244	2.0%
Total quantifiable benefits	<b>247,257</b>	<b>10.8%</b>	226,008	10.3%
Total loss on Medicare services	<b>180,333</b>	<b>7.9%</b>	173,414	7.9%
Total community benefits	<b>\$ 427,590</b>	<b>18.7%</b>	\$ 399,422	18.2%

Medicaid and Medicare include total costs of treating patients which is higher than the costs covered by those programs.

## Supplementary Information

Premier Health Partners and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Identifying Number	Federal Expenditures
Research and development cluster:			
U.S. Department of Health and Human Services:			
Pass-through:			
The University of Cincinnati Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	19050H5ADM;G- 2021-05-0069- ODM202010	\$ 3,313
The University of Alabama at Birmingham Cardiovascular Diseases Research	93.837	U01HL120338	1,260
The Ohio State Research Foundation Cardiovascular Diseases Research	93.837	U24HL140168	79,236
Promedica (The Toledo Hospital) Injury Prevention and Control Research and State and Community Based Programs	93.136	331978-3031-183	283,467
Injury Prevention and Control Research and State and Community Based Programs	93.136	331978-3348-233	13,182
Total Research and Development Cluster			<u>380,458</u>
U.S. Department of Health and Human Services			
Pass-through:			
Montgomery County Alcohol, Drug, & Mental Health Services			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	426,995
Opioid STR	93.788	N/A	38,166
Mental Health Disaster Assistance and Emergency Mental Health	93.982	N/A	10,039
Preble County Mental Health and Recovery Board			
Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	93.665	N/A	9,843
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	N/A	3,812
Block Grants for Community Mental Health Services	93.958	N/A	18,118
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	37,500

Premier Health Partners and Subsidiaries

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Identifying Number	Federal Expenditures
Direct:			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.234		\$ 45,141
HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461		1,384,347
Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498		<u>20,124,190</u>
Total U.S. Department of Health and Human Services			<u>22,098,151</u>
U.S. Department of Homeland Security			
Pass-through:			
Ohio Emergency Management Agency Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-DR- 4507-OH	<u>6,346,189</u>
Total U.S. Department of Homeland Security			<u>6,346,189</u>
Total expenditures of federal awards			<u>\$ 28,824,798</u>

*See accompanying notes to the schedule of expenditures of federal awards.*

## Premier Health Partners and Subsidiaries

### Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

#### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes federal grant expenditures of Premier Health Partners and Subsidiaries (the Company) under programs of the federal government for the year ended December 31, 2022 and is presented using the accrual basis of accounting. The information in the schedule of expenditures of federal awards is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### **2. Indirect Cost Rate**

Premier Health Partners and Subsidiaries elected not to utilize the 10 percent de minimis indirect cost rate allowed by Uniform Guidance.

#### **3. COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution (Assistance Listing No. 93.498)**

The Schedule of Expenditures of Federal Awards (Schedule) includes \$20,124,190 received from the U.S. Department of Health and Human Services (HHS) between January 1, 2021 and December 31, 2021 under the Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution program of Assistance Listing No. 93.498. In accordance with guidance from HHS, these amounts are presented as Period 3 and Period 4 in the HHS PRF Reporting Portal. This amount was recognized as other operating revenue in the Company's consolidated financial statements in the accompanying consolidated statement of operations and changes in net assets for the years ended December 31, 2022 and 2021. Due to the PRF Reporting Portal requirements, this amount is not the total PRF received and/or recognized by Company as other operating revenue in Company's consolidated financial statements for the years ended December 31, 2022 and 2021.

Premier Health Partners and Subsidiaries

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2022

**3. COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution  
(Assistance Listing No. 93.498) (continued)**

The amount presented on the SEFA for Assistance Listing #93.498 is for the fiscal year ending December 31, 2022. The amount presented reconciles to the PRF information to HHS as follows:

<b>Name of the Reporting Entity for HRSA Reporting Provider Relief Report</b>	<b>Reporting Entity Tax Identification Number (TIN)</b>	<b>Type of Distribution</b>	<b>Total Other Provider Relief Fund Expenses Reported</b>	<b>Total Lost Revenues Applied</b>	<b>Total</b>
Premier Health Partners (Period 3)	311446699	General Infection	\$ —	\$ 2,763,953	\$ 2,763,953
UVMC Nursing Homes, Inc. (Period 3)	311224064	Control	377,090	—	377,090
Premier Health Partners (Period 4)	311446699	General	—	8,928,034	8,928,034
UVMC Nursing Homes, Inc. (Period 4)	311224064	ARP Rural	—	106,271	106,271
Atrium Medical Center (Period 4)	311079309	ARP Rural	—	313,231	313,231
CompuNet Clinical Laboratories, LLC (Period 4)	311258010	ARP Rural	—	145,952	145,952
Premier Health Holding Co. (Period 4)	812419110	ARP Rural	—	607,926	607,926
Miami Valley Hospital (Period 4)	310537504	ARP Rural	—	3,823,023	3,823,023
Samaritan Behavioral Health, Inc. (Period 4)	020633634	ARP Rural	—	158,150	158,150
Upper Valley Medical Center (Period 4)	310537095	ARP Rural	—	2,604,265	2,604,265
Upper Valley Professional Corporation (Period 4)	311400963	ARP Rural	—	146,445	146,445
UVPC Specialists, Inc. (Period 4)	203687536	ARP Rural	—	149,850	149,850
Total PRF expenditures				<u>\$ 20,124,190</u>	

# Compliance and Internal Control Reports and Schedule Required by the Uniform Guidance

## Report of Independent Auditors 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*

Senior Management and the Board of Trustees  
Premier Health Partners 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 (*Government Auditing Standards*), the consolidated financial statements of Premier Health Partners and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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, and have issued our report thereon dated March 10, 2023.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Company'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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free of 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*.

## **Purpose of this Report**

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

*Ernst + Young LLP*

March 10, 2023

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

Senior Management and the Board of Trustees  
Premier Health Partners and Subsidiaries

### **Report of Independent Auditors on Compliance for Each Major Federal Program**

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

We have audited Premier Health Partners and Subsidiaries' (the Company) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Company's major federal programs for the year ended December 31, 2022. The Company's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Company complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

#### ***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 (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Company and to meet our other ethical responsibilities in accordance with the 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 audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Company'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 Company's federal programs.

### ***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 Company'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 Company'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 Company'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 Company'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 Company'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.

### ***Other Matters***

Our audit of the major federal program identified as Assistance Listing Number 93.461 included certain audit procedures for the compliance requirement associated with activities allowed or unallowed that were limited to tests of compliance that reimbursements received, or expected to be received, related to health services allowed under this federal program. Our audit of compliance was not designed to test or provide assurance on the determination of whether a service was medically necessary, obtained through a legally appropriate referral, properly performed, rendered in a quality manner from a clinical perspective, adequately supervised, accurately documented and classified (i.e., that the correct medical bill code assigned represents the health service performed), or rendered and billed by non-sanctioned individuals. Performing procedures related to these matters is not within our professional expertise. Additional information on the nature of our procedures is available in the AICPA Audit and Accounting Guide, *Health Care Entities*. Our audit procedures for the compliance requirement associated with eligibility were limited to tests of compliance that services reimbursed, or expected to be reimbursed, were for individuals who received a temporary member identification number from the third-party service provider used by HRSA to identify a lack of active health care coverage.

### **Report on Internal Control Over Compliance**

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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is 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. We

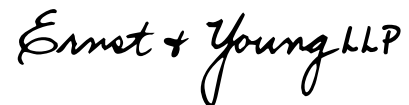
consider the following deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs to be a significant deficiency:

<b>Finding No.</b>	<b>Assistance Listing No.</b>	<b>Program Name</b>	<b>Compliance Requirements</b>
2022-001	93.461	HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	A. Activities Allowed or Unallowed B. Allowable Costs/Cost Principles E. Eligibility

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.

*Government Auditing Standards* requires the auditor to perform limited procedures on the Company’s response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Company’s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



July 25, 2023

Premier Health Partners and Subsidiaries  
 Schedule of Findings and Questioned Costs

Year Ended December 31, 2022

**Section I – Summary of Auditor’s Results**

**Consolidated Financial Statements**

Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____ <b>Yes</b>	_____ <b>X</b>	_____ <b>No</b>
Significant deficiency(ies) identified?	_____ <b>Yes</b>	_____ <b>X</b>	_____ <b>None reported</b>
Noncompliance material to the consolidated financial statements noted?	_____ <b>Yes</b>	_____ <b>X</b>	_____ <b>No</b>

**Federal Awards**

Internal control over major federal program:

Material weakness(es) identified?	_____ <b>Yes</b>	_____ <b>X</b>	_____ <b>No</b>
Significant deficiency(ies) identified?	_____ <b>X</b>	_____ <b>Yes</b>	_____ <b>None reported</b>

Type of auditor’s report issued on compliance for the major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

\_\_\_\_\_ **X** **Yes**      \_\_\_\_\_ **No**

Identification of major federal program:

<b>Assistance Listing number</b>	<b>Name of major federal program or cluster</b>
93.461	HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund
93.498	COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution



## Premier Health Partners and Subsidiaries

### Schedule of Findings and Questioned Costs (continued)

#### Section III – Federal Award Findings and Questioned Costs (continued)

“The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

Health and Human Services (HHS) – Health Resources and Services and Administrative (HRSA) issued *Terms and Conditions for Participation in the HRSA COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured Program* (T&Cs) outlining requirements that recipients of funding from the HRSA COVID-19 Uninsured Program must comply with including the following sections: Testing Services, Treatment Services and Vaccine Administration, and General Provisions in FY2022 Consolidated Appropriations.

*Condition:*

Premier Health Partners and Subsidiaries’ (the Company) did not appropriately design and execute internal control procedures to review for retroactive insurance that subsequently became effective for the date(s) of service on patient accounts previously billed to and reimbursed by the COVID-19 Uninsured Program.

*Cause:*

The Company did not design or execute internal controls to continually monitor the eligibility of accounts previously billed to and reimbursed by the program. While management has processes in place to review claims for potential insurance coverage prior to initial billing, there was no process established to subsequently identify alternative insurance coverage that could have become retroactively effective for accounts and rendered them ineligible for the Company to retain the reimbursement received under the program.

## Premier Health Partners and Subsidiaries

### Schedule of Findings and Questioned Costs (continued)

#### **Section III – Federal Award Findings and Questioned Costs (continued)**

*Effect or potential effect:*

The Company could be in noncompliance with the HRSA COVID-19 Uninsured Program T&Cs. Patients may not have ultimately remained uninsured on their encounter date, and therefore the related encounter may have become ineligible for reimbursement under the HRSA COVID-19 Uninsured Program.

*Questioned costs:*

None.

*Context:*

We inquired of management, who indicated internal controls over the continued monitoring of the eligibility of previously reimbursed patient encounters were not effectively designed and were not operating effectively.

*Identification as a repeat finding, if applicable:*

Not applicable.

*Recommendation:*

As the HRSA COVID-19 Uninsured Program ceased accepting claims in March 2022, the Company no longer submits claims or receives reimbursement under the program. Therefore, management should complete a review of previously reimbursed claims to identify any with retroactively applied insurance that rendered the encounter ineligible to retain previously received reimbursement on the account, with any identified ineligible reimbursement refunded to the program. Designing and implementing internal control processes for ongoing retroactive insurance reviews is not deemed necessary given the closure of the program.

*Views of responsible officials:*

Management agrees with the finding and will complete a review of previously reimbursed claims from the HRSA COVID-19 Uninsured Program to identify any with retroactively applied insurance. Any identified ineligible reimbursements will be refunded to the program by December 31, 2023.

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## Corrective Action Plan

### Federal Award Findings and Questioned Costs

#### For the Year Ended December 31, 2022

Finding 2022-001 – A. Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles, E. Eligibility

*Federal program information:*

**Federal Program:** HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund (93.461)

**Federal Agency:** U.S. Department of Health and Human Services (HHS), Health Resources and Services Administration (HRSA)

**Locations:** Various

**Award Numbers:** Various

**Award Period:** January 1, 2022, through December 31, 2022

*Summary of finding:*

Premier Health Partners and Subsidiaries (the Company) did not appropriately design and execute internal control procedures to review for retroactive insurance that subsequently became effective for the date(s) of service on patient accounts previously billed to and reimbursed by the COVID-19 Uninsured Program.

*Corrective Action Plan:*

Premier Health will submit all claims paid by the HRSA COVID-19 Uninsured Program to a third-party vendor to perform a search for any retroactive insurance coverage for these patients for the service dates submitted and paid by this program. Any accounts found to have retroactive insurance coverage for dates submitted will be paid back to the HRSA Uninsured Program by December 31, 2023.

Expected Completion Date: December 31, 2023

Responsible Contact Persons: Amanda Ricci-Adkins – System VP Revenue Cycle, Mike Sims – System VP & Corporate Controller