
ProMedica Health System and Subsidiaries

**Consolidated Financial Report
with Supplemental Information
December 31, 2019**

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Independent Auditor's Report

To the Board of Trustees
ProMedica Health System and Subsidiaries

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matters

As described in Note 2 to the consolidated financial statements, the System adopted Accounting Standards Codification (ASC) 842, *Leases*, using the modified retrospective adoption method, as of January 1, 2019 and ASC 715, *Compensation - Retirement Benefits*, using the retrospective adoption method, as of January 1, 2019. Our opinion is not modified with respect to these matters.

To the Board of Trustees
ProMedica Health System and Subsidiaries

Report on Summarized Comparative Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise ProMedica Health System's consolidated financial statements. The consolidating balance sheet and consolidating statement of operations and changes in unrestricted net assets are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. The consolidating balance sheet and consolidating statement of operations and changes in unrestricted net assets are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating balance sheet and consolidating statement of operations and changes in unrestricted net assets are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

April 15, 2020

ProMedica Health System and Subsidiaries

Consolidated Balance Sheet

December 31, 2019 and 2018
(In Thousands)

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 379,698	\$ 325,496
Marketable securities (Note 18)	260,616	307,237
Assets limited as to use or restricted (Notes 6 and 18)	11,501	12,887
Accounts receivable - Net	617,347	642,307
Estimated third-party payor receivable	43,850	36,708
Supplies	32,150	31,812
Other current assets	148,812	146,448
Total current assets	1,493,974	1,502,895
Noncurrent Assets Limited as to Use or Restricted - Net of amount required to meet current obligations (Notes 6 and 18)		
Restricted funds	145,160	128,407
Professional liability and workers' compensation insurance funds	56,005	61,688
Internally designated for capital acquisition	618,420	633,726
Other segregated investments	367,201	313,484
Total noncurrent assets limited as to use or restricted	1,186,786	1,137,305
Property and Equipment - Net (Note 7)	1,672,508	1,608,895
Right-of-use Operating Lease Assets (Note 10)	2,077,311	-
Other Assets		
Goodwill (Note 8)	1,149,383	1,283,780
Intangible assets (Note 8)	181,406	69,785
Pension (Note 14)	7,936	-
Investments in affiliated companies (Note 22)	640,460	635,441
Other	85,592	94,026
Total other assets	2,064,777	2,083,032
Total assets	\$ 8,495,356	\$ 6,332,127

ProMedica Health System and Subsidiaries

Consolidated Balance Sheet (Continued)

December 31, 2019 and 2018
(In Thousands)

	2019	2018
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 439,841	\$ 435,845
Contractual current installments of long-term debt (Note 9)	15,810	21,071
Contingent current installments of long-term debt (Note 9)	439,900	446,444
Estimated third-party payor settlements	58,561	34,434
Current portion of lease liabilities - Financing (Note 10)	3,109	2,132
Current portion of lease liabilities - Operating (Note 10)	95,442	-
Accrued liabilities and other:		
Compensation and benefits	319,638	316,877
Professional liability and workers' compensation (Note 11)	109,846	111,535
Claims expense (Note 12)	119,295	108,562
Other current liabilities	5,534	8,385
Total current liabilities	1,606,976	1,485,285
Long-term Debt - Less current installments (Note 9)	1,868,563	1,874,933
Lease Liabilities - Financing (Note 10)	23,489	27,225
Lease Liabilities - Operating (Note 10)	2,033,162	-
Other Liabilities		
Accrued professional liability and workers' compensation - Less current portion (Note 11)	276,734	312,822
Deferred compensation (Note 14)	44,010	38,620
Pension (Note 14)	745	24,462
Other	47,696	70,786
Total other liabilities	369,185	446,690
Total liabilities	5,901,375	3,834,133
Net Assets		
Without donor restrictions:		
Controlling interest	2,400,056	2,319,062
Noncontrolling interest	48,763	50,525
Total without donor restrictions	2,448,819	2,369,587
With donor restrictions (Note 15)	145,162	128,407
Total net assets	2,593,981	2,497,994
Total liabilities and net assets	<u>\$ 8,495,356</u>	<u>\$ 6,332,127</u>

ProMedica Health System and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets

Years Ended December 31, 2019 and 2018

(In Thousands)

	2019	2018
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue (Note 5)	\$ 4,801,184	\$ 2,991,905
Premium revenue	1,933,569	1,802,508
Other	110,224	122,948
Net assets released for use in operations	13,108	13,711
Total unrestricted revenue, gains, and other support	6,858,085	4,931,072
Expenses		
Salaries, wages, and employee benefits	2,974,317	1,949,787
Food and drugs	347,009	251,958
Medical expenses	1,489,816	1,317,511
Contracted fees	620,473	429,467
Supplies	288,309	241,227
Insurance	84,654	36,919
Utilities	96,322	57,561
Other	759,774	455,615
Total expenses (Note 17)	6,660,674	4,740,045
Operating Income before Depreciation Amortization, and Impairment Expense	197,411	191,027
Depreciation, Amortization, and Impairment	195,295	147,732
Operating Income	2,116	43,295
Other (Loss) Income		
Interest expense	(109,923)	(48,324)
Investment income (loss) (Note 18)	151,003	(32,040)
Income tax expense (Note 16)	(2,660)	(7,519)
Inherent contribution (Note 23)	4,126	14,639
Loss on extinguishment of debt	-	(87)
Other	14,091	(6,198)
Total other income (loss) - Net	56,637	(79,529)
Excess of Revenue Over (Under) Expenses before Unusual Items	58,753	(36,234)
Restructuring, Severance, and Acquisition Costs (Note 2)	(1,294)	(30,237)
Excess of Revenue Over (Under) Expenses	\$ 57,459	\$ (66,471)

ProMedica Health System and Subsidiaries

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

Years Ended December 31, 2019 and 2018

(In Thousands)

	Net Assets without Donor Restrictions - Controlling Interest	Net Assets without Donor Restrictions - Noncontrolling Interest	Total Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Net Assets - January 1, 2018	\$ 2,444,330	\$ 9,104	\$ 2,453,434	\$ 135,010	\$ 2,588,444
Excess of revenue (under) over expenses	(67,721)	1,250	(66,471)	-	(66,471)
Restricted investment loss	-	-	-	(6,545)	(6,545)
Restricted contributions and transfers - Net	-	-	-	17,611	17,611
Net assets released from restrictions for operations	-	-	-	(13,711)	(13,711)
Net assets released from restrictions for fixed assets	3,958	-	3,958	(3,958)	-
Capital contributions by noncontrolling members	-	41,173	41,173	-	41,173
Distributions to noncontrolling interests	-	(1,002)	(1,002)	-	(1,002)
Pension and other postretirement adjustments	(39,570)	-	(39,570)	-	(39,570)
Loss on discontinued operations (Note 24)	(21,935)	-	(21,935)	-	(21,935)
(Decrease) increase in net assets	(125,268)	41,421	(83,847)	(6,603)	(90,450)
Net Assets - December 31, 2018	2,319,062	50,525	2,369,587	128,407	2,497,994
Excess of revenue over (under) expenses	57,851	(392)	57,459	-	57,459
Restricted investment income	-	-	-	13,729	13,729
Restricted contributions and transfers - Net	-	-	-	20,897	20,897
Net assets released from restriction for operations	-	-	-	(13,108)	(13,108)
Net assets released from restriction for fixed assets	4,763	-	4,763	(4,763)	-
Capital contributions by noncontrolling members	(59)	64	5	-	5
Distributions to noncontrolling interests	-	(1,434)	(1,434)	-	(1,434)
Pension and other postretirement adjustments	24,605	-	24,605	-	24,605
Loss on discontinued operations (Note 24)	(6,166)	-	(6,166)	-	(6,166)
Increase (decrease) in net assets	80,994	(1,762)	79,232	16,755	95,987
Net Assets - December 31, 2019	\$ 2,400,056	\$ 48,763	\$ 2,448,819	\$ 145,162	\$ 2,593,981

ProMedica Health System and Subsidiaries

Consolidated Statement of Cash Flows

Years Ended December 31, 2019 and 2018

(In Thousands)

	2019	2018
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 95,987	\$ (90,450)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	177,508	147,732
(Gain) loss on sale of equipment	(2,785)	1,852
Loss on extinguishment of debt	-	87
Asset impairment	17,788	1,958
Accelerated depreciation	5,066	-
Noncontrolling interests in acquisitions	(64)	(6,689)
Investment income, including realized and unrealized gains	(134,876)	81,169
Distributions to noncontrolling interests	1,434	1,002
Restricted contributions and other	(20,897)	(17,611)
Amortization of debt discounts, premiums, and issuance costs	1,041	-
Changes in operating assets and liabilities that provided (used) cash - Net of business combinations:		
Accounts receivable and estimated third-party payor receivables	24,959	22,866
Supplies and other current assets	(2,705)	123,108
Other assets	(32,677)	(9,168)
Accounts payable and accrued expenses	2,828	(150,138)
Estimated third-party payor settlements	16,987	(26,012)
Pension	(31,653)	28,850
Other liabilities	(46,876)	70,866
Operating right-of-use assets and lease liabilities	50,570	-
Net cash provided by operating activities	121,635	179,422
Cash Flows from Investing Activities		
Acquisition of property and equipment	(236,689)	(310,279)
Proceeds from sale of equipment	4,278	1,078
Payments for business combinations - Net of cash acquired	-	(1,550,384)
Distributions from joint ventures	38,134	12,686
Investments in joint ventures	(4,039)	(33,900)
Purchase of investments	(2,113,622)	(2,653,009)
Proceeds from sale of investments	2,279,157	3,041,199
Decrease in total assets limited as to use or restricted	(33,932)	(59,361)
Net cash used in investing activities	(66,713)	(1,551,970)
Cash Flows from Financing Activities		
Proceeds from long-term debt	-	1,477,415
Repayment of long-term debt	(19,219)	(9,996)
Extinguishment of long-term debt	-	(75,090)
Payments on capital lease obligations	(2,758)	(3,382)
Distributions to noncontrolling interests	(1,434)	(1,002)
Restricted contributions and other	20,897	17,611
Net cash (used in) provided by financing activities	(2,514)	1,405,556
Net Increase in Cash and Cash Equivalents	52,408	33,008
Cash and Cash Equivalents - Beginning of year	338,612	305,604
Cash and Cash Equivalents - End of year	\$ 391,020	\$ 338,612
Supplemental Cash Flow Information		
Cash paid for interest - Net of amount capitalized	\$ 114,219	\$ 31,987
Cash paid for taxes	5,673	7,048
Acquisition of property through accounts payable	1,535	3,076
Significant Noncash Transactions		
Recognition of operating lease right-of-use assets and liabilities on January 1, 2019	\$ 2,187,524	\$ -
Recognition of new operating lease right-of-use assets and liabilities	13,901	-
Recognition of new finance leases	1,720	-

See notes to consolidated financial statements.

December 31, 2019 and 2018

Note 1 - Basis of Presentation and Affiliated Entities

ProMedica Health System (ProMedica), an Ohio not-for-profit corporation, and its subsidiaries (collectively, the "System") constitute a comprehensive healthcare system offering medical, surgical, psychiatric, rehabilitative, skilled nursing, home health, and hospice services across 27 states. The System includes a large employed physician group, practices, and insurance for health and dental coverage. ProMedica is the sole member or parent of the sole member of the following subsidiaries:

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

ProMedica Insurance Corporation contributed an operating loss of \$76.3 million for 2019 compared to operating income of \$7.4 million for 2018. This shift in operating results related to a structural rate issue and higher utilization rates in the extension population within the Paramount Advantage (Medicaid) product line. Management worked in collaboration with the Ohio Department of Medicaid to partially correct the issue before the end of the year. However, based on the 2020 rates, management made a decision to exit certain Ohio markets for Paramount Advantage members.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

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

Investments in Affiliated Companies

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

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

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

	2019	2018
Cash and cash equivalents	\$ 379,698	\$ 325,496
Cash and cash equivalents included in assets limited as to use	11,322	13,116
Total	\$ 391,020	\$ 338,612

Investments

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

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

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

Investment Risks

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Assets Limited as to Use or Restricted

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

Fair Value of Financial Instruments

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

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

Level 2 - Other observable inputs, either directly or indirectly

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

Concentrations of Credit Risk

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Supplies

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

Property and Equipment

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

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

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

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

Asset Retirement Obligations

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

Goodwill

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

Intangible Assets

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Accrued Claims

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

Premium Deficiency Reserves

The reserve for premium deficiency, included in accrued claims, and the related expense are recognized when it is probable that expected future healthcare costs, under a group of existing contracts, will exceed future premiums and stop-loss coverage recoveries anticipated over the remaining term of the contract. The methods for making such estimates and for establishing the resulting reserves are periodically reviewed and updated. Any adjustments resulting therein are reflected in current operations. Estimates in reserves are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. The System had no premium deficiency reserves accrued at December 31, 2019 and 2018.

Centers for Medicare & Medicaid Services (CMS) Payable

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

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

Accounts Receivable

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition - Patient Service Revenue

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

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

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

Other Operating Revenue

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

December 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Charity Care

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

Premium Revenue and Medical Expenses

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

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

Cost of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets, net of applicable interest income for tax-exempt borrowed funds, is capitalized as a component of the costs of acquiring those assets. Net capitalized interest was \$10,676,000 and \$10,405,000 in 2019 and 2018, respectively. Deferred debt financing costs are expensed over the life of the bonds using the bonds outstanding method.

Sick Pay Benefit

The System provides a sick time benefit to certain employees of Toledo, Bay Park, PCCSC, HCR, and the System's corporate staff. The benefit generally includes a capped payout provision at retirement or after attainment of a specified age or attendance level. The liability is an estimate based on the accrued benefits at year end, adjusted for expected employee turnover, and a discount rate of 2.25 percent and 3.25 percent for 2019 and 2018, respectively. At December 31, 2019 and 2018, the System recorded a liability of \$1,495,000 and \$1,948,000, respectively. Payments made under the program amounted to \$326,000 and \$295,000 for the years ended December 31, 2019 and 2018, respectively.

Note 2 - Summary of Significant Accounting Policies (Continued)

Income Taxes

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

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

Excess of Revenue Over (Under) Expenses

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

Gifts and Net Assets with Donor Restrictions

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

Regulatory Risk-based Capital and Statutory Deposit

PIC's regulated insurance subsidiaries are subject to minimum net worth under the regulations of the Ohio Department of Insurance (ODI), the State of Michigan Department of Financial and Insurance Services (DIFS) and the Indiana Department of Insurance (IDOI). The minimum net worth requirements were met at December 31, 2019 and 2018. The regulated insurance subsidiaries are also subject to certain risk-based capital (RBC) requirements, as specified by the National Association of Insurance commissioners (NAIC). Under those requirements, the amount of capital and surplus required to be maintained is determined based on various risk factors relating to each insurance company. RBC requirements were met at December 31, 2019 and 2018.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

Related Party Transactions

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

Unusual Items

The System has embarked on a cross-functional effort to improve and enhance its operating model, achieve long-term strategic objectives, and gain greater efficiencies. Costs related to this effort of \$933,000 and \$16,814,000 for the years ended December 31, 2019 and 2018, respectively, are included in restructuring, severance, and acquisition costs in the consolidated statement of operations and changes in net assets.

During 2018, the System acquired HCR ManorCare in a debt financed acquisition. Certain costs associated with the acquisition of \$361,000 and \$13,423,000 for the years ended December 31, 2019 and 2018, respectively, are included in restructuring, severance, and acquisition costs in the consolidated statement of operations and changes in net assets.

Adopted Accounting Pronouncements

Effective January 1, 2019, the System adopted FASB Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, using a modified retrospective method of application to all leases existing on January 1, 2019. The guidance requires lessees to recognize leases with terms longer than 12 months on the balance sheet and disclose key information about leasing arrangements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The classification criteria for distinguishing between operating and finance (previously capital) leases are substantially similar to the previous lease guidance, but with no explicit bright lines included within the classification criteria.

The System adopted the standard as of January 1, 2019, electing the transition method that allows it to apply the standard as of the adoption date and record a cumulative-effect adjustment in net assets, if applicable. The System has elected the package of practical expedients permitted under the transition guidance, which, among other things, allows the System to carry forward the historical lease classification. The new standard also provides practical expedients for an entity's ongoing accounting. The System has made an accounting policy to keep leases with an initial term of 12 months or less off of the consolidated balance sheet and recognize those lease payments in the consolidated statements of operations and changes in net assets on a straight-line basis over the lease term. The adoption of this standard resulted in recognition of right-of-use assets and lease liabilities of approximately \$2.2 billion on its consolidated balance sheet as of January 1, 2019, with no impact to net assets as of that date.

Effective January 1, 2019, the System adopted FASB Accounting Standards Update (ASU) No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)* (ASU 2017-07). This guidance requires the presentation of the service cost component of net benefit cost to be in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. All other components of net benefit cost should be presented separately from the service cost component and outside of income from operations. The System reported the nonservice components of the net periodic postretirement benefit cost on the other line item in nonoperating activities in the consolidated statement of operations and changes in net assets for 2019 and 2018.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

Litigation

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

Note 3 - Accounts Receivable

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

	2019	2018
Commercial and other payors	30 %	27 %
Medicare	37	34
Self-pay	12	14
Medicaid	21	25
Total	100 %	100 %

Note 4 - Charity Care

The System maintains records to identify and monitor the level of direct patient charity care it provides. These records include the charges forgone for services and supplies furnished under its charity care policy and equivalent service statistics. During 2019 and 2018, gross charges forgone, based on established rates, approximated \$57,357,000 and \$61,397,000, respectively. The cost of charity care provided approximated \$9,937,000 and \$9,989,000 in 2019 and 2018, respectively.

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

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 4 - Charity Care (Continued)

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

Note 5 - Net Patient Service Revenue

Patient service revenue generated by major payor source for the years ended December 31, 2019 and 2018 is as follows is (in thousands):

	2019	2018
Medicare	\$ 2,206,231	\$ 1,343,791
Medicaid	974,185	721,349
Commercial and other payors	1,271,157	771,786
Self-pay	349,611	154,979
Total	\$ 4,801,184	\$ 2,991,905

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 5 - Net Patient Service Revenue (Continued)

The composition of patient care service revenue based on its lines of business and timing of revenue recognition for the years ended December 31, 2019 and 2018 (in thousands) is as follows:

	<u>2019</u>	<u>2018</u>
Service lines:		
Hospital	\$ 1,434,647	\$ 1,372,776
Nursing home and senior care	2,276,657	986,497
Physician services	219,463	203,988
Home health and hospice	670,963	310,186
Other	199,454	118,458
	<u>\$ 4,801,184</u>	<u>\$ 2,991,905</u>
Total		
Timing of revenue recognition:		
At time services are rendered	\$ 64,905	\$ 56,396
Over time services are transferred	4,736,279	2,935,509
	<u>\$ 4,801,184</u>	<u>\$ 2,991,905</u>
Total		

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

Commercial and Other

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

Medicare

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

Medicaid

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

Program examination of cost reports has been finalized for various facilities with dates ranging from 2015 to 2018 for the Medicare program and with dates ranging from 2013 to 2017 for the Medicaid program. Cost reports for the Blue Cross Blue Shield program (Michigan providers only) have been finalized through 2018. Provisions for estimated reimbursement adjustments have been made in the accompanying consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 5 - Net Patient Service Revenue (Continued)

System hospitals participate in various state supplemental payment programs designed to assist hospitals that have a disproportionate amount of uncompensated care. Ohio hospitals (Toledo, Defiance, Fostoria, Bay Park, Flower, and Memorial) participate in the Hospital Care Assurance and Medicaid Supplemental Payments programs. Michigan hospitals (Bixby, Herrick, Monroe, and Coldwater) participate in the Disproportionate Share Hospital Payment and Quality Assurance Assessment programs. During 2019 and 2018, the System received distributions of approximately \$52,459,000 and \$56,013,000, respectively. All hospitals are subject to assessments used to fund state supplemental payment programs. During 2019 and 2018, the System incurred assessments of approximately \$39,279,000 and \$38,062,000, respectively.

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available) or as years are settled or are no longer subject to such audits, reviews, and investigations. As a result, there is at least a reasonable possibility that recorded estimates could change in the near term. In 2019 and 2018, such changes in estimates (decreased) increased patient service revenue by approximately \$(2,376,000) and \$13,006,000, respectively.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2019 and 2018, changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

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

ProMedica Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 6 - Assets Limited as to Use or Restricted

As of December 31, 2019 and 2018, restricted assets of the foundations and other subsidiaries of the System, assets held by trustees under indenture agreements and self-insurance trust arrangements, and assets set aside by the board of trustees for future capital improvements and other designated purposes consisted of the following (in thousands):

	2019	2018
Cash and cash equivalents	\$ 48,886	\$ 88,252
Equity securities	422,582	401,188
Fixed-income securities	557,946	487,826
Long-short equity hedge funds	60,998	56,133
Real return strategy funds	39,776	47,791
Real estate	10,201	13,581
Beneficial interest in perpetual trusts	34,696	29,788
Other	23,202	25,633
Total	<u>\$ 1,198,287</u>	<u>\$ 1,150,192</u>

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

Note 7 - Property and Equipment

Property and equipment as of December 31, 2019 and 2018 consisted of the following (in thousands):

	2019	2018
Land and improvements	\$ 157,460	\$ 157,037
Building and improvements	1,862,828	1,469,007
Equipment	979,247	1,015,045
Construction in progress	122,549	388,817
Total cost	3,122,084	3,029,906
Less accumulated depreciation and amortization	1,449,576	1,421,011
Property and equipment - Net	<u>\$ 1,672,508</u>	<u>\$ 1,608,895</u>

Property and equipment include assets recorded under finance leases of \$39,220,000 and \$38,826,000 with accumulated amortization for such assets of \$14,190,000 and \$9,917,000 as of December 31, 2019 and 2018, respectively. The associated charges to income are recorded in depreciation and amortization expense.

As of December 31, 2019 and 2018, construction contract commitments of \$44,385,000 and \$134,285,000, respectively, exist for the construction and remodeling of system facilities.

ProMedica Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 8 - Goodwill and Intangible Assets

Intangibles as of December 31, 2019 and 2018 consisted of the following (in thousands):

	Average Life (Years)	2019			2018																										
		Gross Carrying Amount	Accumulate d Amortizati on	Net	Gross Carrying Amount	Accumulate d Amortizati on	Net																								
Amortized intangible assets:																															
Physician charts	10	\$ 1,930	\$ (1,340)	\$ 590	\$ 1,446	\$ (1,214)	\$ 232																								
Customer relationships	5-50	40,447	(9,538)	30,909	40,447	(6,925)	33,522																								
Trademark	10	59,135	(2,464)	56,671	-	-	-																								
Other	1-50	25,733	(5,238)	20,495	25,733	(3,669)	22,064																								
Total		<u>\$ 127,245</u>	<u>\$ (18,580)</u>	<u>\$ 108,665</u>	<u>\$ 67,626</u>	<u>\$ (11,808)</u>	<u>\$ 55,818</u>																								
<table border="1" style="margin-left: auto;"> <thead> <tr> <th></th> <th>2019</th> <th>2018</th> </tr> <tr> <th></th> <th>Gross Carrying Amount</th> <th>Gross Carrying Amount</th> </tr> </thead> <tbody> <tr> <td>Carrying amount of intangible assets not subject to amortization:</td> <td></td> <td></td> </tr> <tr> <td>Goodwill</td> <td>\$ 1,149,383</td> <td>\$ 1,283,780</td> </tr> <tr> <td>Certificate of need</td> <td>43,265</td> <td>1,100</td> </tr> <tr> <td>Hospice and home care licenses</td> <td>29,009</td> <td>-</td> </tr> <tr> <td>Other</td> <td>467</td> <td>12,867</td> </tr> <tr> <td>Total</td> <td><u>\$ 1,222,124</u></td> <td><u>\$ 1,297,747</u></td> </tr> </tbody> </table>									2019	2018		Gross Carrying Amount	Gross Carrying Amount	Carrying amount of intangible assets not subject to amortization:			Goodwill	\$ 1,149,383	\$ 1,283,780	Certificate of need	43,265	1,100	Hospice and home care licenses	29,009	-	Other	467	12,867	Total	<u>\$ 1,222,124</u>	<u>\$ 1,297,747</u>
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During 2018, the System recorded provisional goodwill of \$1,184,364,000 related to acquisition of HCR. During 2019, the System finalized the allocation of provisional goodwill that was recorded in 2018 related to the HCR acquisition. The System recorded indefinite-lived intangible assets of \$74,700,000 related to the fair values of certificates of need and hospice and home health licenses, as well as \$59,100,000 related to the fair value of acquired HCR trademarks and trade names. After allocations, the final goodwill balance related to the HCR acquisition was \$1,051,000,000. During 2019, management determined that the HCR trademark and trade name assets had a remaining life of 10 years and began amortizing those assets. The System recorded an impairment charge of \$12,400,000 related to an acquired health plan trade name and a loss of \$3,500,000 related to the disposal of several home health and hospice licenses during 2019.

Additionally, during 2018, the System recorded goodwill of \$30,060,000 related to ProMedica Pathology Labs, LLC.

Aggregate amortization expense for the years ended December 31, 2019 and 2018 was \$7,052,000 and \$3,748,000, respectively.

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

Years Ending	Amount
2020	\$ 9,325
2021	9,178
2022	8,862
2023	8,862
2024	8,830
Thereafter	63,608
Total	<u>\$ 108,665</u>

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 9 - Debt

Long-term debt as of December 31, 2019 and 2018, net of unamortized bond discount, premium, and debt issuance costs, consisted of the following (in thousands):

	<u>2019</u>	<u>2018</u>
Hospital Revenue Bonds - Series 2018A, interest at 4.10 to 5.25 percent, payable semiannually	\$ 250,045	\$ 259,055
Taxable Bonds - Series 2018B, interest at 5.33 to 6.02 percent, payable semiannually	1,202,954	1,202,276
Hospital Revenue Bonds - Series 2017A, interest at 3.22 percent, payable monthly	54,634	54,594
Hospital Revenue Bonds - Series 2017B, interest at 3.22 percent, payable monthly	119,936	119,897
Hospital Revenue Bonds - Series 2017C, interest at 3.00 percent, payable monthly	84,906	84,867
Hospital Revenue Bonds - Series 2017D, interest at 3.22 percent, payable monthly	39,692	39,670
Hospital Revenue Bonds - Series 2017F, based on the 30-day London Interbank Offered Rate (LIBOR) index and interest payable monthly (2.49 percent as of December 31, 2019)	62,443	62,413
Hospital Refunding Revenue Bonds - Series 2017H, interest at 3.12 percent, payable monthly	24,874	24,837
Taxable Bonds - Series 2015A, interest at 4.98 percent, payable semiannually	270,576	270,483
Hospital Revenue Bonds - Series 2015B, interest at 4.00 percent, payable semiannually	45,279	45,222
Taxable Hospital Refunding Revenue Bonds - Series 2015C, based on the 30-day LIBOR index and interest payable monthly (2.51 percent as of December 31, 2019)	9,781	14,506
Taxable Bonds - Series 2015E, based on the 30-day LIBOR index and interest payable monthly (2.45 percent as of December 31, 2019)	31,044	32,978
Hospital Refunding Revenue Bonds - Series 2011D, interest at 4.00 to 5.25 percent, payable semiannually	94,814	96,089
Qualified Low-Income Community Investment Loans - 2015, interest at 1.00 to 2.58 percent, payable quarterly	14,392	14,379
Other	18,903	21,182
Total	<u>2,324,273</u>	<u>2,342,448</u>
Less current installments of long-term debt, net of current portion of unamortized bond discount, premium, and debt issuance costs - Contractual current installments	15,810	21,071
Contingent current installments	439,900	446,444
Total	<u>\$ 1,868,563</u>	<u>\$ 1,874,933</u>

December 31, 2019 and 2018

Note 9 - Debt (Continued)

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

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

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

Hospital Revenue Bonds - 2018A

In October 2018, the Obligated Group issued \$253,315,000 of tax-exempt fixed-rate bonds, Series 2018A, through Lucas County. At December 31, 2019, outstanding bonds consist of \$24,915,000 term bonds that mature on November 15, 2042 and \$219,575,000 term bonds that mature on November 15, 2048. The proceeds of the Series 2018A bonds were used to refinance the 2011C and 2017G bonds with the remainder used for the construction and equipping certain healthcare facilities of the Obligated Group located in Ohio. Balances reported at December 31, 2019 and 2018 include unamortized bond premium of \$7,853,000 and \$8,125,000, respectively. Balances reported at December 31, 2019 and 2018 include unamortized debt issuance costs of \$2,298,000 and \$2,385,000, respectively.

Taxable Bonds - 2018B

In October 2018, the Obligated Group issued \$1,219,845,000 in fixed-rate taxable bonds, Series 2018B. The bonds mature \$319,845,000 on November 15, 2028; \$500,000,000 on November 15, 2038; and \$400,000,000 on November 15, 2048. The proceeds of the Series 2018B bonds were used to refinance the 2018 bridge loan used to finance the HCR ManorCare acquisition and for other authorized corporate purposes of the System's subsidiaries.

Balances reported at December 31, 2019 and 2018 include unamortized bond premium of \$15,778,000 and \$16,615,000, respectively. Balances reported at December 31, 2019 and 2018 include unamortized debt issuance costs of \$32,669,000 and \$34,185,000, respectively.

Hospital Revenue Bonds - 2017A

In December 2017, the Obligated Group issued \$54,710,000 in fixed-rate bonds, Series 2017A, through Lucas County with a direct placement bank loan with a base term of four years. The Series 2017A bond direct loan is included in contingent current installments of long-term debt at December 31, 2019 based on certain subjective acceleration definitions within the agreement. The proceeds from the 2017A bonds were used to advance refund the Series 2008D bonds. At December 31, 2019, outstanding bonds consist of \$54,710,000 that mature in increasing amounts from \$6,480,000 on November 15, 2035 to \$6,970,000 on November 15, 2040. Balances reported at December 31, 2019 and 2018 include unamortized debt issuance costs of \$76,000 and \$116,000, respectively.

Note 9 - Debt (Continued)

Hospital Revenue Bonds - 2017B

In December 2017, the Obligated Group issued \$120,010,000 in fixed-rate bonds, Series 2017B, through Lucas County with a direct placement bank loan with a base term of four years. The Series 2017B bond direct loan is included in contingent current installments of long-term debt at December 31, 2019 based on certain subjective acceleration definitions within the agreement. The proceeds from the 2017B bonds were used to advance refund a portion of the Series 2011A bonds. At December 31, 2019, outstanding bonds consist of \$120,010,000 that mature in increasing amounts from \$2,385,000 on November 15, 2022 to \$19,080,000 on November 15, 2041. Balances reported at December 31, 2019 and 2018 include unamortized debt issuance costs of \$74,000 and \$113,000, respectively.

Hospital Revenue Bonds - 2017C

In December 2017, the Obligated Group issued \$84,980,000 in fixed-rate bonds, Series 2017C, through Lucas County with a direct placement bank loan with a base term of four years. The Series 2017C bond direct loan is included in contingent current installments of long-term debt at December 31, 2019 based on certain subjective acceleration definitions within the agreement. The proceeds from the 2017C bonds were used to advance refund a portion of the Series 2011A bonds. At December 31, 2019, outstanding bonds consist of \$84,980,000 that mature in increasing amounts from \$1,685,000 on November 15, 2022 to \$13,520,000 on November 15, 2041. Balances reported at December 31, 2019 and 2018 include unamortized debt issuance costs of \$74,000 and \$113,000, respectively.

Hospital Revenue Bonds - 2017D

In December 2017, the Obligated Group issued \$39,800,000 in fixed-rate bonds, Series 2017D, through Lucas County with a direct placement bank loan with a base term of seven years. The Series 2017D bond direct loan is included in contingent current installments of long-term debt at December 31, 2019 based on certain subjective acceleration definitions within the agreement. The proceeds from the 2017D bonds were used to advance refund a portion of the Series 2011D bonds. At December 31, 2019, outstanding bonds consist of \$39,800,000 that mature in increasing amounts from \$820,000 on November 15, 2022 to \$6,090,000 on November 15, 2029. Balances reported at December 31, 2019 and 2018 include unamortized debt issuance costs of \$108,000 and \$130,000, respectively.

Hospital Revenue Bonds - 2017F

In December 2017, the Obligated Group issued \$62,500,000 in variable-rate bonds, Series 2017C, through Lucas County with a direct placement bank loan with a base term of four years. The Series 2017F bond direct loan is included in contingent current installments of long-term debt at December 31, 2019 based on certain subjective acceleration definitions within the agreement. The proceeds from the 2017F bonds were used to refinance the Series 2008A bonds. At December 31, 2019, outstanding bonds consist of \$62,500,000 that mature in increasing amounts from \$11,600,000 on November 15, 2030 to \$13,450,000 on November 15, 2034. Balances reported at December 31, 2019 and 2018 include unamortized debt issuance costs of \$57,000 and \$87,000, respectively.

Hospital Refunding Revenue Bonds - 2017H

In December 2017, the Obligated Group issued \$24,945,000 in fixed-rate bonds, Series 2017H, through the County of Lenawee Hospital Financing Authority with a direct placement bank loan with a base term of four years. The Series 2017H bond direct loan is included in contingent current installments of long-term debt at December 31, 2019 based on certain subjective acceleration definitions within the agreement. The proceeds from the 2017H bonds were used to advance refund a portion of the Series 2011B and 2011E bonds. At December 31, 2019, outstanding bonds consist of \$24,945,000 that mature in increasing amounts from \$690,000 on November 15, 2022 to \$6,450,000 on November 15, 2035. Balances reported at December 31, 2019 and 2018 include unamortized debt issuance costs of \$71,000 and \$108,000, respectively.

Note 9 - Debt (Continued)

Taxable Bonds

Series 2015A, with an outstanding principal of \$273,000,000 at December 31, 2019, was issued in September 2015. The taxable fixed rate bonds mature on November 15, 2045 and are subject to optional redemption prior to maturity. The proceeds of the Series 2015A bonds were used for authorized corporate purposes of the System's subsidiaries, including financing or refinancing capital expenditures and paying current operating expenditures. Balances reported at December 31, 2019 and 2018 include unamortized debt issuance costs of \$2,424,000 and \$2,517,000, respectively.

Hospital Revenue Bonds

Series 2015B, with an outstanding principal of \$46,755,000 at December 31, 2019, was issued in September 2015 and consists of tax-exempt fixed-rate bonds. The bonds mature on November 15, 2045 and are subject to optional redemption prior to maturity. The proceeds of the Series 2015B bonds were used for acquiring and improving healthcare facilities in Ohio. Balances reported at December 31, 2019 and 2018 include unamortized bond discount of \$1,008,000 and \$1,047,000, respectively, and debt issuance costs of \$468,000 and \$486,000, respectively.

Taxable Hospital Revenue Refunding Bonds

Series 2015C, with an outstanding principal of \$9,810,000 at December 31, 2019, was issued in November 2015 as a taxable directly placed bank loan with a base term of six years. Principal payments are due annually and range from \$4,850,000 due on November 15, 2020 to \$4,960,000 due in 2021. The contractual current portion of the Series 2015C bonds is \$4,850,000 at December 31, 2019 with the remaining \$4,980,000 included in contingent current installments of long-term debt based on certain subjective acceleration definitions within the agreement. The proceeds of the Series 2015C bonds were used to extinguish the Hospital Refunding Revenue Bonds - Series 2005B. Balances reported at December 31, 2019 and 2018 include unamortized debt issuance costs of \$29,000 and \$44,000, respectively.

Taxable Bonds

Series 2015E, with an outstanding principal of \$31,044,000 as of December 31, 2019, was issued in November 2015 as a taxable directly placed bank loan with a base term of 10 years. Principal payments range from \$4,850,000 due on November 15, 2020 to \$21,385,000 in 2025. The contractual current portion of the Series 2015E bonds is \$4,850,000 at December 31, 2019, with the remaining \$26,260,000 included in contingent current installments of long-term debt based on certain subjective acceleration definitions within the agreement. The proceeds of the Series 2015E bonds were used to pay off a temporary bank line of credit that was used to extinguish the Monroe Hospital Finance Authority 2006 Revenue and Refunding bonds. Balances reported at December 31, 2019 and 2018 include unamortized debt issuance costs of \$66,000 and \$77,000, respectively.

Hospital Refunding Revenue Bonds

Series 2011D was partially refunded in December 2017 using the proceeds from the Series 2017D bonds. The remaining outstanding principal of \$92,805,000 at December 31, 2019 consists of bonds, which mature in varying amounts from \$5,950,000 due on November 15, 2020 to \$880,000 in 2030. Balances reported at December 31, 2019 and 2018 include unamortized bond premium of \$2,591,000 and \$2,829,000, respectively, and debt issuance costs of \$582,000 and \$635,000, respectively. In December 2011, the Obligated Group issued the fixed-rate bonds through Lucas County. The proceeds from the Series 2011D Bonds were used to extinguish the remaining maturities of Series 1999 Hospital Revenue Bonds that were not refunded with Series 2011C issuance.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 9 - Debt (Continued)

Qualified Low-income Community Investment (QLICI) Loans

The 2015 loans, with an outstanding principal balance of \$14,740,000 at December 31, 2019, mature in December 2045 and were issued to finance the acquisition and rehabilitation of the System’s corporate headquarters. The loans require quarterly interest-only payments through December 2022, with principal and interest payments beginning thereafter until the loans mature. The loans are included in contingent current installments of long-term debt based on certain subjective acceleration definitions within the loan agreement. Balances reported at December 31, 2019 and 2018 include unamortized debt issuance costs of \$348,000 and \$361,000, respectively.

Other

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

The table below indicates the future maturities on long-term debt at December 31, 2019. While presentation in the consolidated balance sheet of current maturities of long-term debt includes certain amounts contingently payable, the schedule below has been prepared based on contractual maturities of the debt outstanding at December 31, 2019. Accordingly, if covenants are violated, debt repayments may become more accelerated than presented below (in thousands):

<u>Years Ending</u>	<u>Amount</u>
2020	\$ 15,810
2021	17,243
2022	21,365
2023	22,093
2024	22,726
Thereafter	<u>2,225,036</u>
Total	<u>\$ 2,324,273</u>

Note 10 - Leases

The System is obligated under operating leases primarily for various equipment and facilities, expiring at various dates through September 22, 2081. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 4.40 percent to 5.51 percent. The majority of the leases require the System to pay taxes, insurance, utilities, and maintenance costs.

The System leases various equipment and information technology under long-term lease arrangements that are classified as finance leases. Under the terms of the lease agreements, payments ranging from \$2,151 to \$1,861,864 are due monthly through November 30, 2036. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 1.16 percent to 18.44 percent.

Master Lease

On July 27, 2018, HCR entered into an amended and restated master lease with a subsidiary of Welltower (NYSE: WELL), which is a triple-net master lease with an initial term of 15 years. The lease may be renewed at the option of the tenant for two five-year terms and a four-year, 11-month term. The lease applies to 216 of the 222 skilled nursing and assisted living facilities operated by HCR. The System has guaranteed the payment obligations under the lease. The base rent payable under the lease is \$179,000,000 for the first year of its term, with an escalator of 1.375 percent for the second year of its term and of 2.75 percent annually thereafter. Base rent for the renewal periods is to be reset to the then-current market value taking into consideration specific factors set forth in the lease. The lease is accounted for as an operating lease, with rent expense recognized on a straight-line basis over each year of the initial lease term. Rent expense related to the lease was \$215,134,000 and \$92,531,000 in 2019 and 2018, respectively.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 10 - Leases (Continued)

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

Year Ending December 31	Operating Leases	Finance Leases		Total Expense
	Lease Expense	Amortization Expense	Interest Expense	
2019	\$ 236,731	\$ 4,487	\$ 1,668	\$ 242,886

Total lease expense in 2018 for operating leases was \$130,929,000.

Future minimum cash payments on noncancelable leases as of December 31, 2019 for each of the next five years, and in the aggregate, are as follows (in thousands):

Years Ending December 31	Operating Leases	Financing Leases	Total Payments
2020	\$ 204,281	\$ 5,603	\$ 209,884
2021	201,659	3,484	205,143
2022	202,450	6,686	209,136
2023	204,143	2,498	206,641
2024	206,650	2,818	209,468
Thereafter	2,009,035	16,669	2,025,704
Total	3,028,218	37,758	3,065,976
Less amount representing interest	899,614	11,160	910,774
Present value of net minimum lease payments	2,128,604	26,598	2,155,202
Less current obligations	95,442	3,109	98,551
Long-term obligations under leases	\$ 2,033,162	\$ 23,489	\$ 2,056,651

Note 11 - Estimated Self-insurance Costs

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

The System has recorded a medical malpractice liability of \$336,881,000 and \$365,304,000 at December 31, 2019 and 2018, respectively. The workers' compensation liability was \$49,699,000 and \$59,053,000 in 2019 and 2018, respectively. The recorded liability for workers' compensation and medical malpractice represents anticipated losses stated at their present value.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 11 - Estimated Self-insurance Costs (Continued)

The System is also self-insured for the purpose of providing medical health insurance benefits for certain employees. An accrual of \$30,856,000 and \$25,711,000 has been recorded for claims that have been incurred, but not yet received, at December 31, 2019 and 2018, respectively, and is included in accounts payable and accrued liabilities in the consolidated balance sheet.

It is the opinion of management that estimated self-insurance cost accrued as of December 31, 2019 and 2018 are adequate to provide for potential losses resulting from pending or threatened litigation.

Note 12 - Accrued Claims

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

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

Activity in accrued claims expense for the years ended December 31, 2019 and 2018 is summarized as follows (in thousands):

	2019	2018
Balance - Beginning of year	\$ 108,562	\$ 81,423
Incurred related to:		
Current year	1,486,333	1,299,084
Prior years	3,484	18,427
Total incurred	1,489,817	1,317,511
Paid related to:		
Current year	(1,368,214)	(1,193,619)
Prior years	(110,870)	(96,753)
Total paid	(1,479,084)	(1,290,372)
Balance - End of year	\$ 119,295	\$ 108,562

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

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 12 - Accrued Claims (Continued)

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

Note 13 - Liability for Unpaid Claims and Claim Adjustment Expenses

The following presents information about incurred and paid claims development as of December 31, 2019, net of reinsurance, as well as IBNR and cumulative reported claims by loss year for ProMedica Insurance Corporation (health insurance). The information relates to incurred and paid claims development and is presented as supplemental information.

Claim Year	Incurred Claims and Claims Adjustment Expenses - Net of Reinsurance for the Years Ended December 31 (in Thousands)			As of December 31, 2019	
	2017	2018	2019	Total IBNR and Bulk Reserves (in Thousands)	Cumulative Number of Reported Claims
	2017	\$ 1,024,822	\$ 1,043,249	\$ 1,043,249	\$ -
2018		1,299,084	1,302,568	947	5,733,000
2019			1,486,333	118,347	6,445,000
Total			\$ 3,832,150		

Claim Year	Cumulative Paid Claims and Allocated Claims Adjustment Expenses - Net of Reinsurance, for the Years Ended December 31 (in Thousands)		
	2017	2018	2019
2017	\$ 962,099	\$ 1,040,153	\$ 1,040,153
2018		1,193,618	1,304,488
2019			1,368,214
Total			\$ 3,712,855
Total liability for claims and claim adjustment expenses - Net of reinsurance			\$ 119,295

Note 14 - Pension

Noncontributory Defined Benefit Pension Plans (Pension Plans)

The System sponsors a noncontributory qualified defined benefit pension plan that covers certain full-time and part-time employees of the System who have more than 1,000 hours of service during the year. Benefits are based on each employee's compensation and length of service. The System makes contributions to the plan required to satisfy the Employee Retirement Income Security Act of 1974 (ERISA) funding standards. The System is not required to make a plan contribution in 2019 and reserves the right to make contributions that exceed ERISA funding standards.

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

During 2016, the System offered an early retirement incentive to a specific class of employees who met certain age and service requirements. The special termination benefits included one-time supplemental benefits and pension additions.

The System also sponsors a noncontributory qualified defined benefit pension plan that covers certain eligible employees of Monroe. Participation in the plan was frozen effective June 30, 2005, and benefit accruals were frozen effective September 30, 2009. Effective December 31, 2018, this plan merged into the system-sponsored noncontributory qualified defined benefit pension plan defined above. The System is not required to make a plan contribution in 2019 and reserves the right to make contributions that exceed ERISA funding standards.

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

Defined Contribution Benefits

The System sponsors defined contribution pension plans established under Section 401(k) and Section 403(b) of the Internal Revenue Code (IRC), which covers certain full-time and part-time employees. Employer contributions are based upon each employee's deferrals and service-based accruals. The pension expense under these plans for 2019 and 2018 was approximately \$48,176,000 and \$40,494,000, respectively.

Deferred Compensation

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

The System has nonqualified deferred compensation plans that permit eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash based on completion of length of service requirements, retirement, or termination of employment. At December 31, 2019 and 2018, the assets and liabilities under these plans totaled \$44,010,000 and \$38,620,000, respectively.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 14 - Pension (Continued)

The changes in projected benefit obligations, changes in plan assets, and funded status for the pension plans for the years ended December 31, 2019 and 2018 are as follows (in thousands):

	Pension Plans	
	2019	2018
Change in benefit obligation:		
Benefit obligation - Beginning of year	\$ 474,282	\$ 496,530
Benefit obligation assumed from HCR acquisition	-	1,694
Interest cost	18,425	16,942
Actuarial loss (gain)	24,452	(12,117)
Benefits paid	(13,461)	(13,639)
Other	1,551	2,393
Settlements	(21,010)	(17,521)
Benefit obligation - End of year	484,239	474,282
Change in plan assets:		
Fair value of plan assets - Beginning of year	449,757	500,855
Fair value of plan assets assumed from HCR acquisition	-	1,105
Actual return on plan assets	75,661	(23,530)
Employer contributions	448	2,487
Benefits paid	(13,461)	(13,639)
Settlements	(21,010)	(17,521)
Fair value of plan assets - End of year	491,395	449,757
Net asset (liability) recognized	\$ 7,156	\$ (24,525)

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

	Pension Plans	
	2019	2018
Other assets - Long term	\$ 7,936	\$ -
Other liabilities - Current	(35)	(63)
Other liabilities - Long term	(745)	(24,462)
Net asset (liability)	7,156	(24,525)
Amounts recognized in net assets without donor restrictions	122,975	147,716
Net amount recognized	\$ 130,131	\$ 123,191

Amounts recognized in net assets without donor restrictions as of December 31, 2019 and 2018 consist of the following (in thousands):

	Pension Plans	
	2019	2018
Beginning balance	\$ 147,716	\$ 108,695
Recognized in net periodic benefit cost - Amortization of net loss	(1,582)	(1,637)
Settlement cost	(5,327)	(6,291)
Net (gain) loss	(17,832)	46,949
Ending balance	\$ 122,975	\$ 147,716

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 14 - Pension (Continued)

Components of net periodic benefit cost for the years ended December 31, 2019 and 2018 consisted of the following (in thousands):

	Pension Plans	
	2019	2018
Interest cost	\$ 18,425	\$ 16,942
Expected return on plan assets	(31,826)	(33,144)
Recognized net actuarial loss	1,582	1,637
Settlement costs	5,327	6,291
Net benefit	<u>\$ (6,492)</u>	<u>\$ (8,274)</u>

During 2020, \$2,296,000 is expected to be amortized from net assets without donor restrictions into net periodic benefit cost.

	Pension Plans	
	2019	2018
Benefit obligations:		
Discount rate	3.00%-3.25%	4.00%
Rate of compensation increase	3.00%	3.00%
Net periodic benefit cost:		
Discount rate	4.00%	3.50%-4.00%
Expected long-term return on plan assets	7.00%	7.25%
Rate of compensation increase	3.00%	3.00%

For 2019 and 2018, the System assumed a long-term asset rate of 7.00 and 7.25 percent, respectively. In developing the expected long-term rate of return assumption, the System evaluated input from investment advisers, including a review of asset class return expectations based on historical compounded returns for such asset classes.

For the years ended December 31, 2019 and 2018, the total accumulated benefit obligation for the pension was \$484,239,000 and \$474,282,000, respectively.

Plan Assets

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

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

ProMedica Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 14 - Pension (Continued)

The fair values of the System's pension plan assets at December 31, 2019 and 2018 by major asset classes are as follows (in thousands):

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

ProMedica Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 14 - Pension (Continued)

Asset Category	Fair Value Measurements at December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 350	\$ 3,785	\$ -	\$ 4,135
U.S. equity securities:				
U.S. equity mutual funds	33,726	-	-	33,726
Marketable equity securities	43,501	-	-	43,501
International equity securities:				
International equity mutual fund	10,616	-	-	10,616
Marketable international securities	25,690	-	-	25,690
Fixed-income securities:				
U.S. Treasuries and agencies	-	67,314	-	67,314
Corporate obligations	-	72,808	-	72,808
Domestic fixed-income mutual funds	75,846	-	-	75,846
International fixed-income mutual funds	10,346	-	-	10,346
Real return strategy funds:				
All asset mutual funds	17,715	-	-	17,715
Private capital	-	-	4,663	4,663
Total investments at fair value	<u>\$ 217,790</u>	<u>\$ 143,907</u>	<u>\$ 4,663</u>	<u>366,360</u>
Investments measured at net asset value:				
International equity commingled fund				56,392
Long-short equity hedge funds				27,005
Total				<u>\$ 449,757</u>

Cash Flow

Expected Contributions

The System expects to contribute \$63,000 to its pension plans to pay anticipated benefit payments in 2020. The System may elect to make additional contributions.

Required Contributions

The System is not required to contribute to its pension plan in 2020.

Expected Benefit Payments

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

Years Ending December 31	Pension Plans
2020	\$ 32,384
2021	37,753
2022	35,524
2023	35,866
2024	32,461
Thereafter	149,615

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 15 - Net Assets with Donor Restrictions

As of December 31, 2019 and 2018, net assets with donor restrictions relate to the following (in thousands):

	2019	2018
Net assets with donor restrictions:		
Hospital operations support	\$ 103,306	\$ 94,266
Hospital capital support	19,405	18,890
Research	7,452	8,844
Healthcare and other services	14,999	6,407
Total	\$ 145,162	\$ 128,407

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

System Endowment Funds

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

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

Net assets without donor restrictions include board-designated quasi-endowment funds as of December 31, 2019 and 2018 are \$18,421,000 and \$15,776,000, respectively.

ProMedica Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 15 - Net Assets with Donor Restrictions (Continued)

Changes in endowment net assets for the fiscal years ended December 31, 2019 and 2018 are as follows (in thousands):

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Endowment net assets - December 31, 2017	\$ 16,582	\$ 39,660	\$ 56,242
Investment income	569	1	570
Contributions and transfers - Net	-	8	8
Change in net realized and unrealized losses	(1,375)	(3,936)	(5,311)
Other	-	(540)	(540)
	<u>15,776</u>	<u>35,193</u>	<u>50,969</u>
Endowment net assets - December 31, 2018	15,776	35,193	50,969
Investment income	775	-	775
Contributions and transfers - Net	-	10	10
Change in net realized and unrealized losses	1,870	4,043	5,913
	<u>18,421</u>	<u>39,246</u>	<u>57,667</u>
Endowment net assets - December 31, 2019	\$ 18,421	\$ 39,246	\$ 57,667

Funds with Deficiencies

Periodically, the fair value of assets associated with the individual donor restricted endowment funds may fall below the level that the donor requires the System retain for a perpetual duration. Deficiencies of this nature would be reported in unrestricted net assets. These deficiencies could result from unfavorable market fluctuations and/or continued appropriation for certain programs that were deemed prudent by the System. As of December 31, 2019 and 2018, the System did not have funds with deficiencies.

Pledges Receivable

The System occasionally receives unconditional promises to give with payments due in future periods. Pledges receivable are recorded in assets limited as to use or restricted. As of December 31, 2019 and 2018, the System had pledges receivable of \$20,106,000 and \$16,720,000, respectively, net of an allowance of \$619,000 and \$33,000, respectively, for uncollectibility and discounted at 3.16 percent, with amounts due as follows (in thousands):

Years Receivable	Amount
2020	\$ 10,178
2021-2022	5,065
2023-2024	2,031
2025 and thereafter	<u>2,832</u>
Total	<u>\$ 20,106</u>

Note 16 - Income Taxes

PIC is an entity of the System that is for-profit and is subject to federal income taxes. PIC's provision for income taxes for the years ended December 31, 2019 and 2018 consists of the following (in thousands):

	2019	2018
Current income tax expense (benefit)	\$ 6,613	\$ 16,213
Deferred income tax (benefit) expense	<u>(3,953)</u>	<u>(8,694)</u>
Income tax expense	<u>\$ 2,660</u>	<u>\$ 7,519</u>

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 16 - Income Taxes (Continued)

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

	2019	2018
Income before income taxes	\$ (52,906)	\$ 6,272
Statutory U.S. federal income tax rate	\$ (11,257)	\$ 1,317
State income taxes - Net of federal benefit	(338)	6
Exempt income adjustments	14,064	6,380
Impact of rate change	(11)	63
Other	202	(247)
Income tax expense	\$ 2,660	\$ 7,519
Effective tax rate	5.00 %	119.90 %

In 2019 and 2018, PIC recorded a \$14,064,000 and \$6,380,205, respectively, unfavorable adjustment due to exempt earnings related to the Paramount Advantage subsidiary. Paramount Advantage is tax exempt under IRC Section 501(c)(4). It obtained its exemption on October 1, 2015.

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

	2019	2018
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	\$ 111	\$ 110
Unearned premium reserves	226	229
Accrued compensation	802	658
General accruals	459	424
Other	572	243
Total deferred tax assets - Net of any applicable allowances	2,170	1,664
Deferred tax liabilities:		
Goodwill and intangibles	(2)	(12)
Prepaid expense	(8,948)	(12,705)
Unrealized gains	(532)	144
Basis in fixed assets	(578)	(923)
Other liabilities	(56)	(68)
Deferred tax liabilities	(10,116)	(13,564)
Net deferred tax liability	\$ (7,946)	\$ (11,900)

ProMedica Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 17 - Functional Expenses

The System provides general healthcare services and insurance to residents within its geographic locations, including medical/surgical, pediatric, crucial emergency, skilled nursing, home health, and hospice care. The financial statements report certain expense categories that are attributable to more than one healthcare service or support function; therefore, these expenses required an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, and interest, are allocated based on total expenses by category. Total expenses, including depreciation, amortization, and interest, related to providing these services for the years ended December 31, 2019 and 2018 are as follows (in thousands):

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

	Program Services				Support Services		Total
	Provider	Senior Care	Insurance	Other	Management and General	Fundraising	
Salaries, wages, and employee benefits	\$ 782,971	\$ 807,719	\$ 50,490	\$ 5,310	\$ 298,601	\$ 4,696	\$ 1,949,787
Food and drugs	143,255	104,926	-	423	3,347	7	251,958
Medical expenses	-	-	1,317,510	1	-	-	1,317,511
Contracted fees	114,466	102,383	8,825	554	200,963	2,276	429,467
Supplies	192,011	44,919	-	41	3,993	263	241,227
Insurance	6,143	23,749	-	-	7,027	-	36,919
Utilities	1,671	28,609	-	61	27,217	3	57,561
Other	67,635	224,377	1,018	4,898	158,672	(985)	455,615
Depreciation, amortization, and impairment	84,418	11,226	-	-	52,078	10	147,732
Interest expense	20,077	13,620	-	-	14,617	10	48,324
Total	\$ 1,412,647	\$ 1,361,528	\$ 1,377,843	\$ 11,288	\$ 766,515	\$ 6,280	\$ 4,936,101

Note 18 - Fair Value Measurements

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

Note 18 - Fair Value Measurements (Continued)

Cash Equivalents

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

Equity and Fixed-income Securities

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

Exchange-traded/Mutual Funds

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

Commingled Funds

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

Hedge Funds

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

Real Estate Held for Investment

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

Private Capital

Private capital is invested in discounted loans and structured credit tied to residential and commercial real estate markets in the United States and Europe. Management's estimates of the fair value of this investment are provided by the third-party administrator and the fund manager/general partner. Management obtains and considers the audited financial statements of this investment when evaluating the overall reasonableness of the fair value. In addition to a review of external information provided, management's internal procedures include reviews of returns against benchmarks and discussions with fund managers of performance, change in personnel or process, and evaluations of current market conditions for these investments. Investment managers also meet with system management on a periodic basis. Because of the inherent uncertainty, valuations may differ materially from those obtained had an active market existed. The investment is a closed-end fund and has significant redemption restrictions that prohibit redemptions during the fund's life, which has an initial term of five years with two optional one and one-half year extension options exercisable at the sole discretion of the general partner. As of December 31, 2019 and 2018, unfunded capital commitments totaled \$2,500,000.

Beneficial Interests in Perpetual Trusts

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

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 18 - Fair Value Measurements (Continued)

The following tables present information about the fair value of the System's financial instruments as of December 31, 2019 and 2018, according to the valuation techniques used by the System. The assets are included in marketable securities and assets limited as to use current and noncurrent (in thousands).

Assets Measured at Fair Value on a Recurring Basis at December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Assets				
Cash and cash equivalents	\$ 78,120	\$ 10,382	\$ -	\$ 88,502
U.S. equity securities:				
U.S. equity mutual funds	77,034	-	-	77,034
Marketable equity securities	99,503	-	-	99,503
International equity securities:				
International equity mutual funds	28,287	-	-	28,287
Marketable international equity securities	67,241	-	-	67,241
Fixed-income securities:				
U.S. Treasuries and agencies	-	261,250	-	261,250
Corporate, municipal, and other governmental bonds	-	350,821	-	350,821
Domestic fixed-income mutual funds	117,063	-	-	117,063
International fixed-income mutual funds	24,824	-	-	24,824
Real return strategy funds:				
All asset mutual funds	30,521	-	-	30,521
Private capital	-	-	9,255	9,255
Other	26,111	-	-	26,111
Not this. Beneficial interests in perpetual trusts	-	-	34,696	34,696
Domestic real estate	-	-	10,201	10,201
Total	\$ 548,704	\$ 622,453	\$ 54,152	1,225,309
Investments measured at net asset value:				
U.S. equity commingled funds				51,608
International equity commingled funds				120,988
Long-short equity hedge funds				60,998
Total assets limited as to use and marketable securities				\$ 1,458,903

ProMedica Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 18 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Assets				
Cash and cash equivalents	\$ 117,630	\$ 8,594	\$ -	\$ 126,224
U.S. equity securities:				
U.S. equity mutual funds	92,072	-	-	92,072
Marketable equity securities	121,031	-	-	121,031
International equity securities:				
International equity mutual funds	22,760	-	-	22,760
Marketable international equity securities	50,744	-	-	50,744
Fixed-income securities:				
U.S. Treasuries and agencies	-	232,606	-	232,606
Corporate, municipal, and other governmental bonds	-	272,570	-	272,570
Domestic fixed-income mutual funds	188,920	-	-	188,920
International fixed-income mutual funds	17,272	-	-	17,272
Real return funds:				
All asset mutual funds	34,468	-	-	34,468
Private capital	-	-	13,323	13,323
Other	26,870	-	-	26,870
Beneficial interests in perpetual trusts	-	-	29,788	29,788
Domestic real estate	-	-	13,581	13,581
Total	\$ 671,767	\$ 513,770	\$ 56,692	1,242,229
Investments measured at net asset value:				
U.S. equity commingled funds				52,842
International equity commingled funds				106,225
Long-short equity hedge funds				56,133
Total assets limited as to use and marketable securities				\$ 1,457,429

The following is a summary of the fair value of system investments with a reported NAV per share as of December 31, 2019 and 2018 (in thousands):

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

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 18 - Fair Value Measurements (Continued)

	Investments Held at December 31, 2018		
	Fair Value	Redemption Frequency, if Eligible	Redemption Notice Period
U.S equity commingled funds	\$ 52,842	Monthly	0-5 days
International equity commingled funds	106,225	Daily/Monthly	0-6 days
Long-short equity hedge funds	56,133	Monthly/Quarterly	60-90 days
Total	<u>\$ 215,200</u>		

U.S. Equity Commingled Funds

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

International Equity Commingled Funds

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

Long-short Equity Hedge Funds

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

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

Note 19 - Liquidity

The System has \$1,519,072,000 and \$1,534,795,000 of financial assets available within one year of December 31, 2019 and 2018 to meet cash needs for general expenditure consisting of cash of \$379,698,000 and \$325,496,000, short-term investments of \$522,027,000 and \$566,992,000, and accounts receivable of \$617,347,000 and \$642,307,000 at December 31, 2019 and 2018, respectively. Of the short-term investments, \$260,616,000 and \$307,237,000 are included as current assets, and the remaining \$261,411,000 and \$259,755,000 are included in noncurrent assets whose use is limited on the consolidated balance sheet. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated balance sheet date. The contributions receivable is subject to implied time restrictions but are expected to be collected within one year. The System has certain board-designated assets that are not included in amounts available for expenditure in the next year. However, the board-designated amounts could be made available, if necessary.

The System has a goal to maintain financial assets, which consist of cash and marketable securities and certain designated fixed-income investments included in internally designated funds, on hand at a minimum 60 days of normal operating expenses, which are, on average, approximately \$1,094,904,000 and \$779,185,000 at December 31, 2019 and 2018, respectively. The System has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the System invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 20 - Asset Retirement Obligations

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

The System has determined it has legal obligations to perform certain asset retirement activities associated with planned and estimated demolition and remediation at various hospitals, long-term care facilities, medical office buildings, and other facilities. During 2019 and 2018, changes to the asset retirement obligation are as follows (in thousands):

	2019	2018
Balance - January 1	\$ 28,359	\$ 24,306
Additions	7	3,648
Accretion expense	621	602
Settlements	(208)	(197)
Balance - December 31	<u>\$ 28,779</u>	<u>\$ 28,359</u>

Note 21 - Leasing Revenue Activity

The System leases space to tenants under various operating lease agreements. These agreements, without giving effect to renewal options, have expiration dates ranging from 2019 to 2038. The rental revenue for the years ended December 31, 2019 and 2018 was \$7,504,000 and \$7,212,000, respectively. As of December 31, 2019, the aggregate future minimum base rental payments to the System under noncancelable operating leases by year are as follows (in thousands):

Years Ending	Amount
2020	\$ 4,783
2021	3,990
2022	3,815
2023	3,736
2024	3,632
Thereafter	23,175
Total	<u>\$ 43,131</u>

Note 22 - Investments in Affiliated Companies

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

	2019	2018
Total assets	\$ 371,636	\$ 352,870
Total liabilities	144,581	134,220
Net assets	227,055	218,650
Revenue - Net	412,868	351,920
Net income	25,145	14,286

HCR purchases various pharmaceutical supplies from an affiliate accounted for as an equity investment. Total purchases for 2019 and 2018 are approximately \$56.1 million and \$29.5 million, respectively. The amounts accrued for unpaid pharmaceutical supplies purchases at December 31, 2019 and 2018 are \$7,959,000 and \$10,793,000, respectively.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 22 - Investments in Affiliated Companies (Continued)

The summarized financial position and results of operations for the System's joint venture with Welltower (see Note 23), as of and for the years ended December 31, 2019 and 2018, are as follows (in thousands):

	2019	2018
Total assets	\$ 2,532,175	\$ 2,558,148
Total liabilities	315	(54)
Net assets	2,531,860	2,558,202
Revenue - Net	215,183	92,059
Net income	153,586	65,516

Note 23 - Business Combinations

Acquisition of ProMedica Coldwater Regional Hospital (Coldwater)

On January 1, 2018, the System became the sole member of ProMedica Coldwater Regional Hospital, formerly Community Health Center of Branch County and Community Health Center Foundation, which was accounted for as an acquisition. The hospital, headquartered in Coldwater, Michigan, operates an acute-care facility with 87 beds. The fair value of the assets acquired exceeded the liabilities assumed resulting in an inherent contribution of \$14,639,000, which was recorded during the year ended December 31, 2018.

Acquisition of HCR ManorCare, Inc. and Subsidiaries (HCR)

On July 26, 2018, the System acquired HCR through a Chapter 11 Reorganization and stock acquisition. The System made a capital contribution and loans to HCR to enable HCR to discharge certain liabilities in exchange for 100 percent of its equity shares. The reorganized HCR then became a wholly owned subsidiary of the System. HCR, headquartered in Toledo, Ohio, operates 168 skilled nursing facilities, 54 assisted living facilities, 108 hospice and home health offices, and 51 rehabilitation clinics in 27 states.

The System recorded the transaction as an acquisition and paid a total consideration of \$1,116,400,000. Provisional goodwill of \$1,184,364,000 was recognized by the System as part of the acquisition. The goodwill amount was finalized in 2019, as described in Note 8. HCR is included in the System's consolidated balance sheet at December 31, 2019 and 2018.

The fair values of the net assets acquired and liabilities assumed as of July 26, 2018 were as follows (in thousands):

Current assets	\$ 633,300
Goodwill	1,184,364
Intangible assets	18,036
Investment in CVS Pharmacy joint venture	37,000
Property and equipment - Net	103,100
Other assets	29,400
Total assets acquired	2,005,200
Trade payable and accrued expenses	(577,600)
Capital lease obligation	(17,400)
Other liabilities	(293,800)
Total liabilities assumed	(888,800)
Aggregate purchase price	\$ 1,116,400

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 23 - Business Combinations (Continued)

HCR revenue and excess of revenue (under) over expenses for the five-month period ended December 31, 2018 that is included in the System's consolidated financial statements is \$1,320,516,000 and \$36,776,000, respectively. The revenue and excess revenue (under) over expenses for the System would have increased by \$3,013,000,000 and \$81,552,000, respectively, if HCR was included in the 2018 consolidated financial statements of the System for the entire year.

Inherent Contribution of HCR ManorCare Foundations

During 2019, 100 percent of the membership interest in HCR ManorCare Foundation, Inc.; The Hug Fund; and Heartland Memorial Hospice Fund, Inc. was assigned to ProMedica Foundation. The value of net assets assigned to ProMedica Foundation was \$4,126,000.

Joint Venture with Welltower

In connection with the HCR acquisition, the System also paid \$512,700,000 to Welltower (NYSE: WELL) in exchange for a 20 percent share of a new joint venture with Welltower, which it subsequently contributed to HCR. The System accounts for this joint venture using the equity method. The joint venture was formed to hold the 216 skilled nursing and assisted living facilities formerly owned by Quality Care Properties (NYSE: QCP) and leased to HCR. Those properties will continue to be operated by HCR under an amended and restated master lease agreement with the Welltower joint venture. See Note 10 for a discussion of the master lease and Note 22 for discussion of the Welltower joint venture.

Note 24 - Discontinued Operations

As described in Note 23, the System's acquisition of HCR ManorCare included assets that were planned for divestiture. All of these assets were divested subsequent to the acquisition. The postacquisition results of operations and loss on sale have been classified as discontinued operations.

Following is a summary of discontinued operations from the acquisition date through December 31, 2019 and 2018 (in thousands):

	2019	2018
Net patient service revenue	\$ (1,046)	\$ 121,252
Operating expenses	(5,120)	(142,145)
Loss from operations	(6,166)	(20,893)
Loss on sale of assets	-	(1,042)
Loss on discontinued operations	<u>\$ (6,166)</u>	<u>\$ (21,935)</u>

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

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

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

December 31, 2019 and 2018

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

The Agreement includes a financial commitment by ProMedica to provide academic support to The University of Toledo through payments for certain defined services, research, branding rights, and other related services for value and benefits to ProMedica. ProMedica made initial payments totaling \$40 million over the three-year period ending in 2017, which have been deferred and are being expensed over 30 years to match the estimated years of benefit realization. In addition, ProMedica incurred transitional payments expense of \$26,002,000 in 2018 and \$35,307,000 in 2019 and is obligated to make payments of \$44,305,000 in 2020. Beginning in 2021 through 2065, annual support payments will be at least \$50,000,000 and calculated based on the aggregate of: (i) 3 percent of base year 2015 net patient service revenue; plus (ii) 2 percent of the difference in the current year net patient service revenue, excluding net patient service revenue generated from facilities acquired by ProMedica after 2015, and the base year of 2015; plus (iii) one-quarter of 1 percent of net patient service revenue generated in the then-current year from facilities acquired by ProMedica after 2015. Per the First Amendment to the Academic Affiliation Agreement, net patient service revenue generated by HCR shall be excluded from the annual support payment calculation. The amount of annual support payments will be reassessed every five years, starting in the academic year 2030.

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

As of December 31, 2019 and 2018, the carrying amount of the deferred payments is \$35,547,000 and \$36,888,000, respectively, and is included in intangible assets and other.

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

Note 26 - Subsequent Events

Management has evaluated subsequent events through April 15, 2020, the date the financial statements were issued.

Subsequent to year end, the System's investment portfolio has incurred significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

The large-scale COVID-19 pandemic has had adverse effects on patient volumes beginning in mid-March 2020 due to government mandates on elective procedures and will likely have an adverse impact future patient volumes, as well as staffing shortages and overall operations over an unknown period of time. While it is not yet possible to estimate the financial impact, the COVID-19 pandemic could have an adverse effect on the System's revenue, liquidity, and operating results. The System has taken steps to reduce expenses throughout the System and received funds from the Medicare accelerated payment program and received amounts related to the stimulus program outlined in the CARES Act.

Supplemental Information

Independent Auditor's Report on Supplemental Information

To the Board of Trustees
ProMedica Health System and Subsidiaries

We have audited the consolidated financial statements of ProMedica Health System and Subsidiaries as of and for the years ended December 31, 2019 and 2018 and have issued our report thereon dated April 15, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purpose of additional analysis rather than to present the financial position, results of operations, and cash flows of the Obligated Group entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

April 15, 2020

ProMedica Health System and Subsidiaries

Consolidating Balance Sheet - Obligated Group

December 31, 2019

(In Thousands)

	The Toledo Hospital	Defiance Hospital, Inc.	Bay Park Community Hospital	Emma L. Bixby Medical Center	Herrick Memorial Hospital, Inc.	HCR Holding Company	Fostoria Hospital Association	Memorial Hospital	Mercy Memorial Hospital Corporation	ProMedica Continuing Care Services Corp.	Eliminations	Total Obligated Group
Assets												
Current Assets												
Cash and cash equivalents	\$ 19,179	\$ 6,973	\$ 5,449	\$ 8,300	\$ 5,041	\$ 6,169	\$ 3,841	\$ 7,828	\$ 5,535	\$ 1,961	\$ -	\$ 70,276
Marketable securities	6,239	193	-	-	-	-	-	-	-	-	-	6,432
Accounts receivable - Net	159,110	8,505	10,060	11,103	3,383	2,328	4,718	7,706	15,703	6,782	-	229,398
Intercompany accounts receivable	88,286	647	807	4,156	317	1,046	384	753	3,663	97,370	(5,871)	191,558
Estimated third-party payor receivable	2,001	70	102	503	-	-	19	77	1,009	-	-	3,781
Supplies	11,658	808	1,175	1,587	436	-	801	1,101	1,809	12	-	19,387
Other current assets	4,749	157	120	883	679	19	426	411	133	223	-	7,800
Total current assets	291,222	17,353	17,713	26,532	9,856	9,562	10,189	17,876	27,852	106,348	(5,871)	528,632
Noncurrent Assets Limited as to Use or Restricted - Net of amounts required to meet current obligations												
Restricted funds	1,926	9	-	91	-	-	17	(1)	90	-	-	2,132
Internally designated for capital acquisition	74,820	99,724	14,728	93,676	38,553	43,847	42,919	48,556	107,650	8,645	-	573,118
Other segregated investments	122,893	-	4	2,859	-	-	-	3,250	-	-	-	129,006
Total noncurrent assets limited as to use or restricted	199,639	99,733	14,732	96,626	38,553	43,847	42,936	51,805	107,740	8,645	-	704,256
Property and Equipment - Net	893,704	33,597	40,310	103,859	6,594	3,042	17,539	42,313	66,685	546	-	1,208,189
Right-of-use Operating Lease Assets	10,148	97	933	904	339	-	62	234	1,392	210	-	14,319
Other Assets												
Goodwill	17,958	-	-	-	-	1,050,581	-	282	-	-	-	1,068,821
Intangible assets	-	-	-	-	-	127,845	-	240	1,100	-	-	129,185
Investments in affiliated companies	2,937	-	132	88	-	506,371	-	279	840	734	-	511,381
Other	-	-	-	-	-	-	75	482	-	-	-	557
Total other assets	20,895	-	132	88	-	1,684,797	75	1,283	1,940	734	-	1,709,944
Total assets	\$ 1,415,608	\$ 150,780	\$ 73,820	\$ 228,009	\$ 55,342	\$ 1,741,248	\$ 70,801	\$ 113,511	\$ 205,609	\$ 116,483	\$ (5,871)	\$ 4,165,340

ProMedica Health System and Subsidiaries

Consolidating Balance Sheet - Obligated Group (Continued)

December 31, 2019

(In Thousands)

	The Toledo Hospital	Defiance Hospital, Inc.	Bay Park Community Hospital	Emma L. Bixby Medical Center	Herrick Memorial Hospital, Inc.	HCR Holding Company	Fostoria Hospital Association	Memorial Hospital	Mercy Memorial Hospital Corporation	ProMedica Continuing Care Services Corp.	Eliminations	Total Obligated Group
Liabilities and Net Assets												
Current Liabilities												
Accounts payable and accrued expenses	\$ 56,337	\$ 2,729	\$ 2,970	\$ 9,941	\$ 475	\$ 780	\$ 1,002	\$ 3,071	\$ 4,359	\$ 1,204	\$ -	\$ 82,868
Intercompany accounts payable	114,935	2,692	3,081	8,580	1,989	11,574	1,754	2,975	8,469	96,949	(5,871)	247,127
Contractual current installments of long-term debt	9,293	1,216	1,689	482	83	-	58	-	1,945	8	-	14,774
Contingent current installments of long-term debt	318,741	15,026	24,867	9,436	13,090	2,349	10,668	-	29,099	2,231	-	425,507
Estimated third-party payor settlements	11,656	2,091	458	4,268	2,483	493	1,422	636	4,897	-	-	28,404
Current portion of lease liabilities - Financing	749	60	-	-	-	-	60	488	-	-	-	1,357
Current portion of lease liabilities - Operating	3,699	54	303	385	210	-	46	137	445	66	-	5,345
Accrued liabilities and other: Compensation and benefits	35,682	1,905	2,439	3,810	526	517	1,075	1,968	4,946	2,611	-	55,479
Other current liabilities	122	-	-	14	46	-	-	-	-	-	-	182
Total current liabilities	551,214	25,773	35,807	36,916	18,902	15,713	16,085	9,275	54,160	103,069	(5,871)	861,043
Long-term Debt - Less current installments	1,748,786	17,848	23,604	49,781	91	-	70	19,863	-	10	-	1,860,053
Lease Liabilities - Financing	198	-	-	-	-	-	-	4,208	-	-	-	4,406
Lease Liabilities - Operating	6,583	42	631	520	129	-	15	98	947	142	-	9,107
Other Liabilities												
Deferred compensation	4,066	-	-	-	-	-	-	-	-	-	-	4,066
Pension	314	-	-	-	-	-	-	-	-	-	-	314
Other	11,306	1	-	1,554	1,210	209	1,279	2,354	1,803	-	-	19,716
Total other liabilities	15,686	1	-	1,554	1,210	209	1,279	2,354	1,803	-	-	24,096
Total liabilities	2,322,467	43,664	60,042	88,771	20,332	15,922	17,449	35,798	56,910	103,221	(5,871)	2,758,705
Net Assets												
Without donor restrictions - Controlling interest	\$ (908,785)	\$ 107,106	\$ 13,778	\$ 139,148	\$ 35,010	\$ 1,725,326	\$ 53,338	\$ 77,711	\$ 148,607	\$ 13,263	\$ -	\$ 1,404,502
With donor restrictions	1,926	10	-	90	-	-	14	2	92	(1)	-	2,133
Total net assets	(906,859)	107,116	13,778	139,238	35,010	1,725,326	53,352	77,713	148,699	13,262	-	1,406,635
Total liabilities and net assets	\$ 1,415,608	\$ 150,780	\$ 73,820	\$ 228,009	\$ 55,342	\$ 1,741,248	\$ 70,801	\$ 113,511	\$ 205,609	\$ 116,483	\$ (5,871)	\$ 4,165,340

ProMedica Health System and Subsidiaries

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

Year Ended December 31, 2019

(In Thousands)

	The Toledo Hospital	Defiance Hospital, Inc.	Bay Park Community Hospital	Emma L. Bixby Medical Center	Herrick Memorial Hospital, Inc.	HCR Holding Company	Fostoria Hospital Association	Memorial Hospital	Mercy Memorial Hospital Corporation	ProMedica Continuing Care Services Corp.	Eliminations	Total Obligated Group
Unrestricted Revenue, Gains, and Other Support												
Net patient service revenue	\$ 1,084,892	\$ 68,470	\$ 83,871	\$ 92,825	\$ 24,334	\$ 13,581	\$ 34,810	\$ 66,788	\$ 128,456	\$ 32,789	\$ (19,500)	\$ 1,611,316
Other	19,279	520	549	2,032	175	31,413	2,793	1,400	4,718	60	(75)	62,864
Net assets released for use in operations	10,872	20	12	221	27	-	16	106	164	15	-	11,453
Total unrestricted revenue, gains, and other support	1,115,043	69,010	84,432	95,078	24,536	44,994	37,619	68,294	133,338	32,864	(19,575)	1,685,633
Expenses												
Salaries, wages, and employee benefits	366,694	21,390	28,870	32,671	7,681	9,737	10,643	20,904	59,556	27,806	(19,575)	566,377
Food and drugs	96,290	5,519	4,022	6,446	491	908	4,936	6,690	11,586	1,842	-	138,730
Contracted fees	94,583	6,665	7,200	11,243	4,867	1,290	4,231	8,035	17,296	700	-	156,110
Supplies	124,745	4,068	10,045	7,197	1,056	541	2,414	4,461	11,077	614	-	166,218
Insurance	5,510	392	542	497	271	3	192	333	1,469	396	-	9,605
Utilities	10,536	830	854	1,435	500	230	582	1,044	1,640	37	-	17,688
Other	279,675	14,889	21,192	20,941	7,403	2,742	8,699	15,879	29,619	1,461	-	402,500
Total expenses	978,033	53,753	72,725	80,430	22,269	15,451	31,697	57,346	132,243	32,856	(19,575)	1,457,228
Operating Income (Loss) before Depreciation, Amortization, and Impairment Expense	137,010	15,257	11,707	14,648	2,267	29,543	5,922	10,948	1,095	8	-	228,405
Depreciation, Amortization, and Impairment	70,330	4,079	4,533	2,775	1,539	6,300	2,033	5,266	6,681	123	-	103,659
Operating Income (Loss)	66,680	11,178	7,174	11,873	728	23,243	3,889	5,682	(5,586)	(115)	-	124,746
Other (Loss) Income												
Interest expense	(26,399)	(1,369)	(1,991)	(930)	(438)	(67,573)	(342)	(1,059)	(994)	(33)	-	(101,128)
Investment income	23,294	14,827	2,284	11,189	3,765	1,469	6,379	6,939	10,180	864	-	81,190
Other	899	-	169	(1,816)	(3,743)	-	-	18	461	50	-	(3,962)
Total other (loss) income - Net	(2,206)	13,458	462	8,443	(416)	(66,104)	6,037	5,898	9,647	881	-	(23,900)
Excess of Revenue Over (Under) Expenses before Unusual Items	64,474	24,636	7,636	20,316	312	(42,861)	9,926	11,580	4,061	766	-	100,846
Restructuring, Severance, and Acquisition Costs Expense	-	-	-	-	-	-	-	-	-	-	-	-
Excess of Revenue Over (Under) Expense	64,474	24,636	7,636	20,316	312	(42,861)	9,926	11,580	4,061	766	-	100,846
Change in Interest of Restricted Net Assets of Outside Trust	2,019	-	-	56	-	-	7	-	-	-	-	2,082

ProMedica Health System and Subsidiaries

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

Year Ended December 31, 2019

(In Thousands)

	The Toledo Hospital	Defiance Hospital, Inc.	Bay Park Community Hospital	Emma L. Bixby Medical Center	Herrick Memorial Hospital, Inc.	HCR Holding Company	Fostoria Hospital Association	Memorial Hospital	Mercy Memorial Hospital Corporation	ProMedica Continuing Care Services Corp.	Eliminations	Total Obligated Group
Capital Contribution (to) from Affiliate	\$ (2,418)	\$ (1)	\$ -	\$ (113)	\$ -	\$ -	\$ (4)	\$ -	\$ -	\$ -	\$ -	\$ (2,536)
Transfer (to) from Affiliate	(142,275)	(20,338)	(16,976)	25,296	(6,572)	673,290	(8,052)	5,353	43,804	(14,023)	1,078,758	1,618,265
Net Assets Released from Restrictions for Fixed Assets	5,667	75	1	475	441	-	-	131	-	-	-	6,790
Pension and Other Postretirement Adjustments	2,684	-	116	217	115	-	-	-	928	111	-	4,171
(Decrease) Increase in Net Assets without Donor Restrictions	<u>\$ (69,849)</u>	<u>\$ 4,372</u>	<u>\$ (9,223)</u>	<u>\$ 46,247</u>	<u>\$ (5,704)</u>	<u>\$ 630,429</u>	<u>\$ 1,877</u>	<u>\$ 17,064</u>	<u>\$ 48,793</u>	<u>\$ (13,146)</u>	<u>\$ 1,078,758</u>	<u>\$ 1,729,618</u>