SINGLE AUDIT REPORT

Premier Health Partners and Subsidiaries
Year Ended December 31, 2021
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Premier Health Partners and Subsidiaries

Single Audit Report

Year Ended December 31, 2021

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Premier Health Partners and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the consolidated results of its operation and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated March 11, 2022, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Ernst & Young LLP

March 11, 2022, except for our report on the
Schedule of Expenditures of Federal Awards,
for which the date is July 26, 2022

Premier Health Partners and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands)

	December 31	
	2021	**2020**
Assets		
Current assets:		
Cash and cash equivalents	**$ 280,080**	$ 297,717
Patient accounts receivable	**328,396**	272,313
Inventories	**23,057**	18,916
Prepaid expenses	**33,850**	25,955
Other current assets	**26,699**	23,705
Total current assets	**692,082**	638,606
Assets limited as to use: *(Note D)*		
Board-designated investments	**1,013,563**	1,018,304
Other investments	**148,109**	146,117
Total assets limited as to use	**1,161,672**	1,164,421
Property and equipment, net *(Note E)*	**909,610**	956,086
Right of use assets *(Note F)*	**41,281**	40,951
Intangible assets, net *(Note M)*	**44,066**	44,031
Other assets	**190,290**	173,007
Total assets	**$ 3,039,001**	$ 3,017,102

Premier Health Partners and Subsidiaries

Consolidated Balance Sheets (Continued)

(Dollars in Thousands)

	December 31	
	2021	**2020**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 101,189**	$ 107,963
Accrued expenses	**142,522**	120,956
Current portion of long-term debt *(Note H)*	**7,326**	6,148
Estimated payable to third-parties	**99,225**	59,838
Other current liabilities	**43,677**	44,671
Total current liabilities	**393,939**	339,576
Long-term debt, less current portion *(Note H)*	**953,153**	954,394
Operating lease liabilities	**34,211**	33,034
Pension obligation *(Note I)*	**25,202**	51,204
Reserve for professional liability *(Note G)*	**28,624**	37,851
Interest rate swap liability *(Note J)*	**55,938**	65,668
Other liabilities	**147,941**	250,452
Total liabilities	**1,639,008**	1,732,179
Net assets:		
Without donor restrictions	**1,311,026**	1,205,197
With donor restrictions	**88,967**	79,726
Total net assets	**1,399,993**	1,284,923
Total liabilities and net assets	**$ 3,039,001**	$ 3,017,102

See accompanying notes.

Premier Health Partners and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended December 31	
	2021	**2020**
Operating revenue		
Patient service revenue	**$ 2,052,005**	$ 1,768,422
Other operating revenue	**99,128**	173,402
Total operating revenue	**2,151,133**	1,941,824
Operating expenses		
Salaries and wages	**1,015,402**	936,978
Employee benefits	**197,842**	182,439
Supplies	**390,986**	358,109
Purchased services, insurance and other	**396,110**	330,649
Hospital franchise tax	**37,896**	24,881
Depreciation and amortization	**123,862**	130,226
Interest	**29,215**	31,994
Total operating expenses	**2,191,313**	1,995,276
Loss from operations before exit, disposal and other costs	**(40,180)**	(53,452)
Exit, disposal and other costs	**(1,927)**	(5,585)
Loss from operations	**(42,107)**	(59,037)
Non-operating gains, net *(Note K)*	**100,055**	73,795
Excess of revenue over expenses	**57,948**	14,758
Change in plan assets and benefit obligations of pension plan	**44,713**	59,826
Change in net assets with donor restrictions and other	**12,409**	17,047
Increase in net assets	**115,070**	91,631
Net assets at beginning of year	**1,284,923**	1,193,292
Net assets at end of year	**$ 1,399,993**	$ 1,284,923

See accompanying notes.

Premier Health Partners and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31	
	2021	**2020**
Operating activities		
Increase in net assets	**$ 115,070**	$ 91,631
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**123,862**	130,226
Change in the valuation of swap agreements	**(9,730)**	16,737
Change in plan assets and benefit obligations of pension plan	**(44,713)**	(59,826)
Change in unrealized losses/(gains) on assets limited as to use	**31,927**	(46,555)
(Gain)/losses on disposal of assets	**(360)**	586
Gain on extinguishment of debt	**–**	(541)
(Gains)/losses from alternative investments	**(63,229)**	(40,949)
Purchase of alternative investments	**(40,047)**	(14,180)
Distribution from alternative investments	**86,625**	42,133
Pension plan contribution	**(10,000)**	(26,918)
Centers for Medicare & Medicaid Services advance payments recoupment	**(61,584)**	–
Centers for Medicare & Medicaid Services advance payments	**–**	149,012
Net change in assets and liabilities:		
Accounts receivable	**(56,083)**	3,630
Assets limited as to use	**(12,527)**	(40,818)
Other assets	**(37,084)**	(12,781)
Accounts payable and other accruals	**18,716**	47,505
Pension plan liability	**28,711**	34,969
Other liabilities	**(15,832)**	22,230
Net cash provided by operating activities	**53,722**	296,091
Investing activities		
Proceeds from the sale of assets	**1,482**	1,369
Purchases of property and equipment	**(75,007)**	(45,924)
Investment in joint ventures and other	**(5,000)**	(22,199)
Net cash used in investing activities	**(78,525)**	(66,754)
Financing activities		
Proceeds from financing transaction	**4,325**	7,857
Proceeds from refinancing long-term debt	**–**	98,090
Debt issuance costs	**–**	(1,423)
Interest rate swap collateral	**4,440**	(13,450)
Extinguishment of long-term debt related to refinancing	**–**	(93,920)
Repayment of long-term debt and finance leases	**(6,039)**	(7,458)
Net cash provided by (used in) financing activities	**2,726**	(10,304)
(Decrease) increase in cash, cash equivalents and restricted cash	**(22,077)**	219,033
Cash, cash equivalents and restricted cash at beginning of year	**315,377**	96,344
Cash, cash equivalents and restricted cash at end of year	**$ 293,300**	$ 315,377

See accompanying notes.

A. Organization and Significant Accounting Policies

Organization

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

PHP owns and operates organizations that provide healthcare services and support to communities in Southwest Ohio. Some of these organizations listed below are no longer active and operating. The dates these organizations ceased operations or closed is noted accordingly.

- Miami Valley Hospital (MVH)
- Atrium Medical Center (AMC)
- Upper Valley Medical Center (UVMC)
- Fidelity Health Care (FHC) and its wholly owned subsidiary Premier Community Health (PCH)
- CompuNet Clinical Labs (CCL)
- Samaritan Health Partners (SHP) (ceased operations December 31, 2020)
- Samaritan Behavioral Health, Inc. (SBHI)
- Premier Health Holding Company (PHHC), which owns Premier Health Specialists, Inc. (PHS), MVHE, Inc., (and its wholly owned subsidiary Extended Care), Samaritan Family Care, Inc. (SFC), and Premier Health Urgent Care, Inc. (PHUC)
- UVMC Nursing Care, Inc. (UVNC)
- Upper Valley Professional Corporation (UVPC) and its wholly owned subsidiary UVPC Specialists, Inc. (UVPCSI)
- Good Samaritan Hospital (GSH) (closed in July 2018 and healthcare services moved to other PHP provider locations)

A. Organization and Significant Accounting Policies (continued)

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

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

Principles of Consolidation

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

Reclassification

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

Net Assets Without Donor Restrictions

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

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of those assets whose use has been restricted by donors. Some restrictions are temporary in nature, meaning those resources can only be used after a specified date, for a particular program or service, or to acquire buildings or equipment. Other restrictions require that PHP maintain resources in perpetuity. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the associated net assets are reclassified as net assets without

A. Organization and Significant Accounting Policies (continued)

donor restrictions and reported in the consolidated statements of operations and changes in net assets. Donor restricted net assets that have met their restriction and the income from donor restricted net assets are used primarily to support healthcare services and capital needs.

Use of Estimates

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

Claims and Contingencies

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

Cash and Cash Equivalents

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

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

	2021	2020
	(Dollars in Thousands)	
Cash and cash equivalents	**$ 280,080**	$ 297,717
Restricted cash included in other assets	**13,220**	17,660
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	**$ 293,300**	$ 315,377

A. Organization and Significant Accounting Policies (continued)

Patient Accounts Receivable and Patient Service Revenue

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

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

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

Inventories

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

Fair Value Measurements

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

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, and as noted above, ASC 820 defines a three-level fair value

A. Organization and Significant Accounting Policies (continued)

hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

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

Assets Limited as to Use

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

A. Organization and Significant Accounting Policies (continued)

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

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

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

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

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

A. Organization and Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at historical cost or, if donated, fair value at the date of receipt. Depreciation and amortization are calculated on a straight-line basis over the estimated asset lives. Depreciation taken on assets recorded as finance leases is determined over the shorter of the period of the lease term or the useful life of the underlying asset and is included as a component of accumulated depreciation and depreciation and amortization expense in the consolidated balance sheets and consolidated statements of operations and changes in net assets, respectively. Interest on construction-in-process is capitalized and amortized over the estimated lives of the related depreciable assets. Depreciation expense was $123.0 million and $128.9 million for the years ended December 31, 2021 and 2020, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

PHP evaluates the carrying value of long-lived assets, including property and equipment, and the related estimated remaining lives when events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. PHP may evaluate its business operations from time to time and determine that certain organization changes are required to meet the future strategic goals of PHP. Any resulting impairment losses or additional required depreciation due to shortened useful lives are recorded in the accompanying consolidated statements of operations and changes in net assets if those long-term assets are related to continuing operations. There were no impairments identified for years ended December 31, 2021 or 2020.

Leases

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

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

A. Organization and Significant Accounting Policies (continued)

asset calculations and related liabilities include those options when it is reasonably certain PHP will exercise an option. PHP has elected the practical expedient to not separate lease and non-lease components for all asset classes.

Exit, Disposal and Other Costs

Management continually evaluates its business and has implemented cost savings initiatives and reorganization efforts to react to changes affecting the business to better align its operations to its strategic plan. For the years ended December 31, 2021 and 2020, PHP recorded charges of $149.4 thousand and $4.0 million, respectively, resulting from the closure of a hospital campus. PHP also implemented other cost savings initiatives during 2021 and 2020 that resulted in exit, disposal and other costs of $1.8 million and $1.6 million, respectively, that were not related to the hospital campus closure. These amounts are reflected in exit, disposal and other costs in the consolidated statements of operations and changes in net assets.

Intangible Assets

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

Derivative Financial Instruments

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

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

A. Organization and Significant Accounting Policies (continued)

Pension

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

Hospital Franchise Tax

The Ohio Hospital Franchise Fee program requires Ohio hospitals to pay a provider tax to the state in order to draw down federal Medicaid matching funds. For the years ended December 31, 2021 and 2020, PHP recorded as expense $37.9 million and $24.9 million, respectively, for the hospital franchise tax.

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

A. Organization and Significant Accounting Policies (continued)

Functional Expenses

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

	2021			**2020**		
	(Dollars in Thousands)					
	Healthcare Services	**Management and General**	**Total**	**Healthcare Services**	**Management and General**	**Total**
Salaries and wages	**$ 907,950**	**$ 107,452**	**$ 1,015,402**	$ 825,878	$ 111,100	$ 936,978
Employee benefits	**171,563**	**26,279**	**197,842**	152,577	29,862	182,439
Supplies	**390,056**	**930**	**390,986**	357,218	891	358,109
Purchased services, insurance and other	**296,459**	**99,651**	**396,110**	250,930	79,719	330,649
Hospital franchise tax	**37,896**	**–**	**37,896**	24,881	–	24,881
Depreciation and amortization	**121,026**	**2,836**	**123,862**	127,402	2,824	130,226
Interest	**29,215**	**–**	**29,215**	31,994	–	31,994
Total operating expenses	**$ 1,954,165**	**$ 237,148**	**$ 2,191,313**	$ 1,770,880	$ 224,396	$ 1,995,276

Excess of Revenue Over Expenses

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

A. Organization and Significant Accounting Policies (continued)

Income Taxes

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

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

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

Impact of COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of Coronavirus Disease 2019 (COVID-19), a disease caused by a novel strain of coronavirus, a global pandemic. On March 9, 2020, the Governor of Ohio declared a state of emergency related to the COVID-19 outbreak, followed by, among other administrative or executive orders, an order of the Ohio Director of Health on March 17, 2020, canceling all nonessential surgeries and procedures in Ohio for the purpose of preserving personal protective equipment (PPE) and critical hospital capacity for the anticipated surge of COVID-19 patients. Such restrictions had a significant unfavorable impact on PHP's patient volumes and operations. The Governor of Ohio lifted the restrictions on nonessential surgeries and procedures effective May 1, 2020, however volumes in some service areas continued to lag through December 31, 2020. During 2021, PHP's overall volumes continued to lag from budgeted levels, however, the COVID-19 surge was higher than anticipated. Treatment of COVID-19 patients had an unfavorable impact on staffing and labor and supply costs.

A. Organization and Significant Accounting Policies (continued)

Federal and state governments enacted legislation and administrative actions to assist health care facilities in providing care to patients during the pandemic. On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was enacted. Among other provisions, the CARES Act authorized relief funding to health care providers through the Public Health and Social Services Emergency Fund (Provider Relief Fund) and expanded the Medicare Accelerated and Advance Payment Program through which eligible providers may request accelerated Medicare payments of up to 100% of historical Medicare payments for a six-month period, to be repaid through withholdings against future Medicare fee-for-services payments. During the years ended December 31, 2021 and 2020, PHP received distributions and payments from the Provider Relief Fund and Medicare Accelerated and Advance Payment Program, along with other state and local programs. The CARES Act also provides for the deferred payment of the employer portion of Social Security payroll taxes incurred between March 27, 2020 and December 31, 2020.

The ongoing extent of the COVID-19 pandemic's impact on PHP's operations, cash flows and financial position will be driven by many factors, most of which are beyond PHP's control or ability to forecast. Such factors include, but are not limited to, the impact on labor and other associated costs, the scope and duration of social distancing and stay-at-home orders, ongoing business closures and restrictions, increases in uninsured or underinsured patients as a result of high levels of unemployment, and supply chain disruptions, including shortages, delays, and significant price increases for medical supplies. These factors resulted in higher costs for PHP during 2021, specifically in labor and supply costs. Because of these factors and the changing scale and severity of the pandemic, its ultimate impact on PHP's operations is unknown.

CARES Act Provider Relief and Other Funding

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

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

A. Organization and Significant Accounting Policies (continued)

Since the inception of the pandemic, Premier has received $115.3 million of Provider Relief Fund distributions from phases 1-4 as well as other state and local funds. During years ended December 31, 2021 and 2020, Premier recognized $12.1 million and $95.2 million, respectively, as other operating revenue in the consolidated statements of operations and changes in net assets. Issuance of new guidance and/or amended interpretations of existing guidance may result in changes to management's estimate of government stimulus income and, in certain cases, may result in delaying recognition of funds received in income until clearer guidance is issued or derecognition of amounts previously recognized.

During 2021 and 2020, PHP recognized $13.1 million ($12.5 million from current year funding and $0.6 million from prior year funding) and $3.6 million, respectively, of Federal Emergency Management Agency funds as other operating revenue in the consolidated statements of operations and changes in net assets. In addition, PHP recognized $7.4 million of employee retention credits as other operating revenue in the consolidated statements of operations and changes in net assets for the year ended December 31, 2020.

Medicare Accelerated and Advance Payments

In April 2020, PHP received Medicare accelerated payments of $149.0 million. Payments under the Medicare Accelerated and Advance Payment Program represent consideration that must be repaid. Effective October 1, 2020, providers were required to repay Medicare accelerated payments in accordance with the Centers for Medicare and Medicaid Services (CMS) regulations. For the first eleven months of the repayment term, CMS automatically recouped 25.0% of Medicare payments otherwise owed to providers. After the first eleven months of the repayment term, CMS increased the recoupment amount to 50.0% of Medicare payments otherwise owed to providers for a six-month period. If a balance remains after the six-month period, providers will receive a letter for full repayment. If full payment is not received within thirty days of the letter's issuance, the balance will accrue interest at an annual percentage rate of 4.0% assessed for each thirty-day period during which the balance remains unpaid. During 2021, CMS recouped $61.6 million of the accelerated payments, leaving an outstanding balance of $87.4 million. At December 31, 2021 and 2020, the current portion of the outstanding balance of $87.4 million and $55.1 million, respectively, was recorded as estimated payable to third-parties on PHP's consolidated balance sheets. At December 31, 2020, PHP reported the long-term outstanding balance of $93.9 million in other liabilities.

Deferred Employer Portion of Social Security Taxes

At December 31, 2021 and 2020, PHP had deferred payments of $33.0 million related to its portion of Social Security taxes as provided for by the CARES Act. The $33.0 million is recorded in accrued expenses on PHP's consolidated balance sheets at December 31, 2021. At December 31, 2020, $16.5 million of the $33.0 million was recorded in other liabilities to accurately present the long-term portion of the deferred amount with the remaining $16.5 million balance reported in accrued expenses on the consolidated balance sheets.

B. Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which PHP expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, PHP bills the patients and third-party payors several days after the services are performed and/or the 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 PHP. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. PHP believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospital receiving inpatient acute care services. PHP measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and PHP does not believe it is required to provide additional goods or services to the patient.

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

PHP determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with PHP's policy, and/or implicit price concessions provided to uninsured patients. PHP determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. PHP determines its estimate of implicit price concessions based on its historical collection experience with each class of patients.

B. Patient Service Revenue (continued)

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

- Medicare: Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

- Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.

- Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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

In addition, the contracts PHP has with commercial payors also provide for retroactive audit and review of claims. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable 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 PHP's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements with contracted payors, including Medicare and Medicaid, are adjusted in future periods as new information becomes available, or as years are settled or are no longer subject to such audits, reviews, and investigations. The effect of these settlements was recognition of patient service revenue of $1.0 million and $2.0 million in 2021 and 2020, respectively.

B. Patient Service Revenue (continued)

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. PHP also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. PHP estimates the transaction price for patients with deductibles and coinsurance and for those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any applicable contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2021 and 2020, the changes to the estimates of implicit price concessions for performance obligations satisfied in prior years were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense as a deduction within patient service revenue in the consolidated statements of operation and changes in net assets. Bad debt expense for the years ended December 31, 2021 and 2020, was not significant.

Consistent with PHP's mission, care is provided to patients regardless of their ability to pay. Therefore, PHP has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts PHP expects to collect based on its collection history with those patients. Patients who meet PHP's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The estimated cost incurred by PHP to provide these services to patients, based on a cost to charge ratio, who were unable to pay was $31.8 million and $33.5 million for the years ended December 31, 2021 and 2020, respectively.

PHP recorded charity care subsidies of $15.3 million and $14.8 million for the years ended December 31, 2021 and 2020, respectively, which were recognized as a component of patient service revenue in the consolidated statements of operations and changes in net assets. Charity care subsidies comprise the Ohio Hospital Care Assurance program and the Montgomery County Human Services Levy.

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

	2021	2020
	(Dollars in Thousands)	
Medicare	**$ 717,245**	$ 620,633
Medicaid	**260,090**	241,662
Commercial	**1,045,168**	888,326
Self-pay	**29,502**	17,801
	$ 2,052,005	$ 1,768,422

B. Patient Service Revenue (continued)

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

C. Financial Assets and Liquidity

For the years ended December 31, 2021 and 2020, PHP had a working capital surplus of $298.1 million and $205.1 million (excluding the impact of the Medicare Accelerated and Advance Payments), respectively.

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

	2021	2020
	(Dollars in Thousands)	
Cash and cash equivalents	**$ 280,080**	$ 297,717
Patient accounts receivable	**328,396**	272,313
Assets limited as to use:		
Board-designated investments	**911,505**	933,925
Other investments	**37,561**	33,236
	$ 1,557,542	$ 1,537,191

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

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

The carrying amount reported in the consolidated balance sheets for current assets (other than investments, which are separately disclosed) and current liabilities are reasonable estimates of fair value due to their short-term nature and therefore are not disclosed in the accompanying table. Assets and liabilities measured at fair value on a recurring basis as of December 31, 2021, are as follows:

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

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

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2020, are as follows:

		Fair Value Measurements[a]		
	Total	**Level 1**	**Level 2**	**Level 3**
		(Dollars in Thousands)		
Assets				
Cash and cash equivalents	$ 297,717	$ 297,717	$ –	$ –
Assets limited as to use:				–
Short-term investments	50,261	50,261	–	–
Equity securities	47,392	47,392	–	–
Mutual funds:				
Domestic large cap	17,644	17,644	–	–
Domestic small cap	429	429	–	–
International	56,028	56,028	–	–
Fixed income	156,547	156,547	–	–
Corporate and other bonds:				
Corporate and other bonds	76,806	–	76,806	–
Asset-backed securities	21,600	–	21,600	–
U.S. government securities:				
U.S. government securities	35,290	–	35,290	–
U.S. government agencies	28,785	–	28,785	–
Subtotal fair value measurements	490,782	328,301	162,481	–
Alternative investments at NAV:				
Limited liability companies	144,254			
Hedge funds	37,214			
Private equity[b]	80,701			
Interest in financially interrelated entities[c]	228,066			
CTFs measured at NAV[d]	183,404			
Total assets limited as to use	1,164,421			
Total assets	$ 1,462,138			
Liabilities				
Interest rate swap liability	$ 65,668	$ –	$ –	$ 65,668

[a] There were no securities transferred between Level 1, 2 or 3 during 2021 or 2020.

[b] PHP has committed capital yet to be called of $48.6 million and $42.3 million at December 31, 2021 and 2020, respectively, to private equity funds over the next one to three years.

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

(c) Interest in financially interrelated entities are valued in accordance with ASC 820 and are included with the overall investment portfolio of PHP. Asset allocation specific to these entities is 59% marketable equity securities, 11% marketable fixed-income securities, 27% alternative investments and 3% cash at December 31, 2021, and 75% marketable equity securities, 1% marketable fixed-income securities, 20% alternative investments and 4% cash at December 31, 2020.

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

PHP maintains diversification in its investment programs by allocating assets to various asset classes and market segments and retaining multiple professional investment firms with different philosophies, styles, and approaches. Accordingly, based on this diversification, management does not believe there are any material concentrations of credit risk at December 31, 2021 and 2020. Funds restricted by donors for charitable purposes, included in other investments on the consolidated balance sheets, were $91.4 million and $83.2 million at December 31, 2021 and 2020, respectively.

Cash and Cash Equivalents and Assets Limited as to Use

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

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

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

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

Following is the summary of the inputs and valuation techniques as of December 31, 2021 and 2020, used for valuing Level 2 securities in the portfolio:

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

The CTFs are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of fair value of the CTFs at December 31, 2021 and 2020, based on the fact that the CTFs are audited and accounted for at fair value by the administrators of the respective CTFs. There are no restrictions on the ability of PHP to redeem any of the CTFs at December 31, 2021 or 2020.

Some alternative investments are subject to lock-up provisions that are generally imposed upon initial investment in the fund. Investments that have lock-up provisions longer than one year as of December 31, 2021 and 2020, were $109.6 million and $89.9 million, respectively. The remaining alternative investments are not subject to lock-up restrictions.

Interest Rate Swap Agreements

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

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

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

Interest Rate Swap Agreement	Receiving Floating/ Fixed Rate		Paying Fixed/ Floating Rate		Discount Rate
	2021	2020	2021	2020	
May 2011	**67% of LIBOR**	67% of LIBOR	**3.260%**	3.260%	Avg. of LIBOR curve
May 2011	**67% of LIBOR**	67% of LIBOR	**3.225%**	3.225%	Avg. of LIBOR curve
May 2011	**67% of LIBOR(1)**	67% of LIBOR(1)	**SIFMA**	SIFMA	Avg. of LIBOR curve
May 2011	**67% of LIBOR(2)**	67% of LIBOR(2)	**SIFMA**	SIFMA	Avg. of LIBOR curve
August 2016	**5.00%**	5.00%	**LIBOR(3)**	LIBOR(3)	Avg. of LIBOR curve
September 2019	**70% of LIBOR**	70% of LIBOR	**3.711%**	3.711%	Avg. of LIBOR curve
September 2019	**70% of LIBOR**	70% of LIBOR	**3.708%**	3.708%	Avg. of LIBOR curve

(1) Receiving rate is 67% of LIBOR plus a spread of 0.6395%.

(2) Receiving rate is 67% of LIBOR plus a spread of 0.6045%.

(3) Paying rate is 70% of LIBOR plus a spread of 0.78%.

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

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

Level 3 Liabilities

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

	2021	2020
	(Dollars in Thousands)	
Balance at January 1	**$ (65,668)**	$ (48,931)
Total unrealized gains/(losses) and adjustments included in net income:		
Mark-to-market adjustment	**11,192**	(17,267)
Credit valuation adjustment	**(1,462)**	530
Balance at December 31	**$ (55,938)**	$ (65,668)

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

E. Property and Equipment, Net

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

	Average Life	2021	2020
		(Dollars in Thousands)	
Land		**$ 76,073**	$ 75,049
Land improvements	8–10 years	**46,888**	46,216
Buildings	25–40 years	**1,422,189**	1,408,136
Equipment	3–7 years	**912,701**	942,028
Right-of-use assets – finance leases		**75,359**	70,706
Construction-in-process		**29,109**	11,415
		2,562,319	2,553,550
Less allowances for depreciation		**1,652,709**	1,597,464
Property and equipment, net		**$ 909,610**	$ 956,086

PHP had construction commitments of $42.0 million and $31.4 million outstanding recorded in other current liabilities on the consolidated balance sheets at December 31, 2021 and 2020, respectively.

F. Leases

PHP has operating and finance leases for real estate and certain equipment. The leases have remaining lease terms of one year to sixteen years, some of which include options to extend the leases for up to five years, and some of which include the options to terminate the leases within one year. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets. At December 31, 2021 and 2020, PHP had ROU assets of $41.3 million and $41.0 million, respectively and lease liabilities for operating leases totaling approximately $42.1 million and $41.5 million, respectively, on the consolidated balance sheets. PHP had ROU assets for finance leases totaling approximately $46.8 million (net of $28.6 million of accumulated depreciation) and $49.0 million (net of $21.7 million of accumulated depreciation) as of December 31, 2021 and 2020, respectively. PHP has lease liabilities for finance leases totaling approximately $59.1 million and $58.3 million as of December 31, 2021 and 2020, respectively.

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

	Classification	**2021**	**2020**
		(Dollars in Thousands)	
Operating lease expense	Purchased services, insurance and other	**$ 8,472**	$ 10,557
Finance lease amortization	Depreciation and amortization	**6,769**	6,947
Finance lease interest	Interest	**2,210**	2,288
Total lease cost		**$ 17,451**	$ 19,792

Supplemental cash flow information for the years ended December 31:

	2021	**2020**
	(Dollars in Thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 8,171**	$ 9,908
Operating cash flows from finance leases	**2,210**	2,288
Financing cash flows from finance leases	**5,238**	5,981
Total	**$ 15,619**	$ 18,177

F. Leases (continued)

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

	2021	2020
	(Dollars in Thousands)	
Operating leases	**$ 5,377**	$ 2,637
Finance leases	**6,547**	10,344
Total	**$ 11,924**	$ 12,981

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

	December 31, 2021	
	Operating	Finance
	(Dollars in Thousands)	
2022	**$ 8,043**	**$ 8,516**
2023	**7,027**	**7,247**
2024	**6,291**	**7,019**
2025	**5,663**	**7,017**
2026	**4,977**	**6,987**
Thereafter	**13,135**	**41,717**
Total lease payments	**45,136**	**78,503**
Less imputed interest	**3,042**	**19,359**
Total	**$ 42,094**	**$ 59,144**

	December 31,	
	2021	2020
Weighted Average Remaining Lease Term (Years)		
Operating leases	**7**	8
Finance leases	**10**	11
Weighted Average Discount Rates		
Operating leases	**2.4%**	2.3%
Finance leases	**3.8%**	3.9%

G. Reserve for Professional Liability

PHP and most of its subsidiaries maintain professional liability coverage through Premier Health International Insurance Limited (PHIIL). The Premier Health physician companies (MVHE, SFC, PHS, UVPC and UVPCSI) are also covered by PHIIL for all liability claims, except for professional liability, which is obtained from a commercial carrier. PHIIL provides professional liability (PL), general liability (GL), directors and officers, employment insurance and cyber coverage to the organization and its subsidiaries. The liability represents the estimated ultimate cost of all asserted and unasserted claims incurred through the consolidated balance sheet dates. The reserve for unpaid losses and loss adjustment expenses is estimated using individual case-based valuations, statistical analyses, and the expertise of an independent actuary. The reserve is undiscounted and based on management's best estimate, which is subject to change. The professional liability, general liability, directors and officers, employment insurance and cyber coverage accrual of $28.6 million and $37.9 million at December 31, 2021 and 2020, respectively, is included in the reserve for professional liability in the consolidated balance sheets. PHIIL has excess insurance through commercial carriers in the amount of $40.0 million for claims in excess of the self-insured retention: $10.0 million per claims made (PL), $5.0 million per occurrence (GL), and $28.5 million combined aggregate for PL and GL. The excess policy also provides coverage for underlying policies not insured through PHIIL, such as auto and helipad.

PHP recorded a decrease in insurance expense of approximately $12.1 million and $6.0 million for the years ended December 31, 2021 and 2020, respectively, related to changes in actuarial estimates reflecting lower claim activity, closed claims, tort reform and other environmental factors, and improved claim resolution history. Insurance expense is reported in purchased services, insurance and other in the consolidated statements of operations and changes in net assets.

H. Long-Term Debt

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

	December 31,	
	2021	**2020**
	(Dollars in Thousands)	
Bonds		
City of Middletown, Ohio, Fixed Rate Revenue Bonds – 2016 Series A, final maturity in 2045, fixed interest rate was 5.00% (net of unamortized issue cost of $310 and $323 in 2021 and 2020, respectively)	**$ 82,630**	$ 82,617
County of Montgomery, Ohio, Fixed Rate Revenue Bonds – 2016 Series G, final maturity in 2046, fixed interest rate was 3.09% (net of unamortized issue cost of $1,308 and $1,570 in 2021 and 2020, respectively)	**298,692**	298,430
County of Montgomery, Ohio, Fixed Rate Revenue Bonds – 2019 Series A, final maturity in 2045, fixed interest rate was 4.43% (net of unamortized premium of $40,335 and $44,295 in 2021 and 2020, respectively, and unamortized issue cost of $2,680 and $2,866 in 2021 and 2020, respectively)	**325,859**	329,634
County of Montgomery, Ohio, Variable Rate Revenue Bonds – 2019 Series B, final maturity in 2045, average interest rate was 0.05% and 0.55% in 2021 and 2020, respectively (net of unamortized issue cost of $265 and $276 in 2021 and 2020, respectively)	**42,235**	42,224
County of Montgomery, Ohio, Variable Rate Revenue Bonds – 2019 Series C, final maturity in 2045, average interest rate was 0.02% and 0.45% in 2021 and 2020, respectively (net of unamortized issue cost of $265 and $276 in 2021 and 2020, respectively)	**42,235**	42,224
State of Ohio, Fixed Rate Revenue Bonds – 2020 Series, final maturity in 2041, fixed interest rate was 4.45% (net of unamortized premium of $11,306 and $12,318 in 2021 and 2020, respectively, and unamortized issue cost of $1,306 and $1,397 in 2021 and 2020, respectively)	**95,500**	96,421
Total bonds, including current portion	**887,151**	891,550

H. Long-Term Debt (continued)

	December 31, 2021	December 31, 2020
	(Dollars in Thousands)	
Notes payable		
Various notes payable, fixed interest rates ranging from 0% to 1.79%, including current portion	**$ 14,185**	$ 10,661
Finance lease obligations		
Total finance lease obligations, including current portion	**59,143**	58,331
Less current portion of debt and finance leases		
Total current portion of debt and finance leases	**7,326**	6,148
Total long-term debt	**$ 953,153**	$ 954,394

Maturities of long-term bonds for the five years succeeding December 31, 2021, and thereafter are as follows *(dollars in thousands)*:

2022	$ –
2023	3,425
2024	11,750
2025	12,280
2026	263,355
Thereafter	550,835
Minimum payments before premiums and issue costs	841,645
Premiums	51,640
Issue costs	(6,134)
Minimum payments on bonds	$ 887,151

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

H. Long-Term Debt (continued)

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

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

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

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

Bond agreements and letters of credit include certain restrictive covenants, which include among other things, minimum requirements for leverage ratio, cash, and revenues available for debt service. At December 31, 2021 and 2020, PHPOG was in compliance with its financial debt covenants.

For the years ended December 31, 2021 and 2020, net interest paid on bonds was $32.4 million and $28.2 million, respectively. For the years ended December 31, 2021 and 2020, there was no capitalized interest.

I. Pension Plan

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

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

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

I. Pension Plan (continued)

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

	2021	2020
	(Dollars in Thousands)	
Accumulated benefit obligation	**$ 880,612**	$ 893,135
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 898,085**	$ 813,609
Service cost	**22,128**	21,800
Interest cost	**17,251**	23,156
Actuarial (gain)/loss	**(16,044)**	70,395
Benefits paid	**(35,270)**	(30,875)
Projected benefit obligation at end of year	**886,150**	898,085
Change in plan assets		
Fair value of plan assets at beginning of year	**846,881**	710,630
Actual return on plan assets	**39,337**	140,208
Contributions	**10,000**	26,918
Benefits paid	**(35,270)**	(30,875)
Fair value of plan assets at end of year	**860,948**	846,881
Funded status and net pension liability	**$ (25,202)**	$ (51,204)

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

	2021	2020
	(Dollars in Thousands)	
Net prior service credit	**$ 16,957**	$ 20,166
Net actuarial loss	**(176,535)**	(224,457)
	$ (159,578)	$ (204,291)

I. Pension Plan (continued)

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

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

	2021	2020
	(Dollars in Thousands)	
Net actuarial gain	**$ 10,264**	$ 26,554
Amortization of actuarial loss	**37,658**	36,481
Amortization of unrecognized prior service credit	**(3,209)**	(3,209)
Increase in net assets and benefit obligations of pension plan	**$ 44,713**	$ 59,826

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

	2021	2020
	(Dollars in Thousands)	
Service cost	**$ 22,128**	$ 21,800
Interest cost	**17,251**	23,157
Expected return on assets	**(45,117)**	(43,260)
Amortization of unrecognized prior service credit	**(3,209)**	(3,209)
Amortization of actuarial loss	**37,658**	36,481
Net pension expense	**$ 28,711**	$ 34,969

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

The change in the funded status between December 31, 2021 and 2020 was primarily the result of the $10.0 million contribution, favorable market returns on plan assets and movement of discount rates.

I. Pension Plan (continued)

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

	2021	2020
Discount rate	**2.95%**	2.64%
Average salary increase rate	**3.98**	3.97
Interest credit rate	**4.01**	4.01

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

	2021	2020
Discount rate	**2.64%**	3.31%
Interest cost discount rate on benefit obligations	**1.95**	2.89
Service cost discount rate	**2.79**	3.41
Interest cost discount rate on service cost	**2.09**	2.99
Long-term rate of return	**6.25**	6.50
Average salary increase rate	**3.97**	3.97
Interest credit rate	**4.01**	4.01

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

Projected benefit payments for the ten years succeeding December 31, 2021, are as follows:

	PHP Plan
2022	$ 39,057
2023	47,266
2024	48,407
2025	50,132
2026	52,358
2027–2031	269,293
	$ 506,513

I. Pension Plan (continued)

PHP expects to make a $10.0 million contribution to its pension plan in 2022.

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

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

I. Pension Plan (continued)

The fair values of the PHP Plan's assets at December 31, 2020, by asset category, are as follows:

		Fair Value Measurements[a]		
Asset Category	**Total**	**Level 1**	**Level 2**	**Level 3**
		(Dollars in Thousands)		
Short-term investments	$ 31,721	$ 31,721	$ –	$ –
Mutual funds:				
Domestic small cap	31,551	31,551	–	–
International	54,057	54,057	–	–
Corporate and other bonds:				
Corporate and other bonds	238,017	–	238,017	–
Asset-backed securities	148	–	148	–
U.S. government securities:				
U.S. government securities	197,877	–	197,877	–
Subtotal fair value measurements	553,371	117,329	436,042	–
Alternative investments measured at NAV[b]:				
Limited liability companies	120,063			
Hedge funds	27,375			
CTFs measured at NAV[b]	146,072			
Total PHP Plan assets	$ 846,881			

[a] There were no securities transferred between Level 1, 2 or 3 during 2021 or 2020.

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

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

I. Pension Plan (continued)

Following is the summary of the inputs and valuation techniques as of December 31, 2021 and 2020, used for valuing Level 2 securities in the portfolio:

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

The CTFs are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of the fair value of the CTFs at December 31, 2021 and 2020, based on the fact the CTFs are audited and accounted for at fair value by the administrators of the respective CTFs. There are no restrictions on the ability of PHP to redeem any of the CTFs at December 31, 2021 or 2020.

Alternative investments, which consist of hedge funds and limited liability companies, are not necessarily readily marketable and may include short sales on securities and trading in future contracts, options, foreign currency contracts, other derivative instruments, and private equity investments. However, management has determined that the NAV is an appropriate estimate of the fair value of these investments at December 31, 2021 and 2020, based on the fact that the alternative investments are audited and accounted for at fair value by the administrators of the respective alternative investments. Alternative investments can be divested only at specified times in accordance with the terms of the partnership agreements. Hedge funds and limited liability companies' redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution while the underlying investments are liquidated.

PHP's objective for the pension plan is to provide the payment of all future participant benefits. To meet this objective, the plan assets are invested in a manner that considers asset and liability movements and prudent efforts are made to exceed growth in liabilities. The PHP Plan is actively invested to achieve growth of capital and capital preservation. PHP maintains diversification in its plan assets by allocating assets to various asset classes and market segments and retaining multiple professional investment firms with different philosophies, styles, and approaches. Consideration is given to variables such as productivity, inflation, global competitiveness, and market risk. PHP's objective for the PHP Plan is to be in the range of 35% to 68% invested in return-seeking assets and 32% to 65% invested in liability-driven investments. Within those ranges, the Plan's target allocation for December 31, 2021, by asset category, is 50% return-seeking assets and 50% liability-driven investments. Accordingly, based on this diversification, management does not believe there are any concentrations of credit risk at the measurement date.

For the years ended December 31, 2021 and 2020, PHP recognized costs for its defined contribution plans of $14.4 million and $13.1 million, respectively.

J. Interest Rate Swaps

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

Interest Rate Swap Agreement	Transaction Type	Termination Date	Notional Amount 2021	Notional Amount 2020	Valuation Amount 2021	Valuation Amount 2020
May 2011	Fixed Pay	2045	**$ 42.5**	$ 42.5	**$ (17.3)**	$ (20.9)
May 2011	Fixed Pay	2045	**42.5**	42.5	**(17.0)**	(20.4)
May 2011	Basis Swap	2037	**50.0**	50.0	**1.5**	2.8
May 2011	Basis Swap	2037	**50.0**	50.0	**1.2**	2.6
August 2016	Total Return	2026	**82.9**	82.9	**0.5**	0.5
September 2019	Fixed Pay	2045	**41.5**	41.5	**(12.4)**	(15.3)
September 2019	Fixed Pay	2045	**41.5**	41.5	**(12.4)**	(15.0)
Total liability					**$ (55.9)**	$ (65.7)

PHP's interest rate swap agreements include certain collateralization requirements based on the market value of these transactions. The amount required for collateral is determined daily based on the current market value of the interest rate swap agreements. PHP has posted collateral with a designated custodian of $13.2 million at December 31, 2021 ($17.7 million at December 31, 2020) commensurate with the valuation of the interest rate swap agreements. All collateral posted is in the form of cash and cash equivalents and is included in other assets on the consolidated balance sheets, restricted for interest rate swap agreements collateral requirements. Interest earned while collateralized funds are held by the custodian is shown in non-operating gains, net on the consolidated statements of operations and changes in net assets.

K. Non-operating Gains, Net

Non-operating gains, net are as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
	(Dollars in Thousands)	
Interest income, net of investment fees	**$ 12,342**	$ 14,008
Realized gains on assets limited as to use	**124,097**	54,797
Change in unrealized (losses)/gains on assets limited as to use	**(31,927)**	46,555
Unrealized gains/(losses) on interest rate swaps	**9,730**	(16,737)
Other losses	**(14,187)**	(24,828)
Non-operating gains, net	**$ 100,055**	$ 73,795

L. Concentration of Credit Risk

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

	2021	2020
Medicare	**24%**	29%
Medicaid	**10**	10
Anthem	**22**	19
United HealthCare	**11**	9
Other third-party payors	**24**	24
Patients' responsibility	**9**	9
Total	**100%**	100%

M. Intangible Assets, Net

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

	2021	2020
	(Dollars in Thousands)	
Goodwill balance, January 1,	**$ 43,706**	$ 43,706
Goodwill acquired	**249**	–
Goodwill balance, December 31,	**43,955**	43,706
Intangible assets, December 31,	**1,560**	3,658
Intangible assets - accumulated amortization	**(1,449)**	(3,333)
Net intangible assets	**111**	325
Total goodwill and intangible assets, December 31,	**$ 44,066**	$ 44,031

Amortization expense reported in the consolidated statements of operations and changes in net assets for the years ended December 31, 2021 and 2020, was $0.9 million and $1.3 million, respectively.

N. Subsequent Events

PHP has evaluated subsequent events through March 11, 2022, which is the date the consolidated financial statements were issued and made available. No recognized or unrecognized subsequent events were identified for recognition or disclosure in the consolidated financial statements.

O. Cost of Community Benefits (Unaudited)

Cost of Community Benefit	2021 PHP	PHP % of Operating Expense	2020 PHP	PHP % of Operating Expense
		(Dollars in Thousands)		
Charity care and means-tested government programs				
Charity care at cost	**$ 16,578**		$ 18,757	
Unreimbursed Medicaid	**158,162**		123,582	
Unreimbursed costs – other means-tested government programs	**7,024**		7,332	
Total charity care and means-tested government programs	**181,764**	**8.3%**	149,671	7.5%
Other benefits				
Community health improvement and community benefit operations	**3,589**		2,713	
Subsidized health services	**34,256**		29,844	
Cash and in-kind contributions to community groups	**6,395**		13,363	
Total other benefits	**44,240**	**2.0%**	45,920	2.3%
Total quantifiable benefits	**226,004**	**10.3%**	195,591	9.8%
Community building activities				
Physical improvements	**4**		325	
Total community building activities	**4**	**0.0%**	325	0.0%
Total loss on Medicare services	**173,414**	**7.9%**	159,795	8.0%
Total community benefits	**$ 399,422**	**18.2%**	$ 355,711	17.8%

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

Supplementary Information

Premier Health Partners and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Identifying Number	Federal Expenditures
Research and development cluster:			
U.S. Department of Health and Human Services:			
Pass-through:			
The University of Cincinnati			
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	5U01NS095869-02	$ 1,200
The Ohio State University Research Foundation			
Cardiovascular Diseases Research	93.837	U24HL140168	5,519
Total Research and Development Cluster			6,719
U.S. Department of Health and Human Services			
Pass-through:			
Montgomery County Alcohol, Drug, & Mental Health Services			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	284,908
Opioid STR	93.788	N/A	36,601
Preble County Mental Health and Recovery Board			
Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	93.665	N/A	13,444
Social Services Block Grant	93.667	N/A	9,761
Block Grants for Community Mental Health Services	93.958	N/A	30,196
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	65,369
Direct:			
HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461		1,701,917
Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498		93,494,510
Total U.S. Department of Health and Human Services			95,636,706
U.S. Department of Homeland Security			
Pass-through:			
Ohio Emergency Management Agency			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-DR-4507-OH	12,481,440
Total U.S. Department of Homeland Security			12,481,440
Total expenditures of federal awards			$ 108,124,865

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

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes federal grant expenditures of Premier Health Partners and Subsidiaries (the Company) under programs of the federal government for the year ended December 31, 2021 and is presented using the accrual basis of accounting. The information in the schedule of expenditures of federal awards is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

2. Indirect Cost Rate

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

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

The Schedule of Expenditures of Federal Awards (Schedule) includes $93,494,510 received from the U.S. Department of Health and Human Services (HHS) between April 10, 2020 and December 31, 2020 under the Provider Relief Fund (PRF) program of Assistance Listing No. 93.498. In accordance with guidance from HHS, these amounts are presented as Period 1 and Period 2 in the HHS PRF Reporting Portal. This amount was recognized as other operating revenue in the Company's consolidated financial statements in the accompanying consolidated statement of operations and changes in net assets for the years ended December 31, 2021 and 2020. Due to the PRF Reporting Portal requirements, this amount is not the total PRF received and/or recognized by Company as other operating revenue in Company's consolidated financial statements for the years ended December 31, 2021 and 2020.

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

The amount presented on the SEFA for Assistance Listing #93.498, *Provider Relief Fund*, is for the fiscal year ending December 31, 2021. The amount presented reconciles to the PRF information to HHS as follows:

Name of the Reporting Entity for HRSA Reporting Provider Relief Report	Reporting Entity Tax Identification Number (TIN)	Type of Distribution	Total Other Provider Relief Fund Expenses Reported	Total Lost Revenues Reported	Total
Premier Health Partners (Period 1)	311446699	General	$ 2,212,168	$ 37,915,581	$ 40,127,749
Miami Valley Hospital (Period 1)	310537504	Targeted	5,904,331	40,167,886	46,072,217
Upper Valley Medical Center (Period 1)	310537095	Targeted	1,194,733	3,805,267	5,000,000
UVMC Nursing Homes, Inc. (Period 1)	311224064	Targeted	–	722,500	722,500
Premier Health Partners (Period 2)	311446699	General	–	1,023,306	1,023,306
UVMC Nursing Homes, Inc. (Period 2)	311224064	Targeted	548,739	–	548,738
Total PRF expenditures					$ 93,494,510

Building a better working world

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

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Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the consolidated financial statements of Premier Health Partners and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 11, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

Ernst & Young LLP

March 11, 2022

Ernst & Young LLP
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Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report of Independent Auditors on Compliance for the Major Federal Program

Opinion on the Major Federal Program

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

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

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Company's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Company's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

July 26, 2022

Premier Health Partners and Subsidiaries

Schedule of Findings and Questioned Costs

Year Ended December 31, 2021

Section I – Summary of Auditor's Results

Consolidated Financial Statements

Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with GAAP:	**Unmodified**	
Internal control over financial reporting:		
Material weakness(es) identified?	____ **Yes**	X **No**
Significant deficiency(ies) identified?	____ **Yes**	X **None reported**
Noncompliance material to the consolidated financial statements noted?	____ **Yes**	X **No**

Federal Awards

Internal control over major federal program:		
Material weakness(es) identified?	____ **Yes**	X **No**
Significant deficiency(ies) identified?	____ **Yes**	X **None reported**
Type of auditor's report issued on compliance for the major federal program:	**Unmodified**	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ **Yes**	X **No**

Identification of major federal program:

Assistance Listing number	**Name of major federal program or cluster**
93.498	COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

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

Part II – Consolidated Financial Statement Findings

No matters were reported.

Part III – Federal Award Findings and Questioned Costs

No matters were reported.

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