



Consolidated Financial Statements as of and for the
Years Ended December 31, 2020 and 2019, Schedule of
Expenditures of Federal Awards for the Year Ended
December 31, 2020, and Independent Auditors' Reports

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INDEPENDENT AUDITORS' REPORT

To the Audit and Compliance Committee of the Board of Trustees
Henry Ford Health System
Detroit, Michigan

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Health Alliance Plan of Michigan and Subsidiaries were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

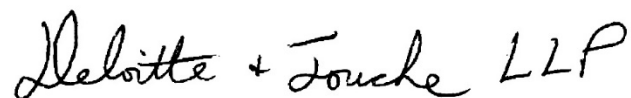
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated 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 consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2021, on our consideration of the System'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 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 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 System's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, flowing style.

March 17, 2021, except for the Schedule of Expenditures of Federal Awards and related notes, as to which the date is October 27, 2021.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2020 AND 2019 (In thousands)

	<u>2020</u>	<u>2019</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,237,306	\$ 611,863
Short-term investments	30,502	-
Patient care receivables	417,762	429,900
Health care premium receivables	14,230	21,464
Due from third-party payors	39,797	20,261
Other current assets	325,566	258,087
Current portion of assets limited as to use	<u>47,854</u>	<u>108,546</u>
Total current assets	2,113,017	1,450,121
LONG-TERM INVESTMENTS	1,538,379	1,223,054
ASSETS LIMITED AS TO USE	960,363	835,077
JOINT VENTURE INVESTMENTS	30,330	23,663
INTANGIBLE AND OTHER ASSETS—Net	49,158	52,614
GOODWILL—Net of accumulated amortization of \$28,577 in 2020 and 2019	22,562	22,159
RIGHT OF USE—OPERATING LEASE ASSETS	183,425	198,559
RIGHT OF USE—FINANCING LEASE ASSETS	42,619	45,103
PROPERTY, PLANT, AND EQUIPMENT—Net	<u>1,616,271</u>	<u>1,607,201</u>
TOTAL ASSETS	<u>\$ 6,556,124</u>	<u>\$ 5,457,551</u>

(Continued)

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2020 AND 2019 (In thousands)

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET ASSETS:		
CURRENT LIABILITIES:		
Accounts payable	\$ 328,057	\$ 348,814
Due to third-party payors	96,001	55,386
Medical claims liability	191,576	159,257
Other liabilities and accrued expenses	552,378	330,086
Current portion of long-term obligations	51,751	17,622
Current portion of malpractice and general liability	29,968	36,506
Current portion of operating lease liabilities	26,639	26,370
Current portion of financing lease liabilities	<u>3,837</u>	<u>3,518</u>
Total current liabilities	1,280,207	977,559
DEFERRED COMPENSATION, POSTRETIREMENT, AND OTHER LIABILITIES	784,917	430,928
LONG-TERM OBLIGATIONS	1,154,192	1,210,873
MALPRACTICE AND GENERAL LIABILITY	147,869	103,664
LONG-TERM OPERATING LEASE LIABILITIES	169,542	183,617
LONG-TERM FINANCING LEASE LIABILITIES	<u>39,722</u>	<u>41,584</u>
Total liabilities	<u>3,576,449</u>	<u>2,948,225</u>
NET ASSETS:		
Without donor restrictions:		
Henry Ford Health System	2,642,574	2,229,422
Noncontrolling interests	<u>3,653</u>	<u>3,317</u>
Total net assets without donor restrictions	2,646,227	2,232,739
With donor restrictions	<u>333,448</u>	<u>276,587</u>
Total net assets	<u>2,979,675</u>	<u>2,509,326</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,556,124</u>	<u>\$ 5,457,551</u>

See notes to consolidated financial statements.

(Concluded)

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In thousands)**

	<u>2020</u>	<u>2019</u>
REVENUE WITHOUT DONOR RESTRICTIONS:		
Net patient service revenue	\$ 3,665,855	\$ 3,912,159
Health care premiums	1,990,065	1,938,804
Other revenue	<u>846,228</u>	<u>436,364</u>
Total revenue without donor restrictions	<u>6,502,148</u>	<u>6,287,327</u>
EXPENSES:		
Salaries, wages, and employee benefits	2,777,562	2,727,072
Health care provider expense	1,162,794	1,117,808
Supplies	1,147,508	1,100,467
General and other administrative	389,148	399,877
Other contracted services	306,221	319,603
Depreciation and amortization	206,360	206,989
Repairs and maintenance	66,239	66,959
Rent and lease	61,008	58,775
Malpractice	65,569	59,332
Plant operations	56,878	56,694
Interest expense	<u>37,227</u>	<u>34,977</u>
Total expenses	<u>6,276,514</u>	<u>6,148,553</u>
OPERATING INCOME	<u>225,634</u>	<u>138,774</u>
NONOPERATING ITEMS:		
Investment return, net	195,852	215,821
Other components of net periodic pension benefit (cost)	<u>813</u>	<u>(92)</u>
Total nonoperating items	<u>196,665</u>	<u>215,729</u>
EXCESS OF REVENUE OVER EXPENSES	422,299	354,503
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>2,052</u>	<u>1,973</u>
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO HENRY FORD HEALTH SYSTEM	<u>\$ 420,247</u>	<u>\$ 352,530</u>

(Continued)

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In thousands)**

	<u>2020</u>	<u>2019</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Excess of revenue over expenses from consolidated operations	\$ 422,299	\$ 354,503
Net assets released from restrictions for capital	7,395	16,305
Distributions to noncontrolling interests	(1,716)	(2,083)
Pension and other postretirement net adjustments	(14,490)	(7,373)
Purchase price adjustment to noncontrolling interest	<u>-</u>	<u>(14,961)</u>
Increase in net assets without donor restrictions	<u>413,488</u>	<u>346,391</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Return on restricted investments, net	28,219	32,781
Contributions and other	106,248	86,018
Net assets released from restrictions for operations	(70,211)	(72,259)
Net assets released from restrictions for capital	<u>(7,395)</u>	<u>(16,305)</u>
Increase in net assets with donor restrictions	<u>56,861</u>	<u>30,235</u>
TOTAL INCREASE IN NET ASSETS	470,349	376,626
TOTAL NET ASSETS—Beginning of year	<u>2,509,326</u>	<u>2,132,700</u>
TOTAL NET ASSETS—End of year	<u>\$ 2,979,675</u>	<u>\$ 2,509,326</u>

See notes to consolidated financial statements.

(Concluded)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In thousands)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 470,349	\$ 376,626
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	206,360	206,989
Pension and other postretirement net adjustments	14,490	7,373
Amortization of bond premium and deferred debt issue costs	(5,567)	(5,283)
(Gain) loss on sale or disposal of assets	(237)	8,086
Return on restricted investments	(28,219)	(32,781)
Restricted contributions and grants	(106,248)	(86,018)
Net realized and unrealized gains on investments	(228,476)	(223,718)
Distributions to noncontrolling interests	1,716	2,083
Purchase price adjustment to noncontrolling interest	-	14,961
Change in assets and liabilities:		
Patient and health care premium receivables	19,372	(34,361)
Other current assets	(67,479)	(11,026)
Assets limited as to use	(7,273)	25,714
Joint venture investments	(3,548)	1,307
Other assets	(235)	(2,705)
Accounts payable	(6,994)	95,551
Other liabilities	527,306	37,193
Due to/from third-party payors	21,079	9,736
Medical claims liability	32,985	(21,137)
Malpractice and general liability	<u>37,667</u>	<u>9,816</u>
Net cash provided by operating activities	<u>877,048</u>	<u>378,406</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property	(221,328)	(317,442)
Proceeds from the sale or maturity of securities	468,264	470,571
Purchases of securities	(661,538)	(719,753)
Investment in joint ventures	(3,119)	-
Acquisition of Trusted, net of cash received	<u>-</u>	<u>(13,516)</u>
Net cash used in investing activities	<u>(417,721)</u>	<u>(580,140)</u>

(Continued)

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In thousands)**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds on long-term obligations	\$ 55,216	\$ 195,244
Payments of long-term obligations	(17,725)	(17,147)
Payments of financing costs	-	(2,304)
Payments of finance lease liabilities	(4,126)	(2,756)
Distributions to noncontrolling interests	(1,716)	(2,083)
Payments to acquire noncontrolling interest	-	(32,556)
Return on restricted investments	28,219	32,781
Restricted contributions and grants	<u>106,248</u>	<u>86,018</u>
Net cash provided by financing activities	<u>166,116</u>	<u>257,197</u>
INCREASE IN CASH AND CASH EQUIVALENTS	625,443	55,463
CASH AND CASH EQUIVALENTS—Beginning of year	<u>611,863</u>	<u>556,400</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 1,237,306</u>	<u>\$ 611,863</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest, including amounts capitalized of \$7,760 and \$5,798 in 2020 and 2019, respectively	<u>\$ 49,010</u>	<u>\$ 45,362</u>
Amounts accrued in property, plant, and equipment—net	<u>\$ 4,783</u>	<u>\$ 19,679</u>
Unsettled investment trades	<u>\$ 67</u>	<u>\$ 482</u>
Unsettled investment purchases	<u>\$ 223</u>	<u>\$ 570</u>
Cash paid for taxes	<u>\$ 5,947</u>	<u>\$ 8,493</u>
See notes to consolidated financial statements.		(Concluded)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollars in thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

Henry Ford Health System (the "Corporation") and its affiliates (collectively, the "System") constitute a comprehensive health care system offering health care to the people of southeastern and south-central Michigan. The System provides medical, surgical, psychiatric, and rehabilitative services in inpatient and outpatient settings; conducts research activities; and engages in the education and training of residents, nurses, and allied health professionals. The System includes one of the nation's largest employed physician group practices. A significant portion of the System's revenues are derived through its health maintenance organization (HMO) and its subsidiaries.

The Corporation is a Michigan not-for-profit corporation with several subsidiary corporations, the most significant of which are Henry Ford Wyandotte Hospital (Wyandotte), Henry Ford Macomb Hospital Corporation (Macomb), Henry Ford Allegiance Health Group (AHG), Health Alliance Plan of Michigan (HAP), Henry Ford Health System Foundation (Foundation), and Onika Insurance Company, Ltd. (Onika).

Several subsidiaries also hold interests in other corporations. Amongst these are AHG's sole membership interest in W. A. Foote Memorial Hospital d.b.a. Henry Ford Allegiance Health (Allegiance Health), and HAP's holding in Administration Systems Research Corporation (ASR).

Joint venture interests include Foote Health Center Associates (71% ownership), Northwest Detroit Dialysis Centers (56.25% ownership), and Macomb Regional Dialysis Centers, L.L.C. (60% ownership), which are consolidated.

On September 13, 2019, HAP finalized its acquisition of 100% ownership in Trusted Health Plan Michigan, Inc. (Trusted) at an acquisition cost of \$22,500, which was paid in cash. The results of Trusted have been included in the consolidated financial statements since the acquisition date. Trusted is a 9,000-member Medicaid plan based in Detroit. As a result of the acquisition, the System will reenter a Michigan Medicaid HMO service area that includes Wayne, Oakland, and Macomb counties. The fair value of the assets acquired exceeded the liabilities assumed resulting in goodwill of \$8,533, including a purchase price adjustment resulting in an increase in goodwill of \$403 recorded in 2020.



Summarized consolidated opening balance sheet information for Trusted as of the acquisition date is shown below:

Aquired Assets		Assumed Liabilities	
Cash and cash equivalents	\$ 8,984	Accounts payable	\$ 6,100
Health care premium receivables	4,270	Medical claims liability	3,487
Other current assets	73		
Assets limited as to use	1,000		
Intangible and other assets	9,120		
Goodwill	8,533		
Property, plant, and equipment	<u>107</u>		
Total assets acquired	<u>\$ 32,087</u>	Total liabilities assumed	<u>\$ 9,587</u>

The acquired intangible asset of \$9,120 is a Medicaid contract that will be amortized over its remaining useful life of 13 years.

The operating results of Trusted for the period September 13, 2019, through December 31, 2019, included total revenue without donor restrictions of \$8,956, all of which is health care premiums, and a deficiency of revenue over expenses of \$702.

Basis of Presentation

The consolidated financial statements include the accounts of the System members as described above. The accounting and reporting policies of the System conform to accounting principles generally accepted in the United States of America (GAAP). All intercompany transactions have been eliminated. The preparation of the consolidated financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts. Actual results could differ from those estimates.

Operating and Nonoperating Activities

The System's mission is to improve people's lives through excellence in the science and art of health care and healing. The System provides a broad range of general and specialized health care services, including inpatient acute care, outpatient services, long-term care, and other health care services, in pursuit of this mission. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that are not central to the System's primary mission, including investment return, net are considered to be nonoperating.

COVID-19 Pandemic

As a result of the COVID-19 pandemic, federal and state governments have passed legislation intended to assist health care providers in providing care to COVID-19 and other patients during the public health emergency. Sources of relief include the Coronavirus Aid, Relief, and Economic Security Act, which was enacted on March 27, 2020; the Paycheck Protection Program and Health Care Enhancement Act, which was enacted on April 24, 2020; and the Consolidated Appropriations Act, 2021, which was enacted on December 27, 2020. Together, these acts (COVID Acts) include \$178.0 billion in funding to be distributed through the Public Health and Social Services Emergency Fund (Provider Relief Fund or PRF).

Net Patient Service Revenue and Patient Care Receivables

Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are primarily due from patients and third-party payors and include variable consideration for retroactive revenue adjustments due to a subsequent audit or review process. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Generally, performance obligations satisfied over time relate to patients receiving inpatient services. The System measures the performance obligation from the point of hospital admission through discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and the System does not believe it is required to provide additional goods or services to the patient. Generally, performance obligations satisfied at a point in time relate to outpatient services and pharmacy revenue.

Because the System's performance obligations relate to contracts with a duration of less than one year, it has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14(a), *Revenue from Contracts with Customers*, 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. These unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient services and the related contracts are generally completed upon discharge, which generally occurs shortly after the end of the reporting period.

The System determines the transaction price based on contractual terms for all services covered by insurance or in accordance with the System's policies with regard to uninsured patients. The System determines its estimate of implicit price concessions based on its historical collection experience with each class of patients using a portfolio approach as a practical expedient to account for patient contracts as a collective group rather than individually. The effects on the consolidated financial statements of using this practical expedient are not materially different from an individual contract approach.

Reimbursement from Third-Party Payors

Reimbursement from most payors for inpatient and outpatient services vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Revenues under traditional Medicare and Medicaid programs, as well as Blue Cross, are based primarily on prospective payment systems. For Medicare, retrospectively determined non-claims-based revenues, such as indirect medical education, direct graduate medical education, disproportionate share hospital payments, allied health education payments, organ acquisition, and bad debt expense reimbursement, are estimated using historical trends and current factors. These revenues are reported on Medicare cost reports, which are subject to audit by Medicare auditors and administrative and judicial review, prior to final settlement.

These settlements can take several years to resolve. Because the laws, regulations, instructions, and rule interpretations governing Medicare reimbursement are complex and change frequently, the estimates recorded could change in subsequent periods. Medicaid revenues have the potential to be reduced based on an upper payment limit calculated through the Medicaid cost report, which is subject to review and adjustment by Medicaid auditors. Blue Cross revenues are also subject to a final settlement, where auditors reprice claims based on settlement rates. These represent the major payors included in patient care receivables at December 31, 2020 and 2019. Revenues associated with health care services provided by the System to members of its HMO are included in health care premiums in the consolidated statements of operations and changes in net assets.

Settlements with third-party payors for retroactive adjustments are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as new information becomes available or as years are settled.

Generally, patients covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System estimates the transaction price for these patients and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. 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. Bad debt expense for the years ended December 31, 2020 and 2019, was not material to the consolidated financial statements.

Medicare advanced payments

The COVID Acts revised the Medicare accelerated payment program in an attempt to disburse payments to health care providers more quickly to mitigate the shortfalls due to delays in nonessential procedures. Recipients may retain the accelerated payments for one year from the date of receipt before recoupment commences, which will be effectuated by a 25% offset of claim payments for 11 months, followed by a 50% offset for the succeeding six months. At the end of the 29-month period, interest on the unpaid balance will be assessed at 4.00% per annum.

During the year ended December 31, 2020, the System received advances totaling \$408,754. These advances are considered contract liabilities. Of the advances, \$130,217 is included in other liabilities and accrued expenses and the remaining \$278,537 is included in deferred compensation, postretirement, and other liabilities at December 31, 2020.

Patient Financial Assistance

The System administers a patient financial assistance policy designed to provide financial assistance for uninsured patients as well as for insured patients with limited resources. For uninsured patients who meet the qualifications stipulated in the System's patient financial assistance policy, emergency and other medically necessary inpatient and outpatient services are provided at no cost. For uninsured patients who do not qualify for financial assistance, the System offers a discounted rate that does not exceed 115% of Medicare payment rates. Insured patients with limited financial resources may qualify for a discount on self-pay balances.

Health Care Premiums

Premiums received in advance of the respective period of coverage are recognized as revenue ratably over the period of coverage. HAP has significant customer base concentrations in companies that are part of the automotive manufacturing industry and with Medicare beneficiaries.

Contributions

Contributions without donor restrictions are included in the consolidated statements of operations and changes in net assets as other revenue when received. Gifts of cash and other assets that are received with donor stipulations are included in the consolidated statements of operations and changes in net assets as contributions and other. Once the restrictions are satisfied, they are included in the consolidated statements of operations and changes in net assets as other revenue or net assets released from restrictions for capital. The System recognizes grant payments as income when the conditions associated with the grants have been substantially met.

COVID-19 Relief Grants

During the year ended December 31, 2020, the System recorded \$397,498 of other revenue from the PRF and state and local grant programs. Payments from the PRF are not loans, and, therefore, they are not subject to repayment. However, as a condition to receiving distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for lost revenues and unreimbursed COVID-19 related costs as defined by the U.S. Department of Health and Human Services. As stated above, the System recognizes grant payments as income when the conditions associated with the grants have been substantially met.

Other Revenue

Other revenue includes assets released from restrictions; income from grants; provider relief funds; contract pharmacy revenue; administrative fees earned from HAP self-insured products; net returns on malpractice and deferred compensation investments; joint venture income, gains and losses on sales of assets; gift shop; and cafeteria sales; parking garage fees; and other miscellaneous sources.

Performance Indicator

The consolidated statements of operations and changes in net assets include the excess of revenue over expenses from consolidated operations. Changes in net assets without donor restrictions, which are excluded from the excess of revenue over expenses from consolidated operations, consistent with industry practice, include net assets released from restrictions for capital, distributions to noncontrolling interests (NCI), pension and other postretirement net adjustments, and purchase price adjustment to NCI.

Net Asset Classifications

Net assets without donor restrictions—Net assets that are not subject to donor-imposed restrictions. These net assets may be used at the discretion of the System's management and the board of directors. See Note 5 for information about the amounts and purposes of board designations of net assets without donor restrictions.

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature with restrictions, which will be met by the actions of the System or by the passage of time. Other donor restrictions are perpetual in nature and the donor has stipulated the funds be maintained by the System in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of operations and changes in net assets as other revenue or net assets released from restrictions for capital.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and liquid short-term investments (e.g., money market funds) with an original maturity of 90 days or less. Cash equivalents are stated at fair value, which approximates cost.

Short-Term Investments

Short-term investments consist primarily of fixed-income instruments with original maturities greater than 90 days and less than one year. Short-term investments are stated at fair value, which approximates cost.

Other Current Assets

Other current assets consist primarily of inventories, which are stated at the lower of cost (first-in, first-out) or market; prepaid expenses; and miscellaneous receivables.

Assets Limited as to Use

Assets limited as to use are reported at their estimated fair value and include:

- Resources for which the board of directors of the System has designated specific future uses.
- Funds with donor restrictions that arise through specific contributions to the System.
- Funds held by trustee.
- Funds held to satisfy statutory reserve requirements.

The dollar amount of these assets to be used to satisfy current liabilities has been classified as a current asset.

Investments and Investment Return, net

Investments, inclusive of invested assets limited as to use, include marketable debt and equity securities. Investments in debt and equity securities with readily determinable fair values are measured at fair value in the consolidated balance sheets. Hedge funds, commingled funds, private markets, and other investments structured as limited liability corporations and partnerships are valued at net asset value (NAV), as a practical expedient, which is calculated using the most recent consolidated financial statements. The System has classified all debt securities as trading.

Investment return, net includes interest, dividends, realized gains and losses, unrealized gains and losses, and expenses related to the management of the investments. Realized gains and losses on sales of investments as well as unrealized gains and losses are calculated using the specific-identification method and are included in investment return, net or return on restricted investments, net.

Investment Risks

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

Fair Value of Financial Instruments

Fair value of financial instruments has been determined using available information and appropriate valuation methodologies. The fair value of assets is based on quoted market prices, dealer quotes, and prices obtained from independent sources. The fair value of liabilities is based on a discounted cash flows analysis, using interest rates currently available for the issuance of debt with similar terms and remaining maturities. Considerable judgment is required in certain circumstances to develop the estimates of fair value, and they may not be indicative of the amounts, which could be realized in a current market exchange.

Intangible and Other Assets

Intangible and other assets as of December 31, 2020 and 2019, consisted of the following:

	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Useful Life (Years)</u>
December 31, 2020				
Definite-lived intangible assets:				
Customer relationships	\$ 15,660	\$ 9,891	\$ 5,769	8–22
Provider relations	22,164	7,533	14,631	10–25
Medicaid contract	9,120	910	8,210	13
Reinsurance escrow	10,131	-	10,131	
Other	<u>13,057</u>	<u>2,640</u>	<u>10,417</u>	
Total	<u>\$ 70,132</u>	<u>\$ 20,974</u>	<u>\$ 49,158</u>	
December 31, 2019				
Definite-lived intangible assets:				
Customer relationships	\$ 15,660	\$ 8,285	\$ 7,375	8–22
Provider relations	22,164	6,394	15,770	10–25
Medicaid contract	9,120	-	9,120	13
Reinsurance escrow	15,007	-	15,007	
Other	<u>7,945</u>	<u>2,603</u>	<u>5,342</u>	
Total	<u>\$ 69,896</u>	<u>\$ 17,282</u>	<u>\$ 52,614</u>	

Amortization expense on intangible assets was \$3,691 and \$2,830 for the years ended December 31, 2020 and 2019, respectively.

Estimated amortization expense on intangible assets for the next five years is as follows:

Years Ending December 31:

2021	\$ 3,272
2022	3,061
2023	3,061
2024	1,813
2025	1,501

Goodwill

The System evaluates goodwill for impairment as of September 30 of each year, unless conditions arise that would require a more frequent evaluation. In assessing the recoverability of goodwill, management performs a qualitative or quantitative assessment to test for impairment annually. If it is determined, based on qualitative factors, that a quantitative impairment test is required, estimated future cash flows and other factors are made to determine the fair value of the respective reporting unit. If these estimates or related projections change in the future, the System may be required to record impairment charges for goodwill at that time. Impairments, if any, are charged to earnings.

Information on changes in the carrying amounts of goodwill as of December 31, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
As of January 1:		
Goodwill	\$ 53,581	\$ 45,451
Accumulated impairment loss	<u>(31,422)</u>	<u>(31,422)</u>
Total	22,159	14,029
Goodwill acquired	<u>403</u>	<u>8,130</u>
Total	<u>\$ 22,562</u>	<u>\$ 22,159</u>

Impairment

The System periodically, or when a triggering event occurs, evaluates the carrying value of its long-lived assets for impairment. This evaluation is based principally on the projected, undiscounted cash flows generated by the related assets.

Property, Plant, and Equipment

Property, plant, and equipment, which includes capitalized internal use software, is recorded at cost or fair value at the date of acquisition. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets. Estimated useful lives used in computing depreciation are generally 10 years for land improvements, 15 to 40 years for buildings and building improvements, and 3 to 15 years for equipment.

Expenditures for maintenance and repairs are recognized in operating results, unless they extend the useful life of the related asset. Costs incurred that extend the useful lives are capitalized and depreciated.

Medical Claims Liability

Medical claims liability consists of unpaid medical claims and other obligations resulting from the provision of health care services. It includes claims reported as of the consolidated balance sheets date and estimates, based upon historical claims experience, for claims incurred but not reported (IBNR).

Management estimates the amount of the IBNR using standard actuarial developmental methodologies based upon, but not limited to, historical payment information and trends, denied claim activity, expected medical cost inflation, seasonality patterns, and changes in membership. This estimate includes a provision for potential adverse deviation, which considers multiple factors, including known environmental and economic factors, changes in current payment patterns, potential high-cost cases, and the impact of new technology or pharmaceuticals on cost.

Management's IBNR best estimate is made on an accrual basis and adjusted in future periods based upon actual payment patterns and any changes in estimation factors. The reserve is adjusted as additional information becomes known and the current period includes adjustments related to prior-period estimates. The majority of the IBNR reserve balance held at the end of a reporting period is associated with the most recent months' incurred services, most of which have not been paid.

The IBNR estimation methodology has been consistently applied from period to period and there were no material changes in the amount of these reserves, or as a percentage of reserve for claims and other settlements, between December 31, 2020 and 2019. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts estimated.

Deferred Compensation

Certain employees of the System participate in deferred compensation plans. The System has chosen to fund this liability using mutual funds and annuity or insurance contracts solely owned by the System. These assets are subject to the claims of the System's general creditors. Earnings related to the deferred compensation assets, including unrealized appreciation or depreciation, are included in other revenue and changes in the corresponding liability are included in salaries, wages, and employee benefits in the consolidated statements of operations and changes in net assets. The asset and liability are recorded at fair market value. The System recorded a charge to salaries, wages, and employee benefits expense of \$22,770 and \$25,644 during the years ended December 31, 2020 and 2019, respectively, related to the return on deferred compensation assets.

Deferral of Employment Tax Payments

The COVID Acts permitted employers to defer payment of the 6.2% employer Social Security tax beginning March 27, 2020, through December 31, 2020. Deferred tax amounts are required to be paid in equal amounts over two years, with payments due in December 2021 and December 2022. During the year ended December 31, 2020, the System deferred Social Security tax payments totaling \$80,161 pursuant to this provision.

Tax Status

The System, except for HAP, ASR, and Onika, consists of entities described under Internal Revenue Service (IRS) Code Section 501(c)(3) and, as such, are exempt from federal income taxes under IRS Code Section 501(a) and do not have private foundation status under IRS Code Section 509(a)(1), 509(a)(2), or 509(a)(3). HAP is an entity described under IRS Code Section 501(c)(4) and, as such, is exempt from federal income taxes. ASR is a taxable entity. The System's wholly owned insurance captive, Onika, operates in the Cayman Islands and is currently not subject to income taxes. The System does not have any material uncertain tax positions as of December 31, 2020 and 2019.

Adoption of New Accounting Standards

FASB Accounting Standards Update (ASU) No. 2018-13 (issued July 2018), *Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement—Adopted* effective January 1, 2020, without material impact on the System's consolidated financial statements. This ASU improves the effectiveness of fair value measurement disclosures. This update modifies existing disclosure requirements on fair value measurements.

Forthcoming Accounting Standards

FASB ASU No. 2018-14 (Issued August 2018), *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)—Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans—This amends ASC 715, Compensation Retirement—Benefits*, and updates disclosure requirements to reflect most relevant information and applies to all employers that sponsor defined benefit pension or other postretirement plans. This guidance is effective for the System for annual periods ending after December 15, 2021. The adoption of this guidance is limited to the annual disclosures and is not expected to have a material impact on the System's consolidated financial statements at December 31, 2021.

FASB ASU No. 2016-13 (issued June 2016), *Financial Instruments—Credit Losses (Topic 326)—Measurement of Credit Losses on Financial Instruments—Introduced a new model for recognizing credit losses on financial instruments based on an estimate of the current expected credit losses (CECL)*. The new CECL model generally calls for the immediate recognition of all expected credit losses and applies to financial instruments and other assets. This guidance replaces the current incurred loss model for measuring expected credit losses, requires expected losses on available-for-sale debt securities to be recognized through an allowance for credit losses rather than as reductions in the amortized cost of the securities, and provides for additional disclosure requirements. This guidance is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The System is evaluating the impact this guidance may have on the System's December 31, 2022, consolidated financial statements.

FASB ASU No. 2020-07 (issued September 2020) *Presentation and Disclosures by Non-for-Profit Entities for Contributed Nonfinancial Assets*. —This guidance requires not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities and changes in net assets, apart from contributions of cash and other financial assets. Adoption of this standard is to be applied on a retrospective basis for annual periods beginning after June 15, 2021. Early adoption is permitted. The System is evaluating the impact this guidance may have on the System’s December 31, 2022, consolidated financial statements.

2. NET PATIENT SERVICE REVENUE

A substantial portion of net patient service revenue is paid by Medicare, Medicaid, and Blue Cross based upon contracted rates or under cost-reimbursement agreements in 2020 and 2019. Provisions for estimated retroactive adjustments under these agreements for current and prior years have been reflected in the accounts based upon the most current information available. Net patient service revenue of \$5,853 and \$49,279 related to prior-year settlements was recorded during the years ended December 31, 2020 and 2019, respectively. The composition of net patient service revenue by payor for the years ended December 31, 2020 and 2019, is as follows:

	2020		2019	
Medicare	\$ 1,600,326	44 %	\$ 1,705,737	43 %
Medicaid	625,100	17	630,666	16
Blue Cross	965,133	26	1,045,659	27
Self-pay	25,368	1	28,965	1
Commercial and other	<u>449,928</u>	<u>12</u>	<u>501,132</u>	<u>13</u>
Total	<u>\$ 3,665,855</u>	<u>100 %</u>	<u>\$ 3,912,159</u>	<u>100 %</u>

Letters of final settlements have not been received from Medicare for 2012 through 2020, from Medicaid for 2016 through 2020, or from Blue Cross for 2019 through 2020. The System is appealing various elements of Medicare final settlements dating back to 1999.

3. UNCOMPENSATED CARE AND COMMUNITY BENEFIT

The System demonstrates its exempt purpose by providing multiple services to support the health and well-being of the communities it serves. In addition to offering emergency services open to the public 24 hours a day, seven days a week, the System provides health care services without charge or at amounts less than its established rates to patients who meet the criteria of its patient financial assistance policy. Charity care is reported at estimated cost using a cost-to-charge ratio methodology. Other major community benefit commitments include participating in public programs under which reimbursement is less than the cost of providing care, maintaining research programs focused on improving health care, offering community education and outreach in the form of free or low-cost clinics and health screenings, education, and donations to support external community programs.

The major components of community benefit for the years ended December 31, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Charity care at cost	\$ 43,844	\$ 37,462
Unpaid cost of Medicare, Medicaid, and other public programs	507,940	349,493
Implicit price concessions	<u>92,918</u>	<u>68,338</u>
 Total cost of uncompensated care	 644,702	 455,293
 Research	 85,002	 85,021
Health professional education	95,311	96,300
Community health services and building activities	17,620	14,954
Subsidized health services	15,962	14,681
Community benefit operations and financial donations	<u>5,608</u>	<u>3,975</u>
 Total community benefit	 <u>\$864,205</u>	 <u>\$670,224</u>

The IRS requires the reported community benefit activities to be offset by external funding received. The System received \$65,906 and \$68,677 of external funding for research and \$2,956 and \$3,355 of external funding for community health services and building activities during the years ended December 31, 2020 and 2019, respectively.

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair Value Measuring Hierarchy—The System assesses the inputs used to measure fair value using a three-level hierarchy based on the extent to which inputs are observable in the market. The fair value hierarchy is as follows:

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

Level 2—Other observable inputs, either directly or indirectly, including:

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

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

Fair values of securities are based on quoted market prices, where available. The System obtains one price for each security, primarily from a third-party pricing service (“pricing service”), which generally uses Level 1 or Level 2 inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs into the methodologies include nonbinding broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds. The System assesses the reasonableness of the pricing information quarterly and has not historically made any adjustments.

When the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement is determined based on the lowest-level input that is significant to the fair value measurement in its entirety. The System’s assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

Fair Value Measurement Methods—The following methods and assumptions are used to estimate the fair value of each class of financial instrument:

Cash equivalents—The carrying value approximates fair value as maturities are less than three months. Cash equivalents, comprised primarily of money markets, are classified as Level 1.

Debt securities—The estimated fair values are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. Due to the nature of pricing fixed-income securities, management classifies the majority of debt securities as Level 2 investments.

Equity securities—The estimated fair values are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. Nonpublicly traded securities are recorded at fair value based on NAV, which is calculated using the most recent fund financial statements. The funds in this class include equities, bonds, other fixed income instruments, equities, or other asset classes.

Hedge funds—Underlying assets in these funds may include equity and debt securities, commodities, currencies, and derivatives. These funds are valued at NAV, which is calculated using the most recent fund financial statements.

Private markets—The estimated fair values are based on NAV, which is calculated using the most current financial statements issued by each fund. The value is adjusted for cash flows to and from the fund subsequent to the financial statement reporting date as well as other data available for the funds.

Grants and pledges receivable—The fair value is estimated by management using the discounted cash flows method.

Long-term obligations—The carrying value of the System's variable-rate bonds and other obligations approximates the fair value. The fair value of the System's fixed-rate bonds is estimated based upon prices obtained from a third-party service routinely relied upon by securities professionals to provide an approximate fair value of these types of securities.

Fair Values—Information about the fair value of the System’s financial assets and liabilities, according to the valuation techniques the System used to determine its fair values, as of December 31, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Assets measured at fair value:		
Level 1:		
Cash equivalents	\$ 1,179,505	\$ 669,302
Common stock	30,290	26,593
Collective equity funds:		
Asset allocation	247,190	218,914
Common stock	234,744	180,260
Debt securities	<u>193,870</u>	<u>169,333</u>
Subtotal—Level 1	<u>1,885,599</u>	<u>1,264,402</u>
Level 2:		
Debt securities:		
Asset-backed securities	65,828	10,860
Corporate debt securities	67,830	59,088
Government and agency debt securities	110,482	60,769
Nonagency mortgage-backed securities	8,623	6,166
Other debt securities	26,921	4,587
Commercial paper	<u>47,336</u>	<u>55,984</u>
Total debt securities	327,020	197,454
Grants and pledges receivable at fair value	<u>49,277</u>	<u>26,152</u>
Subtotal—Level 2	<u>376,297</u>	<u>223,606</u>
Subtotal—assets measured at fair value	2,261,896	1,488,008
Investments measured at NAV	1,484,140	1,264,414
Cash	68,032	19,310
Other	<u>336</u>	<u>6,808</u>
Total	<u>\$ 3,814,404</u>	<u>\$ 2,778,540</u>
Asset classifications:		
Cash and cash equivalents	\$ 1,237,306	\$ 611,863
Short-term investments	30,502	-
Assets limited as to use	1,008,217	943,623
Long-term investments	<u>1,538,379</u>	<u>1,223,054</u>
Total	<u>\$ 3,814,404</u>	<u>\$ 2,778,540</u>

Investments at NAV—The fair value measurements of certain investments calculated based on NAV, for the years ended December 31, 2020 and 2019, are as follows (there were approximately \$133,018 in unfunded commitments for private market investments at year-end):

	<u>2020</u>	<u>2019</u>	<u>Frequency</u>	<u>Notice Period</u>
Collective funds:				
Asset allocation	\$ 53,154	\$ 52,705	Daily	2 days
Common stock	834,561	733,945	Daily, monthly	1–30 days
Debt securities	341,483	259,269	Daily, monthly, semimonthly	2–30 days
Hedge funds	123,027	126,455	Monthly, quarterly, annually	3–90 days
Private markets	<u>131,915</u>	<u>92,040</u>	N/A	N/A
Total	<u>\$ 1,484,140</u>	<u>\$ 1,264,414</u>		

For purposes of NAV, the following investment category definitions are applied:

Asset allocation—Investment funds that consist of diversified portfolios of debt, equity, and other assets often providing the money manager with discretion as to the allocation of assets.

Common stock—Investment funds that invest substantially all their assets in the equity securities of publicly traded companies in the United States, developed international markets, and emerging international markets.

Debt securities—Investment funds that invest substantially all their assets in debt securities, including government and corporate bonds, both domestic and foreign.

Hedge funds—Investments funds that have advanced investment strategies with long, short, and derivative positions in domestic and foreign markets. Certain funds have provisions that limit access to the invested funds. These provisions include lockup terms that range up to three years from the subscription date.

Private markets—Investment vehicles typically organized as limited partnerships that are not publicly traded. Funds comprise a variety of asset classes with advanced investment strategies, including growth equity, buyouts, venture capital, special situation, secondary funds, private debt, real estate, and real assets. Funds have reduced liquidity with a long-term investment horizon averaging five to ten years and committed capital is drawn down over this life of the fund.

Debt Maturities—The debt securities are carried at fair value. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Holdings as of December 31, 2020, by contractual maturity, are listed as follows:

Maturity	Estimated Fair Value
Due in one year or less	\$ 105,659
Due in one year through five years	142,579
Due in five years through ten years	38,919
Due after ten years	<u>39,863</u>
Total	<u>\$ 327,020</u>

Total Investments Return, net—The total return on the investment portfolios for the years ended December 31, 2020 and 2019, consist of the following:

	2020	2019
Interest and dividend income	\$ 21,571	\$ 55,914
Realized gains	9,150	43,770
Unrealized gains	<u>219,326</u>	<u>179,948</u>
Total investment return, net	<u>\$ 250,047</u>	<u>\$ 279,632</u>

Total investment return, net for the years ended December 31, 2020 and 2019, consisted of the following:

	2020	2019
Included in other revenue:		
Funds designated for malpractice and general liability	\$ 3,140	\$ 5,174
Funds designated for deferred compensation	22,770	25,644
Other miscellaneous interest	66	212
Included in nonoperating items:		
The Foundation	39,796	49,654
Interest, dividends, and realized and unrealized gains from other unrestricted assets	<u>156,056</u>	<u>166,167</u>
Total	221,828	246,851
Investment return, net on restricted investments	<u>28,219</u>	<u>32,781</u>
Total investment return, net	<u>\$ 250,047</u>	<u>\$ 279,632</u>

5. ASSETS LIMITED AS TO USE

Assets limited as to use as of December 31, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Assets without donor restrictions:		
The Foundation	\$ 363,401	\$ 339,811
Funds held by trustee	1,755	61,797
Funds designated for malpractice and general liability	60,436	43,719
Funds designated for deferred compensation	218,790	177,577
HAP statutory funds	2,350	15,335
Funds board designated for research, education, and other	<u>28,037</u>	<u>28,797</u>
Total assets without donor restrictions	<u>674,769</u>	<u>667,036</u>
Assets with donor restrictions:		
Perpetual in nature	125,843	125,671
Purpose restricted	158,328	124,764
Grants and pledges receivable	<u>49,277</u>	<u>26,152</u>
Total assets with donor restrictions	<u>333,448</u>	<u>276,587</u>
Total assets limited as to use	1,008,217	943,623
Less requirements for current liabilities	<u>47,854</u>	<u>108,546</u>
Noncurrent assets limited as to use	<u>\$ 960,363</u>	<u>\$ 835,077</u>

Grants and pledges receivable are expected to be collected, and as of December 31, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Amounts expected to be collected in:		
Less than one year	\$ 27,890	\$ 14,796
One to five years	17,501	8,139
More than five years	<u>4,040</u>	<u>5,000</u>
Total grants and pledges expected to be collected	49,431	27,935
Unamortized discount	<u>(154)</u>	<u>(1,783)</u>
Total grants and pledges receivable with donor restrictions	<u>\$ 49,277</u>	<u>\$ 26,152</u>

Onika had reserve deposits of \$27,789 and \$12,096 as of December 31, 2020 and 2019, respectively, under a reinsurance trust agreement and an agency agreement. These amounts are included above in funds designated for malpractice and general liability. The HAP statutory funds are required by insurance regulations.

6. JOINT VENTURE INVESTMENTS

The System maintains investments in 13 unconsolidated affiliates with ownership interests ranging up to 55%. All unconsolidated affiliates are accounted for under the equity or fair value method.

The income related to the investments accounted for under the equity method, included in other revenue, was \$4,652 and \$2,296 for the years ended December 31, 2020 and 2019, respectively.

The summarized financial information for unconsolidated affiliates as of December 31, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Net revenues	\$227,323	\$182,512
Net income	10,909	4,009
Total assets	177,199	130,722
Net assets	82,554	55,982

In December 2020, the System and Acadia Healthcare Company, Inc. formed a joint venture to address the growing, unmet, need for accessible, high-quality behavioral health services in Detroit and the surrounding counties. A new hospital will be built, and this inpatient facility will be able to accommodate 192 beds with the potential to expand to meet future demand for inpatient services in the area. The facility is expected to open in late 2022.

7. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of December 31, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 122,297	\$ 121,535
Building and improvements	1,748,007	1,692,031
Equipment	1,685,252	1,622,371
Construction in progress	<u>235,139</u>	<u>189,675</u>
 Total	 3,790,695	 3,625,612
 Less accumulated depreciation	 <u>2,174,424</u>	 <u>2,018,411</u>
 Property, plant, and equipment—net	 <u>\$ 1,616,271</u>	 <u>\$ 1,607,201</u>

Internal use software is included above in equipment and construction in progress. The net book value was \$129,430 and \$146,272 at December 31, 2020 and 2019, respectively.

8. MEDICAL CLAIMS LIABILITY (REPORTED AND UNREPORTED)

Activity from HAP, included in medical claims liability, as of December 31, 2020 and 2019, is summarized as follows:

	<u>2020</u>	<u>2019</u>
As of January 1	\$ <u>189,634</u>	\$ <u>200,321</u>
THPM acquisition	<u>-</u>	<u>4,153</u>
Incurred related to:		
Current year	1,650,456	1,682,873
Prior year	<u>(35,705)</u>	<u>(33,791)</u>
Total incurred	<u>1,614,751</u>	<u>1,649,082</u>
Paid related to:		
Current year	1,430,473	1,522,677
Prior year	<u>151,840</u>	<u>141,245</u>
Total paid	<u>1,582,313</u>	<u>1,663,922</u>
As of December 31	<u>\$ 222,072</u>	<u>\$ 189,634</u>

Changes in actuarial estimates of claims unpaid reported as “incurred related to prior year” in the schedule above reflect revisions in estimates of medical cost trends and changes in claims processing patterns. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided.

The provision for medical claims liabilities related to prior years decreased \$35,705 in 2020 primarily due to favorable runout on commercial and Medicare claims liabilities and higher than anticipated pharmacy rebates from prior years partially offset by higher than expected claim activity in the dual demonstration program. In 2019, the provision for medical claims liabilities related to prior years decreased \$33,791, primarily due to lower-than-anticipated losses in commercial and Medicare HMO business as well as higher-than-anticipated pharmacy rebates from prior years.

9. MALPRACTICE AND GENERAL LIABILITY

The System provides professional and general liability insurance through a combination of self-insurance, claims-made coverage reinsured through Onika, and excess coverage purchased from commercial carriers and Caymich Insurance Company, Ltd. (Caymich). Caymich is an offshore captive insurance company domiciled in the Cayman Islands that provides pooled risk coverage to its members. The System is a 44.90% member in Caymich at December 31, 2020 and 2019.

The System estimates a range of loss for known claims and unreported incidents and has recorded a liability based on its assessment of the most likely amount of loss in the range. The liability of \$177,837 and \$140,170 as of December 31, 2020 and 2019, respectively, has been discounted using a discount factor of 4%. Segregated funds included in assets limited as to use have been established to settle claims subject to self-insurance. Returns related to these assets of \$3,140 and \$5,174 are included in other revenue as of December 31, 2020 and 2019, respectively.

10. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Retirement Income Plans—The System provides retirement benefits to substantially all its employees through a combination of qualified defined contribution and defined benefit plans. Over several years, the System has been increasing benefit alignment across affiliates, with a focus on the defined contribution plans. The funding policy for all defined benefit plans meets or exceeds the minimum funding requirements of the Employee Retirement Security Act of 1974. The expense related to the defined contribution plans was approximately \$94,750 and \$86,836 for the years ended December 31, 2020 and 2019, respectively. The following summarizes the status of plans at the System and its major affiliates:

System, other than HAP

Defined Contribution Plans—Effective with the first pay in 2018, all employees of AHG as well as newly hired employees of the System (other than those of HAP) participate in a 403(b) plan with a two-tiered benefit structure. The primary benefit has a 6% employee contribution, with a 3.5% employer match for eligible wages. The secondary benefit provides for annual employer contributions from 1.25% to 2.75% of eligible wages. System employees hired prior to 2018 (other than those of AHG and HAP) participate in a retirement savings plan, which provides for a one-time employee election to participate. This plan requires employee and employer contributions of 2% and 2.5%, respectively, of base wages up to the social security wage limit. Contributions are 4% and 5% of base wages in excess of this limit for employees and employers, respectively. This plan has a secondary account that provides an annual employer contribution ranging from 1.25% to 2.75% of eligible wages.

Defined Benefit Plans—Effective December 31, 2010, the System permanently froze the Henry Ford Health System Pension Plan (“System Plan”), a cash balance formula defined benefit plan, and established the secondary account under the retirement savings plan as described above, to provide continuing benefits to all existing participants as well as employees hired up to the first pay in 2018. Effective June 30, 2017, the System permanently froze the Allegiance Health Retirement Plan (“AHG Plan”), a cash balance formula defined benefit plan. Employees of AHG are provided transitional credits until the end of 2020 through the 403(b) plan described above. On September 25, 2019, the board of directors of AHG and the board of trustees of Allegiance Health jointly agreed to accept the merger of the System Plan into the AHG Plan effective December 31, 2019.

HAP

Defined Contribution Plan—HAP maintains a 401(k) plan that provides benefits to qualifying employees with a primary and secondary benefit structure and formula similar to the System's 403(b) program described above.

Defined Benefit Plans—Effective December 31, 2011, HAP permanently froze the final average pay benefit formula and adopted a cash balance formula in its defined benefit plan for all nonrepresented employees and for the UAW Local 600 Union Office/Nonexempt Bargaining unit participants hired on or after January 1, 2012, and for the UAW Local 600 Union Sales and Labor unit participants hired on or after April 1, 2012.

The cash balance benefit was frozen effective March 19, 2016, for participants in UAW Local 600 Union Office/Nonexempt Bargaining and effective December 23, 2017, for nonrepresented participants. All impacted participants as well as new employees after January 1, 2018, are eligible for the secondary benefit in the HAP 401(k) described above.

Postretirement Health Care—The System also provides postretirement health care and life insurance benefits to certain employees who met minimum age and years of service requirements as of December 31, 2006. These employees are also required to meet certain eligibility requirements at the time of retirement. Benefits to employees may require employee contributions or be provided in the form of a fixed-dollar subsidy.

Retirement Program Investment Management—The System's primary investment objective for the pension plans is to ensure sufficient funds are available to meet the plan's benefit and expense obligations and to maintain compliance with regulatory funding requirements. The plans are managed with a long-term duration and liability investment perspective with the goal to achieve risk-adjusted returns on plan assets and plan liabilities.

In connection with the merger of the System Plan into AHG Plan, the master retirement trust agreement and the AHG trust agreement were both amended to provide that the trust assets are available to pay benefits to all participants in the merged plan effective December 31, 2019.

The allocation percentages of the fair value of total plan assets held, as of the measurement dates, December 31, 2020 and 2019, for the combined trust are shown below:

Combined Trust	Target	2020	2019
Cash and cash equivalents	2 %	1 %	1 %
Stock and stock funds	55	56	50
Bonds and bond funds	39	37	31
Global asset allocation	4	6	15
Other	<u>0</u>	<u>0</u>	<u>3</u>
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The following tables present information about the fair value of the total plan assets as of December 31, 2020 and 2019, according to the valuation techniques the System used to determine its fair values as described in Note 4:

Combined Trust	2020	2019
Assets measured at fair value:		
Level 1:		
Cash equivalents	\$ 8,645	\$ 5,026
Collective equity funds:		
Asset allocation	-	42,643
Common stock	49,454	94,598
Debt securities	<u>38,485</u>	<u>75,951</u>
Subtotal—Level 1	<u>96,584</u>	<u>218,218</u>
Level 2		
Debt securities:		
Asset-backed securities	-	1,146
Corporate debt securities	-	4,007
Government and agency debt securities	-	3,486
Non-agency mortgage-backed securities	-	1,022
Other debt securities	<u>-</u>	<u>203</u>
Subtotal—Level 2	<u>-</u>	<u>9,864</u>
Total investments measured at fair value	<u>96,584</u>	<u>228,082</u>
Investments measured at NAV		
Collective funds:		
Asset allocation	20,787	47,817
Common stock	288,903	195,624
Debt securities	184,050	93,728
Hedge fund	12,802	15,919
Private equity	<u>2,615</u>	<u>3,137</u>
Total investments measured at NAV	<u>509,157</u>	<u>356,225</u>
Total	<u>\$ 605,741</u>	<u>\$ 584,307</u>

Projected Benefit Obligations—Information regarding the projected benefit obligation and assets of the defined benefit pension and postretirement benefit plans for the System as of and for the years ended December 31, 2020 and 2019, is as follows:

	Pension Benefits		Postretirement Benefits	
	2020	2019	2020	2019
Change in benefit obligation:				
Benefit obligation—beginning of year	\$ 745,318	\$ 705,895	\$ 57,493	\$ 52,832
Service cost	4,924	10,509	802	450
Interest cost	23,378	28,884	1,828	2,182
Actuarial loss (gain)	58,105	61,879	(3,370)	31,979
Benefits paid	(22,841)	(29,009)	(4,818)	(4,174)
Medicare Part D subsidy	-	-	386	700
Settlements	(40,118)	(32,921)	-	-
Plan changes/other	<u>12</u>	<u>81</u>	<u>(391)</u>	<u>(26,476)</u>
Benefit obligation—end of year	<u>768,778</u>	<u>745,318</u>	<u>51,930</u>	<u>57,493</u>
Change in plan assets:				
Fair value of assets—beginning of year	584,307	541,508	-	-
Actual return on assets	65,887	91,063	-	-
Employer contributions	18,506	13,666	4,818	4,174
Benefits paid	(22,841)	(29,009)	(4,818)	(4,174)
Settlements	<u>(40,118)</u>	<u>(32,921)</u>	<u>-</u>	<u>-</u>
Fair value of assets—end of year	<u>605,741</u>	<u>584,307</u>	<u>-</u>	<u>-</u>
Amounts included in the consolidated balance sheets:				
Total accrued liability	<u>\$ 163,037</u>	<u>\$ 161,011</u>	<u>\$ 51,930</u>	<u>\$ 57,493</u>
Current liability	<u>\$ 1,438</u>	<u>\$ 1,436</u>	<u>\$ 3,761</u>	<u>\$ 4,106</u>
Long-term liability	<u>\$ 161,599</u>	<u>\$ 159,575</u>	<u>\$ 48,169</u>	<u>\$ 53,387</u>

Lump-sum settlements of \$40,118 and \$32,921 were made during the years ended December 31, 2020 and 2019, respectively. As a result of total lump-sum settlements exceeding the sum of service costs and interest costs, the System recognized a settlement loss of \$6,744 and \$5,492 during 2020 and 2019, respectively.

In 2019, with a July 1, 2020, effective date, the System implemented several changes to its postretirement plans that impact member cost sharing and plan offerings. The resulting reduction in postretirement benefit obligation was recognized as a plan change.

Pension and Postretirement Benefit Plan Expense—All previously unrecognized actuarial losses are reflected in the consolidated balance sheets. Pension and postretirement plan benefit items not yet recognized as a component of periodic pension and postretirement plan expense, but included within net assets without donor restrictions, as of and for the years ended December 31, 2020 and 2019, are as follows:

	Pension Benefits		Postretirement Benefits	
	2020	2019	2020	2019
Unrecognized prior service cost (credit)	\$ 3,214	\$ 3,328	\$ (17,948)	\$ (26,475)
Unrecognized net actuarial loss	<u>150,586</u>	<u>139,439</u>	<u>9,152</u>	<u>14,222</u>
Total	<u>\$ 153,800</u>	<u>\$ 142,767</u>	<u>\$ (8,796)</u>	<u>\$ (12,253)</u>

An estimated \$128 in prior service cost and \$31,300 in net actuarial loss will be included as components of periodic pension plan expense in 2021. An estimated \$9,056 in prior service credit and \$818 in net actuarial loss will be included as a component of periodic postretirement medical plan expense in 2021.

The accumulated benefit obligation was \$765,237 and \$742,144 as of December 31, 2020 and 2019, respectively.

Information regarding the net benefit cost of the pension and postretirement benefit plans for the System as of and for the years ended December 31, 2020 and 2019, is as follows:

	Pension Benefits		Postretirement Benefits	
	2020	2019	2020	2019
Components of net periodic benefit cost:				
Service cost	\$ 4,924	\$ 10,509	\$ 802	\$ 450
Interest cost	23,378	28,884	1,828	2,182
Expected return on assets	(35,137)	(38,912)	-	-
Amortization of prior service cost (credit)	127	121	(8,919)	-
Amortization of actuarial loss (gain)	9,465	3,527	1,701	(1,202)
Settlement cost	<u>6,744</u>	<u>5,492</u>	<u>-</u>	<u>-</u>
Net periodic benefit cost (benefit)	<u>\$ 9,501</u>	<u>\$ 9,621</u>	<u>\$ (4,588)</u>	<u>\$ 1,430</u>

Assumptions—Information on the assumptions that were used to determine the benefit obligation and net benefit costs as of and for the years ended December 31, 2020 and 2019, is as follows:

	Pension Benefits		Postretirement Benefits	
	2020	2019	2020	2019
Discount rate—benefit obligation	1.10%–2.50%	2.65%–3.30%	2.45%–2.50%	3.30%
Discount rate—benefit cost	2.65%–3.30%	3.75%–4.35%	3.30%	4.30%
Expected return on plan assets	6.30%	6.70%–7.21%	N/A	N/A

The expected long-term rate of return on System plan assets is established based on management's expectations of asset returns for the investment mix in the plans, considering historical experience, current economic environment, and forecasted risk/reward assumptions. The expected returns of various asset categories are blended to derive one long-term assumption.

Trend Rates—Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plans. The trend rates for 2021 are as follows:

	Postretirement Plans
Medical trend rate	6.3%
Prescription drug trend rate	8.0%
Ultimate health care and prescription drug trend rate	5.0%
Year in which ultimate trend rates reached	2033

A one-percentage-point change in assumed health care cost trends would have the following effects as of December 31, 2020:

	One-Percentage- Point Increase	One-Percentage- Point Decrease
Effect on postretirement benefit obligation	1.28%	(1.15)%
Effect on total of service cost and interest cost components	0.95%	(0.84)%

Expected Future Contributions—The System is expected to contribute \$32,026 to the pension plans and \$3,807 to the postretirement health care plans in 2021.

Expected Benefit Payments—As of December 31, 2020, the System expects to pay the following pension benefits and postretirement benefits for each of the next five years and in the aggregate for the succeeding five years thereafter as follows:

	<u>Pension Plans</u>	<u>Postretirement Plans</u>
Years Ending December 31:		
2021	\$ 78,224	\$ 3,807
2022	62,432	3,772
2023	59,265	3,720
2024	59,947	3,661
2025	57,156	3,578
Thereafter	217,314	16,364

11. LONG-TERM OBLIGATIONS

Long-term obligations as of December 31, 2020 and 2019, consisted of the following:

<u>Obligation</u>	<u>Maturity</u>	<u>Rate</u>	<u>2020</u>	<u>2019</u>
Bonds Series 2016	2020 to 2046	Fixed 3.00%–5.00%	\$ 835,880	\$ 840,770
Bonds Series 2019A	2048 to 2050	Fixed 4.00%–5.00%	227,910	227,910
Taxable term loan	2021	Variable 1.01%	34,685	35,560
Tax-exempt loan	2020	Fixed 2.07%	-	11,392
Other obligations		Fixed 4.44%–4.82%	3,667	3,495
Deferred issuance costs, net			(7,387)	(7,807)
Unamortized bond premium			<u>111,188</u>	<u>117,175</u>
Total			1,205,943	1,228,495
Less current portion			<u>51,751</u>	<u>17,622</u>
Total long-term obligations			<u>\$ 1,154,192</u>	<u>\$ 1,210,873</u>

The System's 2016 Master Indenture agreement created the Henry Ford Health System Credit Group (the "Credit Group"). The Credit Group is comprised of the Henry Ford Health System Obligated Group (the "Obligated Group"), Henry Ford Health System Designated Affiliates (the "Designated Affiliates"), and Henry Ford Health System Limited Designated Affiliates (the "Limited Designated Affiliates"). The Corporation, Wyandotte, Macomb, and Allegiance Health are members of the Obligated Group. HAP (excluding its subsidiaries) and the Foundation are Designated Affiliates. There are currently no Limited Designated Affiliates. The agreement contains financial covenants relating to permitted debt, permitted encumbrances, permitted dispositions of cash and other assets, permitted guarantees, and permitted mergers and reorganizations.

On May 2, 2019, the System issued \$227,910 in Series 2019A hospital revenue bonds, at a premium of \$22,094 with issuance costs of \$2,304. The System has received \$249,720 of the proceeds for reimbursement of approved costs while the remaining \$1,755 is held in trust as of December 31, 2020.

The approximate principal requirements on long-term obligations for the next five years and thereafter are as follows:

Years Ending December 31:

2021	51,751
2022	17,920
2023	19,845
2024	19,669
2025	20,551
Thereafter	972,406

The System has various credit agreements it may borrow from with varying expiration dates which are detailed in the table below. There were no advances on the lines at December 31, 2020 or 2019. The System also holds a \$10,000 letter of credit with outstanding commitments of \$9,234 and \$8,952 as of December 31, 2020 and 2019, respectively.

December 31, 2020		December 31, 2019	
Borrowing	Expiration	Borrowing	Expiration
Limit	Date	Limit	Date
\$ 100,000	June 2, 2021	\$ 100,000	June 2, 2021
100,000	June 2, 2021	100,000	June 2, 2021
50,000	April 16, 2021	75,000	April 19, 2020
100,000	April 23, 2021		
100,000	April 29, 2021		
75,000	April 19, 2022		
<u>\$ 525,000</u>		<u>\$ 275,000</u>	

12. LEASES

The System utilizes operating and finance leases for medical and office buildings, medical equipment, and various other equipment. The initial lease liability is calculated as the present value of fixed payments not yet paid and variable payments that are based on a market rate or an index (e.g., Consumer Price Index), measured at commencement. The right-of-use (ROU) asset represents the lessee's right to use a specified asset for the lease term, and is measured at the lease liability amount, adjusted for lease prepayment, lease incentives received, and the lessee's initial direct costs. The lease agreements generally require the System to pay maintenance, repairs, property taxes, and insurance costs, which are variable amounts based on actual costs incurred during each applicable period. Such costs are not included in the determination of the ROU asset or lease liability. Most leases include options to renew the lease at the end of the initial term. These options are evaluated at the commencement of the lease, and only those that are reasonably certain of being exercised are included in determining the appropriate lease term. The System's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

When readily determinable, the System uses the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, the System's incremental borrowing rate is utilized. The incremental borrowing rate is not a quoted rate and is derived by applying a spread over U.S. Treasury rates with a similar duration to the System's lease payments.

The components of lease cost and rent expense, included in general and other administrative expense depreciation and amortization expense, rent and lease expense, and interest expense for the years ended December 31, 2020 and 2019, are as follows:

<i>Lease Cost:</i>	<u>2020</u>	<u>2019</u>
Finance lease cost		
Amortization of ROU assets	\$ 5,067	\$ 2,974
Interest on lease liabilities	1,690	679
Operating lease cost	38,720	37,278
Short-term lease cost	16,761	16,051
Variable lease cost	<u>9,840</u>	<u>10,076</u>
Total lease cost	<u>\$ 72,078</u>	<u>\$ 67,058</u>

The System did not have any subleases as of December 31, 2020 or 2019.

Cash flow and other information:

	<u>2020</u>	<u>2019</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases ⁽¹⁾	\$ 37,286	\$ 34,849
Operating cash flows from finance leases	\$ 1,690	\$ 665
Financing cash flows from finance leases	\$ 4,126	\$ 2,756
ROU assets obtained in exchange for new finance lease liabilities	\$ 2,583	\$ 34,870
ROU assets obtained in exchange for new operating lease liabilities	\$ 16,172	\$ 27,623
Weighted-average remaining lease term:		
Finance leases	16.8 years	17.6 years
Operating leases	8.3 years	9.1 years
Weighted-average discount rate:		
Finance leases	3.7%	3.8%
Operating leases	3.8%	3.9%

⁽¹⁾ Included in the change in other liabilities in the consolidated statements of cash flows.

The schedule of maturity of lease liabilities for balances outstanding at December 31, 2020, is as follows:

<u>Years Ending December 31:</u>	<u>Operating Leases</u>	<u>Finance Leases</u>
2021	33,539	5,375
2022	30,904	3,362
2023	28,345	3,412
2024	24,975	2,763
2025	23,318	2,762
Thereafter	<u>91,483</u>	<u>42,217</u>
Total commitments	232,564	59,891
Less imputed interest	<u>36,383</u>	<u>16,332</u>
Present value of lease liabilities	<u>\$ 196,181</u>	<u>\$ 43,559</u>

13. COMMITMENTS AND CONTINGENCIES

The System is party to lawsuits incidental to its operations and management believes that the ultimate outcome of these contingencies will not have a material effect on the accompanying consolidated financial statements.

The health care industry is subject to numerous and complex laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to review and interpretation, as well as future regulatory enforcement actions, such as fines, penalties, and repayment of previously billed and collected revenues. Management believes that the System complies with current laws and regulations.

14. NET ASSETS WITHOUT DONOR RESTRICTIONS

Changes in consolidated net assets without donor restrictions attributable to the System and the NCIs for the years ended December 31, 2020 and 2019, are as follows:

	<u>Henry Ford Health System</u>	<u>Noncontrolling Interests</u>	<u>Total</u>
Net assets without donor restrictions—December 31, 2018	\$ <u>1,882,921</u>	\$ <u>3,427</u>	\$ <u>1,886,348</u>
Excess of revenue over expenses from consolidated operations	352,530	1,973	354,503
Net assets released from restrictions for capital	16,305	-	16,305
Distributions to noncontrolling interests	-	(2,083)	(2,083)
Pension and other postretirement net adjustments	(7,373)	-	(7,373)
Purchase price adjustment to noncontrolling interest	<u>(14,961)</u>	<u>-</u>	<u>(14,961)</u>
Increase (decrease) in net assets without donor restrictions	<u>346,501</u>	<u>(110)</u>	<u>346,391</u>
Net assets without donor restrictions—December 31, 2019	\$ <u>2,229,422</u>	\$ <u>3,317</u>	\$ <u>2,232,739</u>
Excess of revenue over expenses from consolidated operations	420,247	2,052	422,299
Net assets released from restrictions for capital	7,395	-	7,395
Distributions to noncontrolling interests	-	(1,716)	(1,716)
Pension and other postretirement net adjustments	<u>(14,490)</u>	<u>-</u>	<u>(14,490)</u>
Increase in net assets without donor restrictions	<u>413,152</u>	<u>336</u>	<u>413,488</u>
Net assets without donor restrictions—December 31, 2020	\$ <u>2,642,574</u>	\$ <u>3,653</u>	\$ <u>2,646,227</u>

15. ENDOWMENTS

The System's endowments consist of various funds established for specific purposes that are either designated by the board and included in net assets without donor restrictions or designated by a donor and are included in net assets with donor restrictions. The assets are managed in a custodial account. The target allocation in this account is:

	<u>Target</u>
Stock and stock funds	45 %
Private equities	14
Collective funds:	
Hedge funds	9
Debt securities	16
Global allocation and liquid assets	<u>16</u>
Total	<u><u>100 %</u></u>

The annual spending appropriation from the endowments is determined by the average of the beginning balance for each of the 12 previous quarters multiplied by a 5% spending factor. The endowment corpus is maintained in perpetuity for donor-restricted endowments.

The composition of endowment net assets as of December 31, 2020 and 2019, and the changes in endowment net assets for the years ended December 31, 2020 and 2019, are summarized as follows:

	<u>Endowment Net Assets Designated by Board</u>	<u>Endowment Net Assets with Donor Restrictions</u>	<u>Total</u>
Endowment net assets—December 31, 2018	\$ 305,791	\$ 124,257	\$ 430,048
Investment return, net	49,620	8,511	58,131
Contributions and other	-	3,023	3,023
Annual spending appropriation	<u>(15,600)</u>	<u>(5,631)</u>	<u>(21,231)</u>
Endowment net assets—December 31, 2019	339,811	130,160	469,971
Investment return, net	39,790	1,153	40,943
Contributions and other	-	1,385	1,385
Annual spending appropriation	<u>(16,200)</u>	<u>(5,787)</u>	<u>(21,987)</u>
Endowment net assets—December 31, 2020	<u>\$ 363,401</u>	<u>\$ 126,911</u>	<u>\$ 490,312</u>

16. INFORMATION ABOUT LIQUIDITY

The System's strategy is designed to ensure liquidity across all operating units and meet all regulatory requirements. To accomplish this, separate cash funds are maintained for the System and for each of the regulated insurance subsidiaries (collectively "Operating Pools"). The Operating Pools asset allocations offer the potential for higher return consistent with reasonable risk while also ensuring adequate liquidity to meet the System's general expenditures, liabilities, and other obligations as they come due. In addition, as part of its liquidity management, the System invests cash in excess of daily requirements in various short-term investments, primarily government money market funds. As more fully described in Note 11, the System also has \$525,000 in short-term credit facilities with no funds drawn as of December 31, 2020. In the next six months, \$450,000 of the lines are up for renewal or extension and the System is exploring options on the lines to maintain short term borrowing abilities, which it could draw upon in the event of an unanticipated liquidity level.

The Foundation's endowment investments are designated by the board and considered a quasi-endowment as described in further detail in Note 15. The System does not intend to spend from the Foundation's endowment other than the investment income appropriated for general expenditures, however, additional funds could be made available if necessary.

The Operating Pools, the Foundation endowment, and donor-restricted endowments contain a limited allocation of investments with lock-up provisions that would reduce the total investments that could be made available (see Note 4 for disclosures about these investments). The System carefully manages liquidity through other asset classes of investments.

The System's total financial assets as of December 31, 2020 and 2019, reduced by amounts not available for general use within one year of the consolidated balance sheet date because of donor restrictions, internal designations, or certain investments with reduced liquidity are as follows:

	<u>2020</u>	<u>2019</u>
Total financial assets	\$ 4,286,193	\$ 3,250,165
Financial assets not available to be used in one year:		
Subject to contractual or donor-imposed restrictions (Note 5)	(337,553)	(353,719)
Subject to board and other designations (Note 5)	(670,664)	(589,904)
Hedge funds subject to lock-up provisions (Note 4)	(7,027)	(15,023)
Private market investments (Note 4)	<u>(68,422)</u>	<u>(32,819)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,202,527</u>	<u>\$ 2,258,700</u>

17. SUBSEQUENT EVENTS

Pursuant to FASB ASC Topic 855-10, *Subsequent Events — Overall*, the System has evaluated subsequent events through March 17, 2021, the date the consolidated financial statements were issued. As a result of this evaluation, the System has the following event to disclose.

Effective February 1, 2021, the System and Michigan State University entered into a partnership to conduct joint research and clinical care, collaborate more on health student education, and develop a long-term plan to build a research institute and a regional health campus in Detroit.

The partnership will last for at least 30 years, as both institutions are committed to aligning efforts across key departments and programs to achieve critical health care and educational goals, while addressing social issues that impact health outcomes for patients in Michigan and beyond.

Key features of the agreement include fostering innovative, groundbreaking research; providing best-in-class cancer care; interprofessional training; increasing diversity among the next generation of health care professionals; and addressing the needs of traditionally underserved communities. Diversity, equity, and inclusion are core components of the partnership and are embedded throughout the agreement in a commitment to addressing access to health care and health disparities in both urban and rural communities.

SUPPLEMENTAL SCHEDULES

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Audit and Compliance Committee of the Board of Trustees
Henry Ford Health System
Detroit, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Henry Ford Health System and affiliates (the "System"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 17, 2021, except for the Supplemental Schedule of Expenditures of Federal Awards and related notes for the year ended December 31, 2020, as to which the date is October 27, 2021. The financial statements of Health Alliance Plan of Michigan and Subsidiaries (HAP) were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with HAP.

Internal Control over Financial Reporting

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

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

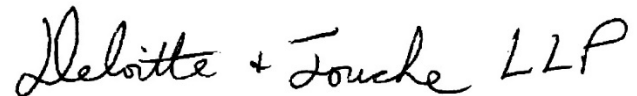
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not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

Compliance and Other Matters

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

Purpose of This Report

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

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, flowing style.

March 17, 2021

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH FEDERAL MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Audit and Compliance Committee of the Board of Trustees
Henry Ford Health System
Detroit, Michigan

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the System's compliance.

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Deloitte + Touche LLP

October 27, 2021

HENRY FORD HEALTH SYSTEM
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

<u>Agency</u>	<u>Sub Agency</u>	<u>CFDA/Contract Number</u>	<u>Program Title</u>	<u>Federal Award Identification Number</u>	<u>Pass-Through Grantor</u>	<u>Pass-Through Grantor Identifying Number</u>	<u>Federal Expenditures</u>	<u>Expenditures Passed-through to Subrecipients</u>
Research and Development Cluster:								
Department of Defense								
	U.S. Army Medical Command	12.420	Military Medical Research and Development					
				Regents of the University of Colorado		FY18. 794.002	\$ 10,567	\$ -
				Department of Defense		W81XWH-16-1-0544	(409)	-
				Department of Defense		W81XWH-17-1-0170	168,424	7,914
				Department of Defense		W81XWH-17-1-0305	242,373	-
				Department of Defense		W81XWH-18-1-0540	132,986	-
				Department of Defense		W81XWH-19-1-0373	289,352	-
				Department of Defense		W81XWH-19-1-0374	137,716	-
				Department of Defense		W81XWH-19-1-0508	148,236	8,508
				Department of Defense		W81XWH-19-1-0693	215,485	-
Department of Health and Human Services								
	Agency for Healthcare Research and Quality	93.226	Research on Healthcare Costs, Quality, and Outcomes					
				Duke University		A032556	114,267	-
				Duke University		203-7622	4,118	-
				Duke University		203-7623	24,312	-
				Indiana University		IN-4683532-HFH	153	-
				University of Maryland		F218483-1	2,204	-
				University of Michigan		3004566483	39,106	-
				University of Wisconsin-Madison		0000000438	6,693	-
	Centers For Disease Control and Prevention	93.073	Birth Defects and Developmental Disabilities - Prevention and Surveillance					
							312,672	99,493
		93.083	Prevention of Disease, Disability, and Death through Immunization and Control of Respiratory and Related Diseases					
				University of Michigan		3003756185	211,761	-
		93.185	Immunization Research, Demonstration, Public Information and Education-Training and Clinical Skills Improvement Projects					
				University of Michigan		3004185093	258,517	-
				University of Michigan		3005207578	90,279	-
		93.270	Adult Viral Hepatitis Prevention and Control					
							184,804	96,541
				Centers for Disease Control and Prevention		75D30118C02928	(6,522)	-
Food and Drug Administration								
		93.103	Food and Drug Administration_Research					
				Food and Drug Administration		75F40119C10141	8,333	-
				Kaiser Foundation Research Institute		OOS03459-HFHS	55,038	-
				Kaiser Foundation Research Institute		2018114473	114,626	-
				Kaiser Permanente Washington Health Research Institute		PO# 2016174778	447,682	-
National Institutes of Health								
		93.113	Environmental Health					
							827,435	425,313
				Trustees of Boston University		4500002975	80,788	-
				Wayne State University		WSU16035	46,931	-
				Wayne State University		WSU19080	27,125	-
				Wayne State University		WSU20065	1,298	-
				Wayne State University		WSU21007	4,082	-
				Social & Scientific Systems, Inc.		PHR-SSS-S-19-005529	(3,728)	-
				Social & Scientific Systems, Inc.		PHR-SSS-S-20-005772	60,261	-

(Continued)



HENRY FORD HEALTH SYSTEM
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

Agency	Sub Agency	CFDA/Contract Number	Program Title	Federal Award Identification Number	Pass-Through Grantor	Pass-Through Grantor Identifying Number	Federal Expenditures	Expenditures Passed-through to Subrecipients
Research and Development Cluster:								
		93.172	Human Genome Research		Harvard Pilgrim Health Care, Inc.	AH000781	\$ 5,674	\$ -
		93.213	Research and Training in Complementary and Integrative Health		Mount Sinai Medical Center	SUG3AT009149-02	53,259	-
					New York University School of Medicine	17-A0-00-008501	46,232	-
					University of Washington	UWSC11304	252,732	-
		93.233	Research and Training in Complementary and Integrative Health	HL138166			137,729	-
					Wayne State University	WSU20003	170,186	-
		93.242	Mental Health Research Grants	MH103539			113,695	33,622
				MH114087			1,295,311	1,067,168
				MH115150			20,829	-
				MH122636			279,579	9,955
					Kaiser Foundation Research Institute	RNG210861-HFHS	7,274	-
					Kaiser Foundation Research Institute	U19MH121738	69,695	-
					Kaiser Permanente Washington Health Research Institute	MH092201-07-Henry Ford	(192)	-
					The Trustees of the University of Pennsylvania	MH092201-07-Henry Ford	2,037	-
					The University of North Carolina at Chapel Hill	5106100	7,068	-
					The University of North Carolina at Chapel Hill	5111498	109,708	-
					University of Michigan	3004926459	110,832	-
		93.273	Alcohol Research Programs	AA02775			24,809	-
					Boston Children's Hospital	GENFD0001643569	13,432	-
					Wayne State University	WSU20009	37,848	-
		93.279	Drug Abuse and Addiction Research Programs	DA038177			276,504	-
					Kaiser Foundation Research Institute	RNG200340-HFHS-01	12,153	-
					Kaiser Foundation Research Institute	RNG209779-HFHS-01	66,821	-
					Kaiser Foundation Research Institute	O0S030297-HFHS	23,065	-
					Kaiser Foundation Research Institute	RNG210120-HFHS-01	25,435	-
					Kaiser Permanente Washington Health Research Institute	2018114460	71,690	-
					Kaiser Permanente Washington Health Research Institute	2020111162	93,643	-
					Saint Louis University	1R01DA043811-01A1	186,111	-
					Yale School of Medicine	401655	229,554	-
		93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health		Yale University	M17A12693	3,997	-
		93.307	Minority Health and Health Disparities Research		University of Pittsburgh	CNVA00041119 (124864-4)	2,395	-
		93.310	Trans-NIH Research Support	OD024610			(4)	-
				OD026550			8,588,978	6,260,625
					Duke University	203-7961	(798)	-
					Duke University	75F40119C10141	33,059	-
					Duke University	A03-3797	34,091	-
					Michigan State University	RC108889HFHS	104,867	-
					University of Wisconsin-Madison	000000323	1,135,657	-
					University of Wisconsin-Madison	000000913	492,750	-
					University of Wisconsin-Madison	787K286	1,543	-
					University of Wisconsin-Madison	843K695	7,172	-
		93.393	Cancer Cause and Prevention Research	CA205190			(61)	(61)
				CA204189			202,557	54,677
				CA222146			522,871	53,399
					Virginia Commonwealth University	5106263	97,249	-
					Wayne State University	1R01 CA134786	321	-
					Wayne State University	WSU16120	34,129	-
					Wayne State University	WSU18062	8,813	-
		93.394	Cancer Detection and Diagnosis Research	CA206190			239,928	-
				CA218596			474,311	24,443
					Albert Einstein College of Medicine, Inc.	311224	105,263	-

(Continued)



HENRY FORD HEALTH SYSTEM
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

<u>Agency</u>	<u>Sub Agency</u>	<u>CFDA/Contract Number</u>	<u>Program Title</u>	<u>Federal Award Identification Number</u>	<u>Pass-Through Grantor</u>	<u>Pass-Through Grantor Identifying Number</u>	<u>Federal Expenditures</u>	<u>Expenditures Passed-through to Subrecipients</u>
Research and Development Cluster:								
		93.395	Cancer Treatment Research	CA205660 CA219829 CA249188 CA198105	American College of Radiology BioMimetix JV, LLC Johns Hopkins University Mayo Clinic NRG Oncology Foundation, Inc. Oregon Health & Sciences Center University of Michigan	CA21661 BMX-MBM-001 UM1 CA137443 CA86004A02 HFH - YR.1 10130805WOGHENRYFORD 5R21CA205636-02 RVSD	\$ 48,119 157,641 230,863 35,051 3,100 4,362 42,863 36,258 15,905 341,182 150	\$ - - - - - - - - - - -
		93.396	Cancer Biology Research	CA210237	Kaiser Foundation Research Institute Kaiser Foundation Research Institute	RNG209451-HFHS-01 RNG209451-HFHS-02	20,865 124,254 379,329	19,259 4,357 31,317
		93.39 RD	Federal Contracts in Cancer Research		Barbara Ann Karmanos Cancer Institute National Institutes of Health National Institutes of Health National Institutes of Health National Institutes of Health National Institutes of Health National Institutes of Health NRG Oncology Foundation, Inc. NRG Oncology Foundation, Inc. NRG Oncology Foundation, Inc. Westat	2011-006 A22105 BR003 HHSN26100001 HHSN261201800020I HHSN261201800020I HHSN261201800020I HHSN261201800020I NCT00565851 NCT02032823 NCT02206334 6426-S04	73 3,064 38 344,420 368,776 855,250 725,769 21,362 70,762 54,675 17,717	- - - 319,053 246,200 594,346 362,636 - - - -
		93.701	Trans-NIH Recovery Act Research Support		University of Michigan	30001413054-PNT	3,318	-
		93.837	Heart and Vascular Diseases Research	HL132154 HL132154 HL131891 HL143432 HL143099 HL136456 HL139877 HL143099 HL148060 HL28982	Duke University Massachusetts General Hospital Mayo Clinic Mayo Clinic New England Research Institutes, Inc. New England Research Institutes, Inc. New York University School of Medicine New York University School of Medicine Regents of the University of Minnesota University of Iowa University of Michigan University of California, San Diego Yale University National Institutes of Health	2938081 A5332 HEN-215432 HEN-215432-02 A032731 U01HL107407 R01HL119153 U01HL105907 N006187409 500271-01 SUBK00009617 126279991 GR104847 HHSN268201700206A	345,311 308,723 7 214,453 937 394,434 322,371 464,781 189,728 (108) (27) 6,457 14,668 4,822 2,000 21,237 869 3,412 10,593 (25) 14,282 8,819 6,471 7,722	44,650 - - - - - - - - - - - - - - - - - - -

(Continued)



HENRY FORD HEALTH SYSTEM
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

<u>Agency</u>	<u>Sub Agency</u>	<u>CFDA/Contract Number</u>	<u>Program Title</u>	<u>Federal Award Identification Number</u>	<u>Pass-Through Grantor</u>	<u>Pass-Through Grantor Identifying Number</u>	<u>Federal Expenditures</u>	<u>Expenditures Passed-through to Subrecipients</u>
Research and Development Cluster:								
		93.838	Lung Diseases Research	HL141845			\$ 645,763	\$ 176,491
					Oklahoma Medical Research Foundation	0245-06HFHS	30,923	-
					University of Michigan	3003642706	73,920	-
					University of Michigan	3003858506	9,827	-
					University of Michigan	3004483233	19,675	-
					University of Michigan	SUBK00013334	2,535	-
					University of Michigan	SUBK00013488	390	-
					University of Michigan	SUBK00013859	6,474	-
					National Institutes of Health	HHSN268201700225A	13,761	-
					Transmural Systems, Inc.	HHSN268201500012C	7,722	-
		93.839	Blood Diseases and Resources Research					
					21st Century Therapeutics, Inc.	R34HL139196	(952)	-
					Duke University	2037978	13,078	-
					University of Pittsburgh	0054669 (131801-2)	2,600	-
		93.846	Arthritis, Musculoskeletal and Skin Diseases Research					
				AR069681			152,784	-
				AR070363			1,937	-
				AR072297			51,851	-
				AR051912			368,669	-
				AR072046			209,144	(4,872)
				AR072785			136,079	-
				AR076803			391,736	(4,872)
				AR075876			36,741	-
				AR076378			80,519	-
					University of Michigan	SUBK00010329	132,306	-
		93.847	Diabetes, Endocrinology and Metabolism Research					
				DK102861			(33,828)	-
				DK105300			512	-
				DK107263			385,321	-
				DK113003			501,277	(30,765)
				DK114471			74,277	-
				DK114471			32,244	-
				DK115601			25,480	-
				DK123192			57,802	-
				DK124377			67,114	-
					Case Western Reserve University	RES511750	(763)	-
					Case Western Reserve University	RES512828	4,347	-
					Case Western Reserve University	RES514440	106,731	-
					Case Western Reserve University	RES515396	89,305	-
					Cleveland Clinic Lerner College of Medicine of CWRU	1138-SUB	9,900	-
					Jaeb Center for Health Research Foundation, Inc.	1UC4DK108612	96,740	-
					University of Michigan	3004896555	(44)	-
					University of Michigan	SUBK00003392	275	-
					University of Michigan	SUBK00008563	6,476	-
					University of Michigan	SUBK00011614	54,584	-
					University of Michigan	SUBK00012514	9,625	-

(Continued)



HENRY FORD HEALTH SYSTEM
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

<u>Agency</u>	<u>Sub Agency</u>	<u>CFDA/Contract Number</u>	<u>Program Title</u>	<u>Federal Award Identification Number</u>	<u>Pass-Through Grantor</u>	<u>Pass-Through Grantor Identifying Number</u>	<u>Federal Expenditures</u>	<u>Expenditures Passed-through to Subrecipients</u>
Research and Development Cluster:								
		93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders					
			NS088656				\$ 177,408	\$ -
			NS092917				66,455	-
			NS097747				103,859	-
			NS099030				14	-
			NS100710				354,483	-
			NS102744				337,867	-
			NS104560				84,805	5,888
			NS108463				550,801	169,290
			NS109477				329,904	-
			NS111801				330,379	-
			NS112727				387,626	-
			NS114245				137,026	-
			NS114775				116,620	-
					Board of Trustees of the Leland Stanford Junior University	61865507-125439	44,797	-
					Mayo Clinic Jacksonville	HEN-187276-01	4,187	-
					Medical University of South Carolina	MUSC08-133	3	-
					Neurotheranostics, Inc.	1R43NS107043-01A1	1,836	-
					Trustees of Boston University	4500003488	16,667	-
					Trustees of Boston University	4500002393	1	-
					University of Cincinnati	010785-137426	8,464	-
					University of Cincinnati	011266-137426	2,433	-
					University of Cincinnati	012043-137426	2,433	-
					University of Cincinnati	012043-137426	1,062	-
					University of Cincinnati	011337-137426	7,552	-
					University of Michigan	3002111998-SHN	(4,070)	-
					University of Michigan	SUBK10400CSPR-002	28,616	-
					West Virginia University Research Corporation	16-538 HFHS	26,269	-
		93.855	Allergy, Immunology and Transplantation Research					
			AI089473				1,463,515	531,804
			AI110450				274,297	-
			AI119041				199,182	-
			AI144004				410,439	-
					Duke University	A032147	(943)	-
					Duke University	D5470C00004	2,650	-
					Duke University	UM1A1104681	133,483	-
					Institute of Clinical Research, Inc.	U01AI068641	1,039	-
					The Johns Hopkins University	2004750563	86,632	-
					University of Miami	666646	14,867	-
					University of Michigan	3003525324	10	-
					University of Wisconsin-Madison	0000000162	387,879	-
					University of Wisconsin-Madison	0000000797	254,885	-
					Atox Bio, Ltd.	ATB-202	5,564	-
					Cerus Corporation	HHSO100201600009C	7,243	-
					Institute for Clinical Research, Inc.	M05-HF-014-0704-1	7,487	-
					Janssen Vaccines & Prevention B.V..	VAC31518COV3001	499,367	-
					Summit (Oxford) Limited	SMT19969/C005	5,161	-
					University of Michigan	30044184954	153,841	-

(Continued)



HENRY FORD HEALTH SYSTEM
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

<u>Agency</u>	<u>Sub Agency</u>	<u>CFDA/Contract Number</u>	<u>Program Title</u>	<u>Federal Award Identification Number</u>	<u>Pass-Through Grantor</u>	<u>Pass-Through Grantor Identifying Number</u>	<u>Federal Expenditures</u>	<u>Expenditures Passed-through to Subrecipients</u>
Research and Development Cluster:								
		93.859	Biomedical Research and Research Training				\$ 187,305	\$ -
			GM128156					
		93.865	Child Health and Human Development Extramural Research				441,497	208,820
			HD082147		University of Michigan	3004563656	169,277	-
					University of North Carolina at Chapel Hill	5119419	4,390	-
		93.866	Aging Research				845,416	35,635
			AG057494				311,779	-
			AG063750					
		93.867	Vision Research				12,032	-
					Pennsylvania State University	HFHEY023533	43,642	-
					Wayne State University	WSU17064		
Department of Veteran Affairs								
	Department of Veteran Affairs	36C257-19-Q-0289		PO# 674-D96003			5,007	-
National Aeronautics and Space Administration								
		43.003	Exploration				70,617	50,000
			NNX13AB42G					
National Science Foundation								
		47.070	Computer and Information Science mad Engineering				10,488	-
					Massachusetts Institute of Technology	S4889, PO# 405645		
Total Research and Development Cluster							39,336,271	10,900,834
Supplemental Nutrition Assistance Program Cluster:								
Department of Agriculture								
	Food and Nutrition Service	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program					
			Michigan Fitness Foundation			SNAP-ED MI FY2019	(17,943)	-
			Michigan Fitness Foundation			SNAP-ED MI FY2020	472,940	-
			Michigan Fitness Foundation			SNAP-ED MI FY2021	126,553	-
			Michigan Fitness Foundation			HFHS PSE 2019-003	54,528	-
			Michigan Fitness Foundation			HFHS EEB RFA 2019-04	38,989	-
Total Supplemental Nutrition Assistance Program Cluster							675,067	-

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HENRY FORD HEALTH SYSTEM
Schedule of Expenditures of Federal Awards
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Agency	Sub Agency	CFDA/Contract Number	Program Title	Federal Award Identification Number	Pass-Through Grantor	Pass-Through Grantor Identifying Number	Federal Expenditures	Expenditures Passed-through to Subrecipients
Other Programs:								
Department of Health and Human Services								
Administration for Children and Families								
		93.092	Affordable Care Act (ACA) Personal Responsibility Education Program					
					Michigan Department of Community Health	20203249-00	\$ 71,348	\$ -
					Michigan Department of Community Health	20212536-00	26,043	-
Centers for Disease Control and Prevention								
		93.070	Environmental Public Health and Emergency Response Region 2 South			Region 2 South	515,815	-
		93.080	Blood Disorder Program: Prevention, Surveillance, and Research					
					Hemophilia Foundation of Michigan	CDC 18-19-424	101	-
					Hemophilia Foundation of Michigan	CDC-19-20-424	15,059	-
					Hemophilia Foundation of Michigan	CDC 424 20-21	8,458	-
		93.136	Injury Prevention and Control Research and State and Community Based Programs					
					Michigan Department of Community Health	20214204-00	1,916	-
					Michigan Department of Community Health	20213167-00	20,669	-
		93.380	The CDC Public Health Cancer Genomics Program: Translating Research into Public Health Practice					
					Michigan Department of Community Health	20201934-00	1,126	-
					Michigan Department of Community Health	20213632-00	610	-
		93.426	Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke					
					Michigan Department of Community Health	20202854-00	542	-
					Michigan Public Health Institute	I-79527-115-504200	27,499	-
		93.435	Innovative State and Local Public Health Strategies to prevent and Mange Diabetes and Heart Disease and Stroke					
					Michigan Department of Community Health	20202854-00	9,322	-
		93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)					
					Greater Detroit Area Health Council Inc.	MI-1422	2,801	-
		93.940	HIV Prevention Activities_Health Department Based					
					Michigan Department of Community Health	20192696-00	(2,772)	-
					Michigan Department of Community Health	20202037-00	145,429	-
					Michigan Department of Community Health	20202241-00	2,533	-
					Michigan Department of Community Health	20212238-00	1,167	-
					Michigan Department of Community Health	20212693-00	44,632	-
Centers For Medicare And Medicaid Services								
		93.624	Affordable Care Act (ACA) - State Innovation Models: Funding for Model Design and Model Testing Assistance					
					Michigan Department of Community Health	E20200777-00	148,027	-
Health Resources and Services Administration								
		93.110	Maternal and Child Health Federal Consolidated Programs					
					Hemophilia Foundation of Michigan	5-H30MC24047-07-00	(997)	-
					Hemophilia Foundation of Michigan	5-H30MC24047-08-00	7,617	-
					Hemophilia Foundation of Michigan	5-H30MC24047-09-00	10,322	-
					Health Resources and Services Administration	HHS25020170038G	986	-
		93.501	Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures					
					C12CS32646		3,500	-
		93.461 - Covid-19	Covid-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured					
					Covid-19		1,025,649	-
		93.914	HIV Emergency Relief Project Grants					
					AIDS United	U69HA310670100	91,363	-
					AIDS United	U69HA310670400	59,495	-
					City Of Detroit Health Dept.	Ryan White - Early Intervention	211,271	-
					City Of Detroit Health Dept.	Ryan White - Primary Care	538,085	-
					City Of Detroit Health Dept.	Ryan White- Minority Aids Initiative	147,084	-
					City Of Detroit Health Dept.	Ryan White- Minority Aids Initiative Early Intervention	34,504	-
		93.914 - Covid 19	Covid-19 HIV Emergency Relief Project Grants					
					City Of Detroit Health Dept.	Ryan White HIV/AIDS Program Part A COVID-19 Response	10,144	-
					City Of Detroit Health Dept.	Ending the Epidemic: A Plan for America - Ryan White HIV/AIDS Program Parts Part A	18,402	-

(Continued)



HENRY FORD HEALTH SYSTEM

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020**

<u>Agency</u>	<u>Sub Agency</u>	<u>CFDA/Contract Number</u>	<u>Program Title</u>	<u>Federal Award Identification Number</u>	<u>Pass-Through Grantor</u>	<u>Pass-Through Grantor Identifying Number</u>	<u>Federal Expenditures</u>	<u>Expenditures Passed-through to Subrecipients</u>
Other Programs:								
	Office of the Secretary	93.003	Public Health and Social Services Emergency Fund					
			Region 2 North Medical Bio-Defense Network			Region 2 North	\$ 38,211	\$ -
			Region 2 South Medical Bio-Defense Network			Region 2 South	1,519	-
			Region 2 South Medical Bio-Defense Network			Region 2 South	311	-
	93.889 - Covid-19		Covid-19 National Bioterrorism Hospital Preparedness Program					
			Covid-19		Michigan Hospital Association	Covid-19	313,145	-
	Substance Abuse and Mental Health Services Administration	93.243	Substance Abuse and Mental Health Services					
			SM083419				48,136	-
	93.276		Drug-Free Communities Support Program Grants				111,699	-
			SP021392					
Department of Homeland Security	Federal Emergency Management Agency	97.036 - Covid-19	Covid-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)					
			Covid-19		Michigan State Police		10,010,119	-
Department of Treasury	Department of Treasury	21.019 - Covid-19	Covid-19 Coronavirus Relief Funds					
			Covid-19		Michigan Department of Community Health	E20214079-01	276,729	-
			Covid-19		Michigan Department of Health and Human Services		296,341	-
			Covid-19		Michigan Primary Care Association	SLT0040 & SLT0247	1,152	-
			Covid-19		Michigan Public Health Institute	Q-80041-115-504201	524,204	-
			Covid-19		Michigan Public Health Institute	Q-80041-115-504201	255,580	-
			Covid-19		Michigan Economic Development Corporation	SLT0040	400,810	-
Federal Communications Commission	Federal Communications Commission	32.006 - Covid-19	Covid-19 Telehealth Program				715,723	-
Total Other Programs							<u>16,191,429</u>	<u>-</u>
Total All Programs							<u>\$56,202,767</u>	<u>\$ 10,900,834</u>

(Concluded)



NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2020

1. BASIS OF ACCOUNTING

The schedule of expenditures of federal awards is presented on the same basis of accounting used for presentation of Henry Ford Health System's (the "System") basic consolidated financial statements, which is in accordance with accounting principles generally accepted in the United States of America.

The schedule of expenditures of federal awards is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, and includes all the System's expenditures charged to federal programs. The schedule summarizes expenditures by:

- Primary federal funding agency
- Programs as defined by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*
- Direct award agreements with federal granting agencies

The schedule of expenditures of federal awards includes negative amounts, which represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

2. PROGRAMS

The System's programs are primarily research and development.

Research and development programs include those awards that are for basic and applied research and development activities. Title 2 U.S. Code of Federal Regulations Part 200 defines research and development as follows: research is a systematic study directed toward fuller scientific knowledge or understanding of the subject studied; and development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

Indirect Costs—The System uses indirect cost rates when determining federal awards expended for research, as approved by the United States Department of Health and Human Services. For other federal awards, to the extent indirect costs are allowable, the System elects to use the de minimis indirect cost rate allowed under the Uniform Guidance.

3. DONATED PERSONAL PROTECTIVE EQUIPMENT (UNAUDITED)

For the year ended December 31, 2020, the fair value of donated personal protective equipment received by the System was \$2,370,058 and was not included in the consolidated schedule of expenditures of federal awards.

PART I—SUMMARY OF AUDITORS’ RESULTS

Financial Statements		
Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Federal Awards		
Internal control over major federal programs:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Type of auditor's report issued on compliance for major federal programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) ?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Identification of major federal programs:		
Name of Federal Program or Cluster	CFDA Number	
Covid-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	
Covid-19 Coronavirus Relief Fund	21.019	
HRSA Covid-19 Uninsured Program	93.461	
Dollar threshold used to distinguish between Type A and Type B programs:	\$1,686,083	
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no

PART II—FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable.

PART III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters are reportable.

Summary Schedule of Prior-Year Audit Findings for the Year Ended December 31, 2019

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Contact Person(s)	Comments
2019	2019-001	Cash Management	R&D Cluster	None	Joe Ohmer, Director Fund Accounting	Corrective action plan was started and implemented in 2020.
2019	2019-002	Reporting	CFDA 10.561	None	Joe Ohmer, Director Fund Accounting	Corrective action plan was started and implemented in 2020.



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