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# ProMedica Health System and Subsidiaries

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**Consolidated Financial Report  
with Supplemental Information  
December 31, 2022**

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## Independent Auditor's Report

To the Board of Directors  
ProMedica Health System and Subsidiaries

### Report on the Audits of the Consolidated Financial Statements

#### **Opinion**

We have audited the consolidated financial statements of ProMedica Health System and Subsidiaries (the "System"), which comprise the consolidated balance sheet as of December 31, 2022 and 2021 and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the System as of December 31, 2022 and 2021 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are required to be independent of the System and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of ProMedica Insurance Corporation and ProMedica Indemnity Corporation were not audited under *Government Auditing Standards*.

#### **Emphasis of Matter**

As described in Notes 2 and 24 to the consolidated financial statements, certain components of the System's operations have been classified as discontinued operations on the consolidated statement of operations and changes in net assets. Our opinion is not modified with respect to this matter.

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

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

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

To the Board of Directors  
ProMedica Health System and Subsidiaries

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

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

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

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

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

### ***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the historical paid and incurred loss data for the years ended December 31, 2020 to December 31, 2022, included in Note 14 to the consolidated financial statements, be presented to supplement the basic consolidated financial statements. Such information, although not a required part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Directors  
ProMedica Health System and Subsidiaries

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2023 on our consideration of ProMedica Health System and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ProMedica Health System and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ProMedica Health System and Subsidiaries' internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

April 19, 2023

## ProMedica Health System and Subsidiaries

# Consolidated Balance Sheet

December 31, 2022 and 2021  
(In Thousands)

	2022	2021
		(As Restated)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 408,253	\$ 569,151
Marketable securities (Note 19)	99,621	262,271
Assets limited as to use or restricted (Notes 7 and 19)	168,126	14,120
Accounts receivable - Net (Note 4)	592,416	610,649
Estimated third-party payor receivable	18,279	26,438
Supplies	38,854	40,670
Assets held for sale (Note 26)	-	6,085
Pension (Note 15)	14,335	-
Other current assets	82,202	252,083
Total current assets	1,422,086	1,781,467
<b>Noncurrent Assets Limited as to Use or Restricted</b> - Net of amount required to meet current obligations (Notes 7 and 19)	699,294	1,494,652
<b>Property and Equipment</b> - Net (Note 8)	1,483,944	1,517,184
<b>Right-of-use Operating Lease Assets</b> (Note 11)	483,439	635,220
<b>Other Assets</b>		
Goodwill (Note 9)	782,458	1,102,452
Intangible assets (Note 9)	85,862	121,506
Pension (Note 15)	-	50,563
Investment in affiliated companies (Note 23)	208,212	252,680
Assets held for sale - Long term (Note 26)	-	2,015,032
Other	45,026	64,231
Total other assets	1,121,558	3,606,464
Total assets	<b>\$ 5,210,321</b>	<b>\$ 9,034,987</b>

## ProMedica Health System and Subsidiaries

### Consolidated Balance Sheet (Continued)

**December 31, 2022 and 2021**  
**(In Thousands)**

	2022	2021
		(As Restated)
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and other accrued expenses	\$ 465,275	\$ 669,287
Contractual current installments of long-term debt (Note 10)	456,236	21,404
Contingent current installments of long-term debt (Note 10)	-	400,441
Estimated third-party payor settlements	106,148	88,102
Current portion of lease liabilities - Finance (Note 11)	6,606	4,020
Current portion of lease liabilities - Operating (Note 11)	40,444	48,613
Liabilities held for sale (Note 26)	-	84,690
Accrued liabilities and other:		
Compensation and benefits	353,471	348,317
Professional liability and workers' compensation (Note 12)	99,038	101,545
Claims expense (Note 13)	33,120	160,044
Other current liabilities	9,464	187,062
	1,569,802	2,113,525
<b>Long-term Debt</b> - Less current installments (Note 10)	1,810,958	1,851,734
<b>Lease Liabilities</b> - Finance (Note 11)	19,414	23,590
<b>Lease Liabilities</b> - Operating (Note 11)	473,670	716,878
<b>Other Liabilities</b>		
Accrued professional liability and workers' compensation - Less current portion (Note 12)	263,568	261,233
Deferred compensation (Note 15)	49,628	58,181
Pension (Note 15)	128	157
Liabilities held for sale (Note 26)	-	1,382,019
Other	50,094	51,576
	363,418	1,753,166
Total other liabilities		
Total liabilities	4,237,262	6,458,893
<b>Net Assets</b>		
Without donor restrictions:		
Controlling interest	821,739	2,401,044
Noncontrolling interest	11,155	14,645
	832,894	2,415,689
Total without donor restrictions		
With donor restrictions (Note 16)	140,165	160,405
	973,059	2,576,094
Total net assets		
Total liabilities and net assets	\$ 5,210,321	\$ 9,034,987

## ProMedica Health System and Subsidiaries

# Consolidated Statement of Operations and Changes in Net Assets

Years Ended December 31, 2022 and 2021

(In Thousands)

	2022	2021
		(As Restated)
<b>Unrestricted Revenue, Gains, and Other Support</b>		
Net patient service revenue (Note 6)	\$ 3,137,682	\$ 3,057,525
Premium revenue	610,439	1,979,927
Other	327,554	192,609
Net assets released for use in operations	14,751	13,763
Total unrestricted revenue, gains, and other support	4,090,426	5,243,824
<b>Expenses</b>		
Salaries, wages, and employee benefits	1,969,333	1,999,342
Food and drugs	275,686	256,917
Medical expenses	373,877	1,374,115
Contracted fees	696,737	607,204
Supplies	275,126	261,353
Insurance	34,527	46,826
Utilities	50,837	51,854
Other	256,497	334,529
Total expenses (Note 18)	3,932,620	4,932,140
<b>Operating Income before Depreciation, Amortization, and Impairment Expense</b>	157,806	311,684
<b>Depreciation, Amortization, and Impairment (Note 9)</b>	557,628	170,250
<b>Operating (Loss) Income</b>	(399,822)	141,434
<b>Other (Loss) Income</b>		
Interest expense	(118,525)	(116,996)
Investment (loss) income	(139,751)	100,489
Income tax expense (Note 17)	(1,755)	(4,089)
Other components of net periodic pension costs, including settlement costs (Note 15)	(139,834)	13,652
Other	(6,352)	(4,266)
Total other loss - Net	(406,217)	(11,210)
<b>Excess of Revenue (Under) Over Expenses before Restructuring, Severance, and Acquisition Costs</b>	(806,039)	130,224
<b>Restructuring, Severance, and Acquisition Costs (Note 2)</b>	(37,512)	-
<b>Excess of Revenue (Under) Over Expenses</b>	<b>\$ (843,551)</b>	<b>\$ 130,224</b>

## ProMedica Health System and Subsidiaries

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

Years Ended December 31, 2022 and 2021

(In Thousands)

	Net Assets without Donor Restrictions - Controlling Interest	Net Assets without Donor Restrictions - Noncontrolling Interest	Total Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
<b>Net Assets - January 1, 2021</b>	\$ 2,552,671	\$ 12,715	\$ 2,565,386	\$ 150,349	\$ 2,715,735
Excess of revenue over expenses	126,853	3,371	130,224	-	130,224
Restricted investment income	-	-	-	9,249	9,249
Restricted contributions and transfers - Net	-	-	-	18,142	18,142
Net assets released from restrictions for operations	-	-	-	(13,763)	(13,763)
Net assets released from restrictions for fixed assets	3,572	-	3,572	(3,572)	-
Capital contributions by noncontrolling members	-	20	20	-	20
Distributions to noncontrolling interests	-	(1,461)	(1,461)	-	(1,461)
Pension and other postretirement adjustments	(4,628)	-	(4,628)	-	(4,628)
Loss on discontinued operations (Note 24)	(277,424)	-	(277,424)	-	(277,424)
(Decrease) increase in net assets	(151,627)	1,930	(149,697)	10,056	(139,641)
<b>Net Assets - December 31, 2021</b>	2,401,044	14,645	2,415,689	160,405	2,576,094
Excess of expenses over revenue	(835,019)	(8,532)	(843,551)	-	(843,551)
Restricted investment loss	-	-	-	(17,773)	(17,773)
Restricted contributions and transfers - Net	-	-	-	17,376	17,376
Net assets released from restrictions for operations	-	-	-	(14,751)	(14,751)
Net assets released from restrictions for fixed assets	5,092	-	5,092	(5,092)	-
Capital contributions by noncontrolling members	-	6,397	6,397	-	6,397
Distributions to noncontrolling interests	-	(1,355)	(1,355)	-	(1,355)
Pension and other postretirement adjustments (Note 15)	103,605	-	103,605	-	103,605
Loss on discontinued operations (Note 24)	(852,983)	-	(852,983)	-	(852,983)
Decrease in net assets	(1,579,305)	(3,490)	(1,582,795)	(20,240)	(1,603,035)
<b>Net Assets - December 31, 2022</b>	<b>\$ 821,739</b>	<b>\$ 11,155</b>	<b>\$ 832,894</b>	<b>\$ 140,165</b>	<b>\$ 973,059</b>

# ProMedica Health System and Subsidiaries

## Consolidated Statement of Cash Flows

Years Ended December 31, 2022 and 2021

(In Thousands)

	2022	2021
<b>Cash Flows from Operating Activities</b>		
Decrease in net assets	\$ (1,603,035)	\$ (139,641)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation and amortization	187,376	188,282
Loss on disposal of equipment	435,425	10,677
Asset impairment	413,830	844
Noncontrolling interests in acquisitions	(6,397)	-
Investment income/loss, including realized and unrealized gains and losses	50,774	(70,488)
Income from joint ventures	(32,955)	(45,319)
Net distributions to noncontrolling interests	1,355	1,441
Restricted contributions and other	(17,376)	(18,142)
Amortization of debt discounts, premiums, and issuance costs	738	(897)
Changes in operating assets and liabilities that provided (used) cash - Net of business combinations:		
Accounts receivable and estimated third-party payor receivables	18,233	(81,433)
Supplies and other current assets	171,956	(50,418)
Other assets	(168,784)	2,420
Accounts payable and accrued expenses	(211,959)	75,702
Estimated third-party payor settlements	26,205	20,042
Pension	36,199	(9,191)
Other liabilities	(336,076)	(210,552)
Operating right-of-use assets and lease liabilities	34,541	47,662
Net cash used in operating activities	(999,950)	(279,011)
<b>Cash Flows from Investing Activities</b>		
Acquisition of property and equipment	(122,171)	(134,239)
Proceeds from sale of equipment	12,200	28,350
Payments for business combinations - Net of cash acquired	(347)	(3,506)
Distributions from joint ventures	175,938	75,661
Investments in joint ventures	(2,250)	(77,737)
Purchase of investments	(1,068,023)	(929,460)
Proceeds from sale of investments	1,842,554	1,020,830
Decrease in total assets limited as to use or restricted	(23,381)	(46,805)
Net cash provided by (used in) investing activities	814,520	(66,906)
<b>Cash Flows from Financing Activities</b>		
Proceeds from long-term debt	28,518	79,328
Repayment of long-term debt	(19,522)	(122,335)
Payments on finance lease obligations	(2,563)	(5,262)
Distributions to noncontrolling interests	(1,355)	(1,441)
Restricted contributions and other	17,376	18,142
Net cash provided by (used in) financing activities	22,454	(31,568)
<b>Net Decrease in Cash and Cash Equivalents</b>	(162,976)	(377,485)
<b>Cash and Cash Equivalents - Beginning of year</b>	583,895	961,380
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 420,919</b>	<b>\$ 583,895</b>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest - Net of amount capitalized	\$ 118,966	\$ 117,125
Cash paid for taxes	765	2,923
Acquisition of property through accounts payable	13,213	6,276
<b>Significant Noncash Transactions</b>		
Recognition of new operating lease right-of-use assets and liabilities	\$ 33,030	\$ 242,512
Recognition of new finance leases	6,201	249

December 31, 2022 and 2021

### Note 1 - Basis of Presentation and Affiliated Entities

ProMedica Health System (ProMedica), an Ohio not-for-profit corporation, and its subsidiaries (collectively, the "System") constitute a comprehensive integrated health care system offering medical, surgical, psychiatric, rehabilitative, skilled nursing, home health, and hospice services across 28 states. The System includes 11 hospitals, a large employed physician group and advanced practice provider group, skilled nursing facilities, assisted living/memory facilities, home health and home hospice agencies, an inpatient hospice facility, and an insurance company offering health and dental coverage. ProMedica is the sole member or parent of the sole member of the following subsidiaries:

- The Toledo Hospital (Toledo), which includes the accounts of Toledo Children's Hospital, Wildwood Orthopedic and Spine Hospital, and Flower Hospital (Flower)
- Fostoria Hospital Association (Fostoria)
- Defiance Hospital, Inc. (Defiance)
- Bay Park Community Hospital (Bay Park)
- Emma L. Bixby Medical Center (Bixby), d.b.a. ProMedica Charles and Virginia Hickman Hospital (Hickman)
- Lenawee Long Term Care d.b.a. Provincial House of Adrian, MI
- Memorial Hospital (Fremont Memorial)
- Mercy Memorial Hospital Corporation (Monroe)
- ProMedica Physician Group (PPG)
- ProMedica Continuum Services (PCS)
- ProMedica Continuing Care Services Corp. (PCCSC)
- ProMedica Indemnity Corporation (Indemnity)
- ProMedica Foundation (Foundation)
- ProMedica Insurance Corporation (PIC)
- Community Health Center of Branch County d/b/a ProMedica Coldwater Regional Hospital (Coldwater)
- HCR ManorCare, Inc. and Subsidiaries (HCR) and HCR Holding Co.

Prior to December 2022, the real estate and buildings comprising substantially all of the System's skilled nursing facilities and assisted living memory care facilities were leased under a master lease (the "Master Lease") through a joint venture (WELLPM JV) between a subsidiary of Welltower, Inc. (NYSE: WELL), which owns 85 percent equity interest in WELLPM JV, and HCR, which owns the remaining 15 percent equity interest in WELLPM JV.

In December 2022, the System entered into an agreement pursuant to which all 147 of the operations of the skilled nursing facilities subject to the Master Lease will be transferred to third-party operators. All but 21 of the SNFs transferred and the remaining facilities are expected to be transferred by December 31, 2023 (the "SNF Exit Transaction"). Note 24 includes further discussion of the System's exit from the skilled nursing line of business. The operating results for the facilities involved in the SNF Exit Transaction have been restated as discontinued operations in the consolidated statement of operations and changes in net assets for all periods presented. The System will continue to operate the 58 assisted living/memory care communities that remain subject to the Master Lease (see Note 11).

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 1 - Basis of Presentation and Affiliated Entities (Continued)**

Paramount Advantage, a subsidiary of Paramount Insurance Corporation, was not awarded the Medicaid contracts for the plan years 2022-2027 by the Ohio Department of Medicaid. As a result, effective February 11, 2022, Paramount Advantage entered into an agreement with Community Insurance Company, d/b/a Anthem Blue Cross Blue Shield of Ohio, whereby Paramount Advantage has agreed to sell certain assets related to its current Ohio Medicaid Contract for a selling price of \$50,000,000. In conjunction with this agreement, the parties entered into a transition services agreement under which Paramount Advantage will continue to provide all services under the current Ohio Medicaid Contract up to the cutover date of February 1, 2023, which is the date the Ohio Medicaid Contract becomes effective. In addition, effective after the cutover date, Paramount Advantage will provide certain data migration and runout services. In addition to the selling price noted above, Paramount Advantage will earn additional consideration, payable after the cutover date, based on how many former Paramount members are ultimately retained by Anthem.

**Note 2 - Summary of Significant Accounting Policies**

***Principles of Consolidation***

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

***Investments in Affiliated Companies***

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

***Cash and Cash Equivalents***

The System considers liquid investments, including money market accounts, with an original maturity of three months or less, exclusive of those whose use is limited or restricted, to be cash equivalents. Cash balances held in the bank exceed the federal depository insurance limit. The System's cash is only insured up to the federal depository insurance limit.

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 408,253	\$ 569,151
Cash and cash equivalents included in assets limited as to use	<u>12,666</u>	<u>14,744</u>
Total	<u>\$ 420,919</u>	<u>\$ 583,895</u>

***Investments***

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

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

December 31, 2022 and 2021

### Note 2 - Summary of Significant Accounting Policies (Continued)

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

#### ***Fair Value of Financial Instruments***

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

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

Level 2 - Other observable inputs, either directly or indirectly

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

#### ***Investment Risks***

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

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

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

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

#### ***Assets Limited as to Use or Restricted***

Assets limited as to use or restricted include the restricted assets of ProMedica Foundation and other subsidiaries of the System, assets held by trustees under indenture agreements and self-insurance trust arrangements, amounts held as collateral (see Note 7), and assets set aside by the board of directors for future capital improvements and other designated purposes.

**Note 2 - Summary of Significant Accounting Policies (Continued)**

***Concentrations of Credit Risk***

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

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

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

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

***Supplies***

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

***Property and Equipment***

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

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

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

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

***Asset Retirement Obligations***

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

December 31, 2022 and 2021

### Note 2 - Summary of Significant Accounting Policies (Continued)

#### ***Goodwill***

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

#### ***Intangible Assets***

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

#### ***Accrued Claims***

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

#### ***Premium Deficiency Reserves***

The reserve for premium deficiency, included in accrued claims, and the related expense are recognized when it is probable that expected future health care costs, under a group of existing contracts, will exceed future premiums and stop-loss coverage recoveries anticipated over the remaining term of the contract. The methods for making such estimates and for establishing the resulting reserves are periodically reviewed and updated. Any adjustments resulting therein are reflected in current operations. Estimates in reserves are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. The System had no premium deficiency reserves accrued at December 31, 2022 and 2021.

#### ***Centers for Medicare & Medicaid Services (CMS) Payable***

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

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

#### ***Accounts Receivable***

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

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

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

***Revenue Recognition - Patient Service Revenue***

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

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

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

***Other Operating Revenue***

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

December 31, 2022 and 2021

### Note 2 - Summary of Significant Accounting Policies (Continued)

#### ***Use of Estimates***

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

#### ***Charity Care***

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

#### ***Premium Revenue and Medical Expenses***

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

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

#### ***Cost of Borrowing***

Interest cost incurred on borrowed funds during the period of construction of capital assets, net of applicable interest income for tax-exempt borrowed funds, is capitalized as a component of the costs of acquiring those assets. Net capitalized interest was \$0 and \$233,000 in 2022 and 2021, respectively. Deferred debt financing costs are expensed over the life of the bonds using the bonds outstanding method.

#### ***Income Taxes***

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

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

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

#### ***Excess of Revenue (Under) Over Expenses***

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

#### ***Contributions and Net Assets with Donor Restrictions***

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

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

#### ***Regulatory Risk-based Capital and Statutory Deposit***

PIC's regulated insurance subsidiaries are subject to minimum net worth under the regulations of the Ohio Department of Insurance (ODI), the State of Michigan Department of Financial and Insurance Services (DIFS), and the Indiana Department of Insurance (IDOI). The minimum net worth requirements were met at December 31, 2022 and 2021. The regulated insurance subsidiaries are also subject to certain risk-based capital (RBC) requirements, as specified by the National Association of Insurance Commissioners (NAIC). Under those requirements, the amount of capital and surplus required to be maintained is determined based on various risk factors relating to each insurance company. RBC requirements were met at December 31, 2022 and 2021.

#### ***Related Party Transactions***

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

**Note 2 - Summary of Significant Accounting Policies (Continued)**

***Restructuring, Severance, and Acquisition Costs***

During 2022, the System commenced on a cross functional effort to improve and enhance its operating model, achieve long term strategic objectives, implement various restructuring initiatives, exit certain business lines, and achieve greater operating efficiencies. Costs related to this effort of \$37,512,000 are included in restructuring, severance, and acquisition costs in the consolidated statement of operations and changes in net assets.

***New Accounting Pronouncement***

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The standard simplifies the subsequent measurement of goodwill, requiring only a single-step quantitative test to identify and measure impairment based on the excess of a reporting unit's carrying amount over its fair value, instead of the current two-step test. A qualitative assessment still may be completed first to determine if a quantitative impairment test is required. The System early adopted the Standard in 2022.

***Upcoming Accounting Pronouncements***

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including the System's accounts receivable, by requiring the System to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. Credit losses are recognized through the recording of an allowance rather than as a write-down of the carrying value. The new guidance will be effective for the System's year ending December 31, 2023. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the earliest period presented. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted. The System is currently evaluating the impact this standard will have on the financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 was issued to provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments of ASU No. 2020-04 only apply to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. In December 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, that defers the sunset date of Topic 848 from December 31, 2022 to December 31, 2024. The standard is not expected to have a material impact on the System's financial statements.

***Litigation***

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

***Subsequent Events***

The consolidated financial statements and related disclosures include evaluation of events up through and including April 19, 2023, which is the date the consolidated financial statements were available to be issued.

December 31, 2022 and 2021

### Note 2 - Summary of Significant Accounting Policies (Continued)

In March 2023, the System entered into an agreement to sell its hospice and home health line of business for approximately \$710,000,000. The System anticipates that the sale transaction will close in mid-2023. As described in Note 9, the System has taken into consideration the sale price of the hospice and home health division to quantify the goodwill impairment charge recorded in 2022.

### Note 3 - Impact of Disease Outbreak

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted hundreds of thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations.

#### *Provider Relief Fund*

The CARES Act was enacted on March 27, 2020 and authorizes \$100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare- and Medicaid-enrolled suppliers and institutional providers. The purpose of these funds is to reimburse providers for lost revenue attributable to the coronavirus disease pandemic, such as forgone revenue from canceled procedures, and to provide support for related health care expenses, such as constructing temporary structures or emergency operation centers; retrofitting facilities; purchasing medical supplies and equipment, including personal protective equipment and testing supplies; and increasing workforce. These CARES Act funds were distributed to qualifying health care entities through various general and targeted distributions between 2020 and 2022. There was also an additional \$8.5 billion in funds appropriated under the American Rescue Plan (ARP) Act of 2021, which began being distributed in December 2021 to eligible health care providers.

During the years ended December 31, 2022 and 2021, the System received payments of \$69,526,000 and \$98,911,000, respectively, as part of general and targeted distributions of the CARES Act Provider Relief Fund and American Rescue Plan Rural payments. These payments are not subject to repayment, provided the System is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for health care-related expenses or lost revenue attributed to COVID-19. Based on an analysis of compliance and reporting requirements of the Provider Relief Fund and American Rescue Plan programs and the impact of the pandemic on the System's operating results through December 31, 2022, the System believes that it complied with the applicable terms and conditions required to retain the funds as of December 31, 2022 and 2021. Therefore, the System has recognized \$31,175,000 and \$47,656,000 as other revenue and \$44,244,000 and \$45,362,000 as discontinued operations on the consolidated statement of operations and changes in net assets for the years ended December 31, 2022 and 2021, respectively.

The System recorded \$0 and \$5,893,000 within current liabilities as deferred revenue in the consolidated balance sheet as of December 31, 2022 and 2021, respectively, where conditions for recognition have not yet been met. The System will continue to monitor the terms and conditions of the Provider Relief Fund and American Rescue Plan programs and the impact of the pandemic on revenue and expenses.

HHS' requirements for the uses of the Provider Relief Fund and the American Rescue Plan payments are subject to change and are open to interpretation and clarification; therefore, there may be changes in the amounts recognized as unrestricted revenue, gains, and other support during the years ended December 31, 2022 and 2021. If the System is unable to attest to or comply with future terms and conditions, the ability to retain some or all of the distributions received may be impacted. Any changes in amounts recognized as a result of new guidance, interpretation, or clarification will be recognized in the period in which the change occurred.

**Note 3 - Impact of Disease Outbreak (Continued)**

***Medicare Advance Payments***

The System requested accelerated Medicare payments, as provided for in the CARES Act, which allows for eligible health care facilities to request up to 6 months of advance Medicare payments for acute-care hospitals or up to 3 months of advance Medicare payments for other health care providers. The repayment terms of the accelerated Medicare payments begin one year after the first payment was issued, at which point these amounts will be repaid at 25 percent of the Medicare payments to the System for 11 months. After 11 months, the recoupment will increase to 50 percent of the Medicare payments for 6 additional months (or until all amounts are repaid). Any unapplied accelerated payment amounts that are unpaid after this 17-month period are due to CMS, plus interest at a rate of 4 percent on the outstanding balance. During 2020, the System received approximately \$330,235,000 from these accelerated Medicare payment requests. As of December 31, 2022 and 2021, \$0 and \$124,831,000, respectively, remained outstanding and is reflected on the consolidated balance sheet as a refund liability within other current liabilities.

***Deferred Payroll Withholdings***

The System has elected to defer the deposit and payment of the employer’s share of Social Security taxes allowed under the CARES Act. During 2020, the System deferred approximately \$92,877,000 of such payment, which was reflected within accrued employee compensation and related expenses and other long-term liabilities. As of December 31, 2021, \$49,547,000 remained outstanding and is reflected with the related liability recorded in accrued employee compensation and related expenses on the consolidated balance sheet. The deferred employer payroll taxes under this program were fully paid in 2022, no outstanding liability is recorded as of December 31, 2022.

**Note 4 - Accounts Receivable**

The System grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. As of December 31, 2022; December 31, 2021; and January 1, 2021, patient accounts receivable totaled approximately \$592 million, \$611 million, and \$529 million, respectively. The composition of receivables from patients and third-party payors was as follows:

	2022	2021
Commercial and other payors	28 %	29 %
Medicare	40	40
Self-pay	14	11
Medicaid	18	20
Total	100 %	100 %

**Note 5 - Charity Care**

The System maintains records to identify and monitor the level of direct patient charity care it provides. These records include the charges forgone for services and supplies furnished under its charity care policy and equivalent service statistics. During 2022 and 2021, gross charges forgone, based on established rates, approximated \$59,767,000 and \$53,789,000, respectively. The cost of charity care provided approximated \$16,292,000 and \$13,150,000 in 2022 and 2021, respectively.

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

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 5 - Charity Care (Continued)**

In addition to providing direct patient charity care, the System demonstrates its exempt purpose to benefit the community by operating emergency rooms that are open to the public, regardless of ability to pay, 24 hours a day, seven days per week. ProMedica offers urgent care facilities for non-life-threatening emergencies, a pediatric urgent care for children ages 18 and younger, and a telehealth option for patients to speak to a physician using their computer or mobile device. Through its academic affiliation, the System provides facilities for the education and training of health care professionals and the development of an academic medical center, while maintaining research programs for the study of new patient procedures, drugs, and innovative medical devices that offer the promise of improving health care. The System also provides community health services, such as free or low cost clinics, the Northwest Ohio Hemophilia Center, a Heart Failure Clinic as well as a Structural Heart Clinic, and a Lung Cancer Clinic; women's health programs, such as free or low cost mammograms; and multiple health promotion and wellness programs, such as free community lectures, free public health and infant mortality screenings; and services to combat food insecurity. For more than 10 years, ProMedica has pioneered efforts and has become an industry leader in thought, innovation, and action in addressing the social determinants of health (SDOH). The ProMedica Ebeid Center is committed to building healthy communities and includes Market on the Green, a full service grocery that offers nutritious meal options to residents in a designated food desert. The center also has provided cooking and nutrition classes and financial counseling services through its financial wellness network. As part of its efforts to combat food insecurity, the System also operates three food clinics in the Metro Toledo region and brings fresh produce to Lenawee County, Michigan residents from August through October through vouchers to ProMedica Farms or the Veggie Mobile. These programs provide nutritious food to patients who screen positive for food insecurity. Additionally, the ProMedica Ebeid Promise initiative has been developed to address social determinants of health and create a model for neighborhood revitalization. This model focuses on improving health outcomes, providing stable housing, increasing access to educational opportunities, and offering job training opportunities. The Ebeid Neighborhood Promise has partnered with local organizations to promote educational initiatives, such as Toledo Public Schools Pre-Medical High School, helping students prepare for careers in the medical field. At the same time, the Ebeid Neighborhood Promise also helped launch HOPE Toledo to make pre-K universally available. The System also subsidizes necessary health services, including emergency and medically necessary care; neonatal intensive care, the Cullen Center, which supports children who have suffered trauma; the Cystic Fibrosis Center, an adult sickle cell anemia clinic for patients transitioning from pediatric to adult care; Finnegan Family Autism Center; and diabetes treatment and support services at the ProMedica Mary Ellen Falzone Diabetes Center.

**Note 6 - Net Patient Service Revenue**

Patient service revenue generated by major payor source excluding activity from discontinued operations for the years ended December 31, 2022 and 2021 is as follows (in thousands):

	2022	2021
Medicare	\$ 1,503,630	\$ 1,466,538
Medicaid	633,659	486,144
Commercial and other payors	993,304	896,848
Self-pay	7,089	207,995
Total	\$ 3,137,682	\$ 3,057,525

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 6 - Net Patient Service Revenue (Continued)**

The composition of patient care service revenue based on its lines of business and timing of revenue recognition excluding activity from discontinued operations for the years ended December 31, 2022 and 2021 (in thousands) is as follows:

	<u>2022</u>	<u>2021</u>
Service lines:		
Hospital	\$ 1,826,855	\$ 1,692,816
Senior care	218,092	277,387
Physician services	307,011	263,570
Home health and hospice	672,938	666,311
Other	112,786	157,441
	<u>\$ 3,137,682</u>	<u>\$ 3,057,525</u>
Timing of revenue recognition:		
At time services are rendered	\$ 66,383	\$ 57,242
Over time services are transferred	3,071,299	3,000,283
	<u>\$ 3,137,682</u>	<u>\$ 3,057,525</u>

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

***Commercial and Other***

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

***Medicare***

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

***Medicaid***

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

Program examination of cost reports has been finalized for various facilities with dates ranging from 2018 to 2020 for the Medicare program and with dates ranging from 2014 to 2021 for the Medicaid program. Provisions for estimated reimbursement adjustments have been made in the accompanying consolidated financial statements.

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 6 - Net Patient Service Revenue (Continued)**

System hospitals participate in various state supplemental payment programs designed to assist hospitals that have a disproportionate amount of uncompensated care. Ohio hospitals (Toledo, Defiance, Fostoria, Bay Park, Flower, and Fremont Memorial) participate in the Hospital Care Assurance and Medicaid Supplemental Payments programs. Michigan hospitals (Bixby, Hickman, Monroe, and Coldwater) participate in the Disproportionate Share Hospital Payment and Quality Assurance Assessment programs. During 2022 and 2021, the System received distributions of approximately \$75,790,000 and \$79,404,000, respectively. All hospitals are subject to assessments used to fund state supplemental payment programs. During 2022 and 2021, the System incurred assessments of approximately \$56,918,000 and \$48,176,000, respectively.

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available) or as years are settled or are no longer subject to such audits, reviews, and investigations. As a result, there is at least a reasonable possibility that recorded estimates could change in the near term. In 2022 and 2021, such changes in estimates increased patient service revenue by approximately \$5,502,000 and \$9,248,000, respectively.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2022 and 2021, changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

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

## ProMedica Health System and Subsidiaries

# Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### Note 7 - Assets Limited as to Use or Restricted

As of December 31, 2022 and 2021, investments included in assets limited as to use and restricted assets consisted of the following (in thousands):

	2022	2021
Cash and cash equivalents	\$ 180,387	\$ 28,830
Equity securities	304,490	659,318
Fixed-income securities	279,712	623,415
Long-short equity hedge funds	37,721	62,691
Real return strategy funds	8,195	67,700
Real estate	7,429	6,533
Beneficial interest in perpetual trusts	32,136	39,653
Other	17,350	20,632
Total	<u>\$ 867,420</u>	<u>\$ 1,508,772</u>

The detail of assets limited as to use or restricted is summarized in the following schedule, including amounts reflected as current portion:

	2022	2021
Restricted funds, including resident trust funds	\$ 148,951	\$ 170,162
Professional liability and workers' compensation funds	86,733	63,949
Internally designated for capital acquisition	239,323	965,790
Assets held as collateral	154,977	-
Other segregated investments	237,436	308,871
Total	<u>\$ 867,420</u>	<u>\$ 1,508,772</u>

During 2022, the System's bond rating was downgraded, which required the System to post collateral to the financial institutions holding various privately placed debt instruments (see Note 10).

### Note 8 - Property and Equipment

Property and equipment as of December 31, 2022 and 2021 consisted of the following (in thousands):

	2022	2021
Land and improvements	\$ 151,893	\$ 153,972
Building and improvements	1,978,734	1,917,005
Equipment	1,022,545	966,747
Construction in progress	76,308	70,430
Total cost	3,229,480	3,108,154
Less accumulated depreciation and amortization	1,745,536	1,590,970
Property and equipment - Net	<u>\$ 1,483,944</u>	<u>\$ 1,517,184</u>

Property and equipment include assets recorded under finance leases of \$51,220,000 and \$50,452,000 with accumulated amortization for such assets of \$24,308,000 and \$22,534,000 as of December 31, 2022 and 2021, respectively. The associated charges to income are recorded in depreciation and amortization expense.

As of December 31, 2022 and 2021, construction contract commitments of \$16,044,000 and \$34,240,000, respectively, exist for the construction and remodeling of system facilities. Additionally, certain facilities that are leased have active remodeling contracts with various levels of commitments.

## ProMedica Health System and Subsidiaries

# Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### Note 8 - Property and Equipment (Continued)

In connection with the exit of the skilled nursing business line, the System recognized an impairment of approximately \$111,014,000 related to building improvements and equipment specific to the skilled nursing business line (see Note 24).

### Note 9 - Goodwill and Intangible Assets

Intangibles as of December 31, 2022 and 2021 consisted of the following (in thousands):

	Average Life (Years)	2022			2021		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:							
Physician charts	Physician charts	\$ 2,225	\$ (1,637)	\$ 588	\$ 2,136	\$ (1,534)	\$ 602
Customer relationships	Customer relationships	40,567	(16,896)	23,671	40,447	(14,578)	25,869
Trademark	Trademark	59,135	(20,204)	38,931	59,135	(14,291)	44,844
Other	Other	25,755	(7,278)	18,477	25,755	(6,707)	19,048
Total		<u>\$ 127,682</u>	<u>\$ (46,015)</u>	<u>\$ 81,667</u>	<u>\$ 127,473</u>	<u>\$ (37,110)</u>	<u>\$ 90,363</u>
Carrying amount of intangible assets not subject to amortization:							
	Goodwill				\$ 782,458	\$ 1,102,452	
	Certificate of need				3,747	2,386	
	Hospice and home care licenses				-	28,309	
	Other				448	448	
Total					<u>\$ 786,653</u>	<u>\$ 1,133,595</u>	

During 2022, the System recorded an impairment charge of \$317,848,000 related to goodwill of the senior care division (HCR). As described in Note 24, the System determined to exit the skilled nursing division during the quarter ended September 30, 2022. Historically, the System has evaluated the senior care division in its entirety as the reporting unit for the purpose of goodwill evaluation. In addition, the System recorded an impairment charge of \$34,539,000 related to certificates of need for the skilled nursing facilities as part of the exit of the skilled nursing division, which has been restated to assets held for sale as of December 31, 2021 (see Note 26).

In connection with the skilled nursing division exit during the quarter ended September 30, 2022, the System elected to reevaluate the reporting units within the senior care division for the purpose of goodwill impairment testing. The System determined that three separate reporting units exist and has reallocated goodwill between the two remaining units, assisted living and hospice/home health care, as the skilled nursing reporting unit was determined to have no value. An impairment charge of \$48,369,000 was recognized related to the assisted living reporting unit based on the excess of carrying value (including allocated goodwill) compared to fair value as of September 30, 2022.

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 9 - Goodwill and Intangible Assets (Continued)**

Subsequent to September 30, 2022 and subsequent to year end, the System entered into an agreement to sell the hospice and home care division for approximately \$710,000,000. The transaction is anticipated to close mid-2023. The System evaluated whether any impairment of goodwill as of December 31, 2022 was required to be recognized for the excess of carrying value, including goodwill, over the selling price subsequent to year end. An impairment charge was recognized for \$269,479,000 in December 2022. In addition, an impairment charge of \$28,309,000 was recognized in 2022 related to the carrying value of the hospice and home care licenses, related to the transaction to sell the hospice and home health care operations.

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

Aggregate amortization expense for the years ended December 31, 2022 and 2021 was \$9,451,000 and \$10,108,000, respectively.

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

Years Ending	Amount
2023	\$ 8,911
2024	8,885
2025	8,885
2026	8,885
2027	8,867
Thereafter	37,234
Total	<u>\$ 81,667</u>

**Note 10 - Debt**

Long-term debt as of December 31, 2022 and 2021, net of unamortized bond discount, premium, and debt issuance costs, consisted of the following (in thousands):

	2022	2021
Hospital Revenue Bonds - Series 2018A, interest at 4.13 to 5.25 percent, payable semiannually	\$ 249,489	\$ 249,674
Taxable Bonds - Series 2018B, interest at 5.33 to 6.02 percent, payable semiannually	1,204,992	1,204,313
Hospital Revenue Bonds - Series 2017A, interest at 3.46 percent, payable monthly	54,710	54,710
Hospital Revenue Bonds - Series 2017B, interest at 3.46 percent, payable monthly	117,625	120,010
Hospital Revenue Bonds - Series 2017C, interest at 3.49 percent, payable monthly	83,295	84,980
Hospital Revenue Bonds - Series 2017D, interest at 3.49 percent, payable monthly	38,938	39,736
Hospital Revenue Bonds - Series 2017F, based on the 30-day London Interbank Offered Rate (LIBOR) index and interest payable monthly (4.52 percent and 1.26 percent as of December 31, 2022 and 2021, respectively)	62,500	62,500

## ProMedica Health System and Subsidiaries

# Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### Note 10 - Debt (Continued)

	2022	2021
Taxable Bonds - Series 2015A, interest at 4.98 percent, payable semiannually	\$ 270,857	\$ 270,764
Hospital Revenue Bonds - Series 2015B, interest at 4.00 percent, payable semiannually	45,450	45,393
Taxable Bonds - Series 2015E, based on the 30-day LIBOR index and interest payable monthly (5.13 percent and 0.88 percent as of December 31, 2022 and 2021, respectively)	25,243	27,177
Hospital Refunding Revenue Bonds - Series 2021A, 2021B, and 2021C, interest at 2.61 to 2.75 percent	66,942	79,343
Qualified Low-Income Community Investment Loans - 2015, interest at 1.00 to 2.58 percent, payable quarterly	-	14,419
Other	47,153	20,560
Total	2,267,194	2,273,579
Less current installments of long-term debt - Net of current portion of unamortized bond discount, premium, and debt issuance costs - Contractual current installments	456,236	21,404
Contingent current installments	-	400,441
Total	<u>\$ 1,810,958</u>	<u>\$ 1,851,734</u>

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

The bonds were issued by the County of Lucas, Ohio (Lucas County) and the County of Lenawee, Michigan and are payable solely pursuant to related loan agreements or leases between the borrowing subsidiaries and the issuing authority.

The Indenture and related loan agreements and leases require compliance with certain financial covenants each year by the Obligated Group and the System. During 2022, the System did not comply with the debt to capitalization covenant specific to certain privately placed debt issuances (Series 2015B and E; 2017A, B, C, D, and F; and Series 2021). The System has obtained a waiver from the financial institutions related to the covenant violation as of December 31, 2022. As part of the waiver agreement, the System will utilize proceeds from the hospice and home care division sale to repay these outstanding obligations of \$452,998,000 by August 17, 2023. If the hospice and home care sale agreement is terminated or the sale price is adjusted, the waiver provided by the financial institutions will be rescinded. The \$452,998,000 of outstanding liabilities under these agreements are reflected as current liabilities as of December 31, 2022. The Obligated Group has complied with the remaining requirements of the financial covenants each year.

In connection with the issuance of the revenue bonds through Lucas County, the Ohio members of the Obligated Group have entered into a lease agreement (the "Lease") to lease their hospital facilities to, and lease back its hospital facilities from, Lucas County. Pursuant to the Lease, the Obligated Group agrees to make payments of basic rent in amounts sufficient to pay the principal and interest on the Lucas County revenue bonds issued for the benefit of the Obligated Group. Under the Master Trust Indenture, the debt of the Obligated Group is secured by a first mortgage of the Toledo and Flower Hospitals campuses.

**Note 10 - Debt (Continued)**

***Hospital Revenue Bonds - 2018A***

In October 2018, the Obligated Group issued \$253,315,000 of tax-exempt fixed-rate bonds, Series 2018A, through Lucas County. At December 31, 2022, outstanding bonds consist of \$24,915,000 term bonds that mature on November 15, 2042 and \$219,575,000 term bonds that mature on November 15, 2048. The proceeds of the Series 2018A bonds were used to refinance the 2011C and 2017G bonds with the remainder used for the construction and equipping certain health care facilities of the Obligated Group located in Ohio. Balances reported at December 31, 2022 and 2021 include unamortized bond premium of \$7,036,000 and \$7,308,000, respectively. Balances reported at December 31, 2022 and 2021 include unamortized debt issuance costs of \$2,037,000 and \$2,124,000, respectively.

***Taxable Bonds - 2018B***

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

Balances reported at December 31, 2022 and 2021 include unamortized bond premium of \$13,264,000 and \$14,102,000, respectively. Balances reported at December 31, 2022 and 2021 include unamortized debt issuance costs of \$28,117,000 and \$29,634,000, respectively.

***Hospital Revenue Bonds - 2017A***

In December 2017, the Obligated Group issued \$54,710,000 in fixed-rate bonds, Series 2017A, through Lucas County with a direct placement bank loan with a base term of four years. The Series 2017A bond direct loan is included in contractual current installments of long-term debt at December 31, 2022 due to the waiver agreement noted above. The proceeds from the 2017A bonds were used to advance refund the Series 2008D bonds. At December 31, 2022, outstanding bonds consist of \$54,710,000 that mature in increasing amounts from \$6,480,000 on November 15, 2035 to \$6,970,000 on November 15, 2040.

***Hospital Revenue Bonds - 2017B***

In December 2017, the Obligated Group issued \$120,010,000 in fixed-rate bonds, Series 2017B, through Lucas County with a direct placement bank loan with a base term of four years. The Series 2017B bonds are included in contractual current installments of long-term debt at December 31, 2022 due to the waiver agreement noted above. The proceeds from the 2017B bonds were used to advance refund a portion of the Series 2011A bonds. At December 31, 2022, outstanding bonds consist of \$117,625,000 that mature in increasing amounts from \$2,435,000 on November 15, 2023 to \$19,080,000 on November 15, 2041.

***Hospital Revenue Bonds - 2017C***

In December 2017, the Obligated Group issued \$84,980,000 in fixed-rate bonds, Series 2017C, through Lucas County with a direct placement bank loan with a base term of four years. The proceeds from the 2017C bonds were used to advance refund a portion of the Series 2011A bonds. The Series 2017C bonds are included in contractual current installments of long-term debt at December 31, 2022 due to the waiver agreement noted above. Outstanding bonds consist of \$83,295,000 that mature in increasing amounts from \$1,720,000 on November 15, 2023 to \$13,520,000 on November 15, 2041.

**Note 10 - Debt (Continued)**

***Hospital Revenue Bonds - 2017D***

In December 2017, the Obligated Group issued \$39,800,000 in fixed-rate bonds, Series 2017D, through Lucas County with a direct placement bank loan with a base term of seven years. The proceeds from the 2017D bonds were used to advance refund a portion of the Series 2011D bonds. The Series 2017D bonds are included in contractual current installments of long-term debt at December 31, 2022 due to the waiver agreement noted above. At December 31, 2022, outstanding bonds consist of \$38,980,000 that mature in increasing amounts from \$4,975,000 on November 15, 2023 to \$6,090,000 on November 15, 2029. Balances reported at December 31, 2022 and 2021 include unamortized debt issuance costs of \$42,000 and \$64,000, respectively.

***Hospital Revenue Bonds - 2017F***

In December 2017, the Obligated Group issued \$62,500,000 in variable-rate bonds, Series 2017C, through Lucas County with a direct placement bank loan with a base term of four years. The Series 2017F bond direct loan is included in contractual current installments of long-term debt at December 31, 2022 due to the waiver agreement noted above. The proceeds from the 2017F bonds were used to refinance the Series 2008A bonds. Outstanding bonds consist of \$62,500,000 that mature in increasing amounts from \$11,600,000 on November 15, 2030 to \$13,450,000 on November 15, 2034.

***Taxable Bonds - 2015A***

Series 2015A, with an outstanding principal of \$273,000,000 at December 31, 2022, was issued in September 2015. The taxable fixed-rate bonds mature on November 15, 2045 and are subject to optional redemption prior to maturity. The proceeds of the Series 2015A bonds were used for authorized corporate purposes of the System's subsidiaries, including financing or refinancing capital expenditures and paying current operating expenditures. Balances reported at December 31, 2022 and 2021 include unamortized debt issuance costs of \$2,143,000 and \$2,236,000, respectively.

***Hospital Revenue Bonds - 2015B***

Series 2015B, with an outstanding principal of \$46,755,000 at December 31, 2022, was issued in September 2015 and consists of tax-exempt fixed-rate bonds. The bonds mature on November 15, 2045 and are subject to optional redemption prior to maturity. The proceeds of the Series 2015B bonds were used for acquiring and improving health care facilities in Ohio. Balances reported at December 31, 2022 and 2021 include unamortized bond discount of \$891,000 and \$930,000, respectively, and debt issuance costs of \$414,000 and \$432,000, respectively.

***Taxable Bonds - 2015E***

Series 2015E, with an outstanding principal of \$25,275,000 as of December 31, 2022, was issued in November 2015 as a taxable directly placed bank loan with a base term of 10 years. Principal payments range from \$1,945,000 due on November 15, 2023 to \$21,385,000 in 2025. The Series 2015E bonds are included in contractual current installments of long-term debt at December 31, 2022 due to the waiver agreement noted above. The proceeds of the Series 2015E bonds were used to pay off a temporary bank line of credit that was used to extinguish the Monroe Hospital Finance Authority 2006 Revenue and Refunding bonds. Balances reported at December 31, 2022 and 2021 include unamortized debt issuance costs of \$32,000 and \$43,000, respectively.

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 10 - Debt (Continued)**

***Hospital Refunding Revenue Bonds - 2021A,B,C***

On August 17, 2021, the System used Series 2021A,B,C bank direct placements to refund the \$79,650,000 of outstanding principal from the 2021D bonds. The Series 2021 bonds are included in contractual current installments of long-term debt at December 31, 2022 due to the waiver agreement noted above. Principal payments of \$9,125,000 are due in 2023 with final maturity on November 15, 2029. Balances reported at December 31, 2022 and 2021 include unamortized debt issuance costs of \$268,000 and \$307,000, respectively.

***Qualified Low-income Community Investment (QLICI) Loans***

The 2015 loans were issued to finance the acquisition and rehabilitation of the System's corporate headquarters and were originally scheduled to mature in December 2045. The loans required quarterly interest-only payments through December 2022. In December 2022, the loan balance of \$14,740,000 was forgiven as part of the New Markets Tax Credit program, as discussed in Note 23. The loans were included in contingent current installments of long-term debt as of December 31, 2021 based on certain subjective acceleration definitions within the loan agreement. Balances reported at December 31, 2022 and 2021 include unamortized debt issuance costs of \$0 and \$321,000, respectively.

The table below indicates the future maturities on long-term debt at December 31, 2022. While presentation in the consolidated balance sheet of current maturities of long-term debt includes certain amounts contingently payable, the schedule below has been prepared based on contractual maturities of the debt outstanding at December 31, 2022. Accordingly, if covenants are violated, debt repayments may become more accelerated than presented below (in thousands):

Years Ending	Amount
2023	\$ 456,236
2024	3,169
2025	1,432
2026	1,492
2027	1,550
Thereafter	1,803,315
Total	<u>\$ 2,267,194</u>

**Note 11 - Leases**

The System is obligated under operating leases primarily for various equipment and facilities, expiring at various dates through September 22, 2081. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 2.8 percent to 6.35 percent. The majority of the leases require the System to pay taxes, insurance, utilities, and maintenance costs.

The System leases various equipment and information technology under long-term lease arrangements that are classified as finance leases. Under the terms of the lease agreements, payments ranging from \$4,359 to \$3,235,000 are due monthly through November 30, 2036. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 2.97 percent to 8.04 percent.

***Master Lease***

In 2018, HCR and a subsidiary of Welltower, Inc. (NYSE: WELL), agreed to a triple-net master lease with an initial term of 15 years. The Master Lease included substantially all of the System's skilled nursing and assisted living facilities.

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 11 - Leases (Continued)**

As described in Note 1, in December 2022, the System entered into an agreement pursuant to which all 147 of the skilled nursing facilities subject to the Master Lease will be transferred to third-party operators. As of December 31, 2022, all but 21 of the SNFs transferred and the remaining facilities are expected to be transferred by December 31, 2023. The Master Lease was modified and was accounted for as a partial termination, with the lease liability being measured at the newly reduced cash flow and the right-of-use asset being proportionately reduced. A gain of \$134,137,000 was recognized in discontinued operations related to the lease modification. In connection with the amendment to the Master Lease, the initial term was amended to expire approximately 10 years from the date of the amendment (December 31, 2032) and may be renewed at the option of the tenant for two successive 5-year terms and a third successive 4-year, 11-month term. The amendment also waived certain collateral posting provisions in the lease until December 22, 2027. Other terms of the Master Lease were substantially the same as the version of the Master Lease immediately preceding the amendment. The new initial annual base rent payable is \$50,588,000 and includes annual escalators of 3.75 percent. Base rent for the renewal periods is to be reset to the then-current market value taking into consideration specific factors set forth in the Master Lease.

The Master Lease is accounted for as an operating lease, with rent expense recognized on a straight-line basis over each year of the initial lease term. The right-of-use asset and lease liability on the consolidated balance sheet represent the present value of minimum lease payments, which was approximately \$435,167,000 as of December 31, 2022. Rent expense from continuing operations was \$67,975,000 and \$68,200,000 for the years ended December 31, 2022 and 2021, respectively.

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

Years Ended December 31	Operating Leases		Finance Leases		Total Expense
	Lease Expense	Amortization Expense	Interest Expense		
2021	\$ 83,674	\$ 4,253	\$ 1,751		\$ 89,678
2022	89,352	10,768	1,901		102,021

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 11 - Leases (Continued)**

Future minimum cash payments on noncancelable leases as of December 31, 2022 for each of the next five years, and in the aggregate, are as follows (in thousands):

Years Ending December 31	Operating Leases	Finance Leases	Total Payments
2023	\$ 70,287	\$ 8,103	\$ 78,390
2024	69,158	8,438	77,596
2025	68,803	2,536	71,339
2026	68,444	2,540	70,984
2027	65,783	2,552	68,335
Thereafter	<u>347,813</u>	<u>9,050</u>	<u>356,863</u>
Total	690,288	33,219	723,507
Less amount representing interest	<u>176,174</u>	<u>7,199</u>	<u>183,373</u>
Present value of net minimum lease payments	514,114	26,020	540,134
Less current obligations	<u>40,444</u>	<u>6,606</u>	<u>47,050</u>
Long-term obligations under leases	<u>\$ 473,670</u>	<u>\$ 19,414</u>	<u>\$ 493,084</u>

**Note 12 - Estimated Self-insurance Costs**

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

The System has recorded a medical malpractice liability of \$328,641,000 and \$323,052,000 at December 31, 2022 and 2021, respectively. The workers' compensation liability was \$33,965,000 and \$39,726,000 in 2022 and 2021, respectively. The recorded liability for workers' compensation and medical malpractice represents anticipated losses stated at their present value.

The System is also self-insured for the purpose of providing medical health insurance benefits for certain employees. An accrual of \$36,431,000 and \$32,885,000 has been recorded for claims that have been incurred, but not yet received, at December 31, 2022 and 2021, respectively, and is included in accounts payable and accrued liabilities in the consolidated balance sheet.

It is the opinion of management that estimated self-insurance cost accrued as of December 31, 2022 and 2021 are adequate to provide for potential losses resulting from pending or threatened litigation.

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 13 - Accrued Claims**

PIC contracts with various health care providers for the provision of certain medical care related to its members. PIC compensates those providers on a variety of bases, including capitation, fixed fee for service, and discounted charges. Medical expenses include all amounts incurred by PIC under membership contracts with individual members and employer groups. Contracts with providers for medical services are executed between the providers and PIC. As of February 2022, Paramount Advantage no longer provides coverage for medical expenses, as described in Note 1, and, therefore, the volume of claims and remaining liability balance at December 31, 2022 is substantially less than 2021.

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

Activity in accrued claims expense for the years ended December 31, 2022 and 2021 is summarized as follows (in thousands):

	2022	2021
Balance - Beginning of year	\$ 160,044	\$ 143,033
Incurred related to:		
Current year	287,861	1,404,537
Prior years	86,016	(30,422)
Total incurred	373,877	1,374,115
Paid related to:		
Current year	(267,059)	(1,248,464)
Prior years	(233,742)	(108,640)
Total paid	(500,801)	(1,357,104)
Balance - End of year	<u>\$ 33,120</u>	<u>\$ 160,044</u>

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

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

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 14 - Liability for Unpaid Claims and Claim Adjustment Expenses**

The following presents information about incurred and paid claims development as of December 31, 2022, net of reinsurance, as well as IBNR and cumulative reported claims by loss year for ProMedica Insurance Corporation (health insurance). The information relates to incurred and paid claims development and is presented as supplemental information.

Claim Year	Incurred Claims and Claim Adjustment Expenses - Net of Reinsurance for the Years Ended December 31 (in Thousands)			As of December 31, 2022	
	2020	2021	2022	Total IBNR and Bulk Reserves (in Thousands)	Cumulative Number of Reported Claims
2020	\$ 1,421,655	\$ 1,391,233	\$ 1,391,232	\$ -	5,670,000
2021		1,404,537	1,490,553	6,879	6,275,000
2022			287,861	26,241	1,536,000
Total			\$ 3,169,646		

  

Claim Year	Cumulative Paid Claims and Allocated Claim Adjustment Expenses - Net of Reinsurance, for the Years Ended December 31 (in Thousands)		
	2020	2021	2022
2020	\$ 1,278,622	\$ 1,387,261	\$ 1,387,261
2021		1,248,464	1,482,206
2022			267,059
Total			\$ 3,136,526

  

Total liability for claims and claim adjustment expenses - Net of reinsurance	\$ 33,120
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**Note 15 - Pension**

***Noncontributory Defined Benefit Pension Plans (Pension Plans)***

The System sponsored a noncontributory qualified defined benefit pension plan that covered certain full-time and part-time employees of the System who had more than 1,000 hours of service during the year. Benefits were based on each employee's compensation and length of service. The System made contributions to the plan required to satisfy the Employee Retirement Income Security Act of 1974 (ERISA) funding standards. The System was not required to make a plan contribution in 2021 and reserved the right to make contributions that exceed ERISA funding standards.

The System froze plan participation effective December 31, 2014 for all plan participants and froze benefit accruals for all plan participants as of December 31, 2016. In March 2022, ProMedica communicated its intent to terminate its defined benefit pension plan, which has substantially been completed as of December 31, 2022. In 2022, the System was granted approval by the Internal Revenue Service to terminate the plan. No additional funding was required by the System to terminate the plan. As of December 31, 2022, there remains approximately \$14.3 million that is expected to be distributed back to the System in 2023.

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 15 - Pension (Continued)**

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

**Defined Contribution Benefits**

The System sponsors defined contribution pension plans established under Section 401(k) and Section 403(b) of the Internal Revenue Code (IRC), which covers certain full-time and part-time employees. Employer contributions are based upon each employee's deferrals and service-based accruals. The pension expense under these plans for 2022 and 2021 was approximately \$50,112,000 and \$51,350,000, respectively.

**Deferred Compensation**

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

The System has nonqualified deferred compensation plans that permit eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash based on completion of length of service requirements, retirement, or termination of employment. At December 31, 2022 and 2021, the assets and liabilities under these plans totaled \$49,628,000 and \$58,181,000, respectively.

The changes in projected benefit obligations, changes in plan assets, and funded status for the pension plans for the years ended December 31, 2022 and 2021 are as follows (in thousands):

	Pension Plans	
	2022	2021
Change in benefit obligation:		
Benefit obligation - Beginning of year	\$ 465,311	\$ 489,692
Interest cost	11,139	10,581
Actuarial gain	(7,336)	(3,758)
Benefits paid	(14,276)	(13,431)
Other	2,000	1,721
Settlements	(456,682)	(19,494)
Benefit obligation - End of year	156	465,311
Change in plan assets:		
Fair value of plan assets - Beginning of year	515,688	530,845
Actual return on plan assets	(30,425)	17,720
Employer contributions	30	48
Benefits paid	(14,276)	(13,431)
Settlements	(456,682)	(19,494)
Fair value of plan assets - End of year	14,335	515,688
Net asset recognized	\$ 14,179	\$ 50,377

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 15 - Pension (Continued)**

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

	Pension Plans	
	2022	2021
Other assets - Current	\$ 14,335	\$ -
Other assets - Long term	-	50,563
Other liabilities - Current	(28)	(29)
Other liabilities - Long term	(128)	(157)
Net asset	14,179	50,377
Amounts recognized in net assets without donor restrictions	67	103,672
Net amount recognized	\$ 14,246	\$ 154,049

Amounts recognized in net assets without donor restrictions as of December 31, 2022 and 2021 consist of the following (in thousands):

	Pension Plans	
	2022	2021
Beginning balance	\$ 103,672	\$ 99,130
Recognized in net periodic benefit cost - Amortization of net loss	(2,151)	(2,620)
Settlement cost	(136,468)	(4,303)
Net loss	35,014	11,465
Ending balance	\$ 67	\$ 103,672

Components of net periodic benefit cost for the years ended December 31, 2022 and 2021 consisted of the following (in thousands):

	Pension Plans	
	2022	2021
Interest cost	\$ 11,139	\$ 10,581
Expected return on plan assets	(9,924)	(31,156)
Recognized net actuarial loss	2,151	2,620
Settlement costs	136,468	4,303
Net cost (benefit)	\$ 139,834	\$ (13,652)

	Pension Plans	
	2022	2021
Benefit obligations:		
Discount rate	5%	2.50%
Rate of compensation increase	N/A	N/A
Net periodic benefit cost:		
Discount rate	2.5%	2.25%
Expected long-term return on plan assets	N/A	4.75% - 7.0%
Rate of compensation increase	N/A	N/A

In developing the expected long-term rate of return assumption, the System evaluated input from investment advisers, including a review of asset class return expectations based on historical compounded returns for such asset classes.

For the years ended December 31, 2022 and 2021, the total accumulated benefit obligation for the pension was \$157,000 and \$515,875,000, respectively.

## ProMedica Health System and Subsidiaries

# Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### Note 15 - Pension (Continued)

#### Plan Assets

The System invests the assets of the plans in a diversified portfolio consisting of an array of asset classes that attempt to maximize returns while minimizing volatility. The System targets to hold two years of beneficiary payments in short-term securities with the balance in a longer duration allocation.

The System's overall investment strategy is to maximize total return while providing for expected retirement payments over a two-year horizon utilizing a wide diversification of asset types, fund strategies, and fund managers. The target allocations for plan assets are 67 percent cash and short-term fixed income and 33 percent liability hedging fixed-income securities at December 31, 2022 and 2021. Fixed-income securities include investment-grade corporate bonds of companies from diversified industries and U.S. Treasuries and agencies.

The fair values of the System's pension plan assets at December 31, 2022 and 2021 by major asset classes are as follows (in thousands):

	Fair Value Measurements at December 31, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Asset Category</b>				
Cash and cash equivalents	\$ 23	\$ 13,779	\$ -	\$ 13,802
Real return strategy funds - Private equity funds	-	-	533	533
<b>Total</b>	<b>\$ 23</b>	<b>\$ 13,779</b>	<b>\$ 533</b>	<b>\$ 14,335</b>
	Fair Value Measurements at December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Asset Category</b>				
Cash and cash equivalents	\$ 23	\$ 338,399	\$ -	\$ 338,422
U.S. equity securities - U.S. equity mutual funds	545	-	-	545
Fixed-income securities:				
Domestic fixed-income mutual funds	505	-	-	505
International fixed-income mutual funds	-	174,502	-	174,502
Real return strategy funds - Private equity funds	-	-	1,714	1,714
<b>Total</b>	<b>\$ 1,073</b>	<b>\$ 512,901</b>	<b>\$ 1,714</b>	<b>\$ 515,688</b>

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 16 - Net Assets with Donor Restrictions**

As of December 31, 2022 and 2021, net assets with donor restrictions relate to the following (in thousands):

	<u>2022</u>	<u>2021</u>
Net assets with donor restrictions:		
Hospital operations support	\$ 93,233	\$ 108,601
Hospital capital support	12,678	16,624
Research	6,976	7,470
Health care and other services	<u>27,278</u>	<u>27,710</u>
Total	<u>\$ 140,165</u>	<u>\$ 160,405</u>

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

***System Endowment Funds***

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

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

Net assets without donor restrictions include board-designated quasi-endowment funds as of December 31, 2022 and 2021 are \$19,162,000 and \$23,125,000, respectively.

## ProMedica Health System and Subsidiaries

# Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### Note 16 - Net Assets with Donor Restrictions (Continued)

Changes in endowment net assets for the fiscal years ended December 31, 2022 and 2021 are as follows (in thousands):

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Endowment net assets - December 31, 2020	\$ 21,318	\$ 39,664	\$ 60,982
Investment income	694	1	695
Contributions and transfers - Net	-	2	2
Change in net realized and unrealized losses	1,144	3,349	4,493
Other	(31)	-	(31)
	<hr/>	<hr/>	<hr/>
Endowment net assets - December 31, 2021	23,125	43,016	66,141
Investment income	96	-	96
Change in net realized and unrealized losses	(3,972)	(6,675)	(10,647)
Other	(87)	-	(87)
	<hr/>	<hr/>	<hr/>
Endowment net assets - December 31, 2022	<u>\$ 19,162</u>	<u>\$ 36,341</u>	<u>\$ 55,503</u>

#### Funds with Deficiencies

Periodically, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the System retain for a perpetual duration. Deficiencies of this nature would be reported in unrestricted net assets. These deficiencies could result from unfavorable market fluctuations and/or continued appropriation for certain programs that were deemed prudent by the System. As of December 31, 2022 and 2021, the System did not have funds with deficiencies.

#### Pledges Receivable

The System occasionally receives unconditional promises to give with payments due in future periods. Pledges receivable are recorded in assets limited as to use or restricted. As of December 31, 2022 and 2021, the System had pledges receivable of \$13,620,000 and \$16,839,000, respectively, net of an allowance of \$2,228,000 and \$1,069,000, respectively, for uncollectibility and discounted at 5.14 percent, with amounts due as follows (in thousands):

Years Receivable	Amount
2023	\$ 5,690
2024-2025	3,953
2026-2027	1,889
2028 and thereafter	2,088
	<hr/>
Total	<u>\$ 13,620</u>

### Note 17 - Income Taxes

PIC is an entity of the System that is for-profit and is subject to federal income taxes. PIC's provision for income taxes for the years ended December 31, 2022 and 2021 consists of the following (in thousands):

	2022	2021
Current income tax expense	\$ 2,819	\$ 3,402
Deferred income tax (benefit) expense	(385)	1,034
	<hr/>	<hr/>
Income tax expense	<u>\$ 2,434</u>	<u>\$ 4,436</u>

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 17 - Income Taxes (Continued)**

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

	<u>2022</u>	<u>2021</u>
Income before income taxes	\$ 38,819	\$ 96,240
Statutory U.S. federal income tax rate	\$ 8,152	\$ 20,210
State income taxes - Net of federal benefit	68	204
Exempt income adjustments	(6,497)	(16,049)
Goodwill impairment	347	-
Change in valuation allowance	329	-
Other	35	71
Income tax expense	<u>\$ 2,434</u>	<u>\$ 4,436</u>
Effective tax rate	5.40 %	4.60 %

In 2022 and 2021, PIC recorded favorable adjustments of \$6,497,000 and \$16,049,000, respectively, due to exempt earnings related to the Paramount Advantage subsidiary. Paramount Advantage is tax exempt under IRC Section 501(c)(4). It obtained its exemption on October 1, 2015.

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

	<u>2022</u>	<u>2021</u>
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	\$ 136	\$ 139
Unearned premium reserves	262	262
Accrued compensation	548	1,309
General accruals	498	586
Other	1,511	1,133
Total deferred tax assets - Net of any applicable allowances	2,955	3,429
Deferred tax liabilities:		
Goodwill and intangibles	(7,000)	(7,266)
Prepaid expense	(2)	(2)
Unrealized gains	-	(418)
Basis in fixed assets	(3,795)	(3,970)
Other liabilities	(53)	(53)
Deferred tax liabilities	<u>(10,850)</u>	<u>(11,709)</u>
Net deferred tax liability	<u>\$ (7,895)</u>	<u>\$ (8,280)</u>

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 17 - Income Taxes (Continued)**

The 2022 and 2021 amounts were calculated in accordance with ASC 740, *Income Taxes*. The application of ASC 740 requires a company to evaluate the recoverability of deferred tax assets and to establish a valuation allowance if necessary to reduce the deferred tax asset to an amount which is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance PIC includes many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) the timing of reversal; (4) taxable income in prior carryback years, as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; (5) the length of time that carryovers can be used; (6) unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax-planning strategies that the company would employ to avoid a tax benefit expiring unused. As of December 31, 2022 and 2021, PIC has recorded a valuation allowance of \$328,000 and \$0, respectively, against the deferred tax assets, primarily associated with capital assets.

PIC files consolidated federal income tax returns. Tax years subsequent to 2018 are still subject to U.S. federal examinations. The federal statute of limitations is generally three years.

On August 16, 2022, the Inflation Reduction Act (H.R. 5376) was signed into law in the United States. PIC is not an applicable corporation for the purpose of the Corporate Alternative Minimum Tax. ProMedica does not currently expect the Inflation Reduction Act to have a material impact on the System's consolidated financial statements.

**Note 18 - Functional Expenses**

The System provides general health care services and insurance to residents within its geographic locations, including medical/surgical, pediatric, crucial emergency, skilled nursing, home health, and hospice care. The financial statements report certain expense categories that are attributable to more than one health care service or support function; therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, and interest, are allocated based on total expenses by category. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

The tables below exclude pension expense (benefit) of \$139,834,000 and \$(13,652,000), respectively, recorded in nonoperating expense at December 31, 2022 and 2021, respectively. These expenses would be allocated 90 percent program costs and 10 percent to management and general at December 31, 2022 and 2021, respectively. The tables below exclude restructuring, severance, and acquisition costs of \$37,512,000 and \$0 at December 31, 2022 and 2021, respectively, which would be allocated entirely to management and general.

## ProMedica Health System and Subsidiaries

# Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### Note 18 - Functional Expenses (Continued)

Total expenses, including depreciation, amortization, and interest, related to providing these services for the years ended December 31, 2022 and 2021 are as follows (in thousands). These amounts are exclusive of activity from discontinued operations, income taxes and restructuring costs.

	Program Services				Support Services		Total
	Provider	Senior Care	Insurance	Other	Management and General	Fundraising	
Salaries, wages, and employee benefits	\$ 961,563	\$ 611,366	\$ 48,581	\$ 11,078	\$ 332,849	\$ 3,896	\$ 1,969,333
Food and drugs	242,218	34,886	-	887	(2,305)	-	275,686
Medical expenses	-	-	373,877	-	-	-	373,877
Contracted fees	321,597	80,498	14,017	3,646	276,070	909	696,737
Supplies	240,037	31,827	-	70	3,165	27	275,126
Insurance	9,909	12,090	-	-	12,528	-	34,527
Utilities	1,465	19,821	-	67	29,482	2	50,837
Other	156,190	75,939	-	3,015	16,547	4,806	256,497
Depreciation, amortization, and impairment	129,666	367,120	-	-	60,842	-	557,628
Interest expense	40,956	69,783	-	-	7,560	226	118,525
<b>Total</b>	<b>\$ 2,103,601</b>	<b>\$ 1,303,330</b>	<b>\$ 436,475</b>	<b>\$ 18,763</b>	<b>\$ 736,738</b>	<b>\$ 9,866</b>	<b>\$ 4,608,773</b>

	Program Services				Support Services		Total
	Provider	Senior Care	Insurance	Other	Management and General	Fundraising	
Salaries, wages, and employee benefits	\$ 912,395	\$ 650,166	\$ 51,490	\$ 3,445	\$ 379,472	\$ 2,374	\$ 1,999,342
Food and drugs	218,622	38,186	-	755	(646)	-	256,917
Medical expenses	-	-	1,374,115	-	-	-	1,374,115
Contracted fees	231,123	100,779	19,863	2,906	251,599	934	607,204
Supplies	217,853	39,228	-	51	4,211	10	261,353
Insurance	8,534	12,121	3	-	26,168	-	46,826
Utilities	1,266	22,309	-	52	28,227	-	51,854
Other	127,618	142,736	861	1,470	54,672	7,172	334,529
Depreciation, amortization, and impairment	98,402	21,804	-	28,688	21,356	-	170,250
Interest expense	40,791	69,533	-	-	6,486	186	116,996
<b>Total</b>	<b>\$ 1,856,604</b>	<b>\$ 1,096,862</b>	<b>\$ 1,446,332</b>	<b>\$ 37,367</b>	<b>\$ 771,545</b>	<b>\$ 10,676</b>	<b>\$ 5,219,386</b>

### Note 19 - Fair Value Measurements

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

#### Cash Equivalents

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

**Note 19 - Fair Value Measurements (Continued)**

***Equity and Fixed-income Securities***

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

***Exchange-traded/Mutual Funds***

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

***Commingled Funds***

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

***Hedge Funds***

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

***Real Estate Held for Investment***

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

***Private Capital***

Private capital is invested in discounted loans and structured credit tied to residential and commercial real estate markets in the United States and Europe. Management's estimates of the fair value of this investment are provided by the third-party administrator and the fund manager/general partner. Management obtains and considers the audited financial statements of this investment when evaluating the overall reasonableness of the fair value. In addition to a review of external information provided, management's internal procedures include reviews of returns against benchmarks and discussions with fund managers of performance, change in personnel or process, and evaluations of current market conditions for these investments. Investment managers also meet with system management on a periodic basis. Because of the inherent uncertainty, valuations may differ materially from those obtained had an active market existed. The investment is a closed-end fund and has significant redemption restrictions that prohibit redemptions during the fund's life, which has an initial term of five years with two optional one and one-half year extension options exercisable at the sole discretion of the general partner. As of December 31, 2022 and 2021, unfunded capital commitments totaled \$22,525,000 and \$15,675,000, respectively.

***Beneficial Interests in Perpetual Trusts***

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

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 19 - Fair Value Measurements (Continued)**

The following tables present information about the fair value of the System's financial instruments as of December 31, 2022 and 2021, according to the valuation techniques used by the System. The assets are included in marketable securities and assets limited as to use current and noncurrent (in thousands).

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2022
<b>Assets</b>				
Cash and cash equivalents	\$ 189,869	\$ 21,547	\$ -	\$ 211,416
U.S. equity securities:				
U.S. equity mutual funds	83,309	-	-	83,309
Marketable equity securities	35,709	-	-	35,709
International equity securities:				
International equity mutual funds	24,400	-	-	24,400
Marketable international equity securities	40,602	-	-	40,602
Fixed-income securities:				
U.S. Treasurys and agencies	-	109,656	-	109,656
Corporate, municipal, and other governmental bonds	-	164,268	-	164,268
Domestic fixed-income mutual funds	47,983	-	-	47,983
International fixed-income mutual funds	173	-	-	173
Real return strategy funds -				
Private capital	-	-	8,195	8,195
Other	17,383	-	-	17,383
Beneficial interests in perpetual trusts	-	-	32,136	32,136
Domestic real estate	-	-	7,429	7,429
<b>Total</b>	<b>\$ 439,428</b>	<b>\$ 295,471</b>	<b>\$ 47,760</b>	<b>782,659</b>
Investments measured at net asset value:				
U.S. equity commingled funds				55,480
International equity commingled funds				57,494
Long-short equity hedge funds				37,721
Global fixed-income commingled funds				33,687
<b>Total assets limited as to use and marketable securities</b>				<b>\$ 967,041</b>

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 19 - Fair Value Measurements (Continued)**

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

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 19 - Fair Value Measurements (Continued)**

The following is a summary of the fair value of system investments with a reported NAV per share as of December 31, 2022 and 2021 (in thousands):

	Investments Held at December 31, 2022		
	Fair Value	Redemption Frequency, if Eligible	Redemption Notice Period
U.S. equity commingled funds	\$ 55,480	Monthly	0-5 days
International equity commingled funds	57,494	Daily/Monthly	0-6 days
Long-short equity hedge funds	37,721	Monthly/ Quarterly	60-90 days
Global fixed-income commingled fund	33,687	Quarterly	60 days
Total	<u>\$ 184,382</u>		
	Investments Held at December 31, 2021		
	Fair Value	Redemption Frequency, if Eligible	Redemption Notice Period
U.S equity commingled funds	\$ 153,857	Monthly	0-5 days
International equity commingled funds	155,429	Daily/Monthly	0-6 days
Long-short equity hedge funds	62,691	Monthly/ Quarterly	60-90 days
Globally fixed-income commingled fund	34,713	Quarterly	60 days
Total	<u>\$ 406,690</u>		

***U.S. Equity Commingled Funds***

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

***International Equity Commingled Funds and Global Fixed-income Commingled Fund***

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

***Long-short Equity Hedge Funds***

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

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 20 - Liquidity**

The System has \$1,169,105,000 and \$1,651,024,000 of financial assets available within one year of December 31, 2022 and 2021 to meet cash needs for general expenditure consisting of cash of \$408,253,000 and \$569,151,000, short-term investments of \$168,436,000 and \$471,224,000, and accounts receivable of \$592,416,000 and \$610,649,000, respectively. Of the short-term investments, \$99,621,000 and \$262,271,000, respectively, is included as current assets, and the remaining \$68,815,000 and \$208,953,000, respectively, is included in noncurrent assets whose use is limited on the consolidated balance sheet. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated balance sheet date. The contributions receivable are subject to implied time restrictions but are expected to be collected within one year. The System has certain board-designated assets that are not included in amounts available for expenditure in the next year. However, the board-designated amounts could be made available, if necessary.

The System has a goal to maintain financial assets, which consist of cash and marketable securities and certain designated fixed-income investments included in internally designated funds, on hand at a minimum 60 days of normal operating expenses, which are, on average, approximately \$646,458,000 and \$810,762,000 at December 31, 2022 and 2021, respectively. The System has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the System invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

**Note 21 - Asset Retirement Obligations**

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

The System has determined it has legal obligations to perform certain asset retirement activities associated with planned and estimated demolition and remediation at various hospitals, long-term care facilities, medical office buildings, and other facilities. During 2022 and 2021, changes to the asset retirement obligation are as follows (in thousands):

	2022	2021
Balance - January 1	\$ 29,938	\$ 27,910
Additions	46	134
Accretion expense	1,113	1,894
Balance - December 31	<u>\$ 31,097</u>	<u>\$ 29,938</u>

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 22 - Leasing Revenue Activity**

The System leases space to tenants under various operating lease agreements. These agreements, without giving effect to renewal options, have expiration dates ranging from 2023 to 2038. The rental revenue for the years ended December 31, 2022 and 2021 was \$6,511,000 and \$5,821,000, respectively. As of December 31, 2022, the aggregate future minimum base rental payments to the System under noncancelable operating leases by year are as follows (in thousands):

Years Ending	Amount
2023	\$ 5,098
2024	2,433
2025	2,226
2026	1,596
2027	1,256
Thereafter	2,000
Total	<u>\$ 14,609</u>

**Note 23 - Investments in Affiliated Companies**

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

	2022	2021
Total assets	\$ 382,768	\$ 411,219
Total liabilities	141,013	181,959
Net assets	241,755	229,260
Revenue - Net	437,560	389,402
Net income	975	28,418

In 2018, HCR entered into a joint venture with Welltower, Inc. (Welltower), in which Welltower owned 80 percent equity interest in WELLPM JV, and HCR, which owned the remaining 20 percent equity interest in WELLPM JV, for the purpose of WELLPM JV acquiring the real estate assets comprising what would become substantially all of the System's skilled nursing and assisted living/memory care facilities. Simultaneously, with creation of WELLPM JV, a subsidiary of ProMedica leased all of WELLPM JV's skilled nursing and assisted living/memory care facilities under the Master Lease. Welltower, Inc. subsequently transferred its equity interest in WELLPM JV to one of its subsidiaries.

Effective January 24, 2022, Welltower (through the subsidiary member of WELLPM JV) purchased 25 percent of HCR's 20 percent equity interest in WELLPM JV for a purchase price of \$137,400,000, increasing Welltower's equity interest in WELLPM JV to 85 percent and reducing HCR's equity interest in WELLPM JV to 15 percent. In conjunction with this change, the initial lease term of the Master Lease was also amended and extended through December 31, 2036.

In connection with the System's decision to exit the skilled nursing line of business, as described in more detail in Note 24, an agreement was reached with subsidiaries of Welltower, inclusive of the subsidiary member of WELLPM JV, to transfer from WELLPM JV to entities not affiliated with the System all of the assets related to the skilled nursing facilities. The System did not receive any consideration as part of this transaction, which resulted in a write-down of the System's investment in WELLPM JV of approximately \$269,578,000. WELLPM JV continues to hold the facilities that are part of the assisted living line of business.

## ProMedica Health System and Subsidiaries

# Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### Note 23 - Investments in Affiliated Companies (Continued)

The summarized financial position and results of operations for the System's joint ventures with WELLPM JV as of and for the years ended December 31, 2022 and 2021 are as follows (in thousands):

	2022	2021
Total assets	\$ 813,900	\$ 2,563,779
Total liabilities	349	1,382
Net assets	813,551	2,562,397
Revenue - Net	239,797	238,209
Net income	174,302	198,932

HCR purchases various pharmaceutical supplies from an affiliate accounted for as an equity investment. Total purchases for 2022 and 2021 are approximately \$45,127,000 and \$39,309,000, respectively. The amounts accrued for unpaid pharmaceutical supplies purchases at December 31, 2022 and 2021 are \$7,772,000 and \$7,763,000, respectively.

In December 2022, the System, in conjunction with U.S. Bank National Association (U.S. Bank), exercised the multiple put/call agreements related to the federal and State of Ohio New Markets Tax Credit (NMTC) program for the acquisition and rehabilitation of the historic Toledo Transaction Company Power Station (Steam Plant) that is used as the System's corporate headquarters. As a part of the transaction, ProMedica Manager Member, LLC (Manager), a wholly owned subsidiary of the System, along with its subsidiaries, ProMedica Downtown Campus Landlord, LLC (Landlord) and ProMedica Master Tenant, LLC (Master Tenant), were dissolved, and the assets were reverted back to the System. Additionally, the qualified low-income community investment loans of \$14,740,000 were forgiven. The forgiveness of the QLICI loans was offset by the forgiveness of the leveraged loan of \$9,759,00 that the System loaned to Twain Investment Fund, LLC (Twain), a wholly owned subsidiary of U.S. Bank. The net gain of \$4,981,000 from the transaction was recorded in investment income on the consolidated statement of operations and changes in net assets.

### Note 24 - Discontinued Operations

As described in Note 1, in December 2022, HCR entered into an agreement to transfer the operations of the 147 skilled nursing facilities under the Master Lease with WELLPM JV to other operators (the "New SNF Operators") not affiliated with the System. In connection with the SNF Exit Transaction, HCR was required to fund an operating reserve for the benefit of the New SNF Operators of approximately \$176,000,000 to facilitate the transfer of the skilled nursing facilities. The \$852,983,000 loss from discontinued operations recorded in the consolidated statement of operations and changes in net assets for the year ended December 31, 2022 consisted of the following: \$370,671,000 of year-to-date operating losses related to the 147 skilled nursing facilities, \$291,767,000 related to the revised value of the joint venture investment, an impairment of the \$147,908,000 carrying value of the fixed assets and certificates of need, a loss of \$176,774,000 related to a termination fee, and a \$134,137,000 gain on the restructuring of the Master Lease. Year-to-date operating losses of \$277,170,000 were also reclassified and presented as a loss from discontinued operations for the year ended December 31, 2021 in accordance with the accounting treatment for discontinued operations.

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

**Note 24 - Discontinued Operations (Continued)**

The following is a summary of discontinued operations from the transfer of the 147 skilled nursing facilities (in thousands):

	2022	2021
Net patient service revenue	\$ 1,785,055	\$ 1,684,381
Operating expenses	<u>(2,155,726)</u>	<u>(1,961,766)</u>
Loss from operations	(370,671)	(277,385)
Impairment of joint venture	(291,767)	-
Impairment of fixed assets and intangible assets	(147,908)	-
Termination fee	(176,774)	-
Gain on restructuring of master lease	134,137	-
Other loss	-	(39)
Loss from discontinued operations	<u>\$ (852,983)</u>	<u>\$ (277,424)</u>

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

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

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

The Agreement includes a financial commitment by ProMedica to provide academic support to The University of Toledo through payments for certain defined services, research, branding rights, and other related services for value and benefits to ProMedica. ProMedica made initial payments totaling \$40 million over the 3-year period ended in 2017, which have been deferred and are being expensed over 30 years to match the estimated years of benefit realization. In addition, ProMedica incurred a transitional payment expense of \$40,529,000 in 2020. Beginning in 2021 through 2065, annual support payments will be at least \$50,000,000 and calculated based on the aggregate of: (i) 3 percent of base year 2015 net patient service revenue; plus (ii) 2 percent of the difference in the current year net patient service revenue, excluding net patient service revenue generated from facilities acquired by ProMedica after 2015, and the base year of 2015; plus (iii) one-quarter of 1 percent of net patient service revenue generated in the then-current year from facilities acquired by ProMedica after 2015. The actual payments for 2022 and 2021 were 44,404,000 and \$43,331,000, respectively. The actual payments were prorated due to fewer residents transitioning than originally contemplated. Per the First Amendment to the Academic Affiliation Agreement, net patient service revenue generated by HCR ManorCare, Inc. and Subsidiaries shall be excluded from the annual support payment calculation. The amount of annual support payments will be reassessed every 5 years, starting in the academic year 2030.

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

As of December 31, 2022 and 2021, the carrying amount of the deferred payments is \$31,522,000 and \$32,864,000, respectively, and is included in intangible assets and other.

**Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

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

Management has evaluated the expected future benefits to be received under the Agreement in relation to future payments. It is expected that future payments beyond 2022 will be expensed as incurred and will approximate the annual benefits received.

**Note 26 - Assets Held for Sale**

In 2022, HCR entered into an agreement to transfer the operations of 147 skilled nursing facilities, which met the criteria of discontinued operations reporting. The corresponding assets of the transferred facilities have been reclassified as held for sale in 2021. Operating losses of \$277,170,000 of the 147 skilled nursing facilities have been reclassified to loss on discontinued operations in 2021.

During 2021, the sale of 21 skilled nursing facilities was completed. In addition, ProMedica has plans to divest certain other assets representing an insignificant portion of the organization's net assets. The net loss reflected in the consolidated statement of operations and changes in net assets related to facilities held for sale was \$0 and \$56,111,000 in 2022 and 2021, respectively.

The major classes of assets and liabilities included in assets and liabilities held for sale on the consolidated balance sheet at December 31, 2021 are as follows:

Net property and equipment	\$	91,966
Supplies		6,085
Investments in affiliated companies		415,667
Intangible assets		40,690
Right-of-use assets - Operating leases		<u>1,466,709</u>
Total	\$	<u>2,021,117</u>
Lease liability - Operating	\$	1,466,709

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## Supplemental Information

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## Independent Auditor's Report on Supplemental Information

To the Board of Directors  
ProMedica Health System and Subsidiaries

We have audited the consolidated financial statements of ProMedica Health System and Subsidiaries as of and for the years ended December 31, 2022 and 2021 and have issued our report thereon dated April 19, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purpose of additional analysis rather than to present the financial position, results of operations, and cash flows of the Obligated Group entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Plante & Moran, PLLC*

April 19, 2023

# ProMedica Health System and Subsidiaries

## Consolidating Balance Sheet - Obligated Group

December 31, 2022

(In Thousands)

	The Toledo Hospital	Defiance Hospital, Inc.	Bay Park Community Hospital	ProMedica Charles and Virginia Hickman Hospital	HCR Holding Co.	Fostoria Hospital Association	Memorial Hospital	Mercy Memorial Hospital Corporation	ProMedica Continuing Care Services Corp.	Eliminations	Total Obligated Group
<b>Assets</b>											
<b>Current Assets</b>											
Cash and cash equivalents	\$ 55,953	\$ 10,018	\$ 12,574	\$ 26,220	\$ 4,549	\$ 7,006	\$ 11,486	\$ 21,961	\$ (866)	\$ -	\$ 148,901
Marketable securities	6,490	193	-	-	-	-	-	-	-	-	6,683
Assets limited as to use or restricted	108,977	-	-	-	-	-	-	-	-	-	108,977
Accounts receivable - Net	160,699	12,299	15,483	17,692	7,824	5,641	10,625	19,282	(285)	-	249,260
Estimated third-party payor receivable	5,408	-	320	278	-	-	166	3,482	-	-	9,654
Supplies	19,517	927	1,707	2,696	-	819	1,083	3,049	1	-	29,799
Other current assets	9,227	166	60	689	2	436	205	122	-	-	10,907
Total current assets	366,271	23,603	30,144	47,575	12,375	13,902	23,565	47,896	(1,150)	-	564,181
<b>Noncurrent Assets Limited as to Use or Restricted - Net of amounts required to meet current obligations</b>											
	104,271	-	-	-	-	-	-	133,229	-	-	237,500
<b>Property and Equipment - Net</b>	795,418	24,298	35,078	140,294	6,734	13,995	33,016	53,740	60	-	1,102,633
<b>Right-of-use Operating Lease Assets</b>	22,923	144	1,328	1,737	203	300	450	1,384	-	-	28,469
<b>Other Assets</b>											
Goodwill	17,958	-	-	-	710,209	-	282	-	-	-	728,449
Intangible assets	-	-	-	-	40,216	-	-	1,100	-	-	41,316
Investment in affiliated companies	3,145	-	110	162	116,823	-	233	678	630	-	121,781
Other	-	-	-	-	-	25	482	-	-	-	507
Total other assets	21,103	-	110	162	867,248	25	997	1,778	630	-	892,053
Total assets	<u>\$ 1,309,986</u>	<u>\$ 48,045</u>	<u>\$ 66,660</u>	<u>\$ 189,768</u>	<u>\$ 886,560</u>	<u>\$ 28,222</u>	<u>\$ 58,028</u>	<u>\$ 238,027</u>	<u>\$ (460)</u>	<u>\$ -</u>	<u>\$ 2,824,836</u>

## ProMedica Health System and Subsidiaries

# Consolidating Balance Sheet - Obligated Group (Continued)

December 31, 2022

(In Thousands)

	The Toledo Hospital	Defiance Hospital, Inc.	Bay Park Community Hospital	ProMedica Charles and Virginia Hickman Hospital	HCR Holding Co.	Fostoria Hospital Association	Memorial Hospital	Mercy Memorial Hospital Corporation	ProMedica Continuing Care Services Corp.	Eliminations	Total Obligated Group
<b>Liabilities and Net Assets (Deficiency in Net Assets)</b>											
<b>Current Liabilities</b>											
Accounts payable and other accrued expenses	\$ 86,363	\$ 2,501	\$ 5,845	\$ 5,861	\$ 1,595	\$ 5,355	\$ 3,311	\$ 6,833	\$ (82)	\$ -	\$ 117,582
Intercompany payable	89,198	6,314	8,101	84,598	93,346	3,452	6,331	14,427	(23,367)	-	282,400
Contractual current installments of long-term debt	346,432	28,250	42,324	-	-	10,531	31	25,362	2,210	-	455,140
Estimated third-party payor settlements	20,147	2,428	1,433	4,981	346	1,585	1,111	5,841	-	-	37,872
Current portion of lease liabilities - Finance	4,671	65	168	126	-	93	4	46	-	-	5,173
Current portion of lease liabilities - Operating	4,720	35	268	408	-	84	126	460	-	-	6,101
Accrued liabilities and other:											
Compensation and benefits	41,585	1,690	2,864	2,774	766	1,266	2,170	5,176	(1,583)	-	56,708
Claims expense	-	-	-	-	-	13	54	-	-	-	67
Other current liabilities	116	-	-	43	-	-	-	-	-	-	159
<b>Total current liabilities</b>	<b>593,232</b>	<b>41,283</b>	<b>61,003</b>	<b>98,791</b>	<b>96,053</b>	<b>22,379</b>	<b>13,138</b>	<b>58,145</b>	<b>(22,822)</b>	<b>-</b>	<b>961,202</b>
<b>Long-term Debt - Less current installments</b>	<b>1,709,877</b>	<b>26</b>	<b>118</b>	<b>49,390</b>	<b>-</b>	<b>15</b>	<b>19,916</b>	<b>119</b>	<b>-</b>	<b>-</b>	<b>1,779,461</b>
<b>Lease Liabilities - Finance</b>	<b>4,839</b>	<b>69</b>	<b>173</b>	<b>131</b>	<b>-</b>	<b>97</b>	<b>5</b>	<b>48</b>	<b>-</b>	<b>-</b>	<b>5,362</b>
<b>Lease Liabilities - Operating</b>	<b>17,972</b>	<b>109</b>	<b>1,063</b>	<b>1,336</b>	<b>209</b>	<b>216</b>	<b>329</b>	<b>887</b>	<b>-</b>	<b>-</b>	<b>22,121</b>
<b>Other Liabilities</b>											
Deferred compensation	3,913	-	-	-	-	-	-	-	-	-	3,913
Pension	128	-	-	-	-	-	-	-	-	-	128
Other	11,921	23	-	2,869	228	1,475	2,501	1,808	-	-	20,825
<b>Total other liabilities</b>	<b>15,962</b>	<b>23</b>	<b>-</b>	<b>2,869</b>	<b>228</b>	<b>1,475</b>	<b>2,501</b>	<b>1,808</b>	<b>-</b>	<b>-</b>	<b>24,866</b>
<b>Total liabilities</b>	<b>2,341,882</b>	<b>41,510</b>	<b>62,357</b>	<b>152,517</b>	<b>96,490</b>	<b>24,182</b>	<b>35,889</b>	<b>61,007</b>	<b>(22,822)</b>	<b>-</b>	<b>2,793,012</b>
<b>Net Assets (Deficiency in Net Assets)</b>											
Without donor restrictions - Controlling interest	(1,034,544)	6,535	4,292	36,859	790,070	4,040	22,139	176,948	22,362	-	28,701
With donor restrictions	2,648	-	11	392	-	-	-	72	-	-	3,123
<b>Total net assets (deficiency in net assets)</b>	<b>(1,031,896)</b>	<b>6,535</b>	<b>4,303</b>	<b>37,251</b>	<b>790,070</b>	<b>4,040</b>	<b>22,139</b>	<b>177,020</b>	<b>22,362</b>	<b>-</b>	<b>31,824</b>
<b>Total liabilities and net assets (deficiency in net assets)</b>	<b>\$ 1,309,986</b>	<b>\$ 48,045</b>	<b>\$ 66,660</b>	<b>\$ 189,768</b>	<b>\$ 886,560</b>	<b>\$ 28,222</b>	<b>\$ 58,028</b>	<b>\$ 238,027</b>	<b>\$ (460)</b>	<b>\$ -</b>	<b>\$ 2,824,836</b>

## ProMedica Health System and Subsidiaries

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

Year Ended December 31, 2022  
(In Thousands)

	The Toledo Hospital	Defiance Hospital, Inc.	Bay Park Community Hospital	ProMedica Charles and Virginia Hickman Hospital	HCR Holding Co.	Fostoria Hospital Association	Memorial Hospital	Mercy Memorial Hospital Corporation	ProMedica Continuing Care Services Corp.	Eliminations	Total Obligated Group
<b>Unrestricted Revenue, Gains, and Other Support</b>											
Net patient service revenue	\$ 1,337,530	\$ 78,564	\$ 108,876	\$ 124,738	\$ 30,258	\$ 39,998	\$ 79,941	\$ 150,702	\$ -	\$ (23,867)	\$ 1,926,740
Other	15,311	1,231	164	2,505	27,056	3,195	1,723	4,930	-	(42)	56,073
Net assets released for use in operations	5,255	28	60	644	127	3	16	454	-	-	6,587
<b>Total unrestricted revenue, gains, and other support</b>	<b>1,358,096</b>	<b>79,823</b>	<b>109,100</b>	<b>127,887</b>	<b>57,441</b>	<b>43,196</b>	<b>81,680</b>	<b>156,086</b>	<b>-</b>	<b>(23,909)</b>	<b>1,989,400</b>
<b>Expenses</b>											
Salaries, wages, and employee benefits	466,314	22,076	31,036	38,137	25,626	13,163	23,577	64,644	854	(23,909)	661,518
Food and drugs	92,799	5,491	6,887	10,628	441	5,107	9,020	12,389	-	-	142,762
Contracted fees	222,163	11,141	19,266	19,030	7,319	7,797	14,233	34,734	27	-	335,710
Supplies	166,168	4,485	9,297	9,071	719	2,945	4,899	12,996	(90)	-	210,490
Insurance	7,115	470	686	850	126	288	458	1,715	129	-	11,837
Utilities	11,032	804	804	2,044	488	763	1,316	1,866	1	-	19,118
Other	288,125	16,873	25,775	27,124	4,331	9,100	17,181	38,022	(2,166)	-	424,365
<b>Total expenses</b>	<b>1,253,716</b>	<b>61,340</b>	<b>93,751</b>	<b>106,884</b>	<b>39,050</b>	<b>39,163</b>	<b>70,684</b>	<b>166,366</b>	<b>(1,245)</b>	<b>(23,909)</b>	<b>1,805,800</b>
<b>Operating Income (Loss) before Depreciation, Amortization, and Impairment Expense</b>	<b>104,380</b>	<b>18,483</b>	<b>15,349</b>	<b>21,003</b>	<b>18,391</b>	<b>4,033</b>	<b>10,996</b>	<b>(10,280)</b>	<b>1,245</b>	<b>-</b>	<b>183,600</b>
<b>Depreciation, Amortization, and Impairment</b>	<b>76,558</b>	<b>3,144</b>	<b>3,139</b>	<b>7,748</b>	<b>352,782</b>	<b>1,832</b>	<b>4,535</b>	<b>5,646</b>	<b>31</b>	<b>-</b>	<b>455,415</b>
<b>Operating Income (Loss)</b>	<b>27,822</b>	<b>15,339</b>	<b>12,210</b>	<b>13,255</b>	<b>(334,391)</b>	<b>2,201</b>	<b>6,461</b>	<b>(15,926)</b>	<b>1,214</b>	<b>-</b>	<b>(271,815)</b>
<b>Other (Loss) Income</b>											
Interest expense	(33,093)	(924)	(1,382)	(3,193)	(67,630)	(355)	(1,062)	(663)	(76)	-	(108,378)
Investment (loss) income	(62,799)	(11)	95	15	1	(6)	(9)	(16,614)	-	-	(79,328)
Other components of net periodic pension costs, including settlement costs	(1,175)	-	(45)	(194)	-	-	-	(478)	(46)	-	(1,938)
Other	17	(1)	(2)	(2)	-	1	(58)	-	-	-	(45)
<b>Total other loss - Net</b>	<b>(97,050)</b>	<b>(936)</b>	<b>(1,334)</b>	<b>(3,374)</b>	<b>(67,629)</b>	<b>(360)</b>	<b>(1,129)</b>	<b>(17,755)</b>	<b>(122)</b>	<b>-</b>	<b>(189,689)</b>
<b>Excess of Revenue (Under) Over Expenses</b>	<b>(69,228)</b>	<b>14,403</b>	<b>10,876</b>	<b>9,881</b>	<b>(402,020)</b>	<b>1,841</b>	<b>5,332</b>	<b>(33,681)</b>	<b>1,092</b>	<b>-</b>	<b>(461,504)</b>
<b>Transfer (to) from Affiliate</b>	<b>(494,544)</b>	<b>(4,621)</b>	<b>2,497</b>	<b>4,914</b>	<b>(102,302)</b>	<b>(3,167)</b>	<b>8,498</b>	<b>50,066</b>	<b>14,347</b>	<b>-</b>	<b>(524,312)</b>
<b>Net Assets Released from Restrictions</b>	<b>2,467</b>	<b>29</b>	<b>18</b>	<b>1,396</b>	<b>-</b>	<b>90</b>	<b>96</b>	<b>28</b>	<b>-</b>	<b>-</b>	<b>4,124</b>
<b>Pension and Other Postretirement Adjustments</b>	<b>(29)</b>	<b>-</b>	<b>-</b>	<b>(41)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(70)</b>
<b>Loss on Discontinued Operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(306,472)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(306,472)</b>
<b>(Decrease) Increase in Net Assets without Donor Restrictions</b>	<b>\$ (561,334)</b>	<b>\$ 9,811</b>	<b>\$ 13,391</b>	<b>\$ 16,150</b>	<b>\$ (810,794)</b>	<b>\$ (1,236)</b>	<b>\$ 13,926</b>	<b>\$ 16,413</b>	<b>\$ 15,439</b>	<b>\$ -</b>	<b>\$ (1,288,234)</b>

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# ProMedica Health System and Subsidiaries

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**Federal Awards Supplemental Information  
December 31, 2022**

### **Independent Auditor's Reports**

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance 1

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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

**Independent Auditor's Report**

To the Board of Directors  
ProMedica Health System and Subsidiaries

We have audited the consolidated financial statements of ProMedica Health System and Subsidiaries as of and for the year ended December 31, 2022 and have issued our report thereon dated April 19, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to April 19, 2023.

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

*Plante & Moran, PLLC*

September 22, 2023

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with *Government Auditing Standards*

**Independent Auditor's Report**

To Management and the Board of Directors  
ProMedica Health System and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of ProMedica Health System and Subsidiaries (the "System"), which comprise the consolidated balance sheet as of December 31, 2022 and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated April 19, 2023. The financial statements of ProMedica Insurance Corporation and ProMedica Indemnity Company 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 ProMedica Insurance Corporation and ProMedica Indemnity Company.

**Report on Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2022-001 and 2022-002, that we consider to be a significant deficiencies.

**Report on Compliance and Other Matters**

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

To Management and the Board of Directors  
ProMedica Health System and Subsidiaries

### **The System's Responses to the Findings**

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

### **Purpose of This Report**

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

*Plante & Moran, PLLC*

April 19, 2023

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

**Independent Auditor's Report**

To the Board of Directors  
ProMedica Health System and Subsidiaries

**Report on Compliance for Each Major Federal Program**

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

We have audited ProMedica Health System and Subsidiaries' (the "System") compliance with the types of compliance requirements identified as subject to audit in the Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2022. 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.

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

***Basis for Opinion on Each Major Federal Program***

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

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

***Responsibilities of Management for Compliance***

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

To the Board of Directors  
ProMedica Health System and Subsidiaries

### ***Auditor's Responsibilities for the Audit of Compliance***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, no such opinion is expressed.

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

### ***Other Matter***

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with OMB Uniform Guidance, which is described in the accompanying schedule of findings and questioned costs as Finding 2022-003. Our opinion on each major federal program is not modified with respect to this matter.

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

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

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

To the Board of Directors  
ProMedica Health System and Subsidiaries

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2022-003 to be a material weakness.

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 of those charged with governance.

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

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

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

*Plante & Moran, PLLC*

September 22, 2023

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

Federal Agency/Pass-through Agency/Program Title	Assistance Listing Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
Clusters:				
Research and Development Cluster -				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES -				
National Institutes of Health:				
Passed through Mayo Clinic Jacksonville - Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	5U01NS080168-04	\$ -	\$ 981
Passed through the University of Cincinnati - Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	1U01NS099043-01A1	-	225
Passed through the University of Cincinnati - Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	1U01NS110772-01	-	852
Total ALN 93.853				2,058
Passed through the Mayo Clinic - Cancer Detection and Diagnosis Research	93.394	1R01CA239200-01A1	-	69,690
Passed through the Children's Hospital of Philadelphia - Cancer Treatment Research	93.395	U10CA180886	-	57,906
Passed through the Washington University - Blood Diseases and Resources Research	93.839	1UG3HL138325-01	-	1,771
Total Research and Development Cluster			-	131,425
Highway Safety Cluster -				
U.S. DEPARTMENT OF TRANSPORTATION - Passed through the Ohio Department of Health -				
National Priority Safety Programs				
	20.616	04830024BB0522	-	69,000
SNAP Cluster -				
U.S. DEPARTMENT OF AGRICULTURE:				
Direct award - Supplemental Nutrition Assistance Program - Veggie Mobile SNAP/EBT Sales	10.551		-	3,784
Direct award - Supplemental Nutrition Assistance Program - Market on the Green SNAP Sales	10.551		-	223,671
Total SNAP Cluster			-	227,455
Food Distribution Cluster -				
U.S. DEPARTMENT OF AGRICULTURE - Office of Food and Nutrition Service - Passed through the Sea Gate				
Food bank - Emergency Food Assistance Program				
	10.569	N/A	-	242,000
Total clusters			-	669,880
Other programs:				
U.S. DEPARTMENT OF AGRICULTURE -				
Office of Food and Nutrition Service:				
Direct award - Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		-	150
Passed through the Lucas County Regional Health District - Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	04810011WA1623	-	99,992
Passed through the Lucas County Regional Health District - Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2OH700005	-	273,830
Passed through the Lucas County Regional Health District - Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	048-1-001-1-WA-05	-	3,945,608
Total ALN 10.557			-	4,319,580
U.S. DEPARTMENT OF THE TREASURY -				
Office of Treasury Programs:				
Passed through the State of Delaware - Coronavirus State and Local Fiscal Recovery Funds	21.027	26-0623367	-	720,981
Passed through the State of Delaware - Coronavirus State and Local Fiscal Recovery Funds	21.027	26-0623346	-	769,070
Passed through the Michigan Hospital Association - Coronavirus State and Local Fiscal Recovery Funds	21.027	SLFRP0127-23-0022	-	500,000
Passed through the Michigan Hospital Association - Coronavirus State and Local Fiscal Recovery Funds	21.027	SLFRP0127-23-0005	-	500,000
Passed through the Michigan Hospital Association - Coronavirus State and Local Fiscal Recovery Funds	21.027	SLFRP0127-23-0099	-	950,000
Total ALN 21.027			-	3,440,051

Schedule of Expenditures of Federal Awards (Continued)

Year Ended December 31, 2022

Federal Agency/Pass-through Agency/Program Title	Assistance Listing Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE -				
Office of Justice Programs:				
Direct award - National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		\$ 44,473	\$ 85,751
Passed through the Ohio Attorney General's Office - Crime Victim Assistance	16.575	2022-VOCA-134718438	-	68,562
Passed through the Ohio Attorney General's Office - Crime Victim Assistance	16.575	2023-VOCA-135109086	-	5,336
Total ALN 16.575			-	73,898
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES -				
Office of Centers for Disease Control and Prevention:				
Passed through Toledo Lucas County Health Department - Healthy Start Initiative	93.926	5 H49MC27825-08-00	-	108,121
Passed through Ohio Department of Health - Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises	93.391	048300410I0123	-	175,000
Passed through Hemophilia Foundation of Michigan - Blood Disorder Program: Prevention, Surveillance, and Research	93.080	CDC 437 21-22	-	10,659
Passed through Ohio Department of Health - Rural Health Research Centers	93.155	040	-	257,853
Passed through Ohio Department of Health - Rural Health Research Centers	93.155	039	-	257,853
Total ALN 93.155			-	515,706
Passed through Ohio Department of Health - Injury Prevention and Control Research and State and Community Based Programs	93.136	04830024EC0221	-	1,689,531
Passed through Ohio Department of Health - Injury Prevention and Control Research and State and Community Based Programs	93.136	04830024VW1421	-	13,654
Passed through Ohio Department of Health - Injury Prevention and Control Research and State and Community Based Programs	93.136	04830024VW1522	-	63,931
Total ALN 93.136			-	1,767,116
Passed through Ohio Department of Health - Preventive Health and Health Services Block Grant	93.991	04830024IF0422	25,000	92,000
Passed through Ohio Department of Health - Preventive Health and Health Services Block Grant	93.991	04830024IC0422	20,000	145,000
Passed through Ohio Department of Health - Preventive Health and Health Services Block Grant	93.991	04830024VW1421	-	2,546
Passed through Ohio Department of Health - Preventive Health and Health Services Block Grant	93.991	04830024VW1522	-	11,919
Total ALN 93.991			45,000	251,465
Immediate Office of the Secretary -				
Passed through Hospital Council of Northwest Ohio - National Bioterrorism Hospital Preparedness Program - Emergency Pharmacy	93.889	04860042RP1522	-	76,994
Office of Health Resources and Services Administration:				
Direct award - COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461		-	144,231
Direct award - COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498		-	53,648,942
Direct award - Grants for Primary Care Training and Enhancement	93.884		25,064	169,391
Direct award - Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement	93.912		270,348	230,788
Passed through Ohio Department of Health - Small Rural Hospital Improvement Grant Program	93.301	5 H3HRH00045-19-00	-	47,244
Passed through Hemophilia Foundation of Michigan - Maternal and Child Health Federal Consolidated Programs	93.110	MCHB 437 21-22	-	16,000
Passed through Hemophilia Foundation of Michigan - Maternal and Child Health Federal Consolidated Programs	93.110	MCHB 437 22-23	-	3,464
Total ALN 93.110			-	19,464
Administration for Children and Families:				
Passed through Local Initiatives Support Corporation - Temporary Assistance for Needy Families	93.558	1901OHTANF	-	56,000
Office of Substance Abuse and Mental Health Services Administration:				
Direct award - Opioid STR	93.788		52,993	227,821
Direct award - Opioid STR	93.788		9,100	63,500
Passed through Ohio Department of Health - Opioid STR	93.788	04830024IN0322	28,811	52,882
Total ALN 93.788			90,904	344,203
Total other federal awards			475,789	65,484,604
Total federal awards			<b>\$ 475,789</b>	<b>\$ 66,154,484</b>

# ProMedica Health System and Subsidiaries

## Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

### Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of ProMedica Health System and Subsidiaries (the "System") under programs of the federal government for the year ended December 31, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the System.

### Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on an accrual basis of accounting with the exception of expenditures passed through the Ohio Department of Health (ODH). The ODH expenditures are reported on a cash basis in accordance with guidance provided by ODH. Expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement except for expenditures related to Assistance Listing Number (ALN) 93.498 Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution (PRF program). The PRF program does not apply the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, but rather applies the U.S. Department of Health and Human Services' (HHS) guidance and frequently asked questions, as outlined in the Compliance Supplement. For the PRF program, HHS has indicated the amounts on the Schedule should be reported corresponding to reporting requirement of the HHS PRF Reporting Portal. Payments from HHS for the PRF program are assigned to payment received periods (each, a "period") based upon the date each PRF payment was received. Each period has a specified period of availability and timing of reporting requirements. Entities report into the HHS PRF Reporting Portal after each period's deadline to use the funds (i.e., after the end of the period of availability). The pass-through entity identifying numbers are presented where available.

The System has elected to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

### Note 3 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of the Uniform Guidance.

The grantee received the following noncash assistance during the year ended December 31, 2022 that is included in the schedule of expenditures of federal awards:

Federal Program	ALN	Description	Amount
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	Assistance vouchers	\$ 3,945,758
SNAP Cluster - Supplemental Nutrition Assistance Program	10.551	Food commodities	227,455
Food Distribution Cluster - Emergency Food Assistance Program	10.569	Food commodities	242,000
		Total	<u>\$ 4,415,213</u>

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## Schedule of Findings and Questioned Costs

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**ProMedica Health System and Subsidiaries**

**Schedule of Findings and Questioned Costs**

**Year Ended December 31, 2022**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?            Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?   X   Yes            None reported

Noncompliance material to financial statements noted?            Yes   X   None reported

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?   X   Yes            No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?            Yes   X   None reported

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?   X   Yes            No

Identification of major programs:

ALN	Name of Federal Program or Cluster	Opinion
93.498	Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	Unmodified
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	Unmodified
21.027	Coronavirus State and Local Fiscal Recovery Funds	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$1,984,635

Auditee qualified as low-risk auditee?            Yes   X   No

**ProMedica Health System and Subsidiaries**

**Schedule of Findings and Questioned Costs (Continued)**

**Year Ended December 31, 2022**

**Section II - Financial Statement Audit Findings**

Reference Number	Finding
2022-001	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - Cash balances should be reconciled and reviewed timely to ensure the balance in the general ledger is correct.</p> <p><b>Condition</b> - There were insufficient controls in place over the cash reconciliation process during the year under audit to ensure cash was properly stated in the consolidated balance sheet.</p> <p><b>Context</b> - Due to various issues that occurred as part of an overall information technology system conversion to the Infor platform, there was an inability to reconcile the significant cash accounts on a timely basis for January 2022. In addition, cash reconciliations for the first portion of the year had to be performed in an aggregate basis for all cash accounts. The System is also unable to obtain a system-generated outstanding check listing.</p> <p><b>Cause</b> - Appropriate review and monitoring procedures for cash accounts were unable to be in place due to the system conversion. The System was unable to generate an outstanding check listing to allow cash balances to be timely reconciled.</p> <p><b>Effect</b> - Significant adjustments to cash may not be identified on a timely basis if the System is unable to obtain timely and accurate information to perform reconciliations.</p> <p><b>Recommendation</b> - We recommend that the System resolve the outstanding check listing issue so that cash accounts can be reconciled on a timely basis each month to ensure the balance in the general ledger is accurate.</p>

# ProMedica Health System and Subsidiaries

## Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2022

### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2022-001 (Cont.)	<p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Management fully understands and acknowledges the importance of complete and timely cash/bank account reconciliations and the impact to the financial statements.</p> <p>Due to the significant ERP (Enterprise Resource Planning) system conversion issues following the July 2021 conversion to Infor, associated lack of implementation of automated Infor cash management modules/technology to facilitate cash reconciliations, and inherent flaws in the system design, which significantly impacted the flow of cash transactions and workflow, staff currently reconcile approximately 105 bank accounts monthly via a manual process.</p> <p>Through April 2022, while the 2021 external audit was still being finalized and given significant system limitations, staff were able to reconcile cash accounts only in the aggregate. Following the completion of the 2021 external audit and starting in May 2022, individual cash account reconciliations were being completed timely (within 30 days following each month-end close). Through September 30, 2022, all cash accounts, except for two, were manually, fully, and timely reconciled and reviewed. By December 31, 2022, all cash accounts were fully and timely reconciled and reviewed.</p> <p>Due to current information technology system limitations (Infor), only a partial outstanding check list is generated monthly. Staff complete the reconciliation process manually by comparing actual bank transactions that have cleared to system-generated reports of checks and other manually created reports to create an outstanding check list.</p> <p>In addition to the manual, mitigating controls and action plans that were implemented in 2022 to address the larger, systemic issues associated with the Infor implementation, there is an active project underway to reconfigure the entire Infor ERP system (Project Elevate), with an estimated date of completion of September 2023. The project plan for Project Elevate, to include Huron as the implementation partner for the project, was presented and approved by both executive leadership and governance in December 2022. A component of Project Elevate is specifically dedicated to the implementation of the Infor cash management module and the associated workflows. This will provide substantial automation of the monthly cash reconciliation process, resolve the outstanding check list issue, and significantly enhance the overall internal control environment. Additionally, critical functionality will be implemented that was not addressed in the initial implementation of Infor in 2021.</p> <p>Finally, there has been a significant restructure of the accounting team/staff within the last several months to ensure proper alignment of roles, responsibilities, key competencies, and appropriate oversight.</p>

**ProMedica Health System and Subsidiaries**

**Schedule of Findings and Questioned Costs (Continued)**

**Year Ended December 31, 2022**

**Section II - Financial Statement Audit Findings (Continued)**

Reference Number	Finding
2022-002	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - Access to vendor management, accounts payable, cash distribution, and journal entry functions should be segregated. There should also be segregation of duties within the accounts payable process so that one individual cannot approve all steps in the processing and payment of a check.</p> <p><b>Condition</b> - There is a lack of segregation of duties within the information technology support component for the accounts payable cycle due to information technology staff having access to the vendor management system, accounts payable system, and the general ledger system.</p> <p><b>Context</b> - It was noted that individuals have access to all parts of the vendor management, general ledger, accounts payable, and disbursement processes.</p> <p><b>Cause</b> - The identified staff members have change access to make mass updates to data. Therefore, these staff members have access to all accounts payable modules and the general ledger.</p> <p><b>Effect</b> - There is a risk that an individual could misappropriate system funds and hide the activity by posting general ledger entries.</p> <p><b>Recommendation</b> - Management should segregate the unique duties performed as part of the accounts payable cycle and ensure access is commensurate with job duties.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Management fully understands and acknowledges the importance of segregation of duties and the associated potential risk due to lack of segregation of duties.</p> <p>The finding noted is attributed to the significant ERP system conversion issues (to Infor) in July 2021, noted above. During the initial Infor implementation, internal resources were not appropriately trained to functionally support the overall Infor application post go-live, and an appropriate internal application support structure was not established. As a result, certain staff within the IT function were inadvertently granted access within the accounts payable module in an effort to support the accounts payable team/function, creating segregation of duties issues.</p> <p>To date, any specific IT roles with conflicting access to accounts payable functions have been eliminated and/or terminated, specifically accounts payable specialist role(s). Also, IT application administrator roles, which are needed for system support, have been restricted to remove accounts payable functions creating segregation of duties issues.</p> <p>Additionally, as part of Project Elevate (noted above) and the recent restructure of the accounting team/staff, new financial system support roles have been created to support the Infor system/application (director and managers of financial systems). Appropriate training of these resources is a significant component of Project Elevate and will provide the appropriate support for the organization long term and will appropriately address the segregation of duties issues.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2022

Section III - Federal Program Audit Findings

Reference Number	Finding
2022-003	<p><b>Assistance Listing Number, Federal Agency, and Program Name</b> - 93.498, U.S. Department of Health and Human Services, COVID-19: Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution</p> <p><b>Federal Award Identification Number and Year</b> - N/A - 2022</p> <p><b>Pass-through Entity</b> - N/A - Direct funded</p> <p><b>Finding Type</b> - Material weakness and material noncompliance with laws and regulations</p> <p><b>Repeat Finding</b> - No</p> <p><b>Criteria</b> - Per the Provider Relief Fund distributions and American Rescue Plan (ARP) Rural distribution <i>Post-Payment Notice of Reporting Requirements</i> dated October 27, 2022, infection control expenses paid with nursing home infection control distributions, allowable expenses may be reported as a use of targeted funds. Allowable expenses must be those that are unreimbursed by other sources and determined using the recipient's basis of accounting.</p> <p><b>Condition</b> - The System's controls in place for reporting submissions did not identify that guidelines were not followed related to the reporting of infection control expenses in the correct period.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Identification of How Questioned Costs Were Computed</b> - N/A - Refer to context below for additional information.</p> <p><b>Context</b> - The reporting submissions for certain HCR entities did not follow the guidelines published by the U.S. Department of Health and Human Services (HHS). These entities did not break out infection control expenses in the quarter in which they were expended. All infection control expenses were entered in quarter 1 and quarter 2 of 2022, regardless of if they were incurred in 2020 or 2021.</p> <p><b>Cause and Effect</b> - Appropriate review of the expenses was not completed to ensure that eligible expenses were entered into the correct period. As a result, the reports submitted were inaccurate, but the schedule of expenditures and federal awards was not impacted.</p> <p><b>Recommendation</b> - We recommend the System implement controls, including levels of review, to ensure reports are completed and submitted in accordance with the guidelines established by HHS.</p>

**ProMedica Health System and Subsidiaries**

**Schedule of Findings and Questioned Costs (Continued)**

**Year Ended December 31, 2022**

**Section III - Federal Program Audit Findings (Continued)**

Reference Number	Finding
2022-003 (Cont.)	<p><b>Views of Responsible Officials and Corrective Action Plan</b> - Management fully understands and acknowledges the importance of identifying and complying with the reporting guidelines of federal awards, including the reporting of infection control expenses in the correct period.</p> <p>The receipt of Provider Relief Funds has broadened the scope of individuals who are responsible for reporting federal awards to those outside of the grants and research departments. Expenses for the Provider Relief Funds were correctly captured by period incurred and appropriately tracked for allowability. The System has implemented a review procedure of the Provider Relief Funds consistent with other grant reporting so that the HRSA reports will be reviewed by a grants advisor or grants analyst prior to submission to ensure that eligible expenses are entered into the correct period in accordance with the guidelines established by HHS.</p>



**ProMedica Health System and Subsidiaries**

**12/31/2022**

**Summary Schedule of Prior Audit Findings**

**Prior Year Finding Number:**

2021-001

**Fiscal Year in Which the Finding Initially Occurred:**

2021

**Federal Program, Assistance Listing Number and Name:**

N/A – Financial Statement Finding

**Original Finding Description:**

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

**Status/Partial Corrective Action (as applicable):**

Fully corrected.

**Planned Corrective Action:**

During July 2021, the ProMedica launched a new enterprise resource planning system, Infor Cloud Suite (Infor), which consolidated the legacy accounting, supply chain, and human resources platforms that had carried over from the combination of ProMedica and HCR ManorCare three years prior. The launch of Infor was a substantial accomplishment after more than two years of planning and implementation efforts by the information systems, supply chain, finance, treasury, and human resources teams. As part of this effort, we consolidated 14 pay companies into one (one pay company), a change that was designed to streamline our payment processes while strengthening our related internal controls. Certain challenges associated with various interfaces between Infor and other software applications resulted in ongoing post-launch efforts to optimize how we use Infor, both in original intent and through continuous improvement. As a result of these challenges, we were unable to reconcile the general ledger accounts associated with the one pay company approach as part of our interim month-end closing processes. For example, we were unable to receive an electronic interface into Infor of canceled check information from the 'one pay company' bank until December 2021.



Management acknowledges the importance of completing timely reconciliations of these general ledger accounts. These account reconciliations were completed subsequent to fiscal year end as part of our annual closing process. Following our annual closing process, we have implemented a process to complete these account reconciliations monthly in a timely manner.



## ProMedica Health System and Subsidiaries

12/31/2022

### Corrective Action Plan

**Finding Number:** 2022-001

**Condition:** There were insufficient controls in place over the cash reconciliation process during the year under audit to ensure cash was properly stated in the consolidated balance sheet.

**Planned Corrective Action:** Management fully understands and acknowledges the importance of complete and timely cash/bank account reconciliations and the impact to the financial statements.

Due to the significant ERP (Enterprise Resource Planning) system conversion issues following the July 2021 conversion to Infor, associated lack of implementation of automated Infor cash management modules/technology to facilitate cash reconciliations and inherent flaws in the system design, which significantly impacted the flow of cash transactions and workflow, staff currently reconciles approximately 105 bank accounts monthly via a manual process.

Through April 2022, while the 2021 external audit was still being finalized and given significant system limitations, staff was only able to reconcile cash accounts in the aggregate. Following the completion of the 2021 external audit, and starting in May 2022, individual cash account reconciliations were being completed timely (within 30 days following each month-end close). Through September 30, 2022, all cash accounts, except for two, were manually, fully, and timely reconciled and reviewed. By December 31, 2022, all cash accounts were fully and timely reconciled and reviewed.

Due to current information technology system limitations (Infor), only a partial outstanding check list is generated monthly. Staff completes the reconciliation process manually by comparing actual bank transactions that have cleared to system generated reports of checks and other manually created reports to create an outstanding check list.

In addition to the manual, mitigating controls and action plans that were implemented in 2022 to address the larger, systemic issues associated with the Infor implementation, there is an active project underway to reconfigure the entire Infor ERP system (Project Elevate) with an estimated date of completion of October 2023. The project plan for Project Elevate, to include Huron as the implementation partner for the project, was presented and approved by both executive leadership and governance in December 2022. A component of Project Elevate is specifically dedicated to the implementation of the Infor cash management module and the associated



workflows. This will provide substantial automation of the monthly cash reconciliation process, resolve the outstanding check list issue, and significantly enhance the overall internal control environment. Additionally, critical functionality will be implemented that was not addressed in the initial implementation of Infor in 2021.

Finally, there has been a significant restructure of the accounting team/staff within the last several months to ensure proper alignment of roles, responsibilities, key competencies, and appropriate oversight.

**Contact person responsible for corrective action:** Kyle Kickbusch, Interim Corporate Controller and AVP

**Anticipated Completion Date:** 10/31/2023



**Finding Number:** 2022-002

**Condition:** There is a lack of segregation of duties within the information technology support component for the accounts payable cycle due to information technology staff having access to the vendor management system, accounts payable system, and the general ledger system.

**Planned Corrective Action:** Management fully understands and acknowledges the importance of segregation of duties and the associated, potential risk due to lack of segregation of duties.

The finding noted is attributed to the significant ERP system conversion issues (to Infor) in July 2021, noted above. During the initial Infor implementation, internal resources were not appropriately trained to functionally support the overall Infor application post go-live and an appropriate internal application support structure was not established. As a result, certain staff within the IT function were inadvertently granted access within the accounts payable module in an effort to support the accounts payable team/function, creating segregation of duties issues.

To date, any specific IT roles with conflicting access to accounts payable functions have been eliminated and/or terminated, specifically accounts payable specialist role(s). Also, IT application administrator roles, which are needed for system support, have been restricted to remove accounts payable functions creating segregation of duties issues.

Additionally, as part of Project Elevate (noted above) and the recent restructure of the accounting team/staff, new financial system support roles have been created to support the Infor system/application (director and managers of financial systems). Appropriate training of these resources is a significant component of Project Elevate and will provide the appropriate support for the organization long term and will appropriately address the segregation of duties issue(s)

**Contact person responsible for corrective action:** Kyle Kickbusch, Interim Corporate Controller and AVP

**Anticipated Completion Date:** 04/11/2023



**Finding Number:** 2022-003

**Condition:** ProMedica Health System's controls in place for reporting submissions did not identify that guidelines were not followed related to the reporting of infection control expenses in the correct period.

**Planned Corrective Action:** Management fully understands and acknowledges the importance of identifying and complying with the reporting guidelines of federal awards, including the reporting of infection control expenses in the correct period.

The receipt of Provider Relief Funds has broadened the scope of individuals that are responsible for reporting of Federal awards to those outside the Grants and Research departments. Expenses for the Provider Relief Funds were correctly captured by period incurred and appropriately tracked for allowability. ProMedica has implemented a review procedure of the Provider Relief Funds consistent with other grant reporting so that the HRSA reports will be reviewed by a Grants Advisor or Grants Analyst prior to submission to ensure that eligible expenses are entered into the correct period in accordance with the guidelines established by HHS.

**Contact person responsible for corrective action:** Kyle Kickbusch, Interim Corporate Controller and AVP

**Anticipated Completion Date:** 09/21/2023