## CERTIFICATE OF HENRY FORD HEALTH SYSTEM

| | |
|---|---|
| Name of Bond Issue: | Michigan Finance Authority Hospital Revenue Refunding Bonds (Henry Ford Health System), Series 2016 |
| CUSIP Number: | 59447TLU5, 59447TLV3, 59447TLW1, 59447TLX9, 59447TLY7, 59447TLZ4, 59447TMA8, 59447TMB6, 59447TMC4, 59447TMD2, 59447TME0, 59447TMF7, 59447TMG5, 59447TMH3, 59447TMJ9, 59447TMK6, 59447TML4, 59447TMM2, 59447TMR1, 59447TMP5, 59447TMN0 and 59447TMQ3. |

The undersigned hereby certifies that:

1. I am the Executive Vice President and Chief Financial Officer of Henry Ford Health System (the "Corporation") and as such, am the Disclosure Representative under that certain Continuing Disclosure Agreement, dated September 28, 2016 ("Disclosure Agreement"), executed and delivered by the Corporation and Digital Assurance Certification, L.L.C., as Dissemination Agent.

2. The quarterly unaudited Credit Group Financial Statements for the period ending March 31, 2019 attached and delivered to the Dissemination Agent, is the Quarterly Report required to be submitted to the MSRB. Also attached is the Management Discussion and Analysis for the quarter ended March 31, 2019.

*Capitalized terms used herein and not otherwise defined shall have the meanings defined in the Disclosure Agreement.*

Dated: May 21, 2019

HENRY FORD HEATH SYSTEM,
as Disclosure Representative

By: ______________________
Robin S. Damschroder
Executive Vice President
and Chief Financial Officer

Henry Ford
HEALTH SYSTEM

*UNAUDITED*

*Consolidated Financial Statements*

*As of and for the Three Months Ended March 31, 2019 and 2018*

**UNAUDITED**
**CONSOLIDATED BALANCE SHEETS**
**AS OF MARCH 31, 2019 AND DECEMBER 31, 2018**
**(In thousands)**

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 529,589 | $ 556,400 |
| Short-term investments | - | 1,141 |
| Patient care receivables | 429,365 | 391,083 |
| Health care premium receivables | 26,894 | 21,650 |
| Due from third-party payors | 30,348 | 21,183 |
| Other current assets | 263,096 | 246,989 |
| Current portion of assets limited as to use | 38,682 | 46,654 |
| Total current assets | 1,317,974 | 1,285,100 |
| LONG-TERM INVESTMENTS | 743,468 | 689,783 |
| ASSETS LIMITED AS TO USE | 1,021,400 | 893,206 |
| JOINT VENTURE INVESTMENTS | 24,222 | 24,970 |
| INTANGIBLE AND OTHER ASSETS—Net | 52,238 | 49,699 |
| GOODWILL—Net of accumulated amortization of $28,577 in 2019 and 2018 | 14,029 | 14,029 |
| RIGHT OF USE—OPERATING LEASE ASSETS | 173,176 | - |
| RIGHT OF USE—FINANCING LEASE ASSETS | 12,033 | - |
| PROPERTY, PLANT, AND EQUIPMENT—Net | 1,501,049 | 1,499,475 |
| TOTAL ASSETS | $ 4,859,589 | $ 4,456,262 |

(Continued)

**UNAUDITED**
**CONSOLIDATED BALANCE SHEETS**
**AS OF MARCH 31, 2019 AND DECEMBER 31, 2018**
**(In thousands)**

| | 2019 | 2018 |
|---|---|---|
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 278,965 | $ 259,482 |
| Due to third-party payors | 52,740 | 46,572 |
| Medical claims liability | 184,158 | 176,241 |
| Other liabilities and accrued expenses | 329,964 | 304,401 |
| Current portion of long-term obligations | 17,186 | 17,128 |
| Current portion of malpractice and general liability | 32,602 | 32,602 |
| Current portion of operating lease payable | 24,680 | - |
| Current portion of financing lease payable | 2,429 | 185 |
| Total current liabilities | 922,724 | 836,611 |
| DEFERRED COMPENSATION, POSTRETIREMENT, AND OTHER LIABILITIES | 410,681 | 397,724 |
| LONG-TERM OBLIGATIONS | 981,914 | 986,099 |
| MALPRACTICE AND GENERAL LIABILITY | 103,407 | 97,752 |
| LONG-TERM OPERATING LEASE LIABILITIES | 157,206 | - |
| LONG-TERM FINANCING LEASE LIABILITES | 9,418 | 5,376 |
| Total liabilities | 2,585,350 | 2,323,562 |
| NET ASSETS: | | |
| Without donor restrictions: | | |
| Henry Ford Health System | 2,003,610 | 1,882,921 |
| Noncontrolling interests | 3,413 | 3,427 |
| Total net assets without donor restrictions | 2,007,023 | 1,886,348 |
| With donor restrictions | 267,216 | 246,352 |
| Total net assets | 2,274,239 | 2,132,700 |
| TOTAL LIABILITIES AND NET ASSETS | $ 4,859,589 | $ 4,456,262 |

See notes to consolidated financial statements. (Concluded)

**UNAUDITED**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**
**(In thousands)**

| | **2019** | **2018** |
|---|---|---|
| REVENUE WITHOUT DONOR RESTRICTIONS: | | |
| Net patient service revenue | $ 948,229 | $ 873,370 |
| Health care premiums | 483,738 | 483,065 |
| Investment return, net | 95,426 | 1,827 |
| Other income | 93,370 | 87,779 |
| Total revenue without donor restrictions | 1,620,763 | 1,446,041 |
| EXPENSES: | | |
| Salaries, wages, and employee benefits | 664,617 | 625,303 |
| Health care provider expense | 288,799 | 265,014 |
| Supplies | 263,233 | 244,636 |
| General and other administrative | 94,270 | 91,853 |
| Other contracted services | 73,908 | 84,061 |
| Depreciation and amortization | 52,213 | 50,471 |
| Repairs and maintenance | 16,422 | 18,608 |
| Plant operations | 14,759 | 15,490 |
| Rent and lease | 13,942 | 13,529 |
| Malpractice | 10,482 | 9,300 |
| Interest expense | 7,699 | 7,784 |
| Total expenses | 1,500,344 | 1,426,049 |
| EXCESS OF REVENUE OVER EXPENSES FROM CONSOLIDATED OPERATIONS | 120,419 | 19,992 |
| LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTERESTS | 480 | 535 |
| EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO HENRY FORD HEALTH SYSTEM | 119,939 | 19,457 |

(Continued)

**UNAUDITED**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**
**(In thousands)**

| | 2019 | 2018 |
|---|---|---|
| NET ASSETS WITHOUT DONOR RESTRICTIONS: | | |
| Excess of revenue over expenses from consolidated operations | $ 120,419 | $ 19,992 |
| Net assets released from restrictions for capital | 750 | 1,897 |
| Distributions to noncontrolling interests | (494) | (376) |
| Increase in net assets without donor restrictions | 120,675 | 21,513 |
| NET ASSETS WITH DONOR RESTRICTIONS: | | |
| Return on restricted investments, net | 14,434 | 905 |
| Contributions and other | 23,112 | 31,253 |
| Net assets released from restrictions for operations | (15,932) | (11,059) |
| Net assets released from restrictions for capital | (750) | (1,897) |
| Increase in net assets with donor restrictions | 20,864 | 19,202 |
| TOTAL INCREASE IN NET ASSETS | 141,539 | 40,715 |
| TOTAL NET ASSETS—Beginning of year | 2,132,700 | 2,043,394 |
| TOTAL NET ASSETS—End of period | $ 2,274,239 | $ 2,084,109 |

See notes to consolidated financial statements. (Concluded)

**UNAUDITED**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**
**(In thousands)**

| | 2019 | 2018 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase in net assets | $ 141,539 | $ 40,715 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 52,213 | 50,471 |
| Amortization of bond premium and deferred debt issue costs | (1,250) | (1,211) |
| Loss on sale or disposal of assets | 1,925 | 158 |
| Return on restricted investments | (14,434) | (905) |
| Restricted contributions and grants | (23,112) | (31,253) |
| Net realized and unrealized (gains) losses on investments | (93,750) | 4,055 |
| Distributions to noncontrolling interests | 494 | 376 |
| Change in assets and liabilities: | | |
| Patient and health care premium receivables | (43,526) | (8,236) |
| Other current assets | (16,107) | (44,248) |
| Assets limited as to use | (205) | (16,426) |
| Joint venture investments | 748 | (1,252) |
| Other assets | (9,520) | (3,039) |
| Accounts payable | 19,159 | 13,192 |
| Other liabilities | 45,176 | 59,155 |
| Due to/from third-party payors | (2,997) | 22,203 |
| Medical claims liability | 7,917 | (20,588) |
| Malpractice and general liability | 5,655 | 3,113 |
| Net cash provided by operating activities | 69,925 | 66,280 |

(Continued)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**
**(In thousands)**

| | **2019** | **2018** |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property | $ (59,567) | $ (67,721) |
| Proceeds from the sale or maturity of securities | 63,714 | 150,774 |
| Purchase of securities | (134,462) | (216,089) |
| Net cash used in investing activities | (130,315) | (133,036) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments of long-term obligations | (2,877) | (2,818) |
| Payments of finance lease payable | (596) | (75) |
| Distributions to noncontrolling interests | (494) | (376) |
| Return on restricted investments | 14,434 | 905 |
| Restricted contributions and grants | 23,112 | 31,253 |
| Net cash provided by financing activities | 33,579 | 28,889 |
| DECREASE IN CASH AND CASH EQUIVALENTS | (26,811) | (37,867) |
| CASH AND CASH EQUIVALENTS—Beginning of year | 556,400 | 774,534 |
| CASH AND CASH EQUIVALENTS—End of period | $ 529,589 | $ 736,667 |

See notes to consolidated financial statements. (Concluded)

**UNAUDITED**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***The Organization***

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

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

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

Joint venture interests include Foote Health Center Associates (62% ownership), Northwest Detroit Dialysis Centers (56.25% ownership), and Macomb Regional Dialysis Centers, L.L.C. (60% ownership), which are consolidated.

***Basis of Presentation***

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

***Net Patient Service Revenue and Patient Care Receivables***

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

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

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

The composition of net patient service revenue by payor for the three months ended March 31, 2019 and 2018 is as follows (in thousands):

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Medicare | $ 401,091 | 42 % | $ 372,167 | 43 % |
| Medicaid | 155,075 | 17 | 147,896 | 17 |
| Blue Cross | 249,276 | 26 | 227,229 | 26 |
| Self-pay | 7,123 | 1 | 7,894 | 1 |
| Commercial and other | 135,664 | 14 | 118,184 | 13 |
| Total | $ 948,229 | 100 % | $ 873,370 | 100 % |

***Reimbursement from Third Party Payors***

Reimbursement from most payors for inpatient and outpatient services vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Revenues under traditional Medicare and Medicaid programs, as well as Blue Cross, are based primarily on prospective payment systems. For Medicare, retrospectively determined non-claims based revenues, such as indirect medical education, direct graduate medical education, disproportionate share hospital payments, allied health education payments, organ acquisition, and bad debt expense reimbursement, are estimated using historical trends and current factors. These revenues are reported on Medicare cost reports, which are subject to audit by Medicare auditors and administrative and judicial review, prior to final settlement. These settlements can take several years to resolve. Because the laws, regulations, instructions, and rule interpretations governing Medicare reimbursement are complex and change frequently, the estimates recorded could change in subsequent periods. Medicaid revenues have the potential to be reduced based on an upper payment limit calculated through the Medicaid cost report, which is subject to review and adjustment by Medicaid auditors. Blue Cross revenues are also subject to a final settlement, where auditors reprice claims based on settlement rates. These represent the major payors included in patient care receivables at March 31, 2019 and December 31, 2018. Revenues associated with health care services provided by the System to members of its HMO are included in health care premiums in the consolidated statements of operations and changes in net assets.

Settlements with third-party payors for retroactive adjustments are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as new information becomes available or as years are settled. Net patient service revenue of $358,000 and $7,523,000 related to prior year settlements was recorded during the three months ended March 31, 2019 and 2018, respectively.

Generally, patients covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System estimates the transaction price for these patients and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the three months ended March 31, 2019 and 2018, was not material to the consolidated financial statements.

***Patient Financial Assistance***

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

### *Uncompensated Care and Community Benefit*

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

The major components of uncompensated care for the three months ended March 31, 2019 and 2018, are as follows (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Unpaid cost of Medicare, Medicaid, and other public programs | $ 69,803 | $ 83,265 |
| Implicit price concessions at estimated cost | 14,244 | 25,560 |
| Charity care at cost | 11,621 | 3,387 |
| Total cost of uncompensated care | $ 95,668 | $ 112,212 |

### *Health Care Premiums*

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

### *Contributions*

Contributions without donor restrictions are included in the consolidated statements of operations and changes in net assets when received. Gifts of cash and other assets that are received with donor stipulations are recorded as restricted contributions and included in the consolidated statements of operations and changes in net assets once the restrictions are satisfied.

### *Other Income*

Other income includes assets released from restrictions, income from grants, income from contract pharmacy arrangements, administrative fees earned from HAP self-insured products, joint venture income, gift shop and cafeteria sales, parking garage fees, and other miscellaneous sources.

### *Performance Indicator*

The consolidated statements of operations and changes in net assets include the excess of revenue over expenses from consolidated operations. Changes in net assets without donor restrictions, which are excluded from the excess of revenue over expenses from consolidated operations, consistent with industry practice, include net assets released from restrictions for capital, and distributions to noncontrolling interests.

***Net Asset Classifications***

*Net assets without donor restrictions*—Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the System. These net assets may be used at the discretion of the System's management and the board of directors. See Note 2 for information about the amounts and purposes of board designations of net assets without donor restrictions.

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

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

***Cash and Cash Equivalents***

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

***Short-Term Investments***

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

***Other Current Assets***

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

***Assets Limited as to Use***

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

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

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

***Investments and Investment Return, net***

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

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

Investment return, net for the three months ended March 31, 2019 and 2018, consisted of the following (in thousands):

| | 2019 | 2018 |
|---|---|---|
| The Foundation | $ 20,732 | $ 1,842 |
| Funds designated for malpractice and general liability | 2,386 | (140) |
| Funds designated for deferred compensation | 11,622 | (1,057) |
| Funds held under bond indenture agreements | - | 209 |
| Interest, dividends, expenses, and realized and unrealized gains from other assets without donor restrictions | 60,686 | 973 |
| Investment return, net | $ 95,426 | $ 1,827 |

***Investment Risks***

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

***Fair Value of Financial Instruments***

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

### *Intangible and Other Assets*

Intangible and other assets as of March 31, 2019 and December 31, 2018, consisted of the following (dollars in thousands):

| | Carrying Amount | Accumulated Amortization | Net Book Value | Useful Life (Years) |
|---|---|---|---|---|
| **March 31, 2019** | | | | |
| Definite-lived intangible assets: | | | | |
| Customer relationships | $ 15,660 | $ 7,177 | $ 8,483 | 8–22 |
| Provider relations | 22,164 | 5,600 | 16,564 | 10–25 |
| Reinsurance escrow | 16,386 | - | 16,386 | |
| Other | 13,381 | 2,576 | 10,805 | |
| Total | $ 67,591 | $ 15,353 | $ 52,238 | |
| **December 31, 2018** | | | | |
| Definite-lived intangible assets: | | | | |
| Customer relationships | $ 15,660 | $ 6,679 | $ 8,981 | 8–22 |
| Provider relations | 22,164 | 5,255 | 16,909 | 10–25 |
| Reinsurance escrow | 19,361 | - | 19,361 | |
| Other | 6,966 | 2,518 | 4,448 | |
| Total | $ 64,151 | $ 14,452 | $ 49,699 | |

### *Goodwill*

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

### *Impairment*

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

### *Property, Plant, and Equipment*

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

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

***Medical Claims Liability***

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

***Contingencies***

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

In connection with HAP's acquisition of ASR, ASR entered into an employment and stock transfer and redemption agreement (the "agreement") with a 33% non-controlling interest (NCI) holder. The NCI holder has exercised his right under this agreement requiring ASR to purchase his interests in ASR (the "Put Option"). The NCI holder disputes ASR's calculation of the price under the Put Option and is pursuing litigation to resolve the matter. During 2018 in connection with efforts to mediate this matter and based upon updated third party evaluations, HAP increased its recognized obligation under the Put Option by $9,030,000 to $36,754,000, of which $17,689,000 remains outstanding and is reflected in accounts payable in the consolidated balance sheets. Although the parties continue to work toward a resolution of this matter, the ultimate outcome cannot be assessed at this time.

***Deferred Compensation***

Certain employees of the System participate in deferred compensation plans. The System has chosen to fund this liability using mutual funds and annuity or insurance contracts solely owned by the System. These assets are subject to the claims of the System's general creditors. Earnings related to the deferred compensation assets, including unrealized appreciation or depreciation, are included in investment return, net and changes in the corresponding liability are included in salaries, wages, and employee benefits in the consolidated statements of operations and changes in net assets. The asset and liability are recorded at fair market value. The System recorded a charge (reduction) to salaries, wages, and employee benefits expense of $11,622,000 and $(1,057,000) during the three months ended March 31, 2019 and 2018, respectively, related to the return on the deferred compensation assets.

***Tax Status***

The System, except for HAP and Onika, consists of entities described under Internal Revenue Service (IRS) Code Section 501(c)(3) and, as such, are exempt from federal income taxes under IRS Code Section 501(a) and do not have private foundation status under IRS Code Sections 509(a)(1), 509(a)(2), or 509(a)(3). HAP is an entity described under IRS Code Section 501(c)(4) and, as such, is exempt from federal income taxes. The System's wholly owned insurance captive, Onika, operates in the Cayman Islands and is currently not subject to income taxes. The System does not have any material uncertain tax positions as of March 31, 2019 and December 31, 2018.

***Adoption of New Accounting Standards***

The Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08 (issued June 2018), *Not-for-Profit Entities (Topic 958)* – Designed to clarify the scope and accounting guidance for contributions received and contributions made. This update clarifies and improves current guidance about whether a transfer of assets is a contribution or an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The System adopted this guidance effective January 1, 2019 on a modified prospective basis and it did not have a material impact on the System's consolidated financial statements.

FASB ASU 2016-02 (issued February 2016), *Leases (Topic 842),* updated by FASB ASU No. 2018-10, (issued February 2018) *Codification Improvements to Topic 842, Leases* – This ASU requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet at the present value of lease payments. Effective January 1, 2019, the System adopted the requirements of this ASU using the optional transition method and has not restated prior periods. No cumulative effect adjustments were required.

FASB ASU 2017-07 (issued March 2017), *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* – This ASU requires the service cost component of net periodic benefit cost related to defined benefit pension and postretirement benefit plans to be reported in the same financial statement line as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented separately from service costs and outside of operating income in the consolidated statements of operations. Only the service cost component of net periodic benefit cost will be eligible for capitalization in assets. This guidance is effective for the fiscal years beginning after December 15, 2018 and interim periods after December 15, 2019. The System adopted this standard effective January 1, 2019. Management is currently assessing the impact this ASU will have on its consolidated financial statements at December 31, 2019.

FASB ASU 2016-18 (issued February 2016), Restricted Cash – This ASU adds and clarifies guidance in the presentation of changes in restricted cash in the statement of cash flows requiring restricted cash to be included with cash and cash equivalents in the consolidated statements of cash flows. This guidance does not provide a definition of restricted cash. This guidance is effective for the fiscal years beginning after December 15, 2018 and interim periods after December 15, 2019. The System adopted this standard effective January 1, 2019. Management is currently assessing the impact this ASU will have on its consolidated financial statements at December 31, 2019.

FASB ASU 2016-15 (issued February 2016), *Classification of Certain Cash Receipts and Cash Payments* – This guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the consolidated statements of cash flows. This guidance is effective for the fiscal years beginning after December 15, 2018 and interim periods after December 15, 2019. The System adopted this standard effective January 1, 2019. Management is currently assessing the impact this ASU will have on its consolidated financial statements at December 31, 2019.

***Forthcoming Accounting Standards***

FASB ASU 2018-14 (Issued August 2018), *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)—Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans* – This amends ASC 715 and updates disclosure requirements to reflect most relevant information and applies to all employers that sponsor defined benefit pension or other postretirement plans. This guidance is effective for the System for annual periods ending after December 15, 2021. The System is evaluating the impact this guidance may have on the consolidated financial statements.

FASB ASU 2018-13 (issued July 2018), *Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* – Designed to improve the effectiveness of fair value measurement disclosures, this update modifies existing disclosure requirements on fair value measurements. Current guidance is reflected in *Topic 820, Fair Value Measurement, based on the concepts in FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, including the consideration of costs and benefits*. This guidance is effective for the System for annual periods beginning after December 15, 2019. The System is evaluating the impact this guidance may have on the consolidated financial statements.

## 2. ASSETS LIMITED AS TO USE

Assets limited as to use as of March 31, 2019 and December 31, 2018, consisted of the following (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Assets without donor restrictions: | | |
| The Foundation | $ 322,633 | $ 305,791 |
| Funds held by trustee | 4,564 | 4,652 |
| Funds designated for malpractice and general liability | 57,983 | 60,079 |
| Funds designated for deferred compensation | 159,830 | 146,771 |
| HAP statutory funds | 14,335 | 14,335 |
| Funds board designated for research, education, and other | 233,521 | 161,880 |
| Total assets without donor restrictions | 792,866 | 693,508 |
| Assets with donor restrictions: | | |
| Perpetual in nature | 121,749 | 118,703 |
| Purpose restricted | 129,372 | 104,445 |
| Grants and pledges receivable | 16,095 | 23,204 |
| Total assets with donor restrictions | 267,216 | 246,352 |
| Total assets limited as to use | 1,060,082 | 939,860 |
| Less requirements for current liabilities | 38,682 | 46,654 |
| Noncurrent assets limited as to use | $ 1,021,400 | $ 893,206 |

Onika had reserve deposits of $11,633,000 and $11,391,000 as of March 31, 2019 and December 31, 2018, respectively, under a reinsurance trust agreement and an agency agreement. These amounts are included above in funds designated for malpractice and general liability. The HAP statutory funds are required by insurance regulations.

## 3. PROPERTY, PLANT, AND EQUIPMENT

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

| | 2019 | 2018 |
|---|---|---|
| Land and improvements | $ 93,906 | $ 92,127 |
| Building and improvements | 1,616,794 | 1,621,576 |
| Equipment | 1,560,985 | 1,545,869 |
| Construction in progress | 145,288 | 109,409 |
| Total | 3,416,973 | 3,368,981 |
| Less accumulated depreciation | 1,915,924 | 1,869,506 |
| Property, plant, and equipment—net | $ 1,501,049 | $ 1,499,475 |

Internal use software is included above in equipment and construction in progress. The net book value was $166,745,000 and $175,182,000 at March 31, 2019 and December 31, 2018, respectively.

## 4. LONG-TERM OBLIGATIONS

Long-term obligations as of March 31, 2019 and December 31, 2018, consisted of the following (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Revenue and refunding bonds Series 2016, fixed rate, maturing serially through 2042, interest rates of 3.00% to 5.00%; term due 2041, interest rate of 5.00%; term due 2046, interest rate of 4.00% | $ 845,430 | $ 845,430 |
| Taxable term loan, maturing 2021, variable interest rate, 3.32% at March 31, 2019 | 36,410 | 36,410 |
| Tax-exempt note, fixed interest rate of 2.07%, maturing 2020 | 19,781 | 22,550 |
| Other obligations (interest rates from 4.44% to 4.82%) | 3,868 | 3,976 |
| Deferred issuance costs on bonds, net | (5,808) | (5,894) |
| Unamortized premium on bonds | 99,419 | 100,755 |
| Total | 999,100 | 1,003,227 |
| Less current portion | 17,186 | 17,128 |
| Total long-term obligations | $ 981,914 | $ 986,099 |

The System’s 2016 Master Indenture agreement created the Henry Ford Health System Credit Group (the “Credit Group”). The Credit Group is comprised of the Henry Ford Health System Obligated Group (the “Obligated Group”), Henry Ford Health System Designated Affiliates (the “Designated Affiliates”), and Henry Ford Health System Limited Designated Affiliates (the “Limited Designated Affiliates”). The

Corporation, Wyandotte, Macomb, and Allegiance Health are members of the Obligated Group. HAP (excluding its subsidiaries) and the Foundation are Designated Affiliates. There are currently no Limited Designated Affiliates.

On May 2, 2019 the System closed on the issuance of $227,910,000 in Series 2019A fixed rate hospital revenue bonds ("Series 2019A"). The Series 2019A bonds were issued at a premium of $22,094,000. The proceeds will be used for the purposes of financing or refinancing the construction, renovation and equipping of the System's facilities.

## 5. NET ASSETS WITHOUT DONOR RESTRICTIONS

Changes in consolidated net assets without donor restrictions attributable to the System and the noncontrolling interests for the three months ended March 31, 2019 and 2018, are as follows (in thousands):

| | Henry Ford Health System | Noncontrolling Interests | Total |
|---|---|---|---|
| Net assets without donor restrictions—December 31, 2017 | $ 1,785,322 | $ 3,331 | $ 1,788,653 |
| Excess of revenue over expenses from consolidated operations | 19,457 | 535 | 19,992 |
| Net assets released from restrictions for capital | 1,897 | - | 1,897 |
| Distributions to noncontrolling interests | - | (376) | (376) |
| Increase in net assets without donor restrictions | 21,354 | 159 | 21,513 |
| Net assets without donor restrictions—March 31, 2018 | $ 1,806,676 | $ 3,490 | $ 1,810,166 |
| Net assets without donor restrictions—December 31, 2018 | $ 1,882,921 | $ 3,427 | $ 1,886,348 |
| Excess of revenue over expenses from consolidated operations | 119,939 | 480 | 120,419 |
| Net assets released from restrictions for capital | 750 | - | 750 |
| Distributions to noncontrolling interests | - | (494) | (494) |
| Increase (decrease) in net assets without donor restrictions | 120,689 | (14) | 120,675 |
| Net assets without donor restrictions—March 31, 2019 | $ 2,003,610 | $ 3,413 | $ 2,007,023 |

## 6. SUBSEQUENT EVENTS

Pursuant to FASB Accounting Standards Codification Topic 855-10, *Subsequent Events — Overall,* the System has evaluated subsequent events through May 21, 2019, the date the condensed consolidated interim financial statements were issued. As a result of this evaluation, the System has no subsequent events to disclose other than the bond issuance discussed in Note 4.

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*Other Information*

*As of and for the Three Months Ended March 31, 2019 and 2018*

**UNAUDITED**
**OTHER INFORMATION**
**AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**

| | 2019 | 2018 |
|---|---|---|
| **UTILIZATION** | | |
| Licensed beds (including skilled nursing facility beds) | 2,468 | 2,468 |
| Available beds | 2,046 | 2,107 |
| Discharges (excluding newborns) | 27,874 | 28,023 |
| Patient days (excluding newborns) | 143,623 | 137,497 |
| Length of stay | 5.15 | 4.91 |
| All payor case mix index | 1.78 | 1.74 |
| Inpatient emergency room visits | 13,887 | 14,241 |
| Outpatient emergency room visits | 92,972 | 103,850 |
| Inpatient surgeries | 5,758 | 5,973 |
| Outpatient surgeries | 13,032 | 12,641 |
| Observation cases | 8,531 | 8,393 |
| Total outpatient visits (including emergency room and surgeries) | 1,809,003 | 1,810,158 |
| **HAP COVERED LIVES** | | |
| HAP | 182,168 | 189,537 |
| AHL | 124,007 | 125,706 |
| ASR | 113,741 | 121,452 |
| HPI | 111,576 | 115,171 |
| HAP Midwest | 7,825 | 7,289 |
| Total | 539,317 | 559,155 |
| **SYSTEM REVENUES (In thousands)** | | |
| HAP Health care premiums | $ 483,738 | $ 483,065 |
| Provider network net patient service revenue: | | |
| Inpatient, outpatient, and physician services | 1,118,166 | 1,057,565 |
| Intercompany transactions eliminated from revenue | (169,937) | (184,195) |
| Total net patient service revenue and health care premiums | 1,431,967 | 1,356,435 |
| Investment return, net and other income | 188,796 | 89,606 |
| Total revenue without donor restrictions | $ 1,620,763 | $ 1,446,041 |

(Continued)

**UNAUDITED**
**OTHER INFORMATION**
**AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**

| | 2019 | 2018 |
|---|---|---|
| **THIRD PARTY PAYORS** | | |
| Medicare | 42 % | 43 % |
| Medicaid | 17 % | 17 % |
| Blue Cross | 26 % | 26 % |
| Self-pay | 1 % | 1 % |
| Commercial and other | 14 % | 13 % |
| Total | 100 % | 100 % |
| **SYSTEM CAPITALIZATION ($ in thousands)** | | |
| Series 2016 Bonds | $ 845,430 | $ 849,225 |
| Bank term loan | 36,410 | 37,235 |
| Tax-exempt note | 19,781 | 30,768 |
| Other obligations | 3,868 | 4,316 |
| Financing lease payable | 11,847 | 9,617 |
| Total debt | $ 917,336 | $ 931,161 |
| Total net assets without donor restrictions | $ 2,007,023 | $ 1,810,166 |
| Total capitalization | $ 2,924,359 | $ 2,741,327 |
| Net long-term / debt-capitalization | 31.37 % | 33.97 % |
| **DAYS CASH ON HAND ($ in thousands)** | | |
| Cash and cash equivalents | $ 529,589 | $ 736,667 |
| Short-term investments | - | 1,248 |
| Long-term investments | 743,468 | 527,243 |
| Assets limited as to use: | | |
| The Foundation | 322,633 | 333,974 |
| Funds designated for deferred compensation | 159,830 | 154,741 |
| Funds designated by the Board of Directors for research, education and other | 233,521 | 182,345 |
| Total funds without restrictions | $ 1,989,041 | $ 1,936,218 |
| Total operating expenses (excluding depreciation and amortization) | $ 1,448,131 | $ 1,375,578 |
| Days cash on hand (total cash / (total operating expenses (excluding depreciation and amortization) / 90)) | 123.6 | 126.7 |
| Total cash to long-term debt | 216.8 % | 207.9 % |

(Concluded)