



CERTIFICATE OF HENRY FORD HEALTH SYSTEM

Name of Bond Issue: Michigan Finance Authority Hospital Revenue Bonds (Henry Ford Health System), Series 2019A

CUSIP Number: 59447TUH4 and 59447TUJ0

The undersigned hereby certifies that:

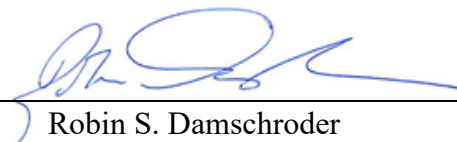
1. I am the Executive Vice President and Chief Financial Officer of Henry Ford Health System (the “Corporation”) and as such, am the Disclosure Representative under that certain Continuing Disclosure Agreement, dated May 2, 2019 (“Disclosure Agreement”), executed and delivered by the Corporation and Digital Assurance Certification, L.L.C., as Dissemination Agent.

2. The quarterly unaudited Credit Group Financial Statements for the period ending **September 30, 2021** 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 **September 30, 2021**.

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

Dated: November 15, 2021

HENRY FORD HEALTH SYSTEM,
as Disclosure Representative

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



Quarterly Financial Report

As of and for the Nine Months Ended
September 30, 2021 and 2020

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HENRY FORD HEALTH SYSTEM OVERVIEW

Organizational Overview

Henry Ford Health System, a Michigan nonprofit corporation, and its subsidiaries (collectively, the “System”) form a regional vertically integrated health care network made up of:

- Five acute care hospitals and two psychiatric hospitals.
- Henry Ford Medical Group (HFMG), one of the nation’s largest and longest existing physician group practices, with approximately 1,900 employed physicians and scientists, practicing in over 40 specialties.
- Health Alliance Plan of Michigan (HAP) and its subsidiaries, insurance plans, with more than three decades of integrated insurance operations, with approximately 430,000 covered lives and products in nearly every market segment.
- Comprehensive provider assets, including an extensive ambulatory network with medical and health centers, a substance abuse facility, behavioral health clinics, home-based care, pharmacy, eye care, and other retail-oriented services. In aggregate, the System has more than 250 care delivery locations, serving patients in southeast and south-central Michigan.

Mission, Vision, and Values

The System’s mission is to improve people’s lives through excellence in the science and art of health care and healing. The System’s vision is to be the trusted partner in health, leading the nation in superior care and value — one person at a time. The System’s values, as depicted by the graphic below, support its mission and vision.

OUR MISSION AND VALUES

We improve people’s lives through
excellence in the science and art of health care and healing.

Through Our Values of:



THE NOVEL CORONAVIRUS (COVID-19)

System Response to COVID-19

Anticipating the risk ahead, the System initiated plans to address COVID-19 in early February 2020, with targeted training and education for health care teams, expanding to the total workforce, continuing to this day as information evolves. The System activated its System Incident Command (SIC) led by the Chief Quality Officer during the first week of March 2020, which serves to connect federal and state information and guidelines to our operating units and serves as a point of coordinated communications across the System, with local agencies, and to the communities we serve.

The System admitted its first COVID-19 patient on March 11, 2020. Aligning with the Centers for Medicare & Medicaid Services (CMS) and State recommendations, in the third week of March 2020, the System began canceling all non-time-sensitive visits and closing and consolidating its medical centers and clinics. The System's plan included rapid cycle expansion of virtual visits, creation of a COVID-19 hotline, conversion or redeployment of all nonessential workers to remote work arrangements and canceling nonessential business travel and System events.

In March 2020, the System launched public service messaging to support safe social practices, created outreach programs with key social services organizations, and partnered with local governments. This included working with the City of Detroit to establish the region's largest drive-through COVID-19 testing facility and partnering with the State to convert the region's largest convention center into a Federal Emergency Management Agency (FEMA) surge facility. In addition, the System provided on-site testing at skilled nursing facilities and senior centers.

On May 29, 2020, in alignment with the Governor's executive orders, the System began a structured reopening of its medical centers and clinics with an initial focus on the previously postponed procedures. As of the end of 2020, patient service volume was near the pre-COVID-19 baseline, with all forms of virtual visits exceeding 9,800 per week. In 2020, COVID-19 inpatient volumes, which were 861 at their peak in early April, reached a low of 27 in early July and increased in early December to 526.

In 2021, consistent with patterns across the state, the System's volume of COVID-19 admitted patients showed a steady decrease through February. The system hit a peak in the third COVID-19 surge at over 600 patients admitted by mid-April 2021, declining through June. Since this time, driven by the predominance of the COVID-19 Delta variant, volumes in the inpatient and emergency department have increased steadily from August. This situation is exacerbated by front line clinical and support staff labor shortages. The System continues to monitor the community transmission of the Delta variant and other emerging variants relative to the increase in admissions and the utilization of other services.

Vaccination Journey

The first shipment of the Pfizer COVID-19 vaccine arrived at all five of the System's approved vaccination sites and the first group of eligible frontline team members received their vaccinations on December 17, 2020. Michigan Department of Health and Human Services (MDHHS) chief medical executive Joneigh Khaldun, M.D., joined frontline health care workers from across the System in being the first in Wayne County to receive the COVID-19 vaccine.

In February 2021 the System began to receive Moderna vaccines as part of the allocation managed by the State of Michigan. The System has been administering Pfizer, Moderna, and Johnson & Johnson vaccines since spring. The System is also administering the Pfizer booster. The Food and Drug Administration (FDA) and Centers for Disease Control and Prevention (CDC) have advised that any booster can be used and can be administered six months after receiving the second shot of the Pfizer or Moderna vaccine or two months after receiving the Johnson & Johnson vaccine. The System has administered over 345,000 doses of vaccine.

Aligning with recommendations from the CDC, System physicians advised in a press briefing in August 2021 that people who are immunocompromised not delay in getting the COVID-19 vaccine boosters once fully approved. This includes people in active cancer treatment, organ transplant or stem cell transplant recipients, and those with an advanced or untreated HIV infection.



The System is the only enrollment site in Michigan for Moderna's KidCOVE pediatric vaccine study, which is evaluating the safety and appropriate vaccine dose for children 6 months to 11 years old. The System has enrolled a diverse patient population for the study.

In mid-summer 2021, the System took the market leading position of requiring all team members and medical staff, students, volunteers, and contractors to be fully vaccinated by September 10, 2021. On October 5, 2021 the System reported that 99 percent of its workforce were compliant with its COVID-19 vaccination requirement. This figure means team members were either fully vaccinated, on the way to completing a two-dose regimen, or received an approved medical or religious exemption.

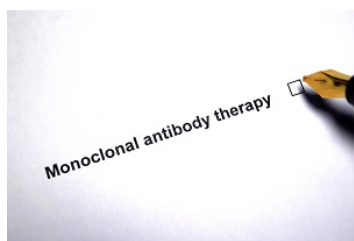
On November 2, 2021, the CDC authorized and recommended the Pfizer-BioNTech vaccine for children ages 5 – 11. The final approval comes four days after the FDA granted emergency use authorization of the Pfizer-BioNTech vaccine down to age 5 years. The System will offer the vaccine for children who are established System patients in our Family Medicine and Pediatrics clinics later in November.

The Journey Ahead

While the ongoing pattern of COVID-19 continues to be highly unpredictable and new variants emerge, the System believes that the knowledge gained regarding effective and safe clinical practices and treatment protocols, the increasing level of full vaccination amongst our team members and the community, as well our approach to continually sanitizing our physical environment has positioned the System well to protect our staff and patients from virus transmission and to maintain full scope operations.

COVID Treatment

On March 17, 2021, the U.S. Department of Health and Human Services (HHS) announced it was investing \$150 million to increase access to monoclonal antibody therapy (mAb) in underserved and high-risk communities across the country. If administered within 10 days of the onset of symptoms after a positive COVID-19 test, this one-time infusion therapy is effective in neutralizing the virus and preventing symptoms from worsening.



On April 15, 2021, the System announced its selection by HHS as its anchor network partner for the mAb program in southeast and southcentral Michigan. Under this partnership the System expanded availability of mAb by opening an infusion center in southwest Detroit at Community Health and Social Services, a federally qualified health center whose physician services are contracted through the System and expanding programs at three of its hospitals that care for patients in underserved communities. The protocol is now one of the more broadly available therapies to deterring advance COVID-19 disease, with the promise of others on the near term horizon.

In April 2021, the System established a specialty clinic to treat COVID-19 and other patients who have lingering cognitive, emotional and mental health conditions after being hospitalized in the intensive care unit. As an increasing number of COVID-19 patients recover and are discharged from the hospital, it is anticipated that many will need long-term help getting back to a normal state of physical and mental well-being. The System's Post ICU Brain Health Clinic opened recently at the neuropsychology centers in Detroit and West Bloomfield. Clinic staff conduct evaluations, make recommendations for treatment, and provide resources focusing on patients ages 55 and older who continue to experience cognitive, behavioral, or psychiatric symptoms. In addition, services are offered to caregivers that provide new tools and strategies for caring for and supporting their loved one, along with home health visits to assist patients with using telemedicine.



Provider COVID-19 Relief Funds

As a result of the COVID-19 pandemic, federal and state governments have passed legislation intended to assist health care providers in providing care to COVID-19 and other patients during the public health emergency. Sources of relief include the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), which was enacted on March 27, 2020, the Paycheck Protection Program and Health Care Enhancement Act, which was enacted on April 24, 2020, and the Consolidated Appropriations Act, 2021 (CAA), which was enacted on December 27, 2020. Together, these acts include \$178 billion in funding to be distributed through the Public Health and Social Services Emergency Fund (Provider Relief Fund or PRF).

During the year ended December 31, 2020, the System recorded \$397.5 million in other revenue related to the PRF, FEMA, and state grant programs. The System received an additional \$20.5 million in COVID-19 relief funds during the first nine months of 2021. Payments from these programs are grants with various terms and conditions associated with acceptance. In general, these are designed to compensate health care providers for the impact of lost revenues and/or repay costs directly associated with COVID-19. In January 2021, HHS released updated reporting requirements that reflect certain provisions of the CAA affecting the calculation of lost revenues, as well as the distribution of PRF funds among subsidiaries in a hospital system.

In March 2021, President Biden signed into law the American Rescue Plan Act of 2021 (ARPA), a \$1.9 trillion COVID-19 relief package, which includes a number of provisions that affect hospitals and health systems. The primary focus of these programs relates to rural health care providers, incentives for states who have not already acted to expand Medicaid programs, health insurance premium subsidies for qualifying individuals and families and supplemental funding toward COVID-19 vaccines, treatment and personal protective equipment.

The System has several applications for additional recovery through FEMA related to costs incurred to address the pandemic in 2020 and 2021. These are in varying states of FEMA validation process, the results and timing of which cannot be reasonably estimated at this time.

Guidelines regarding any further opportunities from the undistributed CARES Act funds as well as potential relief through the ARPA have yet to be finalized. The System anticipates that ongoing recoveries under FEMA will be the most significant source of COVID-19 relief during 2021 and 2022.

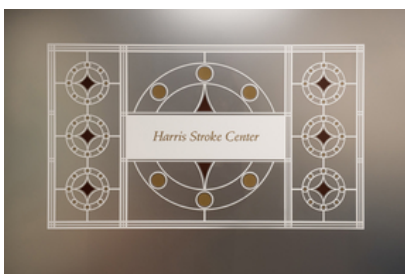


SYSTEM HIGHLIGHTS

The following represents a sample of the awards, honors, clinical achievements, and strategic growth developments, including those associated with responding to the COVID-19 pandemic, occurring in the third quarter of 2021:

Excellence, Innovations, and Leadership

- In September, six System registered nurses were selected to receive the prestigious Nightingale Award for their nursing excellence and expertise from Oakland University's School of Nursing. Among them was Gwen Gnam, R.N., Chief Nursing Officer and Vice President of Patient Services at HFH, who received the Executive Administration Award. Nominees were nominated by their peers, supervisors, and patients in recognition for their superior nursing expertise
- In September, the System's five hospitals that are equipped to treat stroke earned Gold Plus and Honor Roll status for stroke care excellence from the American Heart Association and American Stroke Association. This top-quality achievement recognizes the hospitals'



commitment to ensuring stroke patients receive the most appropriate and timely treatment based upon nationally recognized, research-based guidelines grounded in the latest scientific evidence. These measures include evaluation of the proper use of medications and other stroke treatments with the goal of reducing death and disability for patients. Before discharge, patients also receive education on managing their health, get a follow-up visit scheduled, as well as other interventions to improve care transitions.

- Findings from a study led by researchers at Henry Ford Cancer Institute (HFCI), in collaboration with Advocate Aurora Health, the Food and Drug Administration, and Syapse®, showed cancer patients experience an elevated risk for severe COVID-19 effects or death, with the highest risk being among low-income and Black patients. A key part of making this study possible is the partnership between the System and Syapse. Created in 2016 this partnership provides for sharing of deidentified cancer outcomes data with other health systems through the Syapse Learning Health Network and enables rapid learning from real-world experiences to improve patient care around the globe. HFCI provides world-class cancer care to nearly 10,000 new patients each year, with more than 1,450 cancer care experts at five hospitals, 11 outpatient facilities and hundreds of aligned doctor's offices throughout Southeast and Southcentral Michigan.

- Eight Michigan health plans from across the state submitted 24 groundbreaking programs to the Michigan Association of Health Plans (MAHP) Foundation Pinnacle Awards, leading the health care industry with innovative programs to improve patient health care, lower costs and increase services to Michigan citizens. HAP captured two awards:
 - In the category of Immunization: “Health Alliance Plan COVID-19 Vaccination Project.” HAP was on track to reach its goal of 70% of members receiving the COVID-19 vaccine by October 1st, 2021, and more than 78,000 doses of the vaccine have been administered at HAP Troy, serving nearby communities and the System.
 - In the category of Chronic Disease Management: Government Programs: Medicare, “HAP Improves Osteoporosis Management in Women.” HAP’s program measures the number of women ages 67-85 who have had a fracture and received appropriate treatment within six months of their initial injury. 70% of HAP’s eligible members are expected to receive treatment in 2021, which is a 52% increase from 2017.
- Charles Day, M.D., Chief of Hand & Upper Extremity Surgery for the Department of Orthopedic Surgery, performed the System’s first total wrist replacement surgery on a patient who suffered for more than two decades of pain and limited movement in her left wrist. The procedure involved replacing a severe arthritic wrist joint with an artificial joint. The procedure, which is relatively new and uncommon, relieves pain and restores function when all other treatments have failed. Since her surgery, the patient is experiencing no pain and is well on her way to improving her quality of life.
- Tom Mikkelsen, M.D., medical director of the Precision Medicine Program and Clinical Trials Office at the System, was recognized as a “World Expert” by Expertscape, an online resource for healthcare professionals and consumers that identifies the world’s leading medical experts. Those listed by Expertscape have demonstrated their expertise and knowledge of glioblastoma by writing articles that are published in medical literature. A prolific glioblastoma researcher, Dr. Mikkelsen serves as the principal investigator of the Glioblastoma Adaptive Global Innovative Learning Environment (GBM AGILE) trial at HFCI. The System was first-in-the-world to enroll a patient in GBM AGILE, and earlier this year became first-in-the-world to activate two new treatments for glioblastoma as part of the trial.



Innovative Adjustments to Care Models to Meet Patient Needs

- The System announced a new partnership with the nation's leading operator of high-acuity home care, Contessa, an Amedisys company. The joint venture's high-acuity home care offering includes Hospital Care at Home, Skilled Nursing Care at Home and Palliative Care at Home, which brings all the essential elements of hospital, rehabilitation and medical care for skilled nursing patients and broader palliative care services into the comfort of patients' homes. This first-for-Michigan at-home option is proven to decrease costs and improve outcomes for enrolled patients. Hospital Care at Home is for patients with a variety of acute conditions who would otherwise be admitted to the hospital. Under the program, eligible patients will have the option to choose to have their care provided from the comfort and convenience of their home through a combination of in-person and virtual care.

In addition to creating Hospital Care at Home, the partnership will enable two other services. Skilled Nursing Care at Home offers patients who qualify for skilled nursing facilities the option to receive rehabilitation and other medical care at home. Additionally, Palliative Care at Home brings an added option to support seriously ill patients, their families, and their care providers. This coordinated care consists of in-home and virtual visits with care team members; 24-hour services including physical, emotional, and spiritual support and in-depth discussions about patients' conditions and treatment plans; and social support services. The services are slated to launch at HFH in December 2021, and will expand to other System locations in the future.

- In July 2021, in a move to add more American producers, the System and other healthcare partner members of Premier Inc., committed to purchasing a percentage of their annual supply of exam gloves from Honeywell International Inc. for the next five years, and pledged to Buy American for other (PPE) also. The System committed to purchase 18.5 million each of the nitrile gloves, about 20% of its overall annual usage. The goal is to safeguard against future breakdowns in the supply chain due to uncontrollable or catastrophic situations - and avoid shortages like the ones experienced by healthcare organizations during the pandemic due to reliance on overseas PPE producers. Additionally, the System and its partners are committed to Premier Inc's Buy American purchasing effort to boost onshore PPE production of gowns, masks, and other products by providing scale and financial incentives.



- The System's mobile health units, known as vaccine vans, brought new meaning to "drive-through" when two McDonald's restaurants in Detroit turned their parking lots into convenient COVID-19 vaccine clinics. In partnership with HAP and McDonald's owner/operators, the vans rolled out before sunrise to set up vaccine sites in a different location each day. The small team has given nearly 25,000 doses at schools, places of worship, city halls, fairs, workplaces, and numerous other locations since January.



- HAP and Hurley Foundation announced their community partnership focusing on the Hurley Food FARMacy and fighting food insecurity in Genesee County. HAP donated \$10,000 to Hurley Foundation for this purpose. For patients identified as food insecure by their primary care providers, the Food FARMacy provides nutrient-dense nutrition, often through locally grown produce. Healthier food options and the tools to prepare them help improve health outcomes for local families.
- HAP and Michigan State University (MSU) Health Care joined forces in August to educate MSU alumni and other Medicare-eligible individuals about HMO and PPO insurance products, scheduled for fall, as an early outcome of the System's partnership with MSU. HAP's popular Medicare Advantage insurance products will be available across 36 HAP service counties. The zero-dollar premium HMO and PPO plans provide seniors with the highest quality health care backed by providers and HAP's customer service.
- The System harnessed the convenience and value of telemedicine to boost access to highly specialized care for referral patients in the mid-Michigan area. For two decades the System has been a referral destination for mid-Michigan physicians whose patients require an advanced level of care not readily available locally. The newly opened Henry Ford Medical Center-Saginaw builds on that partnership by providing these patients access to System specialists using the latest technology in telemedicine services. The wide range of specialties include:



Endocrinology
General Surgery
Colon and Rectal
Urology

Rheumatology
Neurosurgery
Bariatric Surgery
Orthopedic

Ear Nose and Throat
Hematology
Thoracic Surgery

Gastroenterology
Oncology
Pulmonary



MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis is intended to provide a high-level overview of the System's consolidated financial performance for the nine months ended September 30, 2021, with comparable prior-year information, including operational highlights. This document includes certain forward-looking comments based on management's beliefs; actual results could differ materially.

Summary of Operating Results

The System reported consolidated operating income of \$7 million (operating loss of \$14 million excluding COVID-19 relief funds) for the nine month period ended September 30, 2021, on consolidated revenue without donor restrictions of \$5.1 billion, providing an operating margin of 0.1% (-0.3% excluding COVID-19 relief funds). Operating income before interest, depreciation, and amortization totaled \$199 million (\$178 million excluding COVID-19 relief funds). New mutations of the virus and low consumer confidence levels may continue to impact the System's revenue throughout the balance of 2021.

SYSTEM EXCESS OF REVENUE OVER EXPENSES EXCLUDING COVID-19 RELIEF FUNDS (\$ in millions)			
	<u>As Reported</u>	<u>Less COVID-19 Relief Funds</u>	<u>Adjusted</u>
Operating income	\$ 7	\$ (21)	\$ (14)
Investment return, net	157	-	157
Other components of net periodic pension cost	<u>(10)</u>	<u>-</u>	<u>(10)</u>
Excess of revenue over expenses	<u>\$ 154</u>	<u>\$ (21)</u>	<u>\$ 133</u>

The System continued with its "System Redesign & Transformation" program, with the goal of achieving increased value by deploying projects targeting population health management, greater integration across the care continuum, improved access for customers, and enhanced corporate and support services.

System Revenue

Total consolidated revenue without donor restrictions was \$5.1 billion (including \$21 million in COVID-19 relief funds) for the nine months ended September 30, 2021, up \$225 million (4.7%) (up \$565 million (12.6%) excluding COVID-19 relief funds) from the nine months ended September 30, 2020. The System recognized consolidated net patient service revenue of \$3.2 billion and consolidated health care premium revenue of \$1.6 billion for the nine months ended September 30, 2021. Consolidated revenues associated with health care services provided by the System to members of its capitated insurance products are included in health care premium revenue. Consolidated net patient service revenue reflects amounts recognized from all other payors and patients.

SYSTEM REVENUES (\$ in millions)		
	<u>9/30/2021</u>	<u>9/30/2020</u>
Net patient service revenue:		
Gross net patient service revenue	\$ 3,739	\$ 3,164
Intercompany transactions eliminated	<u>(589)</u>	<u>(505)</u>
Net patient service revenue	3,150	2,659
Health care premiums	1,551	1,499
Other revenue	<u>365</u>	<u>682</u>
Total revenue without donor restrictions	<u>\$ 5,066</u>	<u>\$ 4,840</u>



Consolidated net patient service revenue increased \$491 million or 18.5% for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. This was primarily due to the volume increases, as seen in the statistics below, which reflect recovery from COVID-19 pandemic-induced reductions in volume in 2020.

SYSTEM UTILIZATION STATISTICS	
	Increase (Decrease) from YTD Q3-20 to Q3-21
Discharges (excluding newborns)	4.2 %
Emergency room visits	7.0 %
Inpatient surgeries	10.0 %
Outpatient surgeries	29.4 %
Observation cases	(8.1)%
Virtual visits	(17.8)%
Total outpatient visits (including emergency room, surgeries and virtual visits)	10.5 %

Consolidated health care premium revenue increased \$52 million or 3.4% for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. This increase was primarily due to increased Medicare Advantage and Medicaid membership, partially offset by reductions in group insured commercial membership.

HAP COVERED LIVES		
By Product	9/30/2021	9/30/2020
Self Funded	156,060	166,767
Group Insured Commercial	140,446	144,389
Network Leasing	11,986	107,182
Medicare Advantage	82,474	78,184
Medicaid	27,497	19,041
Individual	6,656	6,713
Dual Eligible	4,695	4,667
Total	429,814	526,943

Consolidated other revenue decreased \$317 million or 46.5% for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. This was primarily the result of \$360 million in COVID-19 relief funds received in the nine months ended September 30, 2020 compared to the \$21 million for the same period in 2021. This was partially offset by operating investment gains on funds designated for malpractice and general liability and deferred compensation.



System Expense

Consolidated total expenses increased by \$483 million (10.5%), for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. Following are explanations for the most significant components.

SYSTEM EXPENSES (\$ in millions)		
	9/30/2021	9/30/2020
Salaries, wages, and employee benefits	\$ 2,187	\$ 2,025
Health care provider expense	974	847
Supplies	978	828
General and other administrative	297	280
Other	624	597
Total expenses	<u>\$ 5,060</u>	<u>\$ 4,577</u>

Consolidated salaries, wages, and employee benefits increased by \$162 million (8.0%) for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. This was primarily due to wage program initiatives designed to address the competitive labor market, usage of temporary staffing to fill critical vacancies and the living wage adjustment, which raised the minimum hourly compensation to a rate of \$15 per hour. Front line clinical and support staff labor pressures are expected to impact the System for the balance of 2021 and into 2022. Strategies are being implemented to mediate this in the near and longer term.

Consolidated health care provider expense increased by \$127 million (14.9%) for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. Costs related to the impact of pent up demand for outpatient and professional services accounted for more than half of the increase. Costs associated with expanded Medicare Advantage and Medicaid membership, and COVID-19 costs related to treatment, testing, and vaccine administration accounted for the majority of the remaining increase.

Consolidated supplies expense increased \$150 million (18.1%) for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. Major contributing factors include changes in the mix and acuity of patient services, increased elective cases, and continued costs of supplies related to COVID-19. Although the global supply chain remains disrupted across industries pricing changes to date have not overly impacted operations. We anticipate pricing, product shortages and delays may change in the near and intermediate term.

Consolidated general and other administrative expenses increased \$17 million (6.2%) for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to increased provider tax expense aligning with increased revenue.

Uncompensated Care

The System incurred \$476 million of uncompensated care for the nine months ended September 30, 2021, compared to \$508 million in the nine months of 2020. The implementation of a sliding scale for charity qualification in the last quarter of 2020 is the primary contributor to the increase in the cost of charity as well as a shift from implicit price concession to charity during 2021 as compared to 2020. With the recovery of patient service levels during the nine months ended September 30, 2021 as compared to the same period in 2020, the variable and fixed costs relationship in both the Medicare and Medicaid programs improved in 2021, improving the overall margins, resulting in a 13% decrease in unpaid costs.

SYSTEM UNCOMPENSATED CARE COSTS (\$ in millions)			
	9/30/2021	9/30/2020	Change
Charity care at cost	\$ 47	\$ 30	\$ 17
Unpaid cost of Medicare, Medicaid, and other public programs	376	397	(21)
Implicit price concessions	<u>53</u>	<u>81</u>	<u>(28)</u>
Total cost of uncompensated care	<u>\$ 476</u>	<u>\$ 508</u>	<u>\$ (32)</u>

Nonoperating Items

Investment Performance

The System maintains significant investments, including cash and cash equivalents, short-term investments, and long-term investments. Consolidated investment return, net recognized during the nine months ended September 30, 2021, was \$157 million compared to consolidated investment return, net of \$48 million recognized during the nine months ended September 30, 2020. The increase in consolidated investment return, net is consistent with market trends attributed to the economic impact of the economy reopening in 2021 compared to the economic shutdown in 2020 as a result of the COVID-19 pandemic and the System's enterprise risk management framework.



Balance Sheet

Days Cash on Hand

Total System days cash at September 30, 2021, totaled 193 days compared to 206 days at December 31, 2020. The increase in the operating expenses per day coupled with repayments of CMS advances received in 2020, partially offset by the increase in investment earnings lead to the decrease in days cash.

DAYS CASH ON HAND (\$ in millions)			9/30/2021	12/31/2020
Cash and cash equivalents	\$	943	\$	1,237
Short-term investments		54		31
Long-term investments		1,809		1,538
Assets limited as to use:				
The Foundation		395		363
Funds designated for deferred compensation		233		219
Funds board-designated for research, education, and other		27		28
Total funds without restrictions [A]	\$	3,461	\$	3,416
Total operating expenses (excluding depreciation and amortization) [B]	\$	4,900	\$	6,070
Total operating expenses per day ([B] / 273 for 2021 and 366 for 2020) = [C] (excluding depreciation and amortization)	\$	18	\$	17
Days cash on hand [A] / [C]		193		206
Total funds without restrictions to total debt		301 %		298 %



Long-Term Obligations

The following table sets forth the System's capitalization as of September 30, 2021 and December 31, 2020:

SYSTEM CAPITALIZATION (\$ in millions)		
	<u>9/30/2021</u>	<u>12/31/2020</u>
Series 2016 Bonds ⁽¹⁾	\$ 836	\$ 836
Series 2019A Bonds ⁽¹⁾	228	228
Bank term loan	-	35
Other obligations ⁽²⁾	4	4
Financing lease payable	82	44
Total debt ⁽³⁾	<u>\$ 1,150</u>	<u>\$ 1,147</u>
Total net assets without donor restrictions	<u>\$ 2,804</u>	<u>\$ 2,646</u>
Total capitalization	<u>\$ 3,954</u>	<u>\$ 3,793</u>
Total debt / total debt capitalization	<u>29%</u>	<u>30%</u>

(1) Par amount of bonds outstanding. Does not include unamortized premium or deferred issuance costs on the bonds

(2) Includes mortgages

(3) Includes current portion of long-term debt

The following is a summary of the System's lines of credit facilities at September 30, 2021:

SYSTEM LINES OF CREDIT (\$ in millions)			
<u>Facilities at 9/30/2021</u>	<u>Issue Date</u>	<u>Expiration</u>	
\$ 75	4/19/2020	4/19/2022	
100	5/25/2021	5/24/2022	(4)
150	5/25/2021	5/25/2023	
100	4/28/2021	4/28/2024	
100	4/30/2021	4/28/2024	
<u>\$ 525</u>			

(4) The System drew \$35M on this line in Q3-21

Care Delivery and Insurance Operations

Net operating income (loss) for the nine months ended September 30, 2021 and 2020, are reflected in the tables below:

	SYSTEM NET OPERATING INCOME (LOSS)					
	(\$ in millions)					
	Care Delivery	Insurance Operations	Eliminations/ Other	Before COVID-19 Grants & Relief	COVID-19 Grants & Relief	Consolidated
September 30, 2021						
Operating revenue	\$ 4,044	\$ 1,610	\$ (609)	\$ 5,045	\$ 21	\$ 5,066
Operating expenses	4,019	1,654	(613)	5,060	-	5,060
Operating income (loss)	\$ 26	\$ (44)	\$ 4	\$ (14)	\$ 21	\$ 7
September 30, 2020						
Operating revenue	\$ 3,442	\$ 1,560	\$ (521)	\$ 4,481	\$ 360	\$ 4,841
Operating expenses	3,615	1,482	(520)	4,577	-	4,577
Operating (loss) income	\$ (173)	\$ 78	\$ (1)	\$ (96)	\$ 360	\$ 264

Utilization

	SYSTEM UTILIZATION STATISTICS	
	9/30/2021	9/30/2020
Licensed beds (including skilled nursing facility beds)	2,404	2,468
Available beds	1,995	2,048
Discharges (excluding newborns)	76,919	73,810
Patient days (excluding newborns)	413,052	388,575
Length of stay (excluding newborns)	5.37	5.26
All payor case mix index	1.84	1.81
Inpatient emergency room visits	43,842	41,424
Outpatient emergency room visits	239,475	223,241
Inpatient surgeries	14,498	13,184
Outpatient surgeries	39,615	30,610
Observation cases	21,889	20,249
Total outpatient visits (including emergency room, surgeries and virtual visits)	5,206,430	4,711,524

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended
September 30, 2021 and 2020



CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020
(In thousands)

	Unaudited 2021	Audited 2020
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 942,718	\$ 1,237,306
Short-term investments	54,383	30,502
Patient care receivables	458,123	417,762
Health care premium receivables	16,089	14,230
Due from third-party payors	74,961	39,797
Other current assets	367,283	325,566
Current portion of assets limited as to use	<u>44,943</u>	<u>47,854</u>
Total current assets	1,958,500	2,113,017
LONG-TERM INVESTMENTS	1,808,950	1,538,379
ASSETS LIMITED AS TO USE	1,029,782	960,363
JOINT VENTURE INVESTMENTS	34,594	30,330
INTANGIBLE AND OTHER ASSETS—Net	51,289	49,158
GOODWILL—Net of accumulated amortization of \$28,577 in 2021 and 2020	22,562	22,562
RIGHT OF USE—OPERATING LEASE ASSETS	182,362	183,425
RIGHT OF USE—FINANCING LEASE ASSETS	68,657	42,619
PROPERTY, PLANT, AND EQUIPMENT—Net	<u>1,625,354</u>	<u>1,616,271</u>
TOTAL ASSETS	<u><u>\$ 6,782,050</u></u>	<u><u>\$ 6,556,124</u></u>

(Continued)

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020
(In thousands)

	Unaudited 2021	Audited 2020
LIABILITIES AND NET ASSETS:		
CURRENT LIABILITIES:		
Short term borrowings	\$ 34,684	\$ -
Accounts payable	338,863	328,057
Due to third-party payors	112,416	96,001
Medical claims liability	216,035	191,576
Other liabilities and accrued expenses	498,150	552,378
Current portion of long-term obligations	17,113	51,751
Current portion of malpractice and general liability	29,968	29,968
Current portion of operating lease liabilities	23,519	26,639
Current portion of financing lease liabilities	3,168	3,837
Total current liabilities	1,273,916	1,280,207
DEFERRED COMPENSATION, POSTRETIREMENT, AND OTHER LIABILITIES	795,044	784,917
LONG-TERM OBLIGATIONS	1,149,762	1,154,192
MALPRACTICE AND GENERAL LIABILITY	152,609	147,869
LONG-TERM OPERATING LEASE LIABILITIES	169,474	169,542
LONG-TERM FINANCING LEASE LIABILITIES	79,104	39,722
Total liabilities	3,619,909	3,576,449
NET ASSETS:		
Without donor restrictions:		
Henry Ford Health System	2,800,085	2,642,574
Noncontrolling interests	3,563	3,653
Total net assets without donor restrictions	2,803,648	2,646,227
With donor restrictions	358,493	333,448
Total net assets	3,162,141	2,979,675
TOTAL LIABILITIES AND NET ASSETS	\$ 6,782,050	\$ 6,556,124

See notes to consolidated financial statements.

(Concluded)



CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
(In thousands)

	Unaudited 2021	Unaudited 2020
REVENUE WITHOUT DONOR RESTRICTIONS:		
Net patient service revenue	\$ 3,150,354	\$ 2,659,443
Health care premiums	1,550,665	1,499,153
Other revenue	<u>365,096</u>	<u>682,261</u>
Total revenue without donor restrictions	<u>5,066,115</u>	<u>4,840,857</u>
EXPENSES:		
Salaries, wages, and employee benefits	2,186,632	2,024,642
Health care provider expense	973,926	847,380
Supplies	977,661	827,836
General and other administrative	297,121	279,839
Other contracted services	248,344	235,581
Depreciation and amortization	159,982	155,073
Repairs and maintenance	49,427	48,047
Rent and lease	44,621	45,473
Plant operations	45,542	41,581
Malpractice	44,205	43,268
Interest expense	<u>32,134</u>	<u>28,163</u>
Total expenses	<u>5,059,595</u>	<u>4,576,883</u>
OPERATING INCOME	<u>6,520</u>	<u>263,974</u>
NONOPERATING ITEMS:		
Investment return, net	157,011	48,022
Other components of net periodic pension cost	<u>(10,038)</u>	<u>(1,868)</u>
Total nonoperating items	<u>146,973</u>	<u>46,154</u>
EXCESS OF REVENUE OVER EXPENSES	153,493	310,128
LESS EXCESS OF REVENUE OVER EXPENSES		
ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>1,041</u>	<u>1,495</u>
EXCESS OF REVENUE OVER EXPENSES		
ATTRIBUTABLE TO HENRY FORD HEALTH SYSTEM	<u>\$ 152,452</u>	<u>\$ 308,633</u>

(Continued)

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
(In thousands)**

	Unaudited 2021	Unaudited 2020
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Excess of revenue over expenses from consolidated operations	\$ 153,493	\$ 310,128
Net assets released from restrictions for capital	5,058	3,097
Distributions to noncontrolling interests	<u>(1,130)</u>	<u>(962)</u>
Increase in net assets without donor restrictions	<u>157,421</u>	<u>312,263</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Return on restricted investments, net	26,230	5,306
Contributions and other	59,378	61,495
Net assets released from restrictions for operations	(55,505)	(49,068)
Net assets released from restrictions for capital	<u>(5,058)</u>	<u>(3,097)</u>
Increase in net assets with donor restrictions	<u>25,045</u>	<u>14,636</u>
TOTAL INCREASE IN NET ASSETS	182,466	326,899
TOTAL NET ASSETS—Beginning of year	<u>2,979,675</u>	<u>2,509,326</u>
TOTAL NET ASSETS—End of period	<u>\$ 3,162,141</u>	<u>\$ 2,836,225</u>

See notes to consolidated financial statements.

(Concluded)

CONSOLIDATED STATEMENTS OF CASH FLOWS **FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020** (In thousands)

	Unaudited 2021	Unaudited 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 182,466	\$ 326,899
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	159,982	155,073
Amortization of bond premium and deferred debt issue costs	(4,245)	(4,151)
Loss on sale or disposal of assets	1,439	216
Return on restricted investments	(26,230)	(5,306)
Restricted contributions and grants	(59,378)	(61,495)
Net realized and unrealized (gains) losses on investments	(158,284)	40,536
Distributions to noncontrolling interest	1,130	962
Change in assets and liabilities:		
Patient and health care premium receivables	(42,220)	(1,811)
Other current assets	(41,717)	(67,637)
Assets limited as to use	26,934	(86,307)
Joint venture investments	(1,764)	(4,247)
Other assets	(4,638)	2,444
Accounts payable	11,220	(11,270)
Other liabilities	(49,341)	531,551
Due to/from third-party payors	(18,749)	54,191
Medical claims liability	24,459	31,724
Malpractice and general liability	4,740	24,349
Net cash provided by operating activities	<u>5,804</u>	<u>925,721</u>

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
(In thousands)

	Unaudited 2021	Unaudited 2020
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property	\$ (163,833)	\$ (161,898)
Proceeds from the sale or maturity of securities	924,410	488,875
Purchases of securities	(1,141,291)	(539,412)
Investment in joint ventures	(2,500)	-
Net cash used in investing activities	<u>(383,214)</u>	<u>(212,435)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds on short-term borrowings	\$ 34,684	\$ (8,947)
Proceeds on long-term obligations	1,932	41,160
Payments of long-term obligations	(35,000)	(8,947)
Payments of finance lease liabilities	(3,272)	(3,106)
Distributions to noncontrolling interests	(1,130)	(962)
Return on restricted investments	26,230	5,306
Restricted contributions and grants	59,378	61,495
Net cash provided by financing activities	<u>82,822</u>	<u>85,999</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(294,588)	808,232
CASH AND CASH EQUIVALENTS—Beginning of year	<u>1,237,306</u>	<u>611,863</u>
CASH AND CASH EQUIVALENTS—End of period	<u><u>\$ 942,718</u></u>	<u><u>\$ 1,420,095</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020 (Dollars in thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

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

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

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

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

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) for interim financial statements. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. All intercompany transactions have been eliminated. Operating results for the nine months ended September 30, 2021 are not necessarily indicative of the results that may be experienced during the year ending December 31, 2021. The footnotes to the consolidated statements are condensed and should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2020. The audited consolidated financial statements are available from the municipal Securities Rulemaking Board on its Electronic Municipal Market Access (EMMA) system, found at <http://emma.msrb.org>.



Use of Estimates

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.

2. NET PATIENT SERVICE REVENUE, PATIENT CARE RECEIVABLES AND UNCOMPENSATED CARE

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

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

Because the System's performance obligations relate to contracts with a duration of less than one year, it has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14(a), Revenue from Contracts with Customers, and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. These unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient services and the related contracts are generally completed upon discharge, which generally occurs shortly after the end of the reporting period.

The System determines the transaction price based on contractual terms for all services covered by insurance or in accordance with the System's policies with 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 effects on the consolidated financial statements 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 nine months ended September 30, 2021 and 2020, is as follows:

	2021		2020	
Medicare	\$ 1,382,359	44 %	\$ 1,161,784	44 %
Medicaid	523,758	17	441,522	17
Blue Cross	866,470	27	695,115	26
Self-pay	24,486	1	34,666	1
Commercial and other	<u>353,281</u>	<u>11</u>	<u>326,356</u>	<u>12</u>
Total	<u>\$ 3,150,354</u>	<u>100 %</u>	<u>\$ 2,659,443</u>	<u>100 %</u>

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 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 September 30, 2021 and December 31, 2020. 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 \$16,307 and \$3,776 related to prior-year settlements was recorded during the nine months ended September 30, 2021 and 2020, 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 nine months ended September 30, 2021 and 2020, was not material to the consolidated financial statements.

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

The major components of community benefit for the nine months ended September 30, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Charity care at cost	\$ 46,977	\$ 29,942
Unpaid cost of Medicare, Medicaid, and other public programs	375,979	396,789
Implicit price concessions	<u>52,692</u>	<u>81,504</u>
Total cost of uncompensated care	<u>\$475,648</u>	<u>\$508,235</u>

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

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

The total return on the investment portfolios for the nine months ended September 30, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Included in other revenue:		
Funds designated for malpractice and general liability	\$ 1,380	\$ 1,228
Funds designated for deferred compensation	14,484	3,830
Other miscellaneous interest	(1)	59
Included in nonoperating items:		
The Foundation	44,005	6,033
Interest, dividends, and realized and unrealized gains from other unrestricted assets	<u>113,006</u>	<u>41,989</u>
Total	172,874	53,139
Investment return, net on restricted investments	<u>26,230</u>	<u>5,306</u>
Total investment return, net	<u>\$ 199,104</u>	<u>\$ 58,445</u>

4. ASSETS LIMITED AS TO USE

Assets limited as to use as of September 30, 2021 and December 31, 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Assets without donor restrictions:		
The Foundation	\$ 395,181	\$ 363,401
Funds held by trustee	-	1,755
Funds designated for malpractice and general liability	58,634	60,436
Funds designated for deferred compensation	233,255	218,790
HAP statutory funds	2,350	2,350
Funds board designated for research, education, and other	<u>26,812</u>	<u>28,037</u>
Total assets without donor restrictions	<u>716,232</u>	<u>674,769</u>
Assets with donor restrictions:		
Perpetual in nature	125,595	125,843
Purpose restricted	169,024	158,328
Grants and pledges receivable	<u>63,874</u>	<u>49,277</u>
Total assets with donor restrictions	<u>358,493</u>	<u>333,448</u>
Total assets limited as to use	1,074,725	1,008,217
Less requirements for current liabilities	<u>44,943</u>	<u>47,854</u>
Noncurrent assets limited as to use	<u>\$ 1,029,782</u>	<u>\$ 960,363</u>

Onika had reserve deposits of \$27,620 and \$27,789 as of September 30, 2021 and December 31, 2020, 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.

5. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of September 30, 2021 and December 31, 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Land and improvements	\$ 123,507	\$ 122,297
Building and improvements	1,902,696	1,748,007
Equipment	1,731,233	1,685,252
Construction in progress	<u>128,216</u>	<u>235,139</u>
Total	3,885,652	3,790,695
Less accumulated depreciation	<u>2,260,298</u>	<u>2,174,424</u>
Property, plant, and equipment—net	<u>\$ 1,625,354</u>	<u>\$ 1,616,271</u>

Internal use software is included above in equipment and construction in progress. The net book value was \$95,603 and \$129,430 at September 30, 2021 and December 31, 2020, respectively.

6. LONG-TERM OBLIGATIONS

Long-term obligations as of September 30, 2021 and December 31, 2020, consisted of the following:

<u>Obligation</u>	<u>Maturity</u>	<u>Rate</u>	<u>2021</u>	<u>2020</u>
Bonds Series 2016	2020 to 2046	Fixed 3.00%–5.00%	\$ 835,880	\$ 835,880
Bonds Series 2019A	2048 to 2050	Fixed 4.00%–5.00%	227,910	227,910
Taxable term loan	2021	Variable -	-	34,685
Other obligations		Fixed 4.44%–4.82%	3,530	3,667
Deferred issuance costs, net			(7,070)	(7,387)
Unamortized bond premium			<u>106,625</u>	<u>111,188</u>
Total			1,166,875	1,205,943
Less current portion			<u>17,113</u>	<u>51,751</u>
Total long-term obligations			<u>\$ 1,149,762</u>	<u>\$ 1,154,192</u>

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

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

7. LEASES

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

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

The components of lease cost and rent expense, included in general and other administrative expense depreciation and amortization expense, rent and lease expense, and interest expense for the nine months ended September 30, 2021 and 2020, are as follows:

<i>Lease Cost:</i>	2021	2020
Finance lease cost		
Amortization of ROU assets	\$ 4,607	\$ 3,809
Interest on lease liabilities	2,089	1,278
Operating lease cost	29,144	28,687
Short-term lease cost	10,796	12,620
Variable lease cost	<u>7,974</u>	<u>7,180</u>
Total lease cost	<u>\$ 54,610</u>	<u>\$ 53,574</u>

8. SUBSEQUENT EVENTS

The System has evaluated subsequent events through November 15, 2021, the date the consolidated financial statements were issued. As a result of this evaluation, the System has no subsequent events to disclose.



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