



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: 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, 2020 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, 2020.

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

Dated: May 14, 2020

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 Three Months Ended March 31, 2020 and 2019

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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, two psychiatric hospitals, and one specialty hospital.
- Henry Ford Medical Group, 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 538,000 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:



Strategy

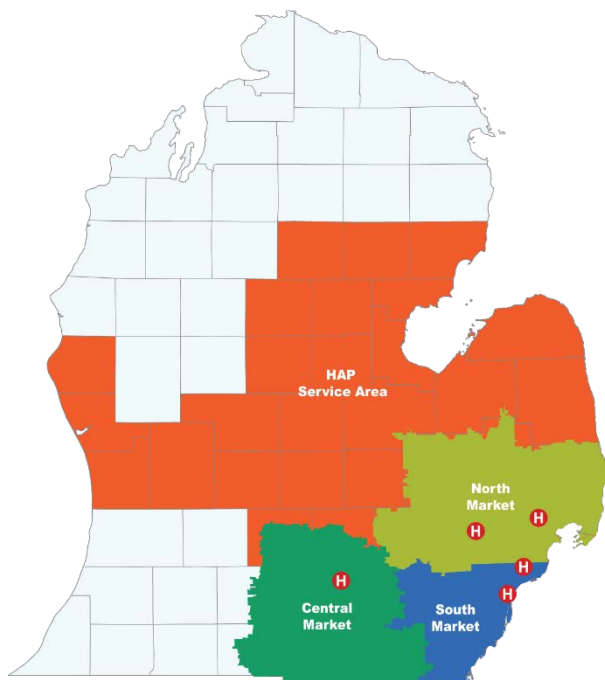
The System’s strategic plan “Path to True North 2023” (the “Plan”) drives the System’s continued success in the marketplace. In support of the organization’s mission, the plan focuses on three core outcomes:

- **Health of the Community** – Providing affordable and high-quality seamless care and coverage
- **Scale** – Sufficiency of competitive scale to achieve market impact and achieve national leadership positioning in select strategic services
- **Margin for Innovation** – Maintenance of a solid foundation to support national recognition as a leader in health delivery, sciences, and insurance innovation

In support of these objectives, the Plan outlines six strategic themes to leverage the System’s unique strategic advantages in the market as the only integrated system providing tertiary-quaternary care in an academic environment, a domestic health plan and other provider risk capabilities, and a regionally distributed footprint across south eastern and south-central Michigan. The graphic to the right depicts the Plan’s six strategic themes.



Service Area



The System defines its primary service area by major markets: the North Market, the South Market, and the Central Market. The North Market includes Oakland and Macomb Counties; the South Market includes Wayne County, which encompasses the city of Detroit, and the eastern half of Washtenaw County; and the Central Market includes Jackson County and portions of all surrounding counties.

HAP expanded its service area to include four counties in West Michigan – Kent, Muskegon, Oceana and Ottawa – and began offering HAP Choice Medicare, a new HMO product, which saw more than 1,000 new members enrolled as of Jan. 1, 2020.

The map shows the System’s provider and health plan service area, as well as acute care facilities.

THE NOVEL CORONAVIRUS (COVID-19)

Spread of the Virus and Emergency Declarations

Coronavirus disease (COVID-19) originated in China in late 2019 and on January 30, 2020 the Center for Disease Control and Prevention (CDC) confirmed the spread of the disease to the United States. On March 11, 2020, the World Health Organization (WHO) declared the global COVID-19 outbreak a pandemic. On March 13, the United States Government declared COVID-19 a national state of emergency, allowing for billions of dollars of federal funding and ordering all states to set up emergency operations centers to combat the pandemic. In Michigan, the Governor enacted emergency measures including closing schools; restricting gatherings of 10 or more; closing theaters, gyms, casinos, bars and restaurants; reducing local government workforces; and restricting travel to slow the spread of the virus.

System Readiness and Response

Starting in February, the System began planning for the COVID-19 outbreak initiating specific training and education for its healthcare team which has continued throughout the pandemic. On March 6, the System activated its System Incident Command (SIC) led by its Chief Quality Officer to triage all matters stemming from COVID-19 pertaining to its patients, workforce, and health care operations. The SIC 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 is following the guidance of both the WHO and the CDC and is coordinating with state and local governments as well as other hospitals across the region.

Michigan reported its first two confirmed cases of COVID-19 on March 10, one in each of the System's north and south markets. Since that date, the COVID-19 virus has spread throughout the State, with the largest concentration in the System's primary service area. The System admitted its first COVID-19 patient on March 11. Aligning with the Centers for Medicare & Medicaid Services (CMS) and State recommendations, in the third week of March 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 non-essential workers to remote work arrangements, and cancelling non-essential business travel and system events.

Recognizing the System's pivotal role in addressing the virus in one of the top three COVID-19 hot spots in the country, in early April, the System expanded its testing capacity and repurposed surgical and clinical space to create its own inpatient surge capacity. Patient visitation was restricted and wide-spread employee screening was implemented.

Supply Chain Management

Consistent with the experience in other COVID-19 hot spots, the System's expanded need for personal protective equipment (PPE), which includes surgical masks and gowns, and sanitizer, resulted in significant supply chain disruption. To maintain the safety of the System's patients and healthcare professionals, the Supply Chain team pursued and secured multiple alternative sources for PPE. This included partnering with regional businesses to temporarily divert production capability and accepting generous donations from businesses as well as community members.

Community Service

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 Association surge facility.

Committed to transparency in public messaging, the System was part of more than 10,000 local, national and international news stories related to COVID-19. Messaging included the importance of social distancing, education about the virus and care delivery, stories about frontline provider safety, as well as the impact of innovation, research and clinical trials toward finding a cure to the virus.

While the temporary suspension of non-time-sensitive procedures, surgeries and appointments had a significant positive effect on the System's ability to prepare for COVID-19, it also is having a negative effect on the System's 2020 revenue. The suspension of non-time-sensitive procedures will continue until it appears that the spread of COVID-19 in the System's service area is being sufficiently managed so that healthcare resources can be safely redirected to their original functions. The duration of the suspension will depend on many factors, including the success of individual, government, and private sector restrictions in slowing the spread of the virus.

SYSTEM HIGHLIGHTS

The System's intense focus on addressing the COVID-19 pandemic includes many diverse initiatives, some of which are summarized here:

Clinical Excellence and Innovations

- The Henry Ford Research Team has dozens of studies either underway or under development to understand disease progression and outcomes, and to treat or prevent COVID-19. The System has been able to initiate early COVID-19 research studies by having partners in the Midwest and around the world as well as a translational research structure in place.
 - In early April, the System launched the first large-scale US study to determine the effectiveness of hydroxychloroquine, an anti-malarial drug, in preventing COVID-19 in healthcare workers and first responders.
 - The System is partnering in the national trial regarding the effectiveness of Remdesivir as well as conducting studies as to the effectiveness of plasma in reducing the severity of the impact of COVID-19.
 - A study on the level of asymptomatic disease and antibody seroprevalence among children and their families is being conducted. With the All of Us study and HAVEN/MFive studies, the System will review stored blood and nasal swabs, respectively, to determine how COVID-19 spread throughout the country.
 - The System is testing anti-viral agents, agents that inhibit the cytokine storm, convalescent patient serum and using other novel approaches to treatment.

- The System, along with other Southeast Michigan healthcare systems, formed a consortium to create a large registry of COVID-19 patient clinical data to allow for inquiries on the characteristics of the disease, its risk factors, co-morbidities, disparities, treatment patterns, treatment outcomes, etc.
- Other System data registries are examining the impact of COVID-19 on cardiac, renal, neurological and other disease outcomes.
- Leveraging its resources and relationship, The Henry Ford Innovations Team:
 - Investigated more than 270 opportunities to source PPE, ultimately partnering with 21 local manufacturing organizations to provide more than one million units of product.
 - Created COVID-19 Care Kits provided to patients battling the virus from home settings.
 - Created the critical education videos used to train frontline clinical staff as well support development of innovative techniques to sanitize and reuse scarce PPE resources.
- The photomedicine and photobiology unit in the Department of Dermatology rapidly developed an innovative process to sterilize N95 respirators using a special form of ultraviolet C (UVC), so that the respirator can be reused, helping address the high demand for PPE.
- System Laboratory Services became Michigan's first same-day results lab for COVID-19. The lab processes 97% of the coronavirus samples in less than 12 hours and 100% within 24 hours with the capability of processing 1,000 samples per day.
- Henry Ford Hospital has achieved Magnet® designation, awarded by the American Nurses Credentialing Center. This recognition represents the highest level of professionalism in nursing practice and is the gold standard in nursing excellence. Henry Ford Hospital is joining an elite group of only 509 Magnet designated hospitals nationwide.

Innovative Adjustments to Care Models to Meet Patient Needs

- The System created and staffed two special COVID-19 hotlines at the onset of the pandemic, answering nearly 13,000 calls per week from patients and community members who had questions or concerns about the coronavirus.
- Henry Ford Medical Group increased virtual care visits, including video visits and e-visits, from approximately 300 per week before the pandemic to more than 10,000 per week during the pandemic to provide safe and effective care.
- The Department of Pediatrics deployed its mobile medical unit for newborn follow-up appointments to allow new moms and their babies to receive care outside their home rather than coming into a medical center.
- HAP has made many operational adjustments to make access to care and coverage as easy and affordable as possible for members and provider partners during this pandemic while complying with regulations including:

- Waiving member cost-sharing for testing and treatment of COVID-19, according to state and federal guidelines, which includes deductibles, copays and co-insurance associated with treatment for the virus. This cost-sharing waiver is currently in effect for services rendered through June 30, 2020.
- Waiving all cost-sharing for HAP individual, fully insured employer group and Medicare members who use telehealth services through June 30, even if the service is not related to COVID-19.
- Allowing members to refill prescriptions early so they can have an adequate supply on hand and offering free in-home delivery of medications through Pharmacy Advantage.
- Allowing employer group customers to continue health care coverage for currently enrolled employees who are temporarily laid off or have had their hours reduced during the COVID-19 pandemic as long as the employer continues to pay the premiums.
- Relaxing prior authorizations for select services to improve access to care for both providers and members when transitioning patients to different care settings or when requesting durable medical equipment replacements.

COVID Recovery Programs

- Beginning in early April, The System leveraged key internal resources, partnering with external advisors, to optimize its position under all Federal, State and Locally supported relief programs. These programs, which continue to evolve, consist of a combination of advance payments to support cash flow needs as well as grants to support operations. A summary of the resources secured under these programs to date are as follows:
 - More than \$500.0 million in cash flow support has been obtained, with the most significant contributors being advance payments from the Federal Medicare program and employer federal employment tax deferrals.
 - More than \$250.0 million in operational support has been obtained, primarily funded under the Federal CARES Act.
 - The System is also pursuing emergency funding relief under the Federal Emergency Management Act (FEMA) with the initial submission anticipated in late May.

Innovative Enhancements to Employee Health to Meet Workforce Needs

- Employee Health services expanded its offerings to help team members with the emotional stress of the COVID-19 pandemic, adding services like virtual support groups, tele-medicine individual therapy appointments, 24/7 employee hotline, grief and loss support groups, and a crisis response team for critical events like a loss of a fellow employee.

Outpouring of Support from Our Community

- The System received a \$25.0 million gift, the largest single donation from an individual in its history, from developer Chris Jeffries and his wife Lisa to accelerate the growth and expansion of Henry Ford's Precision Medicine oncology program.
- The System received cash donations and commitments in excess of \$7 million to fund the Special COVID-19 Funds from more than 26 companies and foundations as well as more than 1,500 individuals.
- A community donation campaign helped secure more than 500,000 pieces of PPE to help keep the healthcare team safe and generated hundreds of food donations to support the frontline team.



MANAGEMENT DISCUSSION AND ANALYSIS

In the wake of the COVID-19 pandemic, the global investment markets and U.S. domestic debt capital markets have encountered significant volatility. However, the System is benefiting from a diversified approach to its investment program which has served to outperform the broader markets. The System has allocated funds to alternative investment vehicles to reduce risk and preserve capital. Based on capital market conditions 2020 investment earnings will be less than 2019. The System's debt program is 97% fixed rate and therefore has not been impacted by the volatility in the domestic debt markets.

The System's operations have been adversely impacted by the severity of the COVID-19 crisis resulting from disruptions in supply chains, staffing shortages in our hospitals, increased cost to treat patients, and reduced patient revenues due to the deferral or cancellation of non-time-sensitive procedures. For the three months ended March 31, 2020 the System reported an operating loss of \$36.2 million due to decreases in volume relative to inpatient discharges, outpatient surgeries and ambulatory visits, and increases in labor and supply costs. The duration and severity of the pandemic may adversely impact the remainder of 2020 financial performance.

The System has implemented a number of liquidity management strategies to avoid liquidating long-term investments during unfavorable market conditions to maintain balance sheet stability and a position of strength during the recovery. The System has taken advantage of a number of federal and state stimulus programs to improve liquidity. To date the System has received approximately \$403 million in CMS advance payments, a \$78.0 million federal grant, and \$2.5 million from the state of Michigan. In addition, the System will defer approximately \$115.0 million of 2020 employer related FICA contributions until 2021 and 2022. The System has \$275.0 million in committed lines of credit that were undrawn as of March 31, 2020. Subsequent to March 31, the System increased its committed and uncommitted line of credit capacity to \$525.0 million. Lastly, the System has deferred capital spending on several major projects, while continuing to invest in the construction of its new Cancer Center and two ambulatory sites.

The System has also furloughed approximately 2,800 employees from areas that have closed or are not involved in direct patient care.

Summary of Operating Results

The System reported a consolidated operating loss of \$36.2 million for the three months ended March 31, 2020, on consolidated revenue without donor restrictions of \$1.5 billion, providing an operating margin of (2.4)%. Operating income before interest, depreciation, and amortization totaled \$24.5 million.

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 \$1.5 billion for the three months ended March 31, 2020, down \$19.6 million (1.3%) from the three months ended March 31, 2019. The System recognized consolidated net patient service revenue of \$950.1 million and consolidated health care premium revenue of \$496.3 million for the three months ended March 31, 2020. 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 payers and patients.

SYSTEM REVENUES		
(\$ in thousands)		
	<u>3/31/2020</u>	<u>3/31/2019</u>
Net patient service revenue:		
Gross net patient service revenue	\$ 1,125,977	\$ 1,118,166
Intercompany transactions eliminated	<u>(175,915)</u>	<u>(169,937)</u>
Total net patient service revenue	950,062	948,229
Health care premiums	496,315	483,738
Other revenue	<u>72,766</u>	<u>106,779</u>
Total revenue without donor restrictions	<u>\$ 1,519,143</u>	<u>\$ 1,538,746</u>

Consolidated net patient service revenue increased \$1.8 million or 0.2% for the three months ended March 31, 2020, compared to the three months ended March 31, 2019. This was primarily due to an increase in specialty pharmacy, partially offset by volume decreases in non-time-sensitive services deferred to focus on COVID-19 patients.

Consolidated health care premium revenue increased \$12.6 million or 2.6% for the three months ended March 31, 2020, compared to the three months ended March 31, 2019. This was primarily due to increased Medicare Advantage membership as compared to 2019 and increased Medicaid membership as compared to 2019 due to the acquisition of Trusted Health Plan – Michigan (Trusted) which provided expanded opportunity to increase Medicaid membership across the metropolitan Detroit marketplace.

- Effective December 31, 2019 HAP Midwest Health Plan and Trusted completed their integration plan and merged, forming HAP Empowered Health Plan. This includes HAP’s Medicaid, MI Health Link (Medicare-Medicaid Plan) and Dual Special Needs Program (D-SNP) lines of business.
- Managed Care Medicaid plans in Michigan are auto-assigned membership based upon a multifaceted formula established by the Michigan Department of Health and Human Services. Auto-assignment is key to membership growth and for the first quarter of 2020, HAP Empowered Health Plan auto-assignment level was Band 2 for all counties in Region 6 (Flint and surrounding areas) and Region 10 (metro Detroit).

HAP COVERED LIVES		
By Product	3/31/2020	3/31/2019
Self-Funded	176,683	184,226
Group Insured Commercial	146,928	159,095
Network Leasing	111,193	111,576
Medicare Advantage	77,247	68,568
Individual	6,922	8,027
Dual Eligible	4,515	4,436
Medicaid	14,202	3,389
Total	537,690	539,317

Consolidated other revenue decreased \$34.0 million or 31.9% for the three months ended March 31, 2020, compared to the three months ended March 31, 2019. This was primarily due to investment losses on funds designated for malpractice and general liability and deferred compensation, partially offset by increased contract pharmacy revenue.



System Expense

Consolidated total expenses increased by \$56.0 million or 3.7%, for the three months ended March 31, 2020, compared to the three months ended March 31, 2019. Following are explanations for the most significant components.

SYSTEM EXPENSES (\$ in thousands)		
	3/31/2020	3/31/2019
Salaries, wages, and employee benefits	\$ 682,739	\$ 663,617
Health care provider expense	295,051	288,799
Supplies	284,964	263,233
General and other administrative	97,564	94,270
Other	<u>195,051</u>	<u>189,425</u>
Total operating expenses	<u>\$ 1,555,369</u>	<u>\$ 1,499,344</u>

Consolidated salaries, wages, and employee benefits increased by \$19.1 million (2.9%) for the three months ended March 31, 2020, compared to the three months ended March 31, 2019. This was primarily due to the System's wage program initiatives designed to address the competitive labor market combined with the impact of patient acuity on labor and wage expense related to COVID-19.

Consolidated health care provider expense increased by \$6.3 million (2.2%) for the three months ended March 31, 2020, compared to the three months ended March 31, 2019. This is primarily attributed to acuity of services provided to Medicare Advantage members aligning with their higher risk scores and premiums.

Consolidated supplies expense increased \$21.7 million (8.3%) for the three months ended March 31, 2020, compared to the three months ended March 31, 2019, driven by changes in the mix of patient services, increased patient acuity, supplies related to COVID-19, and pharmacy expense related to expanded ambulatory and specialty pharmacy activities.

Uncompensated Care and Community Benefits

The System expended \$127.1 million on uncompensated care for the three months ended March 31, 2020, compared to \$95.7 million in the prior year. The most significant component of this change was the increase in losses related to Medicare, Medicaid, and other public programs. In March, revenue decreases related to the postponement of non-time-sensitive services outpaced increases associated with COVID-19 services. This volume decline combined with the fixed cost of operations led to lower margins on all services, including those associated with Medicare, Medicaid, and other public programs. Additionally, the initiatives launched in 2019 to improve cash collections and reduce days in accounts receivables continued into the first quarter of 2020, contributing to decreases in charity care and an increase in implicit price concessions as compared to the first quarter of 2019. Aligning with its mission, the System also had substantial unreimbursed costs for health professional education, research, and other community services, which are also important components of overall community benefit expenditures.

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 three months ended March 31, 2020 was a loss of \$(198.3) million compared to investment return, net of \$82.0 million recognized during the three months ended March 31, 2019. The decrease in consolidated investment return is consistent with market trends attributed to the economic impact of the COVID-19 pandemic.

Balance Sheet

Days Cash on Hand

Total System days cash at March 31, 2020, totaled 126.8 days compared to 146.3 days at December 31, 2019. This was primarily due to impact of market conditions in the first quarter of 2020.

	DAYS CASH ON HAND (\$ in thousands)	
	3/31/2020	12/31/2019
Cash, cash equivalents, and short-term investments	\$ 557,565	\$ 611,863
Long-term investments	1,066,549	1,223,054
Assets limited as to use:		
The Foundation	295,558	339,811
Funds designated for deferred compensation	150,133	177,577
Funds board-designated for research, education, and other	25,109	28,797
Total funds without restrictions (A)	<u>\$ 2,094,914</u>	<u>\$ 2,381,102</u>
Total operating expenses ⁽¹⁾ (excluding depreciation and amortization) (B)	<u>\$ 1,504,034</u>	<u>\$ 5,941,564</u>
Days cash on hand (Calculation equals (A)/((B)/91 for 2020 and 365 days for 2019)	<u>126.8</u>	<u>146.3</u>
Total funds without restrictions to total debt	<u>180.5 %</u>	<u>204.5 %</u>

Long-Term Obligations

On May 2, 2019, the System closed on the issuance of \$227.9 million in Series 2019A hospital revenue bonds ("Series 2019A Bonds") issued at a premium of \$22.1 million. The proceeds are being used for the purposes of financing or refinancing the construction, renovation, and equipping of the System's facilities. The System has received \$211.8 million of the proceeds for reimbursement of approved costs while \$39.6 million remains held in trust as of March 31, 2020.

On June 3, 2019, the System entered into two new \$100.0 million line-of-credit facilities, each of which expire on June 2, 2021. As a result, on July 16, 2019, the System terminated a prior \$100.0 million line-of-credit facility and reduced the limit on a credit agreement from \$50.0 million to \$10.0 million on July 16, 2019. On April 19, 2020 the System renewed a \$75.0 million credit agreement which will expire on April 18, 2022.

SYSTEM CAPITALIZATION (\$ in thousands)		
	3/31/2020	12/31/2019
Series 2016 Bonds ⁽²⁾	\$ 840,770	\$ 840,770
Series 2019A Bonds ⁽²⁾	227,910	227,910
Bank term loan	35,560	35,560
Tax-exempt note	8,566	11,392
Other obligations ⁽³⁾	3,373	3,495
Financing lease payable	44,232	45,102
Total debt ⁽¹⁾	<u>\$ 1,160,411</u>	<u>\$ 1,164,229</u>
Total net assets without donor restrictions	<u>\$ 1,999,293</u>	<u>\$ 2,232,739</u>
Total capitalization	<u>\$ 3,159,704</u>	<u>\$ 3,396,968</u>
Total debt / total debt capitalization	<u>36.7%</u>	<u>34.3%</u>

(1) Includes current portion of long-term debt

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

(3) --> Includes mortgages

--> As of 3/31/2020, HFHS had \$275.0 million available for short-term borrowing.

--> There is a separate, \$10.0 million credit facility reserved for Letters of Credit only, but not for short-term borrowings.

--> As of 3/31/2020, we had no draws on the \$275.0 million available for short-term.

Utilization

SYSTEM UTILIZATION STATISTICS		
	3/31/2020	3/31/2019
Licensed beds (including skilled nursing facility beds) ⁽¹⁾	2,468	2,468
Available beds ⁽¹⁾	2,062	2,046
Discharges (excluding newborns)	26,407	27,874
Patient days (excluding newborns)	141,738	143,623
Length of stay	5.37	5.15
All payor case mix index	1.81	1.78
Inpatient emergency room visits	14,229	13,887
Outpatient emergency room visits	90,813	92,972
Inpatient surgeries	4,708	5,758
Outpatient surgeries	11,694	13,032
Observation cases	7,314	8,531
Total outpatient visits (including emergency room and surgeries)	1,795,084	1,809,003

⁽¹⁾ The licensed and available beds information is as of 3/15/2020 (pre COVID-19)



UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

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

	Unaudited 2020	Audited 2019
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 557,565	\$ 611,863
Patient care receivables	442,645	429,900
Health care premium receivables	22,003	21,464
Due from third-party payors	20,529	20,261
Other current assets	302,333	258,087
Current portion of assets limited as to use	<u>83,952</u>	<u>108,546</u>
Total current assets	1,429,027	1,450,121
LONG-TERM INVESTMENTS	1,066,549	1,223,054
ASSETS LIMITED AS TO USE	742,625	835,077
JOINT VENTURE INVESTMENTS	24,268	23,663
INTANGIBLE AND OTHER ASSETS—Net	48,402	52,614
GOODWILL—Net of accumulated amortization of \$28,577 in 2020 and 2019	22,159	22,159
RIGHT OF USE—OPERATING LEASE ASSETS	192,832	198,559
RIGHT OF USE—FINANCING LEASE ASSETS	43,996	45,103
PROPERTY, PLANT, AND EQUIPMENT—Net	<u>1,619,795</u>	<u>1,607,201</u>
TOTAL ASSETS	<u><u>\$ 5,189,653</u></u>	<u><u>\$ 5,457,551</u></u>

(Continued)

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

	Unaudited	Audited
	2020	2019
LIABILITIES AND NET ASSETS:		
CURRENT LIABILITIES:		
Accounts payable	\$ 320,525	\$ 348,814
Due to third-party payors	65,104	55,386
Medical claims liability	178,104	159,257
Other liabilities and accrued expenses	354,448	330,086
Current portion of long-term obligations	14,797	17,622
Current portion of malpractice and general liability	36,506	36,506
Current portion of operating lease liabilities	25,889	26,370
Current portion of financing lease liabilities	<u>3,483</u>	<u>3,518</u>
Total current liabilities	998,856	977,559
DEFERRED COMPENSATION, POSTRETIREMENT, AND OTHER LIABILITIES	401,307	430,928
LONG-TERM OBLIGATIONS	1,209,376	1,210,873
MALPRACTICE AND GENERAL LIABILITY	109,213	103,664
LONG-TERM OPERATING LEASE LIABILITIES	178,465	183,617
LONG-TERM FINANCING LEASE LIABILITIES	<u>40,749</u>	<u>41,584</u>
Total liabilities	<u>2,937,966</u>	<u>2,948,225</u>
NET ASSETS:		
Without donor restrictions:		
Henry Ford Health System	1,996,064	2,229,422
Noncontrolling interests	<u>3,229</u>	<u>3,317</u>
Total net assets without donor restrictions	1,999,293	2,232,739
With donor restrictions	<u>252,394</u>	<u>276,587</u>
Total net assets	<u>2,251,687</u>	<u>2,509,326</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,189,653</u>	<u>\$ 5,457,551</u>

See notes to consolidated financial statements.

(Concluded)

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

	Unaudited 2020	Unaudited 2019
REVENUE WITHOUT DONOR RESTRICTIONS:		
Net patient service revenue	\$ 950,062	\$ 948,229
Health care premiums	496,315	483,738
Other revenue	<u>72,766</u>	<u>106,779</u>
Total revenue without donor restrictions	<u>1,519,143</u>	<u>1,538,746</u>
EXPENSES:		
Salaries, wages, and employee benefits	682,739	663,617
Health care provider expense	295,051	288,799
Supplies	284,964	263,233
General and other administrative	97,564	94,270
Other contracted services	74,913	73,908
Depreciation and amortization	51,335	52,213
Repairs and maintenance	17,700	16,422
Rent and lease	15,474	13,942
Plant operations	13,645	14,759
Malpractice	12,600	10,482
Interest expense	<u>9,384</u>	<u>7,699</u>
Total expenses	<u>1,555,369</u>	<u>1,499,344</u>
OPERATING (LOSS) INCOME	(36,226)	39,402
NONOPERATING ITEMS:		
Investment return, net	(198,298)	82,017
Other components of net periodic pension benefit (cost)	<u>14</u>	<u>(1,000)</u>
Total nonoperating items	<u>(198,284)</u>	<u>81,017</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	<u>(234,510)</u>	<u>120,419</u>
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>344</u>	<u>480</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO HENRY FORD HEALTH SYSTEM	<u>\$ (234,854)</u>	<u>\$ 119,939</u>

(Continued)

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

	Unaudited 2020	Unaudited 2019
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
(Deficiency) excess of revenue over expenses from consolidated operations	\$ (234,510)	\$ 120,419
Net assets released from restrictions for capital	1,496	750
Distributions to noncontrolling interests	<u>(432)</u>	<u>(494)</u>
 (Decrease) increase in net assets without donor restrictions	 <u>(233,446)</u>	 <u>120,675</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Return on restricted investments, net	(31,455)	14,434
Contributions and other	24,652	23,112
Net assets released from restrictions for operations	(15,894)	(15,932)
Net assets released from restrictions for capital	<u>(1,496)</u>	<u>(750)</u>
 (Decrease) increase in net assets with donor restrictions	 <u>(24,193)</u>	 <u>20,864</u>
TOTAL (DECREASE) INCREASE IN NET ASSETS	(257,639)	141,539
TOTAL NET ASSETS—Beginning of year	<u>2,509,326</u>	<u>2,132,700</u>
TOTAL NET ASSETS—End of period	<u>\$ 2,251,687</u>	<u>\$ 2,274,239</u>

See notes to consolidated financial statements.

(Concluded)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(In thousands)

	Unaudited 2020	Unaudited 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (257,639)	\$ 141,539
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	51,335	52,213
Amortization of bond premium and deferred debt issue costs	(1,371)	(1,250)
Loss on sale or disposal of assets	85	1,925
Return on restricted investments	31,455	(14,434)
Restricted contributions and grants	(24,652)	(23,112)
Net realized and unrealized losses (gains) on investments	197,565	(93,750)
Distributions to noncontrolling interests	432	494
Change in assets and liabilities:		
Patient and health care premium receivables	(13,284)	(43,526)
Other current assets	(44,246)	(16,107)
Assets limited as to use	27,821	(205)
Joint venture investments	(605)	748
Other assets	3,289	(9,520)
Accounts payable	(17,256)	19,159
Other liabilities	19,493	45,176
Due to/from third-party payors	9,450	(2,997)
Medical claims liability	18,847	7,917
Malpractice and general liability	5,549	5,655
Net cash provided by operating activities	<u>6,268</u>	<u>69,925</u>

(Continued)

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(In thousands)**

	Unaudited 2020	Unaudited 2019
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property	\$ (73,018)	\$ (59,567)
Proceeds from the sale or maturity of securities	36,574	63,714
Purchases of securities	<u>(29,582)</u>	<u>(134,462)</u>
Net cash used in investing activities	<u>(66,026)</u>	<u>(130,315)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds on long-term obligations	16,518	-
Payments of long-term obligations	(2,949)	(2,877)
Payments of finance lease liabilities	(874)	(596)
Distributions to noncontrolling interests	(432)	(494)
Return on restricted investments	(31,455)	14,434
Restricted contributions and grants	<u>24,652</u>	<u>23,112</u>
Net cash provided by financing activities	<u>5,460</u>	<u>33,579</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(54,298)	(26,811)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>611,863</u>	<u>556,400</u>
CASH AND CASH EQUIVALENTS—End of period	<u>\$ 557,565</u>	<u>\$ 529,589</u>
See notes to consolidated financial statements.		(Concluded)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Dollars in thousands)**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

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

The Corporation is a Michigan not-for-profit corporation with several subsidiary corporations, the most significant of which are Henry Ford Wyandotte Hospital (“Wyandotte”), Henry Ford Macomb Hospital Corporation (“Macomb”), Henry Ford Allegiance Health Group (AHG), HealthAlliance 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 (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) 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 three months ended March 31, 2020 are not necessarily indicative of the results that may be experienced during the year ending December 31, 2020. 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, 2019. 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.

Reclassifications

Certain amounts in prior periods' financial statements have been reclassified to conform to the current-year presentation. In the System's consolidated statement of operations and changes in net assets for the three months ended March 31, 2019, \$82,017 of investment income was reclassified from the operating income section to investment return, net within the nonoperating section. (Refer to Note 3). In addition, \$1,000 of all components of net periodic benefit cost, except the service cost, for the System's pension and other postretirement benefits plans, was reclassified from salaries, wages, and employee benefits to other components of net periodic pension cost, within the nonoperating section.

New Accounting Standards

FASB ASU No. 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 was adopted on January 1, 2020. The adoption of this guidance is limited to the annual disclosures and is not expected to have a material impact on the System's consolidated financial statements at December 31, 2020.

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 three months ended March 31, 2020 and 2019, is as follows:

	2020		2019	
Medicare	\$ 408,967	43 %	\$ 401,091	42 %
Medicaid	158,307	16	155,075	17
Blue Cross	253,851	27	249,276	26
Self-pay	6,669	1	7,123	1
Commercial and other	<u>122,268</u>	<u>13</u>	<u>135,664</u>	<u>14</u>
Total	<u>\$ 950,062</u>	<u>100 %</u>	<u>\$ 948,229</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 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, 2020 and December 31, 2019. Revenues associated with health care services provided by the System to members of its HMO are included in health care premiums in the consolidated statements of operations and changes in net assets.

Settlements with third-party payors for retroactive adjustments are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as new information becomes available or as years are settled. Net patient service revenue of \$337 and \$358 related to prior-year settlements was recorded during the three months ended March 31, 2020 and 2019, 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, 2020 and 2019, was not material to the consolidated financial statements.

Uncompensated Care

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, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Charity care at cost	\$ 8,385	\$ 11,621
Unpaid cost of Medicare, Medicaid, and other public programs	99,758	69,803
Implicit price concessions	<u>18,951</u>	<u>14,244</u>
Total cost of uncompensated care	<u>\$ 127,094</u>	<u>\$ 95,668</u>

3. TOTAL INVESTMENT RETURN, NET

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

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 three months ended March 31, 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
Included in other revenue:		
Funds designated for malpractice and general liability	\$ (3,235)	\$ 2,386
Funds designated for deferred compensation	(22,681)	11,622
Included in nonoperating items:		
The Foundation	(44,248)	20,732
Interest, dividends, and realized and unrealized gains (losses) from other unrestricted assets	<u>(154,050)</u>	<u>61,285</u>
Total	(224,214)	96,025
Investment return, net on restricted investments	<u>(31,455)</u>	<u>14,434</u>
Total investment return, net	<u>\$ (255,669)</u>	<u>\$ 110,459</u>

4. ASSETS LIMITED AS TO USE

Assets limited as to use are reported at their estimated fair value and as of March 31, 2020 and December 31, 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Assets without donor restrictions:		
The Foundation	\$ 295,558	\$ 339,811
Funds held by trustee	45,453	61,797
Funds designated for malpractice and general liability	42,595	43,719
Funds designated for deferred compensation	150,133	177,577
HAP statutory funds	15,335	15,335
Funds board designated for research, education, and other	<u>25,109</u>	<u>28,797</u>
Total assets without donor restrictions	<u>574,183</u>	<u>667,036</u>
Assets with donor restrictions:		
Perpetual in nature	129,497	125,671
Purpose restricted	102,167	124,764
Grants and pledges receivable	<u>20,730</u>	<u>26,152</u>
Total assets with donor restrictions	<u>252,394</u>	<u>276,587</u>
Total assets limited as to use	826,577	943,623
Less requirements for current liabilities	<u>83,952</u>	<u>108,546</u>
Noncurrent assets limited as to use	<u>\$ 742,625</u>	<u>\$ 835,077</u>

Onika had reserve deposits of \$12,376 and \$12,096 as of March 31, 2020 and December 31, 2019, respectively, under a reinsurance trust agreement and an agency agreement. These amounts are included above in funds designated for malpractice and general liability. The HAP statutory funds are required by insurance regulations.

5. PROPERTY, PLANT, AND EQUIPMENT

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

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

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 121,979	\$ 121,535
Building and improvements	1,706,477	1,692,031
Equipment	1,638,097	1,622,371
Construction in progress	<u>219,713</u>	<u>189,675</u>
Total	3,686,266	3,625,612
Less accumulated depreciation	<u>2,066,471</u>	<u>2,018,411</u>
Property, plant, and equipment—net	<u>\$ 1,619,795</u>	<u>\$ 1,607,201</u>

Internal use software is included above in equipment and construction in progress. The net book value was \$140,064 and \$146,272 at March 31, 2020 and December 31, 2019, respectively.

6. LONG-TERM OBLIGATIONS

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

<u>Obligation</u>	<u>Maturity</u>	<u>Rate</u>		<u>2020</u>	<u>2019</u>
Bonds Series 2016	2020 to 2046	Fixed	3.00%–5.00%	\$ 840,770	\$ 840,770
Bonds Series 2019A	2048 to 2050	Fixed	4.00%–5.00%	227,910	227,910
Taxable term loan	2021	Variable	2.43%	35,560	35,560
Tax-exempt loan	2020	Fixed	2.07%	8,566	11,392
Other obligations		Fixed	4.44%–4.82%	3,373	3,495
Deferred issuance costs, net				(7,702)	(7,807)
Unamortized bond premium				<u>115,696</u>	<u>117,175</u>
Total				1,224,173	1,228,495
Less current portion				<u>14,797</u>	<u>17,622</u>
Total long-term obligations				<u>\$ 1,209,376</u>	<u>\$ 1,210,873</u>

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

On May 2, 2019, the System issued \$227,910 in Series 2019A hospital revenue bonds, at a premium of \$22,094 with issuance costs of \$2,304. The System has received \$211,762 of the proceeds for reimbursement of approved costs while the remaining \$39,634 is held in trust as of March 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, with only those that are reasonably certain of exercise 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 three months ended March 31, 2020 and 2019, are as follows:

<i>Lease Cost:</i>	<u>2020</u>	<u>2019</u>
Finance lease cost		
Amortization of ROU assets	\$ 1,108	\$ 671
Interest on lease liabilities	417	124
Operating lease cost	9,556	9,059
Short-term lease cost	4,042	2,948
Variable lease cost	<u>2,793</u>	<u>3,306</u>
 Total lease cost	 <u>\$ 17,916</u>	 <u>\$ 16,108</u>

8. SUBSEQUENT EVENTS

The Coronavirus disease (COVID-19) pandemic has had adverse effects on patient volumes beginning in mid-March 2020. As part of the System's COVID-19 incident response plan, in the third week of March steps were taken to cancel non-time sensitive visits and consolidate all medical center operations. The System's incident response plan included expansion of its inpatient capacity, expansion of virtual visits, and redeployment of all non-essential workers to remote work arrangements. In May, as the volume of COVID-19 impacted patients continued to decline, the System implemented the next phase of its incident response plan and began a phased rescheduling of medical procedures and visits. The System anticipates that COVID-19 will continue to impact its operations for the remainder of 2020.



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