

**Audited
Consolidated
Financial
Statements**

December 31, 2020

AdventHealth

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Consolidated Balance Sheets

December 31, 2020
and 2019

	(dollars in thousands)	2020	2019
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 1,210,037	\$ 184,811
Investments		6,951,313	7,000,804
Current portion of assets whose use is limited		433,910	381,119
Patient accounts receivable		905,103	593,627
Due from brokers		898,168	261,960
Estimated settlements from third parties		90,576	63,066
Other receivables		597,536	749,747
Inventories		357,367	254,760
Prepaid expenses and other current assets		107,580	141,282
		<u>11,551,590</u>	<u>9,631,176</u>
Property and Equipment		7,798,166	7,205,731
Operating Lease Assets		324,218	274,916
Assets Whose Use is Limited, net of current portion		444,529	445,416
Other Assets		<u>1,121,486</u>	<u>828,650</u>
		<u>\$ 21,239,989</u>	<u>\$ 18,385,889</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 1,572,650	\$ 1,453,059
Estimated settlements to third parties		174,106	150,176
Due to brokers		1,083,015	633,078
Other current liabilities		1,129,744	463,765
Short-term financings		324,285	104,420
Current maturities of long-term debt		65,011	55,711
		<u>4,348,811</u>	<u>2,860,209</u>
Long-Term Debt, net of current maturities		3,048,435	2,928,895
Operating Lease Liabilities, net of current portion		258,450	220,449
Other Noncurrent Liabilities		<u>821,824</u>	<u>565,260</u>
		8,477,520	6,574,813
Net Assets			
Net assets without donor restrictions		12,521,994	11,584,007
Net assets with donor restrictions		195,078	187,842
		<u>12,717,072</u>	<u>11,771,849</u>
Noncontrolling interests		45,397	39,227
		<u>12,762,469</u>	<u>11,811,076</u>
Commitments and Contingencies		<u>\$ 21,239,989</u>	<u>\$ 18,385,889</u>

AdventHealth

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Operations and Changes in Net Assets

For the years ended
December 31, 2020
and 2019

(dollars in thousands)

	2020	2019
Revenue		
Net patient service revenue	\$ 11,572,183	\$ 11,435,650
Other	1,051,039	456,617
Total operating revenue	12,623,222	11,892,267
Expenses		
Employee compensation	6,164,642	5,787,576
Supplies	2,213,856	1,990,987
Purchased services	1,127,396	973,224
Professional fees	783,097	729,285
Other	870,872	873,775
Interest	78,663	88,376
Depreciation and amortization	690,654	619,655
Total operating expenses	11,929,180	11,062,878
Income from Operations	694,042	829,389
Nonoperating Gains (Losses)		
Investment return	225,030	745,343
Loss on extinguishment of debt	—	(7,625)
Contribution from business combination	—	13,675
Total nonoperating gains, net	225,030	751,393
Excess of revenue and gains over expenses	919,072	1,580,782
Noncontrolling interests	(4,252)	(2,202)
Excess of Revenue and Gains over Expenses Attributable to Controlling Interest	914,820	1,578,580

Consolidated Statements of Operations and Changes in Net Assets (continued)

*For the years ended
December 31, 2020
and 2019*

(dollars in thousands)

CONTROLLING INTEREST

Net Assets Without Donor Restrictions

	2020	2019
Excess of revenue and gains over expenses	\$ 914,820	\$ 1,578,580
Net assets released from restrictions for purchase of property and equipment	11,147	26,844
Change in unrealized gains and losses on investments	2,493	2,740
Other	9,527	(8,859)
Increase in net assets without donor restrictions	937,987	1,599,305

Net Assets With Donor Restrictions

Gifts and grants	28,164	27,910
Net assets released from restrictions for purchase of property and equipment or use in operations	(26,892)	(36,992)
Investment return	2,285	3,353
Other	3,679	7,625
Increase in net assets with donor restrictions	7,236	1,896

NONCONTROLLING INTERESTS

Net Assets Without Donor Restrictions

Excess of revenue and gains over expenses	4,252	2,202
Distributions	(481)	(845)
Other	2,399	4,737
Increase in noncontrolling interests	6,170	6,094

Increase in Net Assets

Net assets, beginning of year	951,393	1,607,295
Net assets, end of year	11,811,076	10,203,781
	<u>\$ 12,762,469</u>	<u>\$ 11,811,076</u>

Consolidated Statements of Cash Flows

For the years ended
December 31, 2020
and 2019

(dollars in thousands)

	2020	2019
Operating Activities		
Increase in net assets	\$ 951,393	\$ 1,607,295
Increase in net assets from business combination	—	(13,675)
Depreciation and amortization	690,654	619,655
Amortization of deferred financing costs and original issue discounts and premiums	(16,570)	(13,127)
Loss on extinguishment of debt	—	7,625
Net realized and unrealized gains on investments	(133,793)	(620,859)
Restricted gifts and grants and investment return	(30,449)	(31,263)
Income from unconsolidated entities	(74,398)	(64,287)
Distributions from unconsolidated entities	18,038	30,092
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,129,201)	(620,789)
Other receivables	(30,671)	(6,921)
Other current assets	(68,905)	(9,242)
Accounts payable and accrued liabilities	146,955	226,646
Estimated settlements to third parties, net	(3,580)	(24,633)
Other current liabilities	540,979	71,437
Other noncurrent assets and liabilities	154,258	(29,151)
Net cash provided by operating activities	1,014,710	1,128,803
Investing Activities		
Purchases of property and equipment, net	(1,286,743)	(1,176,612)
Cash paid for acquisitions, net of cash received	—	(177,220)
Cash acquired in business combination	—	3,486
Sales and maturities of investments	5,638,026	1,938,981
Purchases of investments	(5,331,954)	(2,488,744)
Due from brokers	(636,208)	(179,720)
Due to brokers	449,937	239,958
Sales, maturities, and uses of assets whose use is limited	519,464	265,483
Purchases of and additions to assets whose use is limited	(531,790)	(159,940)
Return of capital from unconsolidated entities	738	18,549
Consideration paid to acquire noncontrolling interest	(125,000)	—
Cash receipts on sold patient accounts receivable	1,000,607	388,712
Increase in other assets	(45,200)	(41,109)
Net cash used in investing activities	(348,123)	(1,368,176)
Financing Activities		
Repayments of long-term borrowings	(62,791)	(524,249)
Additional long-term borrowings	429,871	554,371
Repayments of short-term borrowings	(305,305)	—
Additional short-term borrowings	303,500	—
Payment of deferred financing costs	—	(4,075)
Restricted gifts and grants and investment return	30,449	31,263
Net cash provided by financing activities	395,724	57,310
Increase (Decrease) in Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents	1,062,311	(182,063)
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of year	503,065	685,128
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents at End of Year	<u>\$ 1,565,376</u>	<u>\$ 503,065</u>
Noncash Investing Activity		
Beneficial interest obtained in exchange for patient accounts receivable	\$ (817,725)	\$ (614,686)
Consideration payable to acquire noncontrolling interest	225,000	—

AdventHealth

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

*For the years ended
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1. Significant Accounting Policies

Reporting Entity

Adventist Health System Sunbelt Healthcare Corporation d/b/a AdventHealth (Healthcare Corporation) is a not-for-profit healthcare corporation that owns and/or operates hospitals, nursing homes, physician offices, urgent care centers and other healthcare facilities, and a philanthropic foundation with various informal divisions (collectively referred to herein as the System). The System's affiliated healthcare facilities are operated or controlled through their by-laws, governing board appointments, or operating agreements. The System's 46 hospitals, 10 nursing homes, and philanthropic foundations operate in 9 states – Colorado, Florida, Georgia, Illinois, Kansas, Kentucky, North Carolina, Texas, and Wisconsin.

SunSystem Development Corporation (Foundation) is a charitable foundation operated by Healthcare Corporation for the benefit of many of the hospitals that are divisions or controlled affiliates. Healthcare Corporation is the Foundation's member and appoints its board of managers. The Foundation engages in philanthropic activities.

Healthcare Corporation and the System are collectively controlled by the Lake Union Conference of Seventh-day Adventists, the Mid-America Union Conference of Seventh-day Adventists, the Southern Union Conference of Seventh-day Adventists, and the Southwestern Union Conference of Seventh-day Adventists.

Mission

The System exists solely to improve and enhance the local communities that it serves in harmony with Christ's healing ministry. All financial resources and excess of revenue and gains over expenses are used to benefit the communities in the areas of patient care, research, education, community service, and capital reinvestment.

Specifically, the System provides:

Benefit to the underprivileged, by offering services free of charge or deeply discounted to those who cannot pay, and by supplementing the unreimbursed costs of the government's Medicaid assistance program.

Benefit to the elderly, as provided through governmental Medicare funding, by subsidizing the unreimbursed costs associated with this care.

Benefit to the community's overall health and wellness through the cost of providing clinics and primary care services, health education and screenings, in-kind donations, extended education, and research.

Benefit to the faith-based and spiritual needs of the community in accordance with its mission of extending the healing ministry of Christ.

Benefit to the community's infrastructure by investing in capital improvements to ensure the facilities and technology provide the best possible care to the community.

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Principles of Consolidation

The accompanying consolidated financial statements include the accounts of affiliated organizations that are controlled by Healthcare Corporation. Any subsidiary or other operations owned and controlled by divisions or controlled affiliates of Healthcare Corporation are included in these consolidated financial statements. Investments in entities that Healthcare Corporation does not control are recorded under the equity or cost method of accounting, depending on the ability to exert significant influence. Income from unconsolidated entities is included in other operating revenue or as a reduction to supplies expense (Note 6) in the accompanying consolidated statements of operations and changes in net assets. All significant intercompany accounts and transactions have been eliminated in consolidation. Partial ownership by another entity in the net assets and results of operations of a consolidated subsidiary is reflected as noncontrolling interests in the accompanying consolidated financial statements.

Use of Estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Recently Adopted Accounting Guidance

In May 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2019-06, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*, which allows not-for-profits to apply accounting alternatives that simplify the subsequent accounting for goodwill and accounting for certain intangible assets that are acquired. Not-for-profits that elect the goodwill accounting alternative must amortize goodwill over a period not greater than 10 years. Additionally, goodwill is only required to be tested for impairment when a triggering event occurs. Not-for-profits that elect the intangible asset accounting alternative may recognize fewer identifiable intangible assets in an acquisition. The System adopted the standard effective January 1, 2020 prospectively for all previously existing goodwill and for all new goodwill generated in future acquisitions. Goodwill is amortized on a straight-line basis over a ten-year period. The goodwill amortization expense is included in depreciation and amortization in the accompanying consolidated statement of operations and changes in net assets.

Recent Accounting Guidance Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Management is currently evaluating the potential impact of this guidance, which will be effective for the System beginning in 2021.

Notes to Consolidated Financial Statements

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Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration the System expects to be due from patients and third-party payors in exchange for providing patient care. Providing patient care services is considered a single performance obligation, satisfied over time, in both the inpatient and outpatient setting. Generally, the System bills the patients and third-party payors several days after services are performed or the patient is discharged from the facility.

Revenue for inpatient acute care services is recognized based on actual charges incurred in relation to total expected, or actual, charges. The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge.

As all the System's performance obligations relate to contracts with a duration of less than one year, the System is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period, which are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

For patients covered by third-party payors, the System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to those third-party payors. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. The System is subject to retroactive revenue adjustments due to future audits, reviews, and investigations. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims. Settlements with third-party payors for retroactive adjustments 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 with the payor, and the System's historical settlement activity, attempting to ensure that a significant revenue reversal will not occur when the final amounts are subsequently determined. Estimated settlements are adjusted in future periods as new information becomes available, or as years are settled or are no longer subject to such audits, reviews, and investigations. Net adjustments for prior-year cost reports and related valuation allowances, principally related to Medicare and Medicaid, resulted in increases to revenue of approximately \$37,000 and \$32,000 for the years ended December 31, 2020 and 2019, respectively.

Generally, patients covered by third-party payors are responsible for related deductibles and coinsurance, which is referred to as the patient portion. The System also provides services to uninsured patients and offers those uninsured patients a discount from standard charges in accordance with its policies.

Notes to Consolidated Financial Statements

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Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined that it has provided implicit price concessions to uninsured patients and patients with other uninsured balances such as copay and deductibles. The difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients is recorded as implicit price concessions, or as a direct reduction to net patient service revenue. Subsequent adjustments that are determined to be the result of an adverse change in the patient's or payor's ability to pay are recognized as bad debt expense. Bad debt expense for the years ended December 31, 2020 and 2019 was not material for the System, and is included within other expense in the accompanying consolidated statements of operations and changes in net assets, rather than as a deduction to arrive at revenue.

The System estimates the transaction price for the patient portion and 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.

The composition of net patient service revenue by primary payor is as follows:

	Year Ended December 31,			
	2020		2019	
	Amount	%	Amount	%
Managed Care	\$ 6,014,295	52%	\$ 5,999,015	52%
Medicare	2,308,713	20	2,349,128	20
Managed Medicare	1,759,956	15	1,562,356	14
Medicaid	478,240	4	458,963	4
Managed Medicaid	501,338	4	518,920	5
Self-pay	79,028	1	122,703	1
Other	430,613	4	424,565	4
	<u>\$ 11,572,183</u>	<u>100%</u>	<u>\$ 11,435,650</u>	<u>100%</u>

Charity Care

The System's patient acceptance policy is based on its mission statement and its charitable purposes and as such, the System accepts patients in immediate need of care, regardless of their ability to pay. Patients that qualify for charity care are provided services for which no payment is due for all or a portion of the patient's bill. Therefore, charity care is excluded from patient service revenue and the cost of providing such care is recognized within operating expenses.

The System estimates the direct and indirect costs of providing charity care by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients. The System also receives certain funds to offset or subsidize charity care services provided. These funds are primarily received from uncompensated care programs sponsored by various states, whereby healthcare providers within the state pay into an uncompensated care fund and the pooled funds are then redistributed based on state-specific criteria.

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The cost of providing charity care services, amounts paid by the System into uncompensated care funds, and amounts received by the System to offset or subsidize charity care services are as follows:

	Year Ended December 31,	
	2020	2019
Charity Care Cost		
Cost of providing charity care services	\$ 403,072	\$ 438,090
Charity Care Funding		
Funds received to offset or subsidize charity care services (included in patient service revenue)	\$ 283,593	\$ 266,916
Funds paid into trusts (included in other expenses)	(253,417)	(223,153)
Net charity care funding received	\$ 30,176	\$ 43,763

Excess of Revenue and Gains over Expenses

The consolidated statements of operations and changes in net assets include excess of revenue and gains over expenses as the performance indicator, which is analogous to net income of a for-profit enterprise. Changes in net assets without donor restrictions that are excluded from the performance indicator may include transfers of net assets released from restrictions for the purpose of acquiring long-lived assets, change in unrealized gains and losses on certain investments, and other changes in net assets.

Contributed Resources

Resources restricted by donors for specific operating purposes or a specified time period are held as net assets with donor restrictions until expended for the intended purpose or until the specified time restrictions are met, at which time they are reported as other revenue. Resources restricted by donors for additions to property and equipment are held as net assets with donor restrictions until the assets are placed in service, at which time they are reported as transfers to net assets without donor restrictions. Gifts, grants, and bequests not restricted by donors are reported as other revenue.

Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents

Cash equivalents represent all highly liquid investments, including certificates of deposit and commercial paper with maturities not in excess of three months when purchased. Interest income on cash equivalents is included in investment return.

The following table provides a reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents reported within the statement of financial position that sum to the total of the same such amounts shown in the statements of cash flows. Restricted cash and cash equivalents consist of funds included in assets whose use is limited.

	December 31,	
	2020	2019
Cash and cash equivalents	\$ 1,210,037	\$ 184,811
Restricted cash and restricted cash equivalents included in assets whose use is limited	355,339	318,254
Total cash, cash equivalents, restricted cash, and restricted cash equivalents shown in the statement of cash flows	\$ 1,565,376	\$ 503,065

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Investments

Investments include marketable securities and other investments. Investments in debt and equity securities with readily determinable fair values are reported at fair value, based on quoted market prices and are primarily designated as trading securities. The cost of securities sold is based on the average cost method.

Other investments include alternative investments, which are primarily hedge funds, commingled funds, and private equity funds, which determine fair value using net asset values (NAV). The value of such investments is estimated, and those estimates may change in the near term. The financial statements and internal controls of the funds are audited annually by independent auditors. The System's risk is limited to its investment in the fund. In September 2020, the System submitted redemption notices for approximately \$529,000 of its hedge funds, of which approximately \$352,000 were redeemed as of December 31, 2020, and the remaining amount was redeemed in January 2021. Private equity funds generally require capital commitments over an initial period of time and capital is returned as monetization events occur. Unfunded commitments related to private equity funds were approximately \$43,000 and \$24,000 as of December 31, 2020 and 2019, respectively. Commingled funds are used to obtain the desired exposure targets within the investment portfolio and have daily redemption terms.

Other investments may also include exchange-traded and over-the-counter derivative instruments that are held for trading purposes and to act as economic hedges to manage the risk of the investment portfolio. These instruments, which primarily include futures, options, and swaps, are used to gain broad market exposure and additional exposure to equity markets, adjust the fixed-income portfolio duration, provide an economic hedge against fluctuations in foreign exchange rates, and generate investment returns. These derivative instruments are not designated as hedging instruments.

Investment return includes realized gains and losses, interest, dividends, and net change in unrealized gains and losses. The investment return on investments restricted by donor or law is recorded as increases or decreases to net assets with donor restrictions. Investment return earned on the System's self-insurance trust funds and employee benefits funds is recorded in other operating revenue.

Assets Whose Use is Limited

Certain of the System's investments are limited as to use through the terms of trust agreements, internal designation, under the terms of bond indentures, or the provisions of other contractual arrangements. These investments are classified as assets whose use is limited in the accompanying consolidated balance sheets.

Sale of Patient Accounts Receivable

The System and certain of its member affiliates maintain a program for the continuous sale of certain patient accounts receivable to the Highlands County, Florida, Health Facilities Authority (Highlands) on a nonrecourse basis. Highlands has partially financed the purchase of the patient accounts receivable through the issuance of private placement, tax-exempt, variable-rate bonds (Bonds). Highlands had Bonds outstanding of \$280,000 and \$320,000 as of December 31, 2020 and 2019, respectively. The Bonds have a put date of December 2022 and a final maturity date of November 2027. The System is the servicer of the receivables under this arrangement and is responsible for performing all accounts receivable administrative functions.

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As of December 31, 2020 and 2019, the estimated net realizable value, as defined in the underlying agreements, of patient accounts receivable sold by the System and removed from the accompanying consolidated balance sheets was \$760,475 and \$983,537, respectively. The patient accounts receivable sold consist primarily of amounts due from government programs and commercial insurers. The proceeds received from Highlands consist of cash from the Bonds, a note on a subordinated basis with the Bonds, and a note on a parity basis with the Bonds. The note on a subordinated basis with the Bonds is in an amount to provide the required over-collateralization of the Bonds and was \$70,000 and \$80,000 at December 31, 2020 and 2019, respectively. The note on a parity basis with the Bonds is the excess of eligible accounts receivable sold over the sum of cash received and the subordinated note and was \$410,475 and \$583,537 at December 31, 2020 and 2019, respectively. These notes are included in other receivables in the accompanying consolidated balance sheets. Due to the nature of the patient accounts receivable sold, collectability of the subordinated and parity notes is not significantly impacted by credit risk.

The notes on a parity and subordinated basis represent the System's beneficial interest in the receivables subsequent to the sale. Cash received at the time of sale is recognized within the consolidated statement of cash flows as part of operating activities. Any subsequent cash received on the beneficial interest is recognized within the consolidated statement of cash flows as part of investing activities.

Inventories

Inventories (primarily pharmaceuticals and medical supplies) are stated at the lower of cost or net realizable value using the first-in, first-out method of valuation.

Property and Equipment

Property and equipment are reported on the basis of cost, except for those assets donated, impaired, or acquired under a business combination, which are recorded at fair value. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Depreciation is computed primarily utilizing the straight-line method over the expected useful lives of the assets. Amortization of capitalized leased assets is included in depreciation expense and allowances for depreciation.

Goodwill

Goodwill represents the excess of the purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of the business acquired. These amounts are included in other assets (noncurrent) in the accompanying balance sheets and are evaluated for impairment when there is an indicator of impairment. Goodwill consists of the following:

	December 31,	
	2020	2019
Goodwill	\$ 225,058	\$ 223,365
Less: accumulated amortization	(23,452)	—
Goodwill, net	<u>\$ 201,606</u>	<u>\$ 223,365</u>

Goodwill is amortized over a period of ten years. Amortization expense for goodwill was \$23,452 for the year ended December 31, 2020, and is included in depreciation and amortization in the accompanying consolidated statement of operations and changes in net assets.

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Interest in the Net Assets of Unconsolidated Foundations

Interest in the net assets of unconsolidated foundations represents contributions received on behalf of the System or its member affiliates by independent fund-raising foundations. As the System cannot influence the foundations to the extent that it can determine the timing and amount of distributions, the System's interest in the net assets of the foundations is included in other assets and changes in that interest are included in net assets with donor restrictions.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets. Where impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value based on discounted net cash flows or other estimates of fair value.

Deferred Financing Costs

Direct financing costs are included as a reduction to the carrying amount of the related debt liability and are deferred and amortized over the remaining lives of the financings using the effective interest method.

Bond Discounts and Premiums

Bonds payable, including related original issue discounts and/or premiums, are included in long-term debt. Discounts and premiums are being amortized over the life of the bonds using the effective interest method.

Income Taxes

Healthcare Corporation and its affiliated organizations, other than North American Health Services, Inc. and its subsidiary (NAHS), are exempt from state and federal income taxes. Accordingly, Healthcare Corporation and its tax-exempt affiliates are not subject to federal, state, or local income taxes except for any net unrelated business taxable income.

NAHS is a wholly owned, for-profit subsidiary of Healthcare Corporation. NAHS and its subsidiary are subject to federal and state income taxes. NAHS files a consolidated federal income tax return and, where appropriate, consolidated state income tax returns. All taxable income was fully offset by net operating loss carryforwards for federal income tax purposes; as such, there is no provision for current federal or state income tax for the years ended December 31, 2020 and 2019.

NAHS also has temporary deductible differences of approximately \$41,800 and \$46,500 at December 31, 2020 and 2019, respectively, primarily as a result of net operating loss carryforwards. At December 31, 2020, NAHS had net operating loss carryforwards of approximately \$43,500, expiring beginning in 2022 through 2026. Deferred taxes have been provided for these amounts, resulting in a net deferred tax asset of approximately \$10,200 and \$11,400 at December 31, 2020 and 2019, respectively. NAHS remeasured its deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. A full valuation allowance has been provided at December 31, 2020 and 2019 to offset the deferred tax asset since Healthcare Corporation has determined that it is more likely than not that the benefit of the net operating loss carryforwards will not be realized in future years.

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The Income Taxes Topic of the Accounting Standards Codification (ASC) (ASC 740) prescribes the accounting for uncertainty in income tax positions recognized in financial statements. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. There were no material uncertain tax positions as of December 31, 2020 and 2019.

On December 22, 2017, the United States enacted tax reform legislation commonly known as the Tax Cuts and Jobs Act (Act), resulting in significant modifications to existing law. Certain provisions impact tax-exempt organizations, including revisions to taxes on unrelated business activities, excise taxes on compensation of certain employees, and various other provisions. The impact of these provisions on the consolidated financial statements is not, and is not expected, to be significant.

Reclassifications

Certain reclassifications were made to the 2019 consolidated financial statements to conform to the classifications used in 2020. These reclassifications had no impact on the consolidated excess of revenue and gains over expenses, changes in net assets, or cash flows previously reported.

2. Organizational Changes

Business Combinations

The System accounts for transactions that represent business combinations in accordance with the Not-for-Profit Entities, Business Combinations Topic of the ASC (ASC 958-805), where the assets acquired and liabilities assumed are recognized and measured at their fair values on the acquisition date. Fair values that are not finalized are estimated and reported as provisional amounts.

AdventHealth Ottawa

On May 1, 2019, the System entered into an agreement to lease Ransom Memorial Health (RMH), a 44-bed hospital and its related outpatient locations in Ottawa, Kansas, for an initial term of 25 years. As a part of this transaction, RMH was renamed AdventHealth Ottawa (AH Ottawa). The noncash business combination was recorded under the acquisition method of accounting. The System recorded the fair value of the assets acquired of \$23,598 and the liabilities assumed of \$9,923 as of May 1, 2019. The fair value of AH Ottawa's net assets of \$13,675 was recognized in the consolidated statement of operations and changes in net assets as a contribution from business combination and is included in nonoperating gains.

The results of operations and changes in net assets for AH Ottawa were included in the System's consolidated financial statements beginning May 1, 2019. AH Ottawa had total operating revenue of \$30,052 and a deficiency of revenue and gains over expenses of \$3,638 for the period from May 1, 2019 through December 31, 2019.

AdventHealth Heart of Florida and AdventHealth Lake Wales

On September 1, 2019, the System entered into an asset purchase agreement under which the System acquired certain assets related to Heart of Florida Regional Medical Center, a 193-bed hospital in Davenport, Florida, which was renamed AdventHealth Heart of Florida (AH HOF), and a 160-bed hospital in Lake Wales, Florida, which was renamed AdventHealth Lake Wales (AH Lake Wales). The acquisition included the purchase of substantially all the property and equipment of the hospitals, the related outpatient services, and certain working capital.

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The assets acquired and liabilities assumed were recorded based on their acquisition date fair values. Cash consideration was \$177,371, which primarily represented the payment for the real and personal property. The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed are as follows:

Assets	
Cash and cash equivalents	\$ 151
Patient accounts receivable	801
Inventories	7,487
Prepaid expenses and other current assets	1,824
Property and equipment	155,649
Operating lease assets	17,318
Other assets	24,934
	<u>208,164</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 6,507
Other current liabilities	205
Current maturities of long-term debt	548
Long-term debt, net of current maturities	2,992
Operating lease liabilities, net of current portion	20,541
	<u>30,793</u>
Fair Value of Net Assets Acquired	<u><u>\$ 177,371</u></u>

The goodwill acquired represents the excess of the purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of the business acquired. Goodwill is included in other assets (noncurrent) in the accompanying consolidated balance sheets.

The results of operations and changes in net assets for AH HOF and AH Lake Wales were included in the System's consolidated financial statements beginning September 1, 2019. AH HOF and AH Lake Wales had total operating revenue of \$63,907 and a deficiency of revenue and gains over expenses of \$10,870 for the period from September 1, 2019 through December 31, 2019.

The following pro forma combined results of operations present the acquisition as if it had occurred on January 1, 2019 and, as such, reflect the impact of amortizing the fair value adjustments to property and equipment as of January 1, 2019. The pro forma combined results of operations do not necessarily represent the System's consolidated results of operations had the acquisition occurred on the date assumed, nor are these results necessarily indicative of the System's future consolidated results of operations. The System expects to realize certain benefits from integrating AH HOF and AH Lake Wales into the System and to incur certain one-time costs. The pro forma combined results of operations do not reflect these benefits or costs.

	Year Ended December 31, 2019
Pro forma revenue	\$ 12,036,365
Pro forma excess of revenue and gains over expenses	1,575,237
Pro forma change in net assets without donor restrictions	1,590,393

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Other Changes

On April 1, 2020, the System sold substantially all of the assets of Central Texas Medical Center together with certain other affiliated assets (CTMC) to CHRISTUS Santa Rosa Healthcare (CHRISTUS), a faith-based health system headquartered in Irving, Texas. CTMC provides healthcare services to the San Marcos, Texas community and surrounding areas. Assets held for sale at December 31, 2019 of approximately \$32,500 are included in other current assets in the accompanying consolidated balance sheet.

3. Investments and Assets Whose Use is Limited

Investments and assets whose use is limited are comprised of the following:

	December 31,	
	2020	2019
Debt securities		
U.S. government agencies and sponsored entities	\$ 3,475,149	\$ 2,995,833
Foreign government agencies and sponsored entities	2,154	6,600
Corporate bonds	294,329	774,629
Mortgage backed	27,991	19,937
Other asset backed	20,805	35,719
Short-term investments	179,571	139,871
Accrued interest	9,909	13,369
	<u>4,009,908</u>	<u>3,985,958</u>
Domestic equity securities	128,341	—
Exchange traded and mutual funds		
Domestic equity	928,408	784,563
Foreign equity	426,361	587,907
Fixed income	735,294	790,303
Real estate	—	18,560
	<u>2,090,063</u>	<u>2,181,333</u>
Investments at NAV		
Hedge funds and private equity funds	872,397	1,020,101
Commingled funds	373,704	321,693
	<u>1,246,101</u>	<u>1,341,794</u>
Cash and cash equivalents – assets whose use is limited	355,339	318,254
	<u>7,829,752</u>	<u>7,827,339</u>
Less: assets whose use is limited	(878,439)	(826,535)
Investments	<u>\$ 6,951,313</u>	<u>\$ 7,000,804</u>

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Investment Derivatives

The fair value of investment derivative instruments and the associated notional amounts, presented gross, were as follows:

	December 31, 2020			
	Notional		Fair Value	
	Long	Short	Assets	Liabilities
Equity options	\$ —	\$ (3)	\$ —	\$ (3)
Interest rate swaps	18	(2)	18	(2)
Futures	397,014	(148,689)	—	—
Total derivative instruments, gross	<u>\$ 397,032</u>	<u>\$ (148,694)</u>	<u>\$ 18</u>	<u>\$ (5)</u>

	December 31, 2019			
	Notional		Fair Value	
	Long	Short	Assets	Liabilities
Equity options	\$ —	\$ (4)	\$ —	\$ (4)
Interest rate swaps	217	(103)	217	(103)
Futures	1,209,215	(225,557)	—	—
Total derivative instruments, gross	<u>\$ 1,209,432</u>	<u>\$ (225,664)</u>	<u>\$ 217</u>	<u>\$ (107)</u>

The System posted collateral related to investment derivative instruments totaling \$19,114 and \$38,239 as of December 31, 2020 and 2019, respectively. Collateral is included in either cash and cash equivalents or investments in the accompanying consolidated balance sheets, depending on the type of collateral posted. The System had investment return related to investment derivative instruments of \$(63,021) and \$11,774 for the years ended December 31, 2020 and 2019, respectively.

Assets Whose Use is Limited

Assets whose use is limited as of December 31, 2020 includes investments held under trust agreements for settling payments under the professional and general liability program, and internally designated investments for employee retirement plans. Amounts to be used for the payment of current liabilities are classified as current assets.

A summary of the major limitations as to the use of assets whose use is limited consists of the following:

	December 31,	
	2020	2019
Self-insurance trust funds	\$ 446,294	\$ 459,451
Employee benefits funds	254,441	230,524
Other	177,704	136,560
	878,439	826,535
Less: amounts to pay current liabilities	(433,910)	(381,119)
	<u>\$ 444,529</u>	<u>\$ 445,416</u>

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Investment Return and Unrealized Gains and Losses

Investment return from cash and cash equivalents, investments, and assets whose use is limited amounted to \$225,030 and \$745,343 in the accompanying consolidated statements of operations and changes in net assets for the years ended December 31, 2020 and 2019, respectively, and consisted of the following:

	Year Ended December 31,	
	2020	2019
Interest and dividend income	\$ 93,730	\$ 153,440
Net realized (losses) gains	(4,287)	82,185
Net change in unrealized gains and losses	135,587	509,718
	<u>\$ 225,030</u>	<u>\$ 745,343</u>

4. Liquidity and Available Resources

The System's primary cash requirements are paying operating expenses, servicing debt, capital expenditures related to the expansion and renovation of existing facilities, and acquisitions. Cash in excess of near-term working capital needs is invested as described in Notes 1 and 3. Primary cash sources are cash flows from operating and investing activities. Additionally, the System has access to public and private debt markets and maintains a revolving credit agreement and commercial paper program, as described in Note 8.

The System had 260 and 238 days cash on hand at December 31, 2020 and 2019, respectively. Days cash on hand is calculated as unrestricted cash and cash equivalents, investments, and due to brokers, net, divided by daily operating expenses (excluding depreciation and amortization expense). Unrestricted cash and cash equivalents, investments, and due to brokers, net consist of the following:

	December 31,	
	2020	2019
Cash and cash equivalents	\$ 1,210,037	\$ 184,811
Investments	6,951,313	7,000,804
Due to brokers, net	(184,847)	(371,118)
	<u>\$ 7,976,503</u>	<u>\$ 6,814,497</u>
Unrestricted days cash and investments on hand	<u>260</u>	<u>238</u>

The System's financial assets also consist of patient accounts receivable totaling \$905,103 and \$593,627 as of December 31, 2020 and 2019, respectively. Other receivables, totaling \$597,536 and \$749,747 as of December 31, 2020 and 2019, are primarily comprised of the notes associated with the System's sale of patient accounts receivable, which is more fully described in Note 1. The System's financial assets are available as its general expenditures, liabilities, and other obligations come due.

Certain assets whose use is limited are to be used for current liabilities for self-insured programs and employee benefit funds and are more fully described in Note 3.

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5. Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2020	2019
Land and improvements	\$ 971,759	\$ 914,768
Buildings and improvements	6,666,483	6,246,371
Equipment	5,860,423	5,372,503
	<u>13,498,665</u>	<u>12,533,642</u>
Less: allowances for depreciation	<u>(6,565,025)</u>	<u>(5,967,345)</u>
	6,933,640	6,566,297
Construction in progress	864,526	639,434
	<u>\$ 7,798,166</u>	<u>\$ 7,205,731</u>

Certain hospitals have entered into construction contracts or other commitments for which costs have been incurred and included in construction in progress. These and other committed projects will be financed through operations and proceeds of borrowings. The estimated costs to complete these projects approximated \$324,000 at December 31, 2020.

During periods of construction, interest costs are capitalized to the respective property accounts. Interest capitalized approximated \$13,100 and \$6,500 for the years ended December 31, 2020 and 2019, respectively.

The System capitalizes the cost of acquired software for internal use. Any internal costs incurred in the process of developing and implementing software are expensed or capitalized, depending primarily on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage. Capitalized software costs and estimated amortization expense in the table below exclude software in progress of approximately \$168,000 and \$17,000 at December 31, 2020 and 2019, respectively. Capitalized software costs and accumulated amortization expense, which are included in property and equipment in the accompanying consolidated balance sheets, were as follows:

	December 31,	
	2020	2019
Capitalized software costs	\$ 360,975	\$ 333,592
Less: accumulated amortization	<u>(247,843)</u>	<u>(204,799)</u>
Capitalized software costs, net	<u>\$ 113,132</u>	<u>\$ 128,793</u>

Estimated amortization expense related to capitalized software costs for the next five years and thereafter is as follows:

2021	\$ 39,678
2022	31,642
2023	8,748
2024	5,670
2025	5,442
Thereafter	21,952

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6. Other Assets

Other assets consists of the following:

	December 31,	
	2020	2019
Goodwill	\$ 201,606	\$ 223,365
Notes and other receivables	65,075	60,355
Interests in net assets of unconsolidated foundations	72,832	71,302
Investments in unconsolidated entities	733,265	419,492
Other noncurrent assets	48,708	54,136
	<u>\$ 1,121,486</u>	<u>\$ 828,650</u>

The System's ownership interest and carrying amounts of investments in unconsolidated entities consist of the following:

	Ownership Interest	December 31,	
		2020	2019
Texas Health Huguley, Inc.	49%	\$ 188,668	\$ 139,301
Centura Health Corporation	35%	96,518	93,749
Health First, Inc.	27%	374,461	—
Premier Healthcare Alliance, LP	6%	—	124,133
Other	5% – 50%	73,618	62,309
		<u>\$ 733,265</u>	<u>\$ 419,492</u>

Income from unconsolidated entities, excluding Premier Healthcare Alliance, LP (Premier LP), totaled \$63,172 and \$48,282 for 2020 and 2019, respectively, and is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

The System has been a member-owner of Class B Units in Premier LP, which is a group purchasing organization, and has accounted for its investment in Premier LP using the equity method. In August 2020, Premier, Inc. completed a corporate restructuring pursuant to which all remaining Class B Units of Premier LP held by the System were exchanged on a one-for-one basis for shares of Class A common stock of Premier, Inc. As a result of the restructuring, the System removed its equity method investment in Premier LP totaling \$125,281 from other assets and recorded its investment in Premier, Inc. within investments on the accompanying consolidated balance sheet as of December 31, 2020. The System also recognized a net gain of \$12,715 due to the transaction, which reduced supplies expense in the accompanying consolidated statement of operations and changes in net assets.

On January 3, 2020, the System acquired a noncontrolling interest in Health First, Inc. (Health First). Health First is a community based not-for-profit healthcare system located in Brevard County, Florida and includes hospitals, insurance plans, a multi-specialty medical group, and outpatient and wellness services. The total consideration for the 27% noncontrolling interest acquired was \$350,000 and is included in other assets (noncurrent) in the accompanying consolidated balance sheet. The System paid \$125,000 at closing and has two remaining installments due totaling \$225,000. The first installment of \$125,000, which is included in other current liabilities in the accompanying consolidated balance sheet, is due on June 30, 2021. The remaining \$100,000 is payable on June 30, 2023 and is included in other noncurrent liabilities in the accompanying consolidated balance sheet.

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7. Leases

The System's leases primarily consist of real estate and medical equipment. The System determines if an arrangement is a lease at contract inception. Lease assets and lease liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. Because most of the System's leases do not provide an implicit rate of return, the System uses a risk-free rate based on the daily treasury yield curve at lease commencement in determining the present value of lease payments. Lease assets exclude lease incentives received.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one month to thirty years. The exercise of such lease renewal options is at the System's sole discretion. For purposes of calculating lease liabilities, lease terms include options to extend or terminate the lease when it is reasonably certain that the System will exercise that option. Certain leases also include options to purchase the leased asset. The depreciable life of assets and leasehold improvements is limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

The System does not separate lease and non-lease components except for certain medical equipment leases. Leases with a lease term of 12 months or less at commencement are not recorded on the consolidated balance sheets. Lease expense for these arrangements is recognized on a straight-line basis over the lease term.

Operating and finance leases consist of the following:

	December 31,	
	2020	2019
Operating Leases		
Operating lease assets	<u>\$ 324,218</u>	<u>\$ 274,916</u>
Other current liabilities	\$ 86,786	\$ 80,550
Operating lease liabilities, net of current portion	<u>258,450</u>	<u>220,449</u>
Total operating lease liabilities	<u>\$ 345,236</u>	<u>\$ 300,999</u>
Finance Leases		
Property and equipment	<u>\$ 42,090</u>	<u>\$ 49,837</u>
Current maturities of long-term debt	\$ 6,624	\$ 6,935
Long-term debt, net of current maturities	<u>34,639</u>	<u>41,623</u>
Total finance lease liabilities	<u>\$ 41,263</u>	<u>\$ 48,558</u>

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Lease expense for lease payments is recognized on a straight-line basis over the lease term. The components of lease expense were as follows:

	December 31,	
	2020	2019
Operating lease expense	\$ 108,635	\$ 94,641
Variable lease expense	34,117	25,329
Short-term lease expense	27,990	20,254
Finance lease expense		
Amortization of lease assets	7,220	8,762
Interest on lease liabilities	3,069	3,703
Total lease expense	<u>\$ 181,031</u>	<u>\$ 152,689</u>

Lease term and discount rate were as follows:

	December 31,	
	2020	2019
Weighted-average remaining lease term:		
Operating leases	8.1 years	6.0 years
Finance leases	11.5 years	11.4 years
Weighted-average discount rate:		
Operating leases	2.0%	2.5%
Finance leases	5.7%	5.6%

The following table summarizes the maturity of lease liabilities under finance and operating leases for the next five years and the years thereafter, as of December 31, 2020:

	Operating Leases	Finance Leases	Total
2021	\$ 96,163	\$ 8,817	\$ 104,980
2022	73,249	8,537	81,786
2023	51,180	7,235	58,415
2024	32,577	7,175	39,752
2025	22,414	7,038	29,452
Thereafter	114,401	11,587	125,988
Total lease payments	<u>389,984</u>	<u>50,389</u>	<u>\$ 440,373</u>
Less: imputed interest	<u>44,748</u>	<u>9,126</u>	
Total lease liabilities	<u>\$ 345,236</u>	<u>\$ 41,263</u>	

Supplemental cash flow information related to leases was as follows:

	December 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 110,771	\$ 92,318
Operating cash flows from finance leases	2,628	3,353
Financing cash flows from finance leases	7,006	9,765
Lease assets obtained in exchange for new operating lease liabilities	90,721	75,267
Lease assets obtained in exchange for new finance lease liabilities	2,073	5,732

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8. Debt Obligations

Long-term debt consisted of the following:

	December 31,	
	2020	2019
Fixed-rate hospital revenue bonds, interest rates from 1.90% to 5.00%, payable through 2049	\$ 2,303,612	\$ 2,344,587
Variable-rate hospital revenue bonds, payable through 2039	207,000	437,670
Other notes payable	425,088	—
Finance leases payable	41,263	48,558
Unamortized original issue premium, net	153,426	171,296
Deferred financing costs	(16,943)	(17,505)
	3,113,446	2,984,606
Less: current maturities	(65,011)	(55,711)
	<u>\$ 3,048,435</u>	<u>\$ 2,928,895</u>

Master Trust Indenture

Long-term debt has been issued primarily on a tax-exempt basis. Substantially all bonds are secured under a Master Trust Indenture (MTI), which provides for, among other things, the deposit of revenue with the master trustee in the event of certain defaults, pledges of accounts receivable, pledges not to encumber property, and limitations on additional borrowings. Certain affiliates controlled by Healthcare Corporation comprise the AdventHealth Obligated Group (Obligated Group). Members of the Obligated Group are jointly and severally liable under the MTI to make all payments required with respect to obligations under the MTI. The MTI requires certain covenants and reporting requirements be met by the System and the Obligated Group. At December 31, 2020 and 2019, the Obligated Group had total net assets of approximately \$11,568,000 and \$10,536,000, respectively.

Variable-Rate Bonds and Sources of Liquidity

Certain variable-rate bonds, including \$324,285 and \$104,420 as of December 31, 2020 and 2019, respectively, classified as short-term financings in the accompanying consolidated balance sheets, may be put to the System at the option of the bondholder. The variable-rate bond indentures generally provide the System the option to remarket the obligations at the then prevailing market rates for periods ranging from one day to the maturity dates. The obligations have been primarily marketed for seven-day periods during 2020, with annual interest rates ranging from 0.07% to 7.50%. Additionally, the System paid fees, such as remarketing fees, on variable-rate bonds during 2020.

The System has various sources of liquidity, including a \$500,000 revolving credit agreement (Revolving Note) with a syndicate of banks and a \$500,000 commercial paper program (CP Program). The Revolving Note, which expires in December 2023, is available for letters of credit, liquidity facilities, and general corporate needs, including working capital, capital expenditures, and acquisitions and has certain prime rate and LIBOR-based pricing options. At December 31, 2020 and 2019, the System had approximately \$1,100 committed to letters of credit under the Revolving Note. The System's CP Program allows for up to \$500,000 of taxable, commercial paper notes (CP Notes) to be issued for general corporate purposes at an interest rate to be determined at the time of issuance. No amounts were outstanding under the CP Program as of December 31, 2020 and 2019.

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2020 Debt Transactions

In response to the COVID-19 pandemic, as more fully discussed in Note 14, actions were taken during 2020 to increase liquidity and mitigate the pandemic's disruption to the System's business. In March 2020 the System drew \$478,500 from its Revolving Note and as a result, certain variable-rate bonds totaling \$221,670 that had been classified as long-term debt, supported by the Revolving Note, were reclassified to short-term debt. As the volatility in operations and financial markets gradually improved, the System repaid \$303,500 of the Revolving Note in August 2020. As of December 31, 2020, \$175,000 is outstanding under the Revolving Note. No amounts were outstanding under the Revolving Note as of December 31, 2019.

Additionally, in May 2020, the System borrowed \$250,000 on a 1.73% fixed-rate loan, which is due May 2022, and secured additional lines of credit totaling \$425,000, which were subsequently cancelled in December 2020.

2019 Debt Transactions

During the third quarter of 2019, the System issued fixed-rate bonds (Fixed-Rate Bonds) at a net premium with par amounts totaling \$359,440, maturity dates ranging from 2037 to 2046, stated interest rates ranging from 3.00% to 5.00%, and effective interest rates ranging from 2.33% to 3.08% through the call date of 2029. The System also issued mandatory tender put bonds (Put Bonds) at a premium with par amounts totaling \$122,085. The Put Bonds have a stated interest rate of 5.00% through a mandatory redemption date of 2026 and a final maturity of 2049. The effective interest rate on the Put Bonds is 1.64% through the mandatory redemption date. The Fixed-Rate Bonds and Put Bonds were issued with premiums totaling \$68,487, which resulted in total proceeds of \$550,012. The System used \$403,646 of bond proceeds for repayment of fixed-rate bonds, which resulted in a loss on extinguishment of debt totaling \$7,625 in the accompanying consolidated statement of operations and changes in net assets. The System used the remaining bond proceeds to finance or refinance certain costs of the acquisition, construction, and equipping of certain facilities.

Debt Maturities

The following represents the maturities of long-term debt, excluding finance leases disclosed in Note 7, for the next five years and the years thereafter:

2021	\$ 58,387
2022	316,812
2023	244,237
2024	86,982
2025	74,457
Thereafter	2,154,825

Cash paid for interest, net of amounts capitalized, approximated \$96,000 and \$102,000 during the years ended December 31, 2020 and 2019, respectively.

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9. Retirement Plans

Defined Contribution Plans

The System participates with other Seventh-day Adventist healthcare entities in a defined contribution retirement plan (Plan) that covers substantially all full-time employees who are at least 18 years of age. The Plan is exempt from the Employee Retirement Income Security Act of 1974 (ERISA). The Plan provides, among other things, that the employer contribute 2.6% of wages, plus additional amounts for highly compensated employees. Additionally, the Plan provides that the employer match 50% of an employee's contributions up to 4% of the contributing employee's wages, resulting in a maximum available match of 2% of the contributing employee's wages each year.

Contributions to the Plan are included in employee compensation in the accompanying consolidated statements of operations and changes in net assets in the amount of \$179,243 and \$152,850 for the years ended December 31, 2020 and 2019, respectively.

Defined Benefit Plan – Multiemployer Plan

Prior to January 1, 1992, certain of the System's entities participated in a multiemployer, noncontributory, defined benefit retirement plan, the Seventh-day Adventist Hospital Retirement Plan Trust (Old Plan) administered by the General Conference of Seventh-day Adventists that is exempt from ERISA. The risks of participating in multiemployer plans are different from single-employer plans in the following aspects:

Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

If an entity chooses to stop participating in the multiemployer plan, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as withdrawal liability.

During 1992, the Old Plan was suspended, and the Plan was established. The System, along with the other participants in the Old Plan, may be required to make future contributions to the Old Plan to fund any difference between the present value of the Old Plan benefits and the fair value of the Old Plan assets. Future funding amounts and the funding time periods have not been determined by the Old Plan administrators; however, management believes the impact of any such future decisions will not have a material adverse effect on the System's consolidated financial statements

The most recent available plan asset and benefit obligation data for the Old Plan is as of December 31, 2019 and is as follows:

Total plan assets	\$ 562,106
Actuarial present value of accumulated plan benefits	590,357
Funded status	95.2%

The System did not make contributions to the Old Plan for the years ended December 31, 2020 or 2019.

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Defined Benefit Plan – Frozen Pension Plans

Certain of the System's entities sponsored noncontributory, defined benefit pension plans (Pension Plans) that have been frozen such that no new benefits accrue. The following table sets forth the remaining combined projected and accumulated benefit obligations and the assets of the Pension Plans at December 31, 2020 and 2019, the components of net periodic pension cost for the years then ended, and a reconciliation of the amounts recognized in the accompanying consolidated financial statements:

	Year Ended December 31,	
	2020	2019
Accumulated benefit obligation, end of year	<u>\$ 160,186</u>	<u>\$ 154,354</u>
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 154,354	\$ 137,726
Interest cost	4,959	6,021
Benefits paid	(9,027)	(7,635)
Actuarial losses	<u>9,900</u>	<u>18,242</u>
Projected benefit obligation, end of year	160,186	154,354
Change in plan assets:		
Fair value of plan assets, beginning of year	131,953	117,643
Actual return on plan assets	18,416	21,945
Benefits paid	<u>(9,027)</u>	<u>(7,635)</u>
Fair value of plan assets, end of year	<u>141,342</u>	<u>131,953</u>
Deficiency of fair value of plan assets over projected benefit obligation, included in other noncurrent liabilities	<u>\$ (18,844)</u>	<u>\$ (22,401)</u>

No plan assets are expected to be returned to the System during the fiscal year ending December 31, 2021.

Included in net assets without donor restrictions at December 31, 2020 and 2019 are unrecognized actuarial losses of \$23,093 and \$25,435, respectively, which have not yet been recognized in net periodic pension cost. None of the actuarial losses included in net assets without donor restrictions are expected to be recognized in net periodic pension cost during the year ending December 31, 2021.

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Changes in plan assets and benefit obligations recognized in net assets without donor restrictions include:

	Year Ended December 31, 2020	2019
Net actuarial gains (losses)	\$ 2,081	\$ (2,021)
Amortization of net actuarial losses	261	319
Total decrease (increase) recognized in net assets without donor restrictions	<u>\$ 2,342</u>	<u>\$ (1,702)</u>

The components of net periodic pension cost were as follows:

	Year Ended December 31, 2020	2019
Interest cost	\$ 4,959	\$ 6,021
Expected return on plan assets	(6,435)	(5,724)
Recognized net actuarial losses	261	319
Net periodic pension (income) cost	<u>\$ (1,215)</u>	<u>\$ 616</u>

The assumptions used to determine the benefit obligation and net periodic pension cost for the Pension Plans are set forth below:

	Year Ended December 31, 2020	2019
Used to determine projected benefit obligation		
Weighted-average discount rate	2.65%	3.35%
Used to determine pension cost		
Weighted-average discount rate	3.35%	4.50%
Weighted-average expected long-term rate of return on plan assets	5.00%	5.00%

The Pension Plans' assets are invested in a portfolio designed to protect principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, with a reasonable and prudent level of risk. The Pension Plans' assets are managed solely in the interest of the participants and their beneficiaries. Diversification is achieved by allocating funds to various asset classes and investment styles and by retaining multiple investment managers with complementary styles, philosophies, and approaches.

The expected long-term rate of return on the Pension Plans' assets is based on historical and projected rates of return for current and planned asset categories and the target allocation in the investment portfolio. The target investment allocation for the Pension Plans during 2020 and 2019 was 70% debt securities, 27% equity securities, and 3% alternative investments.

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The following table presents the Pension Plans' financial instruments as of December 31, 2020, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 12:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 3,295	\$ 3,295	\$ —	\$ —
Debt securities				
U.S. government agencies and sponsored entities	30,857	—	30,857	—
Corporate bonds	52,366	—	52,366	—
Equity securities				
Domestic equities	4,766	4,766	—	—
Foreign equities	5,675	5,675	—	—
Exchange traded funds				
Domestic equity	29,245	29,245	—	—
Foreign equity	6,896	6,896	—	—
Alternative strategy mutual funds	8,242	8,242	—	—
Total plan assets	<u>\$ 141,342</u>	<u>\$ 58,119</u>	<u>\$ 83,223</u>	<u>\$ —</u>

The following table presents the Pension Plans' financial instruments as of December 31, 2019, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 12:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 2,479	\$ 2,479	\$ —	\$ —
Debt securities				
U.S. government agencies and sponsored entities	38,041	—	38,041	—
Corporate bonds	52,846	—	52,846	—
Equity securities				
Domestic equities	4,015	4,015	—	—
Foreign equities	2,516	2,516	—	—
Exchange traded funds				
Domestic equity	22,388	22,388	—	—
Foreign equity	4,398	4,398	—	—
Alternative strategy mutual funds	5,270	5,270	—	—
Total plan assets	<u>\$ 131,953</u>	<u>\$ 41,066</u>	<u>\$ 90,887</u>	<u>\$ —</u>

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The following represents the expected benefit plan payments for the next five years and the five years thereafter:

2021	\$ 6,904
2022	7,183
2023	7,477
2024	7,703
2025	8,031
2026-2030	42,058

10. General and Professional Liability Program

The System has a self-insured revocable trust that covers its subsidiaries and their respective employees for professional and general liability claims within a specified level. A self-insured retention of \$2,000 was established for the year ended December 31, 2001 was increased to \$7,500 and \$15,000 effective January 1, 2002 and 2003, respectively, and had remained at \$15,000 through March 31, 2020. Effective April 1, 2020, the self-insured retention increased to \$20,000. Claims above the self-insured retention are insured by claims-made coverage that is placed with Adhealth Limited (Adhealth), a Bermuda company. Adhealth has purchased reinsurance through commercial insurers for the excess limits of coverage.

The professional and general liability trust funds are recorded in the accompanying consolidated balance sheets as assets whose use is limited in the amount of \$446,294 and \$459,451 at December 31, 2020 and 2019, respectively. The related accrued claims are recorded in the accompanying consolidated balance sheets as other current liabilities in the amount of \$101,484 and \$100,904 and as other noncurrent liabilities in the amount of \$362,964 and \$334,815 at December 31, 2020 and 2019, respectively. These liabilities are based upon actuarially determined estimates using a discount rate of 3.75% at December 31, 2020 and 2019. The related estimated insurance recoveries are recorded as other assets in the amount of \$10,719 and \$11,866 in the accompanying consolidated balance sheets at December 31, 2020 and 2019, respectively.

11. Commitments and Contingencies

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is significant government activity within the healthcare industry with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Compliance with such laws and regulations can be subject to future review and interpretation, as well as regulatory actions unknown or unasserted at this time. Management assesses the probable outcome of unresolved litigation and investigations and records contingent liabilities reflecting estimated liability exposure.

In addition, certain of the System's affiliated organizations are involved in litigation and other regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without material adverse effect to the System's consolidated financial statements, taken as a whole.

See Note 14 for discussion of the COVID-19 pandemic and contingencies related to this significant event.

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12. Fair Value Measurements

The System categorizes, for disclosure purposes, assets and liabilities measured at fair value, on a recurring basis, into a three-tier fair value hierarchy. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement, which should be determined based on assumptions that would be made by market participants.

In accordance with the Fair Value Measurement Topic of the ASC (ASC 820), investments that are valued using NAV as a practical expedient are excluded from this three-tier hierarchy. For all other investments measured at fair value, the hierarchy prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Level inputs are defined as follows:

Level 1 – based on unadjusted quoted prices for identical assets or liabilities in an active market that the System has the ability to access.

Level 2 – based on pricing inputs that are either directly observable or that can be derived or supported from observable data as of the reporting date. Level 2 inputs may include quoted prices for similar assets or liabilities in non-active markets or pricing models whose inputs are observable for substantially the full term of the asset or liability.

Level 3 – based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or liability and are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. The System has no financial assets or financial liabilities with significant Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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Recurring Fair Value Measurements

The fair value of financial instruments measured at fair value on a recurring basis at December 31, 2020 was as follows:

	Total	Level 1	Level 2	Level 3
ASSETS				
<i>CASH AND CASH EQUIVALENTS</i>	\$ 1,210,037	\$ 1,151,642	\$ 58,395	\$ —
<i>INVESTMENTS AND ASSETS WHOSE USE IS LIMITED</i>				
Cash and cash equivalents	355,339	355,339	—	—
Debt securities				
U.S. government agencies and sponsored entities	3,475,149	—	3,475,149	—
Foreign government agencies and sponsored entities	2,154	—	2,154	—
Corporate bonds	294,329	—	294,329	—
Mortgage backed	27,991	—	27,991	—
Other asset backed	20,805	—	20,805	—
Short-term investments	179,571	—	179,571	—
Domestic equity securities	128,341	128,341	—	—
Exchange traded and mutual funds				
Domestic equity	928,408	928,408	—	—
Foreign equity	426,361	426,361	—	—
Fixed income	735,294	735,294	—	—
	<u>6,573,742</u>	<u>2,573,743</u>	<u>3,999,999</u>	<u>—</u>
Total	<u>\$ 7,783,779</u>	<u>\$ 3,725,385</u>	<u>\$ 4,058,394</u>	<u>\$ —</u>

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The fair value of financial instruments measured at fair value on a recurring basis at December 31, 2019 was as follows:

	Total	Level 1	Level 2	Level 3
ASSETS				
CASH AND CASH EQUIVALENTS	\$ 184,811	\$ 184,811	\$ —	\$ —
INVESTMENTS AND ASSETS WHOSE USE IS LIMITED				
Cash and cash equivalents	318,254	318,254	—	—
Debt securities				
U.S. government agencies and sponsored entities	2,995,833	—	2,995,833	—
Foreign government agencies and sponsored entities	6,600	—	6,600	—
Corporate bonds	774,629	—	774,629	—
Mortgage backed	19,937	—	19,937	—
Other asset backed	35,719	—	35,719	—
Short-term investments	139,871	—	139,871	—
Exchange traded and mutual funds				
Domestic equity	784,563	784,563	—	—
Foreign equity	587,907	587,907	—	—
Fixed income	790,303	790,303	—	—
Real estate	18,560	18,560	—	—
	<u>6,472,176</u>	<u>2,499,587</u>	<u>3,972,589</u>	<u>—</u>
Total	<u>\$ 6,656,987</u>	<u>\$ 2,684,398</u>	<u>\$ 3,972,589</u>	<u>\$ —</u>

The following tables represent a reconciliation of financial instruments at fair value to the accompanying consolidated balance sheets as follows:

	December 31,	
	2020	2019
Investments and assets whose use is limited measured at fair value	\$ 6,573,742	\$ 6,472,176
Hedge funds and private equity funds	872,397	1,020,101
Commingled funds	373,704	321,693
Accrued interest	9,909	13,369
Total	<u>\$ 7,829,752</u>	<u>\$ 7,827,339</u>
Investments	\$ 6,951,313	\$ 7,000,804
Assets whose use is limited:		
Current	433,910	381,119
Noncurrent	444,529	445,416
Total	<u>\$ 7,829,752</u>	<u>\$ 7,827,339</u>

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The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 financial assets were determined as follows:

Cash equivalents, U.S. and foreign government agencies and sponsored entities, corporate bonds, mortgage backed, other asset backed, and short-term investments – These Level 2 securities were valued through the use of third-party pricing services that use evaluated bid prices adjusted for specific bond characteristics and market sentiment.

Other Fair Value Disclosures

The carrying values of accounts receivable, accounts payable, and accrued liabilities are reasonable estimates of their fair values, due to the short-term nature of these financial instruments.

The fair values of the System's fixed-rate bonds are estimated using Level 2 inputs based on quoted market prices for those or similar instruments. The estimated fair value of the fixed-rate bonds was approximately \$2,666,000 and \$2,631,000 as of December 31, 2020 and 2019, respectively. The carrying value of the fixed-rate bonds was approximately \$2,304,000 and \$2,345,000 as of December 31, 2020 and 2019, respectively. The carrying amount approximates fair value for all other long-term debt (Note 8).

13. Functional Expenses

The System's resources and activities are primarily related to providing healthcare services. Corporate services include certain administration, finance and accounting, human resources, legal, information technology, and other functions.

Expenses by functional classification for the year ended December 31, 2020 consist of the following:

	Healthcare Services	Corporate Services	Total
Employee compensation	\$ 5,782,767	\$ 381,875	\$ 6,164,642
Purchased services and professional fees	1,746,689	163,804	1,910,493
Supplies	2,207,708	6,148	2,213,856
Other	1,552,397	87,792	1,640,189
Total	<u>\$ 11,289,561</u>	<u>\$ 639,619</u>	<u>\$ 11,929,180</u>

Expenses by functional classification for the year ended December 31, 2019 consist of the following:

	Healthcare Services	Corporate Services	Total
Employee compensation	\$ 5,426,611	\$ 360,965	\$ 5,787,576
Purchased services and professional fees	1,550,410	152,099	1,702,509
Supplies	1,985,342	5,645	1,990,987
Other	1,496,288	85,518	1,581,806
Total	<u>\$ 10,458,651</u>	<u>\$ 604,227</u>	<u>\$ 11,062,878</u>

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14. Significant Events

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient volumes and the related revenue for most services were significantly impacted beginning in mid-March 2020 as various policies were implemented by federal, state and local governments in response to the COVID-19 pandemic, such as stay-at-home orders and business closures. This also included the suspension of elective and nonemergent procedures across the System beginning in mid-March 2020. In early May, certain of these policies were lifted and the System experienced gradual improvement in volumes and related revenue. In addition to experiencing volume disruptions as a result of the COVID-19 pandemic, certain operating expenses increased during 2020. Supplies, such as personal protective equipment, were utilized at a higher rate and purchased at elevated prices. During the suspension of electives, the System instituted pay continuance policies for associates through early June 2020 to keep appropriate staffing intact to address surges and to quickly respond as the suspension of electives was lifted. Starting in the second quarter, premium pay and temporary staffing costs were elevated.

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), was enacted on March 27, 2020. The CARES Act authorizes funding to hospitals and other healthcare providers through the Public Health and Social Services Emergency Fund (Provider Relief Fund). Grant payments from the Provider Relief Fund are intended to reimburse healthcare providers for healthcare related expenses and/or lost revenue attributable to the COVID-19 pandemic. As of December 31, 2020, the System has received approximately \$599,000 of Provider Relief Fund payments, of which the System recognized approximately \$539,000 as other revenue in the accompanying consolidated statement of operations and changes in net assets. The unrecognized amount of Provider Relief Fund payments is included in other current liabilities in the accompanying consolidated balance sheet as of December 31, 2020. Grant payments are recognized as income when there is reasonable assurance that the grant conditions are met. On January 28, 2021, the Department of Health and Human Services (HHS) provided clarifying information regarding the ability of a parent to allocate Provider Relief Fund payments among its subsidiaries. In accordance with GAAP, the System considered the additional information in its assessment of grant revenue recognition for Provider Relief Fund payments as of and for the year ended December 31, 2020. These estimates could change materially based on lost revenue or expenses related to COVID-19 as well as future clarifying Provider Relief Fund compliance guidance provided by HHS.

The CARES Act provides for an expansion of the Medicare Accelerated and Advance Payment Program (Accelerated Payment Program), which allows inpatient acute care hospitals to request accelerated payments of up to 100% of their Medicare payment amount for a six-month period. In 2020, the System received approximately \$446,000 from the Accelerated Payment Program. Such accelerated payments received are included in other current liabilities in the accompanying consolidated balance sheet and repayment will occur based upon the terms and conditions of the program.

The CARES Act also allows for deferred payment of the employer portion of certain payroll taxes between March 27, 2020 and December 31, 2020, with 50% due December 31, 2021 and the remaining 50% due December 31, 2022. As of December 31, 2020, the System had deferred payroll tax payments of approximately \$164,000, of which approximately \$82,000 is included in accounts payable and accrued liabilities and approximately \$82,000 is included in other noncurrent liabilities in the accompanying consolidated balance sheet. The System is also

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considering other federal, state and local sources of grants for qualifying expenses. Due to the evolving nature of the COVID-19 pandemic, the ultimate impact to the System and its financial condition is presently unknown.

15. Subsequent Events

The System evaluated events and transactions occurring subsequent to December 31, 2020 through February 26, 2021, the date the accompanying consolidated financial statements were issued. During this period, other than the event discussed in Note 14, there were no subsequent events that required recognition in the accompanying consolidated financial statements, nor were there any additional nonrecognized subsequent events that required disclosure.

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16. Fourth Quarter Results of Operations (Unaudited)

The System's operating results for the three months ended December 31, 2020 are presented below:

Revenue	
Net patient service revenue	\$ 3,173,112
Other	375,291
Total operating revenue	<u>3,548,403</u>
Expenses	
Employee compensation	1,600,547
Supplies	657,259
Purchased services	291,163
Professional fees	226,168
Other	203,671
Interest	17,499
Depreciation and amortization	174,002
Total operating expenses	<u>3,170,309</u>
Income from Operations	378,094
Nonoperating Gain – Investment Return	<u>348,778</u>
Excess of revenue and gains over expenses	726,872
Noncontrolling interests	<u>(2,546)</u>
Excess of Revenue and Gains over Expenses Attributable to Controlling Interest	724,326
Other changes in net assets without donor restrictions, net	10,485
Increase in net assets with donor restrictions, net	3,040
Increase in Net Assets	<u><u>\$ 737,851</u></u>

During the fourth quarter, the System received approximately \$151,000 of additional Provider Relief Fund payments. Also, as discussed in Note 14, clarifying guidance regarding parent allocation of Provider Relief Funds to subsidiaries was issued by HHS. As a result, the System recognized approximately \$195,000 of Provider Relief Fund payments as other revenue for the three months ended December 31, 2020.

Report of Independent Auditors

The Board of Directors
Adventist Health System Sunbelt Healthcare Corporation
d/b/a AdventHealth

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

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

Ernst & Young LLP

Orlando, Florida
February 26, 2021