Health First, Inc.
and Subsidiaries

Consolidated Financial Report
September 30, 2022

Contents

RSM US LLP

Independent Auditor's Report

Board of Trustees
Health First, Inc. and Subsidiaries

Report on the Audit of the Financial Statements

Opinion
We have audited the consolidated financial statements of Health First, Inc. and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, 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 (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the balance sheets of the Corporation as of September 30, 2022 and 2021, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

RSM US LLP

Miami, Florida
December 28, 2022

Health First, Inc. and Subsidiaries

Consolidated Balance Sheets
September 30, 2022 and 2021
(Dollars in Thousands)

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	**$ 186,695**	$ 321,990
Investments	**826,056**	975,115
Current portion of assets limited as to use	**27,311**	18,703
Accounts receivable	**154,004**	140,588
Inventories	**41,648**	43,325
Prepaid expenses and other current assets	**188,597**	139,425
Total current assets	**1,424,311**	1,639,146
Assets limited as to use, less current portion	**307,892**	33,400
Property and equipment, net	**774,430**	743,343
Goodwill	**33,988**	29,743
Other assets	**117,629**	63,790
Total assets	**$ 2,658,250**	$ 2,509,422
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 338,942**	$ 301,785
Current portion of long-term debt and finance lease obligation	**17,026**	24,813
Total current liabilities	**355,968**	326,598
Long-term debt and finance lease obligation, less current portion	**823,179**	533,204
Other noncurrent liabilities	**121,476**	59,455
Total liabilities	**1,300,623**	919,257
Commitments and contingencies		
Net assets:		
Without donor restrictions:		
Controlling interests	**1,113,322**	1,282,801
Noncontrolling interests	**237,115**	299,900
With donor restrictions	**7,190**	7,464
Total net assets	**1,357,627**	1,590,165
Total liabilities and net assets	**$ 2,658,250**	$ 2,509,422

See notes to consolidated financial statements.

Health First, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
Years Ended September 30, 2022 and 2021
(Dollars in Thousands)

	2022	2021
Unrestricted revenues and other support:		
Patient service revenue	**$ 1,170,921**	$ 1,031,057
Premium revenue	**672,190**	738,445
Income from joint ventures	**3,491**	3,484
Other revenue	**91,208**	108,831
Net assets released from restrictions for operations	**746**	594
Total unrestricted revenues and other support	**1,938,556**	1,882,411
Expenses:		
Salaries and benefits	**849,720**	757,062
Supplies and other	**779,598**	661,692
Medical service	**292,948**	302,392
Depreciation and amortization	**65,403**	67,695
Interest	**25,574**	19,113
Total operating expenses	**2,013,243**	1,807,954
(Loss) income from operations	**(74,687)**	74,457
Nonoperating (losses) gains:		
Investment return, net	**(157,532)**	115,549
Change in value of interest rate swaps	**994**	598
Other	**(1,227)**	(1,280)
Total nonoperating (losses) gains	**(157,765)**	114,867
(Deficiency) excess of revenues, other support and gains over expenses and losses	**(232,452)**	189,324
(Deficiency) excess of revenues, other support and gains over expenses and (losses) gains attributable to noncontrolling interests	**(62,785)**	51,117
(Deficiency) excess of revenues, other support and gains over expenses and (losses) gains attributable to controlling interests	**(169,667)**	138,207

(Continued)

Health First, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended September 30, 2022 and 2021
(Dollars in Thousands)

	2022	2021
Controlling interest:		
Net assets without donor restrictions:		
(Deficiency) excess of revenues, other support and gains over expenses and (losses) gains attributable to controlling interests	**$ (169,667)**	$ 138,207
Net assets released from restrictions for purchase of property	**188**	87
(Decrease) increase in net assets without donor restrictions	**(169,479)**	138,294
Net assets with donor restrictions:		
Contributions	**924**	863
Investment (loss) income	**(264)**	228
Net assets released from restrictions	**(934)**	(681)
(Decrease) increase in net assets with donor restrictions	**(274)**	410
Noncontrolling interest:		
Net assets without donor restrictions:		
(Deficiency) excess of revenues, other support and gains over expenses and (losses) gains attributable to noncontrolling interests	**(62,785)**	51,117
Noncontrolling interest contribution	**-**	125,000
(Decrease) increase in noncontrolling interests	**(62,785)**	176,117
(Decrease) increase in net assets	**(232,538)**	314,821
Net assets:		
Beginning of year	**1,590,165**	1,275,344
End of year	**$ 1,357,627**	$ 1,590,165

See notes to consolidated financial statements.

Health First, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended September 30, 2022 and 2021
(Dollars in Thousands)

	2022	2021
Cash flows from operating activities:		
(Decrease) increase in net assets	**$ (232,538)**	$ 314,821
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Noncontrolling interest contribution	**-**	(125,000)
Net realized and unrealized losses (gains) on investments	**177,471**	(98,905)
Loss on disposal of property and equipment	**425**	423
Change in value of interest rate swaps	**(994)**	(598)
Restricted contributions and investment income	**(660)**	(1,091)
Income from joint ventures	**(3,491)**	(3,484)
Distributions from joint ventures	**1,614**	1,903
Depreciation and amortization	**65,403**	67,695
Other	**(5,349)**	(862)
Changes in operating assets and liabilities:		
Accounts receivable	**(16,202)**	(5,742)
Inventories	**1,677**	(6,768)
Other operating assets	**(69,826)**	(65,843)
Accounts payable and accrued liabilities	**29,216**	53,661
Other noncurrent liabilities	**31,707**	3,200
Net cash (used in) provided by operating activities	**(21,547)**	133,410
Cash flows from investing activities:		
Sales and maturities of investments	**352,690**	281,103
Purchases of investments	**(379,167)**	(328,840)
Increase in board designated and other assets limited as to use	**(276,414)**	(1,487)
Proceeds from the sale of property and equipment	**-**	612
Purchases of property and equipment	**(87,687)**	(87,060)
Other investing activities	**(5,532)**	-
Net cash used in investing activities	**(396,110)**	(135,672)
Cash flows from financing activities:		
Proceeds from CMS contract deposits	**32,318**	29,453
Withdrawals from CMS contract deposits	**(29,532)**	(34,189)
Cash received in sale of noncontrolling interest	**-**	125,000
Proceeds from issuance of long-term debt	**431,704**	-
Repayments of long-term debt and finance lease obligation	**(140,681)**	(21,486)
Payment of debt issue costs	**(3,486)**	-
Restricted contributions and investment income	**660**	1,091
Net cash provided by financing activities	**290,983**	99,869
(Decrease) Increase in cash and cash equivalents	**(126,674)**	97,607
Cash and cash equivalents, and restricted cash:		
Beginning of year	**329,004**	231,397
End of year	**$ 202,330**	$ 329,004
Supplemental schedules of noncash investing and financing activities:		
Purchases of property and equipment included in accounts payable	**$ 7,941**	$ 3,646
Right-of-use assets obtained in exchange for operating lease obligations	**$ 31,308**	$ 862

See notes to consolidated financial statements.

Note 1. Reporting Entity

Health First, Inc. (HFI) is a not-for-profit company located in Brevard County, Florida whose primary purpose is the governance of Health First Shared Services, Inc. (HFSS), of which HFI is the controlling member. HFSS is a not-for-profit parent holding company whose primary purpose is to direct the affairs of an integrated delivery network through wellness & preventative care, a broad physician network, and acute care services, which includes the following affiliates:

- Holmes Regional Medical Center, Inc. (HRMC) – a tax-exempt, 550-bed acute care hospital.
- Palm Bay Hospital (PBH) – a 120-bed acute care hospital that is a division of HRMC.
- Pro Health Fitness Center (PH) – a state-of-the-art health and fitness center that is a division of HRMC.
- Cape Canaveral Hospital, Inc. (CCH) – a tax-exempt, 150-bed acute care hospital and home health agency.
- Viera Hospital (VH) – a tax-exempt, 84-bed acute care hospital.
- Health First Health Plans, Inc., Health First Administrative Plans, Inc., and Health First Commercial Plans, Inc., all tax-exempt entities, collectively doing business as Health First Health Plans (HFHP). HFHP operates a Medicare health maintenance organization and a commercial health maintenance organization offering individual plans.
- Health First Medical Group, LLC (HFMG), Health First Physicians, Inc. (HFPI) and Health First Medical Management, Inc. (HFMM) – taxable entities providing a system of primary care centers, specialty and ancillary services, as well as physician practice management services.
- Hospice of Health First, Inc. (HHF) – a tax-exempt entity that provides care for terminally ill individuals.
- Health First Foundation, Inc. (HFF) – a tax-exempt entity that performs philanthropic activities.
- Other affiliated organizations include Health First Holding Corp. (HFHC); Holmes Regional Enterprises, Inc. (HRE); Viera Medical Plaza at Viera Health Park (VMOB); Health First Insurance, Inc. (HFII); Cape Health Properties, Inc. (CHP), a subsidiary of CCH; Health First Family Pharmacy (HFFP), a division of HRMC; Doctor's GI Partnership, LTD. (DGP); Doctor's Surgical Partnership, LLC (DSP); Space Coast Indemnity (SCI); and taxable entities that manage health care-related and/or other businesses and professional services.

HFSS is the sole member or owner of each of the above entities except for CHP and DGP and controls the multi-entity structure through appointment by the Board of Trustees (Board) and approval of all major transactions. HFI and HFSS are referred to herein collectively as the Corporation.

Consolidation: The accompanying consolidated financial statements (collectively the financial statements) include the accounts of the Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Transactions: Effective January 3, 2020, Adventist Health System Sunbelt Healthcare Corporation, d/b/a AdventHealth, acquired a noncontrolling interest in HFSS and its controlled entities. AdventHealth received board representation on the Corporation's Board based on its noncontrolling interest. AdventHealth paid $125,000 at closing with two remaining installments due totaling $225,000. AdventHealth paid the first installment of $125,000 on June 30, 2021. The remaining $100,000 is due June 30, 2023.

Note 2. Significant Accounting Policies

Use of estimates: The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (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.

As of September 30, 2021, the Corporation completed a study of property and equipment, as well as the estimated useful lives used to depreciate the cost of the various assets within the periods of expected use. The study resulted in an adjustment to the useful lives used to depreciate the costs of the various assets, which could either be longer or shorter. The new useful lives were determined by incorporating the actual historical life experiences of the various assets. The change in useful lives resulted in a decrease in depreciation totaling approximately $9,300 for the year ended September 30, 2021. See Note 2, property and equipment, for information on accelerated depreciation related to the relocation of CCH.

Financial statement presentation: The Corporation conforms to the requirements of the Presentation of the Financial Statements—Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), which establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into two net asset categories, without donor-imposed restrictions and with donor-imposed restrictions.

- ***Net assets without donor restrictions:*** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation.

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

Cash and cash equivalents: The Corporation classifies all highly liquid investments with an original maturity of 90 days or less when purchased as cash and cash equivalents, excluding amounts limited as to use by Board designation or other arrangements under trust agreements. Cash deposits are federally insured in limited amounts.

Investments and investment income: The Corporation conforms to the requirements of the Investments—Not-for-Profit Entities Topic of the FASB ASC. In accordance with those requirements, investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value in the consolidated balance sheets. Unrealized and realized gains are reported in investment income in nonoperating gains and losses. Debt securities are classified as trading.

Assets limited as to use: Assets limited as to use primarily include assets held by trustees under bond indenture agreements and designated assets set aside by the Board for malpractice and other obligations, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Corporation are reported as current assets, see Note 5.

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

Note 2. Significant Accounting Policies (Continued)

Property and equipment: Property and equipment are stated at cost or, if donated, at fair value at the date of the gift. Expenditures that materially increase values, change capacities or extend useful lives are capitalized, as are interest costs during the period of construction for such expenditures. Depreciation is computed utilizing the straight-line method at rates estimated by management to amortize the cost of the various assets within the periods of expected use. Amortization of assets recorded under finance leases is included in depreciation and amortization expense and accumulated depreciation and amortization.

During the year ended September 30, 2020, the Corporation adopted a restructuring plan to relocate CCH and demolish the buildings. As a result, the amortization of the remaining net book value of the assets that will be abandoned had been accelerated starting in 2020 to continue through 2023. As of September 30, 2021, the amortization estimate was updated for acceleration to continue through calendar year 2024, totaling $5,653. As of September 30, 2022, the amortization estimate has been updated for acceleration to continue through calendar year 2026, totaling $1,432. The change in timeline and accelerated depreciation is due to supply and inflationary constraints.

Impairment of long-lived assets: The Corporation reviews long-lived assets to be held and used, including intangible assets, for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such evaluation relies on a number of factors, including operating results, future anticipated cash flows, business plans and certain economic projections. In addition, the Corporation's evaluation considers nonfinancial data, such as changes in operating environment and business relationships. If the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset, the Corporation recognizes an impairment loss. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, the Corporation estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset. For the years ended September 30, 2022 and 2021, there were no impairments of long-lived assets.

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 businesses acquired. These amounts are evaluated annually for impairment or when there is an indicator of impairment. In accordance with ASC Topic 350, in performing the annual assessment, the Corporation chose to complete a qualitative assessment to determine whether it is more likely than not that the fair value of its reporting unit is less than the carrying amount. Management has determined that it is not more likely than not that the fair value of the Corporation's reporting unit is less than the carrying amount. Therefore, the impairment test under ASC Topic 350 was not required.

Leases: The Corporation has operating and finance leases for real estate and equipment. The Corporation determines if an arrangement is a lease at the inception of a contract. Lease assets and lease liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. The Corporation uses a risk-free rate for operating leases based on the daily treasury yield curve at lease commencement in determining the present value of lease payments. Operating fixed lease expense and finance lease depreciation expense are recognized on a straight-line basis over the lease term.

Note 2. Significant Accounting Policies (Continued)

Right-of-use (ROU) assets represent the Corporation's right to use an underlying asset during the lease term and lease liabilities represent the Corporation's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities of approximately $41,300 and $11,300 at September 30, 2022 and 2021, respectively, are included in other assets, accounts payable and accrued liabilities, and other noncurrent liabilities in the consolidated balance sheets, see Note 12. Finance lease assets are included in property and equipment, net, and the related liabilities are included in long-term debt and finance lease obligations in the consolidated balance sheets, see Note 11. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments.

The Corporation's leases include one or more options to renew, the exercise of such lease renewal options is at the Corporation's sole discretion. The renewal term is included in the lease liability only when it is reasonably possible the Corporation will exercise the option. Leases with a lease term of 12 months or less at commencement are not recorded on the consolidated balance sheets.

The Corporation has lease agreements which require payments for lease and non-lease components and has elected to account for these as combined lease components, except on certain equipment leases. For leases that commenced before the effective date of Accounting Standards Update (ASU) 2016-12, the Corporation elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

Deferred loan costs: Costs incurred in obtaining long-term debt are being amortized by a method approximating the effective interest method over the life of the loan and are included in the consolidated balance sheets within long-term debt and finance lease obligations.

Collaborative arrangements: The Corporation has a collaborative arrangement with AdventHealth. The agreement is intended to allow AdventHealth to share in any savings generated through improved efficiencies in the management and coordination of the delivery of health care services rendered to individuals located in counties with AdventHealth hospitals and covered under an HFHP product. The agreement allows for any deficiency under a contract awarded by the Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS) or health maintenance contract in the central region of Florida to be paid by AdventHealth to the Corporation. Any overage under a CMS awarded contract or health maintenance contract in the central region of Florida is to be paid by the Corporation to AdventHealth. For the years ended September 30, 2022 and 2021, the collaborative arrangement with AdventHealth resulted in an overage of $1,532 and $7,441, respectively. Due to the collaborative arrangement, $1,863 and $0 at September 30, 2022 and 2021, respectively, is included in other receivables and $2,368 and $5,958 respectively, is included in accounts payable and accrued liabilities in the consolidated balance sheets.

Contributions: The Corporation records contributions in accordance with the Revenue Recognition—Not-for-Profit Entities Topic of the FASB ASC, which establishes accounting standards for contributions for donees (and donors) and generally requires unconditional promises to give cash and other assets (including multi-year promises) to be recognized at fair value as revenue and expenses in the period made.

Noncash contributions are valued at fair value on the date of the gift. Contributions are reported with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the assets are reclassified as without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions for operations or capital.

Note 2. Significant Accounting Policies (Continued)

Net assets with donor restrictions are primarily available for property and equipment purchases and support of specific programs administered by HRMC, CCH, PBH, VH and HHF. The Corporation does not have net assets with donor restrictions that are perpetual in nature.

(Deficiency) excess of revenues, other support and gains over expenses and losses: The consolidated statements of operations and changes in net assets include (deficiency) excess of revenues, other support and gains over expenses and losses. Changes in net assets without donor restrictions that are excluded from excess of revenues, other support and gains over expenses and losses include changes in noncontrolling interest, contributions of long-lived assets, including assets acquired using contributions that, by donor restriction, were to be used for the purpose of acquiring such assets.

Patient service revenue: The Corporation reports patient service revenue at the amount that reflects the consideration to which the Corporation expects to be entitled to in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive adjustments due to settlement of audits, reviews and contractual agreements. Generally, the Corporation bills the patients and third-party payors several days after the services are performed or after the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Corporation believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in outpatient centers. The Corporation measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and the Corporation does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to short-duration contracts, the Corporation has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction prices allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period.

The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Corporation is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to patient service revenue. The Corporation accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and similar nature and characteristics of the patients within each portfolio. As a result, the Corporation has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

Note 2. Significant Accounting Policies (Continued)

The Corporation recognizes patient service revenue associated with patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, revenue is recognized on the basis of discounted rates and implicit price concessions in accordance with the Corporation's policy. Implicit price concessions represent differences between amounts billed and the estimated consideration the Corporation expects to receive from patients, which are determined based on historical collection experience, current market conditions and other factors. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies and historical experience.

Agreements with third-party payors provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic or other factors. Certain services are paid based on a cost-reimbursement methodology subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

- **Medicaid:** Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of services or per covered member.

- **Other:** Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation as well as significant regulatory action. The Corporation is subject to contractual reviews and audits in the normal course of business, as a result, there is at least a reasonable possibility that recorded estimates will change in the near term. The Corporation believes it is in compliance with applicable laws and regulations governing the Medicare and Medicaid programs and that adequate provisions have been made for any adjustments that may result from final settlements.

Settlements with third-party payors for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historic settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such reviews and audits. Adjustments to revenue related to prior periods as a result of settled cost reports and changes in estimates increased patient services revenue $20,716 and $7,079 for the years ended September 30, 2022 and 2021, respectively.

(Dollars in Thousands)

Note 2. Significant Accounting Policies (Continued)

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Bad debt expense for the years ended September 30, 2022 and 2021 was not significant.

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

Patient service revenue by service line and major payor source for the years ended September 30, 2022 and 2021, are as follows:

	2022	2021
Hospital inpatient	$ 674,833	$ 617,019
Hospital outpatient	383,974	345,404
Physician services	338,454	319,623
Wellness	54,050	57,965
Eliminations*	(280,390)	(308,954)
Service line	$ 1,170,921	$ 1,031,057

	2022	2021
Medicare	$ 626,976	$ 592,405
Medicaid	55,196	58,112
Managed care	537,533	451,550
Other	231,606	237,944
Eliminations*	(280,390)	(308,954)
Payor source	$ 1,170,921	$ 1,031,057

*Eliminations relate to activity associated with HFHP.

The Corporation has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Note 2. Significant Accounting Policies (Continued)

Direct Payment Program: The Florida Medicaid Supplemental – Direct Payment Program (DPP) was approved in Florida during the year ended September 30, 2021 and continues to be in effect on September 30, 2022. The Corporation recorded a receivable of $14,045 and $10,012 in connection with this program at September 30, 2022 and 2021, respectively. As part of DPP, the Corporation was required to make enabling payments of $7,854 and $8,829, for the years ended September 30, 2022 and 2021, respectively, and this expense is included within supplies and other expenses in the consolidated statements of operations and changes in net assets. The DPP had a positive net impact on the Corporation's (loss) income from operations totaling $11,690 and $3,473, at September 30, 2022 and 2021, respectively. The revenue associated with this program is recorded within net patient service revenue and expenses, within supplies and other expenses in the consolidated statements of operations and changes in net assets. The DPP is governed by CMS and is subject to CMS audits.

Charity care: The Corporation provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, these amounts are not included in patient service revenue. The Corporation 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. Funding received to offset or subsidize charity services provided was de minimis for the years ended September 30, 2022 and 2021.The cost of providing charity care was $36,952 and $37,658 for the years ended September 30, 2022 and 2021, respectively.

Premium revenue: Commercial membership contracts are written to groups on a yearly basis subject to cancellation by the employer group according to the termination provision of the contract. Medicare membership contracts are written to individuals and may be terminated by the member at any time. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to members. Approximately 66% and 61% of total premiums was received under the Medicare Program, and 34% and 39% was received from contracts with other employer groups during the years ended September 30, 2022 and 2021, respectively.

The Medicare program, administered by CMS, uses risk-adjusted rates per member to determine the monthly payments to HFHP. The CMS risk adjustment model pays more for members with increasing health severity. The monthly risk-adjusted premium per member is determined by CMS based on normalized risk scores of each member from the prior year.

Annually, CMS provides the updated risk scores to HFHP and revises premium rates prospectively. CMS also calculates the retroactive adjustments to premiums related to the revised risk scores. Risk adjustment payments due to or from CMS are estimated throughout the year and are recognized as adjustments to premium revenue. HFHP's Medicare plan offers prescription drug benefits under Part D of the Medicare federal health insurance program to individuals eligible for benefits under Part A and Part B.

Premiums for members are subject to risk corridor provisions. Risk corridor payments due to or from CMS are estimated throughout the year and are recognized as adjustments to premium revenue. After the close of the year, CMS reconciles actual experience to a target amount, and any differences are settled between CMS and HFHP. HFHP had a receivable for estimated Part D risk corridor payments of $1,563 and $3,040 at September 30, 2022 and 2021, respectively.

Payments received from CMS also include low-income subsidy payments and reinsurance payments. Low-income subsidy payments and reinsurance payments are not included in premium revenue, and related claims incurred are excluded from the medical services expenses.

(Dollars in Thousands)

Note 2. Significant Accounting Policies (Continued)

Because amounts received from CMS are subject to the reconciliation and retroactive adjustment processes described above, it is at least reasonably possible that the premiums and the amounts due from or to CMS in the near term could differ materially from the amounts included in the consolidated financial statements. Retroactive adjustments are de minimis for the years ended September 30, 2022 and 2021.

As of September 30, 2022 and 2021, HFCP had estimated receivables of $19,212 and $16,378, respectively, related to the Affordable Care Act risk adjustment program. The risk adjustment program transfers premiums from insurers that enroll members with relatively lower health risks to insurers that enroll members with relatively higher health risks and, therefore, are recorded as premium revenue in operations.

Functional expenses: Expenses are allocated based on key drivers that are consistently applied. Salaries and benefits are allocated based on salary expenses or hours worked. Supplies and other, which include professional services, office expenses, information technology and other similar expenses, are allocated based on a variety of factors including patient service revenue, premium revenue, medical claims volume and membership. The expenses reported in the consolidated statements of operations and changes in net assets were incurred for the following programs and functions:

	2022					
	Healthcare Services	Insurance Services	General and Administrative	Fundraising	Eliminations	Total
Salaries and benefits	$ 681,013	$ 41,638	$ 147,944	$ 1,205	$ (22,080)	$ 849,720
Supplies and other	799,177	105,737	166,756	701	(292,773)	779,598
Medical service	-	259,009	33,939	-	-	292,948
Depreciation and amortization	40,465	-	24,938	-	-	65,403
Interest	22,902	-	2,672	-	-	25,574
Total	$ 1,543,557	$ 406,384	$ 376,249	$ 1,906	$ (314,853)	$ 2,013,243

	2021					
	Healthcare Services	Insurance Services	General and Administrative	Fundraising	Eliminations	Total
Salaries and benefits	$ 585,907	$ 52,699	$ 143,551	$ 1,234	$ (26,329)	$ 757,062
Supplies and other	729,237	78,877	131,922	684	(279,028)	661,692
Medical service	-	291,416	10,976	-	-	302,392
Depreciation and amortization	42,369	-	25,326	-	-	67,695
Interest	16,664	-	2,449	-	-	19,113
Total	$ 1,374,177	$ 422,992	$ 314,224	$ 1,918	$ (305,357)	$ 1,807,954

Advertising: The Corporation incurs advertising and marketing expense in the normal course of business. These expenses are expensed when incurred. For the years ended September 30, 2022 and 2021, advertising expense was $10,498 and $9,780, respectively, and is included in other operating expenses in the accompanying consolidated statements of operations and changes in net assets.

(Dollars in Thousands)

Note 2. Significant Accounting Policies (Continued)

Claims payable: Claims payable are recorded in accounts payable and accrued liabilities in the consolidated balance sheets and represent the amount of payments to be made on individual claims that have been reported to HFHP or HFII, as well as estimates of claims incurred that have not yet been reported as of the consolidated balance sheet dates. Claims payable are estimated using various statistical methods that use both historical financial and operating data. Although considerable variability is inherent in such estimates, management believes that the liabilities for unpaid claims are reasonable. Adjustments to claims payable to reflect actual experience, if any, are reflected in the consolidated statements of operations and changes in net assets in the period in which such adjustments become known to management. Due to uncertainties inherent in the claims estimation process, it is at least reasonably possible that the claims paid in the near term could differ materially from the accrued amounts. Management believes that the recorded liability is adequate.

The following table shows the components of change in unpaid claims liabilities included in accounts payable and accrued liabilities, net of reinsurance recoverables, for the years ended September 30:

	2022	2021
Unpaid claim liabilities, at beginning of period	$ 60,954	$ 53,659
Incurred losses:		
Current year	331,954	383,491
Prior years	(2,315)	(17,174)
Payments for claims, net of reinsurance:		
Current year	(273,266)	(322,537)
Prior years	(58,639)	(36,485)
Unpaid claim liabilities, at end of period	$ 58,688	$ 60,954

For the years ended September 30, 2022 and 2021, incurred losses for the period decreased by $2,315 and $17,174, respectively, due to prior year claims experience. The decreased claims experience and related liability were due to uncertainty surrounding the COVID-19 pandemic and volatile claim trends.

On January 21, 2021, the Corporation entered into a services agreement with a subsidiary of Oscar Health, Inc. (Oscar). Under the agreement, Oscar agreed to perform certain administrative functions and services for HFHP and to provide HFHP's individual, commercial, and Medicare Advantage members with access to Oscar's technology platform, beginning January 1, 2022. As a result of the agreement, there was a change in timing of payments and an increase in unpaid claims liabilities at September 30, 2022. Unpaid claims liabilities include incurred but not reported (IBNR) of $50,544 and $45,377 at September 30, 2022 and 2021, respectively. Substantially all of the IBNR balance as of September 30, 2022 and 2021, relates to each respective period. As of September 30, 2022, the Corporation intends to terminate the agreement and transition the services from Oscar to the Corporation, effective January 1, 2023.

Medical service expense: HFHP and HFII contract with various health care providers for the provision of certain medical care services to its members. Medical services consist partially of inpatient and outpatient hospital services and pharmacy. Hospital services are paid on a fee-for-service, capitation and fixed-rate basis. The provision for medical services includes estimates of payments to be made on health care services reported as of the consolidated balance sheet dates and estimates of health care services rendered but not reported to HFHP and HFII as of the consolidated balance sheet dates. Medical service liabilities are reviewed and adjusted periodically. As adjustments are made, differences are included in current operations.

Note 2. Significant Accounting Policies (Continued)

Medical loss ratio: Under health care reform, the medical loss ratio (MLR) reporting requirements require the Corporation to submit a report concerning the ratio of the incurred loss to earned premiums as adjusted for various items. This regulation is intended to provide consumers with information needed to better understand how much of the premium paid is used to reimburse providers for covered services, to improve health care quality and to pay for administrative expenses. The Corporation is required to provide an annual rebate to enrollees, if the medical loss ratio falls below the minimum requirements of 85% in the large group market and 80% in the small group or individual markets. The Corporation does not anticipate being required to pay a rebate for the years ended September 30, 2022 or 2021.

Estimated malpractice costs: The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, as determined through actuarial analysis.

Income taxes: The Corporation and its tax-exempt affiliates are generally exempt from federal and state income taxes applicable under Section 501(a), as organizations described in Section 501(c)(3) and 501(c)(4) of the Internal Revenue Code, and Section 220.13 of the Florida Statutes.

The taxable affiliates, except CHP, file a consolidated income tax return under HFHC for both federal and state income tax purposes. The provision for income taxes and income taxes paid included in these consolidated financial statements is not significant. The consolidated income tax returns for the tax years ended September 30, 2019 through 2021 are still subject to federal and state income tax examination.

At September 30, 2022 and 2021, HFHC had net deferred tax assets of $138,111 and $114,216, respectively, tax effected at a rate of 25.35% and 24.52%, respectively. At September 30, 2022 and 2021, HFHC had $526,761 and $451,793, respectively, of net operating loss carryforwards. A valuation allowance has been provided to offset the full amount of the deferred tax assets as of September 30, 2022 and 2021, since management determined that it is more likely than not that the benefit of the deferred tax assets will not be realized in future years.

ASC Topic 740, Income Taxes, prescribes the accounting for uncertainty in income tax positions recognized in financial statements. ASC Topic 740 provides guidance for recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return.

Other revenue: Other revenue primarily consists of Administrative Service Organization (ASO) fee revenue associated with HFHP, Management Services Organization (MSO) lease revenue, PH membership fees, other grants, and Low Income Pool (LIP) payments to the hospital division. Provider relief funds (PRF) and rural provider relief funds (RPRF) received from the Coronavirus Aid, Relief, and Economic Security (CARES Act) are also included in other revenue.

For the year ended September 30, 2022, the Corporation received $10,061 in PRF and RPRF as part of the provisions in the American Rescue Plan (ARP) Act of 2021. The ARP Act was signed into law on March 11, 2021, in response to the continued impact to the COVID-19 pandemic.

For the year ended September 30, 2021, the Corporation received $62,196 in PRF as part of the CARES Act. The CARES Act was signed into law on March 27, 2020, in response to the initial impact of the COVID-19 pandemic.

(Dollars in Thousands)

Note 2. Significant Accounting Policies (Continued)

Payments are intended to compensate healthcare providers for lost revenues and expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using the funds to reimburse expenses or losses that other sources are obligated to reimburse.

The Corporation recognized PRF and RPRF of $9,895 and $42,900 as other revenue for the years ended September 30, 2022 and 2021, respectively. As of September 30, 2022 and 2021, $165 and $0, respectively, of PRF and RPRF received is included in accounts payable and accrued liabilities in the consolidated balance sheets. The Corporation's recognition of PRF and RPRF is based on guidance issued by the Department of Health and Human Services. The Corporation continues to monitor compliance with the terms and conditions of the PRF and RPRF. Noncompliance with current or future terms and conditions could impact the ability to retain PRF and RPRF received.

Reclassifications: Certain reclassifications were made to the 2021 consolidated financial statements to conform to the classifications used in 2022. These reclassifications had no impact on the consolidated excess of revenue, other support and gains over expenses and losses, changes in net assets or cash flows previously reported.

Note 3. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows. See Note 5 for additional information on assets limited as to use.

	2022	2021
Cash and cash equivalents	$ 186,695	$ 321,990
Restricted cash held by trustee under bond indenture agreements – debt service and project funds	15,635	7,014
	$ 202,330	$ 329,004

(Dollars in Thousands)

Note 4. Investments

The composition of investments and assets limited as to use is presented below.

	2022	2021
Cash and cash equivalents	$ 302,492	$ 15,634
Domestic equity securities	319,430	448,348
U.S. treasury and agency obligations	203,007	207,988
U.S. corporate bonds	140,053	143,251
International equity securities	88,239	130,575
Real estate investment trust	55,139	45,651
International bonds	151	362
Asset-backed securities	32,486	12,036
Municipal bonds	10,065	10,271
Government asset-backed securities	5,584	7,679
Other	4,613	5,423
	$ 1,161,259	$ 1,027,218

Unrestricted investment income comprises the following for the years ended September 30:

	2022	2021
Interest income	$ 19,939	$ 16,644
Realized gain on sales of securities, net	32,663	15,169
Unrealized (loss) gain on equity securities, net	(193,250)	86,508
Unrealized loss on trading securities, net	(16,884)	(2,772)
	$ (157,532)	$ 115,549

Note 5. Assets Limited as to Use

Assets limited as to use are comprised of the following for the years ended September 30:

	2022	2021
Board designated for malpractice and other obligations	$ 46,595	$ 32,001
Cash and investments held by trustee under bond indenture agreements – debt service	15,635	7,014
Cash and investments held by trustee under bond indenture agreements – project funds	260,972	-
Board designated for the HFF	7,190	7,464
Other	4,811	5,624
	335,203	52,103
Less amounts required to meet current obligations	27,311	18,703
	$ 307,892	$ 33,400

(Dollars in Thousands)

Note 6. Liquidity

The Corporation regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. The Corporation has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable and investments. Board designated funds for the HFF are available with approval. As of September 30, 2022, the following financial assets are available to meet annual operating needs of the 2023 fiscal year:

	2022
Cash and cash equivalents	$ 186,695
Investments	826,056
Accounts receivable	154,004
Board designated for the HFF	7,190
Total	$ 1,173,945

Note 7. Other Assets

The composition of other assets is as follows for the years ended September 30:

	2022	2021
Collateral assignment split-dollar agreement	$ 38,657	$ 32,789
Investment in joint ventures	17,519	15,642
Operating lease right-of-use assets	40,908	11,169
Other	20,545	4,190
	$ 117,629	$ 63,790

The Corporation has entered into a collateral assignment split-dollar arrangement. The Corporation fully funded the premium on the life insurance policies. The split-dollar insurance agreements are stated at fair value. For the years ended September 30, 2022 and 2021, the Corporation reported $819 and $730, respectively, in earnings which is included in investment income on the consolidated statements of operations and changes in net assets.

The Corporation accounts for its investments in joint ventures in accordance with the Investments – Equity Method and Joint Ventures Topic of the FASB ASC. Accordingly, the Corporation records an investment in the net assets of the joint venture at cost and adjusts the carrying amount of the investment to recognize the Corporation’s share of the income or losses of the joint venture after the date of acquisition. The Corporation’s share of income from joint venture for the years ended September 30, 2022 and 2021 was $3,491 and $3,484, respectively.

(Dollars in Thousands)

Note 7. Other Assets (Continued)

Sea Pines Rehabilitation Hospital Limited Partnership (SPRH), doing business as Encompass Health Corporation (EHC) in which the Corporation has a 25% interest, is the Corporation's significant unconsolidated subsidiary that is accounted for using the equity method of accounting. Summarized financial information for the Corporation's investment in SPRH as of and for the years ended September 30, 2022 and 2021, without regard to ownership interest, is as follows:

	2022	2021
Balance sheets:		
Current assets	$ 10,440	$ 9,040
Noncurrent assets	13,439	13,247
Total assets	$ 23,879	$ 22,287
Current liabilities	$ 5,502	$ 4,172
Partners' capital	18,377	18,115
Total liabilities and partners' capital	$ 23,879	$ 22,287

	2022	2021
Statements of operations:		
Net operating revenues	$ 37,710	$ 32,759
Operating expenses	31,099	28,061
Net income	$ 6,611	$ 4,698

The Corporation has a joint venture partnership with Privia Health, LLC (Privia) which resulted in the formation of Privia Medical Services Organization, LLC (MSO). The joint venture partnership with Privia allows the Corporation to utilize the MSO services and technology to improve healthcare delivery. Services provided by the MSO include telehealth enhanced technology tools and population health services. In addition, the MSO contracts with the Corporation for certain services and leased employees. The Corporation has a 49% interest in the MSO and it is accounted for using the equity method of accounting.

For the years ended September 30, 2022 and 2021, the agreements with the MSO resulted in revenues of $32,520 and $12,086, respectively, and expenses of $36,850 and $35,326 respectively. As a result of the agreements with the MSO, $20,993 and $15,625 at September 30, 2022 and 2021, respectively, is included in other current assets and $16,588 and $13,635, respectively, is included in accounts payable and accrued liabilities in the consolidated balance sheets.

(Dollars in Thousands)

Note 7. Other Assets (Continued)

Summarized financial information for the Corporation's investment in the MSO as of and for the years ended September 30, 2022 and 2021, without regard to ownership interest, approximates:

	2022	2021
Balance sheets:		
Current assets	$ 25,039	$ 8,517
Total assets	$ 25,039	$ 8,517
Current liabilities	$ 23,822	$ 8,131
Partners' capital	1,217	386
Total liabilities and partners' capital	$ 25,039	$ 8,517

	2022	2021
Statements of operations:		
Net operating revenues	$ 34,203	$ 22,301
Operating expenses	33,372	21,915
Net income	$ 831	$ 386

Note 8. Property and Equipment

A summary of property and equipment is as follows for the years ended September 30:

	2022	2021	Useful Lives (Years)
Land and improvements	$ 105,642	$ 100,305	2-50
Buildings and improvements	970,869	928,316	2-80
Fixed equipment and major movable equipment	701,821	675,013	2-30
	1,778,332	1,703,634	
Less allowances for depreciation and amortization	1,065,792	1,009,219	
	712,540	694,415	
Construction in progress	61,890	48,928	
	$ 774,430	$ 743,343	

Construction in progress at September 30, 2022, represents costs incurred to date related to construction and renovation projects expected to be completed over the next five years. At September 30, 2022, the estimated cost to complete construction and renovation projects in progress is approximately $101,668 which will be funded principally from operations.

(Dollars in Thousands)

Note 8. Property and Equipment (Continued)

The Cape Canaveral Hospital District (District) was created under the laws of the state of Florida on August 18, 1959, and includes a special tax district in Brevard County, Florida. The District was re-created by Chapter 2003-337, Laws of Florida, which codified all special acts related to the District. The District leases the hospital facility and operating assets to CCH. CCH makes payments to the District sufficient to pay the principal and interest on the District's outstanding obligations. The assets and liabilities of CCH revert to the District upon completion of the lease term in 2039. The District may levy taxes upon all real and personal taxable property in the District, not to exceed 2.25 mills annually. The District did not levy taxes for either of the years ended September 30, 2022 or 2021.

The future minimum lease payments at September 30, 2022, under the finance lease obligation with the District are de minimis.

A summary of assets under the finance lease with the District included in property and equipment is as follows for the years ended September 30:

	2022	2021
Land and improvements	$ 3,296	$ 3,273
Buildings and improvements	117,921	116,996
Fixed equipment and major movable equipment	94,088	93,697
	215,305	213,966
Less allowance for amortization	181,428	174,848
	33,877	39,118
Construction in progress	1,557	485
	$ 35,434	$ 39,603

Note 9. Goodwill

The changes in the carrying amount of goodwill were as follows for the years ended September 30:

	2022	2021
Goodwill, beginning of period	$ 29,743	$ 29,743
Acquisitions (see Note 10)	4,245	-
Goodwill, end of period	$ 33,988	$ 29,743

Note 10. Business Combinations

In October 2021, the Corporation acquired an orthopedic practice which resulted in goodwill of $225.

In April 2022, the Corporation acquired an orthopedic practice and surgery center which resulted in goodwill of $4,020.

Goodwill recognized as part of the transactions described above is expected to be deductible for tax purposes.

(Dollars in Thousands)

Note 11. Long-Term Debt and Finance Lease Obligations

Long-term debt and finance lease obligations are as follows for the years ended September 30:

	2022	2021
Health Facilities Revenue Bonds, Series 2022A, interest payable semi-annually at fixed rates between 4.00% and 5.00%, including unamortized premium of $42,749 and $0 respectively, due April 2052.	$ 430,979	$ -
Term loan with two lenders, secured by certain assets of the Corporation, interest payable monthly at a fixed rate of 4.49%, due March 2038.	107,350	112,076
Term loans with a financial institution, secured by revenues of the Obligated Group, interest payable monthly at a variable rate, due February 2023.	-	27,759
Term loan with a financial institution, secured by revenues of the Obligated Group, interest payable monthly at a variable rate, due September 2030.	-	14,125
Term loan with a financial institution, secured by revenues of the Obligated Group, interest payable monthly at a variable rate, due November 2026.	-	53,000
Health Facilities Revenue Refunding Bonds, Series 2014, interest payable semi-annually at fixed rates between 3.00% and 5.00%, including unamortized premium of $13,880 and $14,998, respectively, due April 2039.	248,390	254,057
Health Facilities Revenue Bonds, Series 2013A, interest payable semi-annually at fixed rates between 3.00% and 5.00%, including unamortized premium of $2,632 and $3,226, respectively, due April 2031.	53,447	59,091
Health Facilities Revenue Bonds, Series 2012A, interest payable monthly at a fixed rate of 2.29%, due December 2021.	-	862
Health Facilities Revenue Bonds, Series 2009A, interest payable monthly at a fixed rate of 3.79%, due July 2029.	-	32,375
Finance lease obligations	5,517	7,237
Issue costs, net	(5,478)	(2,565)
Total long-term debt and finance lease obligations	840,205	558,017
Less current maturities	(17,026)	(24,813)
	$ 823,179	$ 533,204

A Master Trust Indenture (MTI), dated May 15, 2001, and modified in April 2022, covers all bonds issued and outstanding by HFSS, HRMC, CCH and VH (collectively, the Obligated Group) at September 30, 2022 and 2021. Under the MTI, all members of the Obligated Group are jointly and severally liable for the obligation covered by the MTI. In addition, all revenues of the Obligated Group are pledged as security for the payment of the obligations outstanding under the MTI. At September 30, 2022, total debt outstanding related to the MTI totaled $673,555.

(Dollars in Thousands)

Note 11. Long-Term Debt and Finance Lease Obligations (Continued)

The MTI provides for specific restrictive covenants, including a debt service coverage requirement. The Corporation was in compliance with all such restrictive covenants at September 30, 2022 and 2021.

In March 2022, the Corporation repaid the term loans that were due on February 2023, September 2030, and November 2026.

In April 2022, pursuant to certain agreements between the Corporation and the Brevard County Health Facilities Authority (the Authority), the Authority issued $388,200 of fixed-rate Hospital Revenue Bonds (Series 2022A Bonds) for the benefit of the Corporation. The proceeds of the 2022A bonds will be used to fund the redemption of the 2009A Bonds, as well as the acquisition, construction, and equipping of certain improvements to the hospital facilities, including the construction of the new Cape Canaveral Hospital on Merritt Island, Florida. At the same time, the Authority also entered into two Forward Delivery Contracts related to $47,400 and $163,600 of fixed-rate Hospital Revenue Bonds, Series 2023A and Series 2024A bonds, respectively, for the benefit of the Corporation. The Series 2023A and Series 2024A bonds will be settled and delivered on February 2023 and February 2024, respectively. The Borrowers will use the proceeds of the Series 2023A and Series 2024A bonds together with other available funds to refund the Series 2013A and Series 2014 bonds, respectively.

Maturities of long-term debt, excluding finance leases, as of September 30, 2022, are as follows for each year:

2023	$	15,352
2024		16,184
2025		16,986
2026		17,834
2027		18,713
Thereafter		695,836

Interest expense approximates interest paid.

Note 12. Leases

Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Lease expense was $12,827 and $9,173 for the years ended September 30, 2022 and 2021, respectively. Finance lease expense was $2,119 and $1,830 for the years ended September 30, 2022 and 2021, respectively, which includes interest expense of $288 and $433, respectively.

Lease term and discount rates as of the year ended September 30, 2022, are as follows:

Weighted-average remaining lease term:		
Operating leases	6.8	years
Finance leases	3.2	years
Weighted-average discount rate:		
Operating leases	2.1%	
Finance leases	3.6%	

(Dollars in Thousands)

Note 12. Leases (Continued)

The following table summarizes the maturity of lease liabilities under finance and operating leases for the next five years and thereafter, as of September 30, 2022:

	Operating Leases	Finance Leases
2023	$ 6,804	$ 1,976
2024	6,612	1,971
2025	6,699	2,026
2026	6,338	329
2027	6,012	-
Thereafter	12,528	-
Total lease payments	44,993	6,302
Less imputed interest	3,372	785
Total lease liabilities	$ 41,621	$ 5,517

Cash flows related to leases approximates lease expense and is included in the consolidated statement of cash flows. The Corporation has intercompany operating leases that are eliminated in consolidation.

Note 13. Employee Benefit Plans

Retirement plan: The Corporation has a defined contribution plan covering all employees. The Corporation matches up to 8% of the employees' contribution at a 40% rate resulting in a maximum contribution by the Corporation of 3.2%. Eligible employees are allowed to contribute up to 75% of the eligible employees' gross wages not to exceed the maximum permissible standard deferral amount. This is in addition to any catch-up deferral amount for qualifying individuals. Effective January 1, 2022, the Corporation merged the HFMG retirement savings plan into the Corporation's defined contribution plan. Retirement plan expense was $10,986 and $7,368 for the years ended September 30, 2022 and 2021, respectively, and is included in salaries and benefits within the consolidated statements of operations and changes in net assets.

Employee health plans: The Corporation is self-funded for health benefits for substantially all employees. The self-funded benefits were administered by HFHP through December 31, 2021. Beginning January 1, 2022, the self-funded benefits were administered by an unrelated third-party administrator. Employee health benefits expense was $36,445 and $27,772 for the years ended September 30, 2022 and 2021, respectively, and is included in salaries and benefits within the consolidated statements of operations and changes in net assets.

(Dollars in Thousands)

Note 14. Malpractice Insurance Plan

During the year ended September 30, 2021, the Corporation established SCI to undertake and carry on the business of professional liability, general liability, product liability, and other kinds of insurance or reinsurance business. Beginning October 1, 2021, the wholly owned captive holds the organization’s self-insured retention. The Corporation, excluding HFMG, has a self-insured retention of $5,000 per claim with a $22,000 aggregate limit per policy year for general and professional liability insurance for the health care facilities in the Corporation. Both general and professional liability claims are covered by $55,000 in reinsurance above the self-insured limit with SCI. The Corporation also maintains a fully funded actuarial trust fund to cover the self-insured retention. Prior to October 1, 2021, the Corporation maintained a self-insured retention of $3,000 per claim with a $10,000 aggregate limit per policy year for general and professional liability insurance for the health care facilities in its system, placed with a domestic insurance company.

Management has recorded a liability for estimated losses from reported and unreported claims of the following as of September 30, 2022:

	2022	2021
Accounts payable and accrued liabilities	$ 14,781	$ 47,121
Other noncurrent liabilities	61,721	22,414
Total liability	$ 76,502	$ 69,535

Management, with the assistance of consulting actuaries, estimates claims liabilities at the present value of future claims payments using a discount rate of 4.00% and .06% at September 30, 2022 and 2021, respectively. Medical malpractice expense was $27,090 and $11,247 for the years ended September 30, 2022 and 2021, respectively, and is included in supplies and other in the accompanying consolidated statements of operations and changes in net assets.

Note 15. Commitments and Contingencies

Litigation: The Corporation is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management believes that these matters will be resolved without any additional material adverse effect on the Corporation’s future consolidated financial position, results of operations or cash flows.

On April 19, 2021, three individuals filed a class action complaint against the Corporation, in the Federal District Court for the Middle District of Florida. The class includes all similarly situated individuals and their health plans. The complaint has four counts: (1) Monopolization in violation of Section 2 of the Sherman Act, 15 U.S.C. §2; (2) Exclusive dealing in restraint of trade in violation of Section 1 of the Sherman Act, 15 U.S.C. §1; (3) Horizontal market division in violation of Section 1 of the Sherman Act; and (4) Monopolization in violation of Section 542.19 of the Florida Statutes. On April 21, 2021, the Court on its own review dismissed the action with leave to amend. On August 3, 2022, the Plaintiff’s filed an Unopposed Motion to Modify the Case Management and Scheduling Order. No Order has been issued yet. The Corporation believes the claims to lack substantial merit and will undertake an aggressive defense. The claims rest on contested facts and interpretations of fact. If the outcome of the litigation is adverse to the Corporation, the Corporation could incur material liabilities for damages or other adverse financial consequences.

Note 15. Commitments and Contingencies (Continued)

On June 3, 2019, two physicians filed a lawsuit in the Circuit Court for the Eighteenth Judicial Circuit in and for Brevard County, Florida against the Corporation and related entities alleging violations of the Florida Antitrust Act and other violations. The complaint has five counts: (1) Violation of the Florida Antitrust Act Sections 542.18, 542.22 and 542.23; (2) Violation of the Florida Antitrust Act Sections 542.19, 542.22 and 542.23; (3) Tortious Interference with Patients and Referral Sources; (4) Fraud in the Inducement Regarding Separation Agreements; and (5) Independent Tort of Conspiracy. On November 6, 2019, the Court heard oral arguments on the Corporation's motion to dismiss all claims without prejudice and entered an order to that effect on November 18, 2019.

On May 26, 2022, the two physicians filed a second amended complaint alleging violation of the Florida Antitrust Act and other violations. The second amended complaint has eight counts: (1) Violation of Florida Antitrust Act Section 542.18 (restraint of trade); (2) Violation of Florida Antitrust Act Section 542.19 (monopolization or attempted monopolization); (3) Violation of Florida Antitrust Act Section 542.18 (exclusive dealing); (4) Violation of Florida Antitrust Act Section 542.18 (group boycott); (5) Violation of Florida Antitrust Act Section 542.19 (conspiracy to monopolize); (6) Violation of Florida Antitrust Act Section 542.19 (monopoly leveraging); (7) Tortious Interference with Patients and Referral Sources; and (8) Independent Tort of Conspiracy. The Corporation's motion to dismiss the second amended complaint is currently pending. The first amended complaint dated November 2, 2020 has a projected trial date of November 2023. The Corporation believes the claims to be unfounded and will undertake an aggressive defense. If the outcome of the litigation is adverse to the Corporation, the Corporation could incur material liabilities for damages or other adverse financial consequences.

On August 27, 2015, the North Brevard County Hospital District (Parrish) filed a complaint against the Corporation and related entities alleging certain underpayments by Health First Health Plans to Parrish for services rendered to Health First Health Plan members, alleging violation of certain antitrust laws by attempting to monopolize the markets for medical oncology and radiology oncology services through the acquisition of Space Coast Cancer Center, and alleging tortious interference with the contractual relationships between Parrish and Parrish's employed physicians.

The Complaint has nine counts: (1) Breach of Contract; (2) Violation of Section 641.513(5), Florida Statutes, (payment for emergency services); (3) Unjust Enrichment; (4) Quantum Meruit; (5) Violation of the Florida Antitrust Act Section 542.23, Florida Statutes (Impermissible Merger in Restraint of Trade); (6) Violation of the Florida Antitrust Act Section 542.19, Florida Statutes (Attempted Monopolization of the Medical Oncology Physician Services and Radiation Oncology Physician Services Market); (7) Violation of the Florida Antitrust Act Section 542.18, Florida Statutes (Contract, Combinations, or Conspiracy in Restraint of Trade); (8) Tortious Interference with a Contract; and (9) Tortious Interference with an Advantageous Business Relationship.

The Complaint seeks damages for the breach of contract claims, an injunction prohibiting the acquisition of Space Coast Cancer Center by HFMG, or alternatively order the divestiture of Space Coast Cancer Center from HFMG, treble damages under Count VII, an injunction prohibiting the Corporation from interfering with Parrish's contractual relationship and from disparaging or making false statements regarding Parrish, and attorneys' fees and costs. The Corporation believes the claims to be unfounded and will undertake an aggressive defense. If the outcome of the litigation is adverse to the Corporation, the Corporation could incur material liabilities for damages or other adverse financial consequences.

Note 15. Commitments and Contingencies (Continued)

Guarantees: The Corporation has guaranteed the promissory note payments of a certain limited partnership in which the Corporation is a partner. The guaranteed promissory note had a balance as of September 30, 2022 and 2021, $1,216 and $1,352, respectively, and is due December 2030.

Note 16. Fair Value of Financial Instruments

As defined in ASC Topic 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that 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).

The three levels of the fair value hierarchy defined by ASC Topic 820 and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date.

Level 3: Pricing inputs include those that are significant to the fair value of the financial asset or financial 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 Corporation 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.

(Dollars in Thousands)

Note 16. Fair Value of Financial Instruments (Continued)

The following tables present the fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis as of September 30, 2022 and 2021:

	2022			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 186,695	$ 186,695	$ -	$ -
Investments:				
Domestic equity securities	319,430	319,430	-	-
U.S. treasury and agency obligations	189,928	133,444	56,484	-
U.S. corporate bonds	125,034	30,979	94,055	-
International equity securities	88,239	88,239	-	-
International bonds	151	-	151	-
Asset-backed securities	32,486	-	32,486	-
Municipal bonds	10,065	-	10,065	-
Government asset-backed securities	5,584	-	5,584	-
Total investments	770,917	572,092	198,825	-
Assets limited as to use:				
Cash and cash equivalents	302,492	302,492	-	-
U.S. treasury and agency obligations	13,079	8,275	4,804	-
U.S. corporate bonds	15,019	-	15,019	-
Other	4,613	4,613	-	-
Total assets limited as to use	335,203	315,380	19,823	-
	1,292,815	$1,074,167	$ 218,648	$ -
Investments measured at net asset value[1]:				
Real estate investment trust	55,139			
Total financial assets	$1,347,954			

(Dollars in Thousands)

Note 16. Fair Value of Financial Instruments (Continued)

	2021			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 321,990	$ 321,990	$ -	$ -
Investments:				
Domestic equity securities	446,852	446,852	-	-
U.S. treasury and agency obligations	195,472	154,673	40,799	-
U.S. corporate bonds	126,217	54,349	71,868	-
International equity securities	130,575	130,575	-	-
International bonds	362	-	362	-
Asset-backed securities	12,036	-	12,036	-
Municipal bonds	10,271	-	10,271	-
Government asset-backed securities	7,679	-	7,679	-
Total investments	929,464	786,449	143,015	-
Assets limited as to use:				
Cash and cash equivalents	15,634	14,734	900	-
Domestic equity securities	1,496	1,496	-	-
U.S. treasury and agency obligations	12,516	5,636	6,880	-
U.S. corporate bonds	17,034	-	17,034	-
Other	5,423	5,423	-	-
Total assets limited as to use	52,103	27,289	24,814	-
	1,303,557	$1,135,728	$ 167,829	$ -
Investments measured at net asset value[1]:				
Real estate investment trust	45,651			
Total financial assets	$1,349,208			
Financial liabilities:				
Interest rate swap agreements	$ 2,693	$ -	$ 2,693	$ -

[1] In accordance with Subtopic 820-10, as amended by ASU 2015-07, certain investments that are measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated balance sheets.

Interest rate swap liabilities are included in other noncurrent liabilities in the accompanying consolidated balance sheets.

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

Interest rate swaps: The fair value of the interest rate swap agreements was determined through the use of widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. The analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, such as interest rate curves.

Note 16. Fair Value of Financial Instruments (Continued)

In addition, credit valuation adjustments are included to reflect both the Corporation's nonperformance risk and the respective counterparty's nonperformance risk. The Corporation paid a fixed rate ranging from 2.29% to 3.79% and received cash flows based on 65% to 78% of the one-month London Interbank Offered Rate (LIBOR), plus a fixed spread. As of September 30, 2022, interest rate swap agreements have been terminated.

U.S. corporate bonds, U.S. Treasury and agency obligations, municipal bonds, asset-backed securities and government asset-backed securities: These securities were valued through the use of third-party pricing services and use of evaluated bid prices adjusted for specific bond characteristics and market sentiment.

The value of the real estate investment trust is primarily determined using net asset values, which approximate fair value, as determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth and other business and market sector fundamentals. The real estate investment trust does not have any unfunded commitments and has a redemption notice period of 90 days. The Corporation does not have any commitments to purchase additional shares of the real estate investment trust. The real estate investment trust adds additional diversification to the Corporation's portfolio while allowing for short-term redemption, as needed.

Note 17. Statutory Compliance

Health First Health Plans, Inc. and Health First Commercial Plans, Inc. (Health Plans): In compliance with the Application for a Certificate of Authority and Section 624.4085 of the Florida Statutes, the Health Plans must maintain a surplus over the amount produced by the risk-based capital requirements and formula. In addition, the Health Plans must maintain at all times a ratio of premium and risk revenue to capital and surplus not greater than ten to one. The Health Plans were in compliance with these requirements.

The Health Plans are required by Section 641.225(1) of the Florida Statutes to maintain at all times a minimum surplus in an amount that is the greater of $1,500, 10% of total liabilities, or 2% of total annualized premium revenue. The Health Plans were in compliance with this requirement.

The Health Plans are required by Section 641.35(9) of the Florida Statutes to maintain an amount equal to its required minimum surplus in coin or currency of the United States on hand or in the deposit in any solvent national or state bank, savings and loan association, or trust company, or in eligible securities or obligations. The Health Plans were in compliance with this requirement.

The Health Plans are required by Title 690-191.076 of the Florida Administrative Code to ensure that income from operations before federal income taxes is no less than 2% of total revenues. For the nine months ended September 30, 2022, the Health Plans were not in compliance with this requirement. Failure to meet this requirement would require the Health Plans to provide the Office of Insurance Regulation (OIR) a corrective action plan as part of its annual report filing. Management is closely monitoring compliance and anticipates meeting the requirement for the calendar year 2022.

Note 17. Statutory Compliance (Continued)

The OIR limits distributions of earnings or equity transfers to no more than 10% of statutory surplus from accumulated earnings in any one year unless prior approval is received from the Office. In addition to this payment, and to the extent accumulated statutory surplus exceeds the required amount, the Health Plans may make distributions out of their entire preceding fiscal year's net operating profits. With approval from the OIR to issue dividends in accordance with the Florida Administrative Code, HFCP distributed dividends of $0 and $5,714, and HFHP distributed dividends of $0 and $12,788, for the years ended September 30, 2022 and 2021, respectively.

The State of Florida requires the Health Plans to maintain a deposit with the Department of Financial Services for uncovered claims relating to nonparticipating providers. The Health Plans comply with this requirement by maintaining the required deposit of $720 and $719 as of September 30, 2022 and 2021, with the Department, which is included in other assets in the accompanying consolidated balance sheets.

Note 18. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to September 30, 2022 through December 28, 2022, the date the accompanying consolidated financial statements were issued.

Supplementary Information

Health First, Inc. and Subsidiaries

Consolidating Balance Sheet
Year Ended September 30, 2022
(Dollars in Thousands)

	Obligated Group[1]								
	Health First Shared Services, Inc.	Holmes Regional Medical Center, Inc. — Holmes Regional Medical Center	Holmes Regional Medical Center, Inc. — Palm Bay Hospital	Cape Canaveral Hospital, Inc.	Viera Hospital, Inc.	Total Obligated Group	Other Subsidiaries	Eliminations	Consolidated Total
Assets									
Current assets:									
Cash and cash equivalents	$ (185,711)	$ 324,943	$ 10,492	$ 394,523	$ 158,531	$ 702,778	$ (516,083)	$ -	$ 186,695
Investments	721,393	104,952	-	22,251	-	848,596	117,103	(139,643)	826,056
Current portion of assets limited as to use	27,111	-	-	-	-	27,111	200	-	27,311
Accounts receivable	840	92,858	22,107	22,239	21,286	159,330	39,343	(44,669)	154,004
Inventories	6,367	17,391	3,201	3,611	3,668	34,238	7,410	-	41,648
Prepaid expenses and other current assets	77,509	21,333	4,379	4,743	2,053	110,017	99,874	(21,294)	188,597
Total current assets	647,509	561,477	40,179	447,367	185,538	1,882,070	(252,153)	(205,606)	1,424,311
Assets limited as to use, less current portion	300,702	2,004	47	664	4	303,421	4,471	-	307,892
Property and equipment, net	154,000	247,099	70,687	35,434	95,268	602,488	171,942	-	774,430
Goodwill	8,812	4,344	-	-	-	13,156	20,832	-	33,988
Other assets	263,770	13,195	628	4,743	37,127	319,463	77,341	(279,175)	117,629
Total assets	$ 1,374,793	$ 828,119	$ 111,541	$ 488,208	$ 317,937	$ 3,120,598	$ 22,433	$ (484,781)	$ 2,658,250

(Continued)

[1]The Obligated Group includes certain subsidiaries that consolidate in accordance with U.S. GAAP. These subsidiaries represent less than 1% of total assets and revenues of the Obligated Group.

Health First, Inc. and Subsidiaries

Consolidating Balance Sheet (Continued)
Year Ended September 30, 2022
(Dollars in Thousands)

	Obligated Group[1]								
	Health First Shared Services, Inc.	Holmes Regional Medical Center, Inc. — Holmes Regional Medical Center	Holmes Regional Medical Center, Inc. — Palm Bay Hospital	Cape Canaveral Hospital, Inc.	Viera Hospital, Inc.	Total Obligated Group	Other Subsidiaries	Eliminations	Consolidated Total
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued liabilities	$ (109,273)	$ 123,444	$ 30,776	$ 37,513	$ 36,384	$ 118,844	$ 294,909	$ (74,811)	$ 338,942
Current portion of long-term debt and finance lease obligation	142,841	3,713	589	2,865	1,719	$ 151,727	4,942	(139,643)	17,026
Total current liabilities	33,568	127,157	31,365	40,378	38,103	270,571	299,851	(214,454)	355,968
Long-term debt and finance lease obligation, less current portion	104,063	174,378	27,864	324,559	89,984	720,848	102,331	-	823,179
Other noncurrent liabilities	83,292	11,518	2,651	10,420	39,466	147,347	50,015	(75,886)	121,476
Total liabilities	220,923	313,053	61,880	375,357	167,553	1,138,766	452,197	(290,340)	1,300,623
Net assets:									
Without donor restrictions	916,755	513,061	49,614	112,188	150,380	1,741,998	(434,235)	(194,441)	1,113,322
Noncontrolling interests in subsidiary	237,115	-	-	-	-	237,115	-	-	237,115
	1,153,870	513,061	49,614	112,188	150,380	1,979,113	(434,235)	(194,441)	1,350,437
With donor restrictions	-	2,005	47	663	4	2,719	4,471	-	7,190
Total net assets	1,153,870	515,066	49,661	112,851	150,384	1,981,832	(429,764)	(194,441)	1,357,627
Total liabilities and net assets	$ 1,374,793	$ 828,119	$ 111,541	$ 488,208	$ 317,937	$ 3,120,598	$ 22,433	$ (484,781)	$ 2,658,250

[1]The Obligated Group includes certain subsidiaries that consolidate in accordance with U.S. GAAP. These subsidiaries represent less than 1% of total assets and revenues of the Obligated Group.

Health First, Inc. and Subsidiaries

Consolidating Statement of Operations
Year Ended September 30, 2022
(Dollars in Thousands)

	Obligated Group[1]								
	Health First Shared Services, Inc.	Holmes Regional Medical Center, Inc. — Holmes Regional Medical Center	Holmes Regional Medical Center, Inc. — Palm Bay Hospital	Cape Canaveral Hospital, Inc.	Viera Hospital, Inc.	Total Obligated Group	Other Subsidiaries	Eliminations	Consolidated Total
Unrestricted revenues and other support:									
Patient service revenue	$ 2,171	$ 597,104	$ 153,634	$ 171,906	$ 162,866	$ 1,087,681	$ 363,043	$ (279,803)	$ 1,170,921
Premium revenue	-	6,508	1,506	8,883	3,454	$ 20,351	672,137	(20,298)	672,190
Income from joint ventures	1,287	2,160	-	44	-	3,491	243	(243)	3,491
Other revenue	249,793	23,168	3,403	3,800	2,051	282,215	103,890	(294,897)	91,208
Net assets released from restrictions for operations	-	3	-	25	-	28	718	-	746
Total unrestricted revenues and other support	253,251	628,943	158,543	184,658	168,371	1,393,766	1,140,031	(595,241)	1,938,556
Expenses:									
Salaries and benefits	136,127	232,979	60,423	71,837	51,730	553,096	318,704	(22,080)	849,720
Supplies and other	127,350	340,168	72,379	79,547	74,372	693,816	378,554	(292,772)	779,598
Medical service	33,939	-	-	-	-	33,939	539,398	(280,389)	292,948
Depreciation and amortization	17,939	18,984	4,957	9,114	5,670	56,664	8,739	-	65,403
Interest	2,687	5,719	1,267	6,992	3,553	20,218	5,356	-	25,574
Total operating expenses	318,042	597,850	139,026	167,490	135,325	1,357,733	1,250,751	(595,241)	2,013,243
(Loss) income from operations	(64,791)	31,093	19,517	17,168	33,046	36,033	(110,720)	-	(74,687)

(Continued)

[1]The Obligated Group includes certain subsidiaries that consolidate in accordance with U.S. GAAP. These subsidiaries represent less than 1% of total assets and revenues of the Obligated Group.

Health First, Inc. and Subsidiaries

Consolidating Statement of Operations (Continued)
Year Ended September 30, 2022
(Dollars in Thousands)

	Obligated Group[1]								
	Health First Shared Services, Inc.	Holmes Regional Medical Center, Inc. — Holmes Regional Medical Center	Holmes Regional Medical Center, Inc. — Palm Bay Hospital	Cape Canaveral Hospital, Inc.	Viera Hospital, Inc.	Total Obligated Group	Other Subsidiaries	Eliminations	Consolidated Total
Nonoperating (losses) gains:									
Investment return, net	$ (147,796)	$ 77	$ -	$ 16	$ -	$ (147,703)	$ (9,829)	$ -	$ (157,532)
Change in value of interest rate swaps	1,272	(63)	(184)	(31)	-	994	-	-	994
Other	(1,003)	7	(18)	(56)	(70)	(1,140)	(87)	-	(1,227)
Total nonoperating (losses) gains	(147,527)	21	(202)	(71)	(70)	(147,849)	(9,916)	-	(157,765)
(Deficiency) excess of revenues, other support and gains over expenses and (losses) gains attributable to controlling interests	(212,318)	31,114	19,315	17,097	32,976	(111,816)	(120,636)	-	(232,452)
(Deficiency) excess of revenues, other support and gains over expenses and (losses) gains attributable to noncontrolling interests	(62,785)	-	-	-	-	(62,785)	-	-	(62,785)
(Deficiency) excess of revenues, other support and gains over expenses and (losses) gains attributable to controlling interests	$ (149,533)	$ 31,114	$ 19,315	$ 17,097	$ 32,976	$ (49,031)	$ (120,636)	$ -	$ (169,667)

[1]The Obligated Group includes certain subsidiaries that consolidate in accordance with U.S. GAAP. These subsidiaries represent less than 1% of total assets and revenues of the Obligated Group.