

**Audited
Consolidated
Financial
Statements and
Supplementary
Information**

December 31, 2021

AdventHealth

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Consolidated Balance Sheets

December 31, 2021
and 2020

(dollars in thousands)

	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 506,777	\$ 1,210,037
Investments	7,716,423	6,951,313
Current portion of assets whose use is limited	438,224	433,910
Patient accounts receivable	1,123,267	905,103
Due from brokers	125,744	898,168
Estimated settlements from third parties	251,606	90,576
Other receivables	792,446	597,536
Inventories	327,697	357,367
Prepaid expenses and other current assets	148,682	107,580
	<u>11,430,866</u>	<u>11,551,590</u>
Property and Equipment	8,536,375	7,798,166
Operating Lease Assets	302,051	324,218
Assets Whose Use is Limited, net of current portion	452,973	444,529
Other Assets	<u>1,705,906</u>	<u>1,121,486</u>
	<u>\$ 22,428,171</u>	<u>\$ 21,239,989</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,953,148	\$ 1,572,650
Estimated settlements to third parties	162,081	174,106
Due to brokers	124,724	1,083,015
Other current liabilities	829,305	1,129,744
Short-term financings	520,310	324,285
Current maturities of long-term debt	58,102	65,011
	<u>3,647,670</u>	<u>4,348,811</u>
Long-Term Debt, net of current maturities	3,432,468	3,048,435
Operating Lease Liabilities, net of current portion	248,221	258,450
Other Noncurrent Liabilities	<u>762,750</u>	<u>821,824</u>
	8,091,109	8,477,520
Net Assets		
Net assets without donor restrictions	14,062,347	12,521,994
Net assets with donor restrictions	221,319	195,078
	<u>14,283,666</u>	<u>12,717,072</u>
Noncontrolling interests	53,396	45,397
	<u>14,337,062</u>	<u>12,762,469</u>
Commitments and Contingencies		
	<u>\$ 22,428,171</u>	<u>\$ 21,239,989</u>

AdventHealth

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

Consolidated Statements of Operations and Changes in Net Assets

For the years ended
December 31, 2021
and 2020

(dollars in thousands)

	2021	2020
Revenue		
Net patient service revenue	\$ 14,177,120	\$ 11,572,183
Other	705,594	1,051,039
Total operating revenue	14,882,714	12,623,222
Expenses		
Employee compensation	7,430,730	6,164,642
Supplies	2,479,704	2,213,856
Purchased services	1,134,839	1,127,396
Professional fees	857,800	783,097
Other	1,181,712	870,872
Interest	73,279	78,663
Depreciation and amortization	730,033	690,654
Total operating expenses	13,888,097	11,929,180
Income from Operations	994,617	694,042
Nonoperating Gains (Losses)		
Investment return	524,945	225,030
Loss on extinguishment of debt	(6,043)	—
Other	(1,231)	—
Total nonoperating gains, net	517,671	225,030
Excess of revenue and gains over expenses	1,512,288	919,072
Noncontrolling interests	(6,817)	(4,252)
Excess of Revenue and Gains over Expenses Attributable to Controlling Interest	1,505,471	914,820

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

*For the years ended
December 31, 2021
and 2020*

(dollars in thousands)

CONTROLLING INTEREST

Net Assets Without Donor Restrictions

	2021	2020
Excess of revenue and gains over expenses	\$ 1,505,471	\$ 914,820
Net assets released from restrictions for purchase of property and equipment	17,041	11,147
Other	17,841	12,020
Increase in net assets without donor restrictions	1,540,353	937,987

Net Assets With Donor Restrictions

Gifts and grants	32,377	28,164
Net assets released from restrictions for purchase of property and equipment or use in operations	(28,076)	(26,892)
Investment return	2,774	2,285
Other	19,166	3,679
Increase in net assets with donor restrictions	26,241	7,236

NONCONTROLLING INTERESTS

Net Assets Without Donor Restrictions

Excess of revenue and gains over expenses	7,380	4,252
Distributions	(4,934)	(481)
Other	5,553	2,399
Increase in noncontrolling interests	7,999	6,170

Increase in Net Assets

Net assets, beginning of year	12,762,469	11,811,076
Net assets, end of year	<u>\$ 14,337,062</u>	<u>\$ 12,762,469</u>

Consolidated Statements of Cash Flows

For the years ended
December 31, 2021
and 2020

(dollars in thousands)

	2021	2020
Operating Activities		
Increase in net assets	\$ 1,574,593	\$ 951,393
Depreciation and amortization	730,033	690,654
Amortization of deferred financing costs and original issue discounts and premiums	(22,927)	(16,570)
Loss on extinguishment of debt	6,043	—
Net realized and unrealized gains on investments	(344,255)	(133,793)
Restricted gifts and grants and investment return	35,151	(30,449)
Income from unconsolidated entities	(81,038)	(74,398)
Distributions from unconsolidated entities	10,675	18,038
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,443,205)	(1,129,201)
Other receivables	(65,859)	(30,671)
Other current assets	(514)	(68,905)
Accounts payable and accrued liabilities	400,170	146,955
Estimated settlements to third parties, net	(173,055)	(3,580)
Other current liabilities	(175,574)	540,979
Other noncurrent assets and liabilities	(46,034)	154,258
Net cash provided by operating activities	404,204	1,014,710
Investing Activities		
Purchases of property and equipment, net	(1,335,739)	(1,286,743)
Cash paid for acquisitions, net of cash received	(646,052)	—
Sales and maturities of investments	5,163,486	5,638,026
Purchases of investments	(5,582,291)	(5,331,954)
Due from brokers	772,424	(636,208)
Due to brokers	(958,291)	449,937
Sales, maturities, and uses of assets whose use is limited	129,081	519,464
Purchases of and additions to assets whose use is limited	(116,872)	(531,790)
Consideration paid to acquire noncontrolling interest	(125,000)	(125,000)
Cash receipts on sold patient accounts receivable	1,096,635	1,000,607
Increase in other assets	(32,711)	(44,462)
Net cash used in investing activities	(1,635,330)	(348,123)
Financing Activities		
Repayments of long-term borrowings	(1,100,387)	(62,791)
Additional long-term borrowings	1,494,395	429,871
Repayments of short-term borrowings	(3,975)	(305,305)
Additional short-term borrowings	200,000	303,500
Restricted gifts and grants and investment return	(35,151)	30,449
Net cash provided by financing activities	554,882	395,724
(Decrease) Increase in Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents	(676,244)	1,062,311
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of year	1,565,376	503,065
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents at End of Year	<u>\$ 889,132</u>	<u>\$ 1,565,376</u>
Noncash Investing Activity		
Beneficial interest obtained in exchange for patient accounts receivable	\$ (1,225,686)	\$ (817,725)
Consideration payable to acquire noncontrolling interest	—	225,000

Notes to Consolidated Financial Statements

*For the years ended
December 31, 2021
and 20
(dollars in thousands)*

1. Significant Accounting Policies

Reporting Entity

Adventist Health System Sunbelt Healthcare Corporation d/b/a AdventHealth (Healthcare Corporation) is a not-for-profit healthcare corporation that owns and/or operates hospitals, nursing homes, physician offices, urgent care centers and other healthcare facilities, and a philanthropic foundation with various informal divisions (collectively referred to herein as the System). The System's affiliated healthcare facilities are operated or controlled through their by-laws, governing board appointments, or operating agreements. The System's 48 hospitals, 10 nursing homes, and philanthropic foundations operate in 9 states – Colorado, Florida, Georgia, Illinois, Kansas, Kentucky, North Carolina, Texas, and Wisconsin.

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

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

Mission

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

Specifically, the System provides:

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

Benefit to the elderly, by subsidizing the unreimbursed costs associated with providing care to those receiving governmental Medicare funding.

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

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

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

Notes to Consolidated Financial Statements

For the years ended
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Principles of Consolidation

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

Use of Estimates

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

Recently Adopted Accounting Guidance

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The System adopted the standard effective January 1, 2021, on a prospective basis. This standard did not have a material impact on the System’s accompanying consolidated financial statements.

Recent Accounting Guidance Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU requires earlier recognition of credit losses on financing receivables and other financial assets in scope. For trade receivables, loans, and held-to-maturity debt securities, entities will be required to estimate lifetime expected credit losses, resulting in earlier recognition of credit losses. For available-for-sale debt securities, entities will be required to recognize an allowance for credit losses rather than a reduction to the carrying value of the asset. In addition, entities will have to make more disclosures, including disclosures by year of origination for certain financing receivables. Management is currently evaluating the potential impact of this guidance, which will be effective for the System beginning in 2023.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU changes the presentation and disclosure requirements for not-for-profit entities to increase transparency about contributed nonfinancial assets. Management is currently evaluating the potential impact of this guidance, which will be effective for the System beginning in 2022.

Notes to Consolidated Financial Statements

*For the years ended
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(dollars in thousands)*

Net Patient Service Revenue

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

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

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

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

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. The System is subject to retroactive revenue adjustments due to future audits, reviews, and investigations. Additionally, the System participates in certain state programs that provide supplemental Medicaid funding to partially offset unreimbursed Medicaid costs. These programs include a combination of intergovernmental transfers and federal matching dollars. They are typically approved by governmental agencies on an annual basis and as such, funding for future years is not certain and subject to change. Contracts the System has with commercial payors also provide for retroactive audit and review of claims. Settlements with third-party payors for retroactive adjustments are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence with the payor, and the System's historical settlement activity, attempting to ensure that a significant revenue reversal will not occur when the final amounts are subsequently determined. Estimated settlements are adjusted in future periods as new information becomes available, or as years are settled or are no longer subject to such audits, reviews, and investigations. Net adjustments for prior-year cost reports and related valuation allowances, principally related to Medicare and Medicaid, resulted in increases to revenue of approximately \$34,000 and \$37,000 for the years ended December 31, 2021 and 2020, respectively.

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

Notes to Consolidated Financial Statements

*For the years ended
December 31, 2021
and 2020
(dollars in thousands)*

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined that it has provided implicit price concessions to uninsured patients and patients with other uninsured balances such as copay and deductibles. The difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients is recorded as implicit price concessions, or as a direct reduction to net patient service revenue. Subsequent adjustments that are determined to be the result of an adverse change in the patient's or payor's ability to pay are recognized as bad debt expense. Bad debt expense for the years ended December 31, 2021 and 2020 was not material for the System, and is included within other expense in the accompanying consolidated statements of operations and changes in net assets, rather than as a deduction to arrive at revenue.

The System estimates the transaction price for the patient portion and uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions.

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

	Year Ended December 31,			
	2021		2020	
	Amount	%	Amount	%
Managed Care	\$ 7,518,396	53%	\$ 6,014,295	52%
Medicare	2,404,793	17	2,308,713	20
Managed Medicare	2,214,713	15	1,759,956	15
Medicaid	528,947	4	478,240	4
Managed Medicaid	802,751	6	501,338	4
Self-pay	113,715	1	79,028	1
Other	593,805	4	430,613	4
	<u>\$ 14,177,120</u>	<u>100%</u>	<u>\$ 11,572,183</u>	<u>100%</u>

Charity Care

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

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

Notes to Consolidated Financial Statements

For the years ended
December 31, 2021
and 2020
(dollars in thousands)

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

	Year Ended December 31,	
	2021	2020
Charity Care Cost		
Cost of providing charity care services	\$ 378,686	\$ 403,072
Charity Care Funding		
Funds received to offset or subsidize charity care services (included in patient service revenue)	\$ 304,613	\$ 283,593
Funds paid into trusts (included in other expenses)	(261,757)	(253,417)
Net charity care funding received	\$ 42,856	\$ 30,176

Excess of Revenue and Gains over Expenses

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

Contributed Resources

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

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

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

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

	December 31,	
	2021	2020
Cash and cash equivalents	\$ 506,777	\$ 1,210,037
Restricted cash and restricted cash equivalents included in assets whose use is limited	382,355	355,339
Total cash, cash equivalents, restricted cash, and restricted cash equivalents shown in the statement of cash flows	\$ 889,132	\$ 1,565,376

Notes to Consolidated Financial Statements

*For the years ended
December 31, 2021
and 2020
(dollars in thousands)*

Investments

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

Other investments include alternative investments, which are primarily hedge funds, commingled funds, and private equity funds, which determine fair value using net asset values (NAV). The value of such investments is estimated, and those estimates may change in the near term. The financial statements and internal controls of the funds are audited annually by independent auditors. The System's risk is limited to its investment in the fund. In September 2020, the System submitted redemption notices for approximately \$529,000 of its hedge funds, of which approximately \$352,000 were redeemed as of December 31, 2020, and the remaining amount was redeemed in January 2021. Private equity funds generally require capital commitments over an initial period of time and capital is returned as monetization events occur. Unfunded commitments related to private equity funds were approximately \$114,000 and \$43,000 as of December 31, 2021 and 2020, respectively. Commingled funds are used to obtain the desired exposure targets within the investment portfolio and have daily redemption terms.

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

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

Assets Whose Use is Limited

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

Sale of Patient Accounts Receivable

The System and certain of its member affiliates maintain a program for the continuous sale of certain patient accounts receivable to the Highlands County, Florida, Health Facilities Authority (Highlands) on a nonrecourse basis. Highlands has partially financed the purchase of the patient accounts receivable through the issuance of private placement, tax-exempt, variable-rate bonds (Bonds). Highlands had Bonds outstanding of \$240,000 and \$280,000 as of December 31, 2021 and 2020, respectively. The Bonds have a put date of December 2022 and a final maturity date of November 2027. On February 1, 2022, the put date of the Bonds was extended to the final maturity date of November 2027. The System is the servicer of the receivables under this arrangement and is responsible for performing all accounts receivable administrative functions.

Notes to Consolidated Financial Statements

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As of December 31, 2021 and 2020, the estimated net realizable value, as defined in the underlying agreements, of patient accounts receivable sold by the System and removed from the accompanying consolidated balance sheets was \$849,526 and \$760,475, respectively. The patient accounts receivable sold consist primarily of amounts due from government programs and commercial insurers. The proceeds received from Highlands consist of cash from the Bonds, a note on a subordinated basis with the Bonds, and a note on a parity basis with the Bonds. The note on a subordinated basis with the Bonds is in an amount to provide the required over-collateralization of the Bonds and was \$60,000 and \$70,000 at December 31, 2021 and 2020, respectively. The note on a parity basis with the Bonds is the excess of eligible accounts receivable sold over the sum of cash received and the subordinated note and was \$549,526 and \$410,475 at December 31, 2021 and 2020, respectively. These notes are included in other receivables in the accompanying consolidated balance sheets. Due to the nature of the patient accounts receivable sold, collectability of the subordinated and parity notes is not significantly impacted by credit risk.

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

Inventories

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

Property and Equipment

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

Goodwill

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

	December 31,	
	2021	2020
Goodwill	\$ 745,612	\$ 225,058
Less: accumulated amortization	(59,085)	(23,452)
Goodwill, net	<u>\$ 686,527</u>	<u>\$ 201,606</u>

Goodwill increased in 2021 as a result of a business combination (Note 2). Goodwill is amortized over a period of ten years. Amortization expense for goodwill was \$35,633 and \$23,542 for the years ended December 31, 2021 and 2020, respectively, and is included in depreciation and amortization in the accompanying consolidated statement of operations and changes in net assets.

Notes to Consolidated Financial Statements

*For the years ended
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Interest in the Net Assets of Unconsolidated Foundations

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

Impairment of Long-Lived Assets

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

Deferred Financing Costs

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

Bond Discounts and Premiums

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

Income Taxes

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

NAHS is a wholly owned, for-profit subsidiary of Healthcare Corporation. NAHS and its subsidiary are subject to federal and state income taxes. NAHS files a consolidated federal income tax return and, where appropriate, consolidated state income tax returns. All taxable income was fully offset by net operating loss carryforwards for federal income tax purposes; as such, there is no provision for current federal or state income tax for the years ended December 31, 2021 and 2020.

NAHS also has temporary deductible differences of approximately \$33,000 and \$41,800 at December 31, 2021 and 2020, respectively, primarily as a result of net operating loss carryforwards. At December 31, 2021, NAHS had net operating loss carryforwards of approximately \$34,000, expiring beginning in 2022 through 2026. Deferred taxes have been provided for these amounts, resulting in a net deferred tax asset of approximately \$8,100 and \$10,200 at December 31, 2021 and 2020, respectively. NAHS remeasured its deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. A full valuation allowance has been provided at December 31, 2021 and 2020 to offset the deferred tax asset since Healthcare Corporation has determined that it is more likely than not that the benefit of the net operating loss carryforwards will not be realized in future years.

Notes to Consolidated Financial Statements

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The Income Taxes Topic of the Accounting Standards Codification (ASC) (ASC 740) prescribes the accounting for uncertainty in income tax positions recognized in financial statements. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. There were no material uncertain tax positions as of December 31, 2021 and 2020.

Reclassifications

Certain reclassifications were made to the 2020 consolidated financial statements to conform to the classifications used in 2021. These reclassifications had no impact on the consolidated excess of revenue and gains over expenses, changes in net assets, or cash flows previously reported.

2. Organizational Changes

Business Combinations

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

On October 1, 2021, the System purchased Redmond Regional Medical Center, which was renamed AdventHealth Redmond (AH Redmond) and includes a 230-bed hospital in Rome, Georgia, as well as its related businesses, physician clinics, outpatient services, and all issued and outstanding equity interests.

The assets acquired and liabilities assumed were recorded based on their acquisition date fair values. Cash consideration was \$646,063, which primarily represented the payment for the real and personal property and goodwill. The System issued fixed-rate, taxable bonds totaling \$400,000 to finance a portion of the acquisition price (Note 8). The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed are as follows:

Assets

Cash and cash equivalents	\$ 11
Patient accounts receivable	646
Inventories	10,029
Prepaid expenses and other current assets	889
Property and equipment	117,702
Operating lease assets	1,549
Other assets	521,453
	<hr/> 652,279

Liabilities

Accounts payable and accrued liabilities	\$ 4,532
Other current liabilities	135
Operating lease liabilities, net of current portion	1,549
	<hr/> 6,216

Fair Value of Net Assets Acquired

	<hr/> <hr/> \$ 646,063
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Notes to Consolidated Financial Statements

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The goodwill acquired represents the excess of the purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of the business acquired. Goodwill, totaling approximately \$520,000, is included in other assets (noncurrent) in the accompanying consolidated balance sheets.

The results of operations and changes in net assets for AH Redmond was included in the System's consolidated financial statements beginning October 1, 2021. AH Redmond had total operating revenue of \$67,915 and a deficiency of revenue and gains over expenses of \$15,060 for the period from October 1, 2021 through December 31, 2021.

The following pro forma combined results of operations present the acquisition as if it had occurred on January 1, 2020 and, as such, reflects the impact of amortizing the fair value adjustments to property and equipment, amortizing goodwill acquired, and recognizing interest expense on the issued debt as of January 1, 2020. The pro forma combined results of operations do not necessarily represent the System's consolidated results of operations had the acquisition occurred on the date assumed, nor are these results necessarily indicative of the System's future consolidated results of operations. AH Redmond serves as a regional referral center for all of northwest Georgia and parts of Alabama. It is the only hospital in northwest Georgia with an open-heart surgery program and Level 1 emergency Cardiac Care Center designation. The System expects to realize certain benefits from integrating AH Redmond into the System's other services provided in the Georgia market and to incur certain one-time integration costs. The pro forma combined results of operations do not reflect these benefits or costs.

	Year Ended December 31,	
	2021	2020
Pro forma revenue	\$ 15,102,923	\$ 12,892,160
Pro forma excess of revenue and gains over expenses	1,486,179	892,631
Pro forma change in net assets without donor restrictions	1,510,821	908,877

Other Changes

On April 1, 2020, the System sold substantially all of the assets of Central Texas Medical Center together with certain other affiliated assets (CTMC) to CHRISTUS Santa Rosa Healthcare (CHRISTUS), a faith-based health system headquartered in Irving, Texas. CTMC provides healthcare services to the San Marcos, Texas community and surrounding areas. The System received proceeds of approximately \$32,500 from the sale.

In October 2021, the System and Ascension decided to unwind their AMITA Health partnership, the joint operating company serving the healthcare needs of residents of the greater Chicago area. Following the transition, the System will operate its individual hospitals and related healthcare facilities in the Chicagoland area and the System's four hospitals and related healthcare facilities will continue to be controlled and consolidated by the System. The change will not have a material impact on the System's accompanying consolidated financial statements.

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3. Investments and Assets Whose Use is Limited

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

	December 31,	
	2021	2020
Debt securities		
U.S. government agencies and sponsored entities	\$ 3,311,876	\$ 3,475,149
Foreign government agencies and sponsored entities	299,462	2,154
Corporate bonds	83,288	294,329
Mortgage backed	38,280	27,991
Other asset backed	26,253	20,805
Short-term investments	5,377	179,571
Accrued interest	13,583	9,909
	<u>3,778,119</u>	<u>4,009,908</u>
Domestic equity securities	131,818	128,341
Exchange traded and mutual funds		
Domestic equity	1,314,482	928,408
Foreign equity	667,974	426,361
Fixed income	977,468	735,294
	<u>2,959,924</u>	<u>2,090,063</u>
Investments at NAV		
Hedge funds and private equity funds	1,014,704	872,397
Commingled funds	340,700	373,704
	<u>1,355,404</u>	<u>1,246,101</u>
Cash and cash equivalents – assets whose use is limited	382,355	355,339
	<u>8,607,620</u>	<u>7,829,752</u>
Less: assets whose use is limited	(891,197)	(878,439)
Investments	<u>\$ 7,716,423</u>	<u>\$ 6,951,313</u>

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Investment Derivatives

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

	December 31, 2021			
	Notional		Fair Value	
	Long	Short	Assets	Liabilities
Equity options	\$ —	\$ (207)	\$ —	\$ (207)
Interest rate swaps	5,020	(4,126)	5,020	(4,126)
Futures	1,409,255	(237,690)	—	—
Foreign currency exchange contracts	214,255	(497,757)	2,110	(3,457)
Total derivative instruments, gross	<u>\$ 1,628,530</u>	<u>\$ (739,780)</u>	<u>\$ 7,130</u>	<u>\$ (7,790)</u>

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

The System posted collateral related to investment derivative instruments totaling \$47,607 and \$19,114 as of December 31, 2021 and 2020, respectively. Collateral is included in either cash and cash equivalents or investments in the accompanying consolidated balance sheets, depending on the type of collateral posted. The System had investment return related to investment derivative instruments of \$93,286 and \$(63,021) for the years ended December 31, 2021 and 2020, respectively.

Assets Whose Use is Limited

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

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

	December 31,	
	2021	2020
Self-insurance trust funds	\$ 459,497	\$ 446,294
Employee benefits funds	272,136	254,441
Other	159,564	177,704
	891,197	878,439
Less: amounts to pay current liabilities	(438,224)	(433,910)
	<u>\$ 452,973</u>	<u>\$ 444,529</u>

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Investment Return and Unrealized Gains and Losses

Investment return from cash and cash equivalents, investments, and assets whose use is limited in the accompanying consolidated statements of operations and changes in net assets consisted of the following:

	Year Ended December 31,	
	2021	2020
Interest and dividend income	\$ 178,641	\$ 93,730
Net realized gains (losses)	202,092	(4,287)
Net change in unrealized gains and losses	144,212	135,587
	<u>\$ 524,945</u>	<u>\$ 225,030</u>

4. Liquidity and Available Resources

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

The System had 228 and 260 days cash on hand at December 31, 2021 and 2020, respectively. As described in Note 14, the System repaid approximately \$181,000 of Medicare accelerated payments during 2021. Days cash on hand is calculated as unrestricted cash and cash equivalents, investments, and due to brokers, net, divided by daily operating expenses (excluding depreciation and amortization expense). Unrestricted cash and cash equivalents, investments, and due to brokers, net consist of the following:

	December 31,	
	2021	2020
Cash and cash equivalents	\$ 506,777	\$ 1,210,037
Investments	7,716,423	6,951,313
Due from (to) brokers, net	1,020	(184,847)
	<u>\$ 8,224,220</u>	<u>\$ 7,976,503</u>
Unrestricted days cash and investments on hand	<u>228</u>	<u>260</u>

The System's financial assets also consist of patient accounts receivable totaling \$1,123,267 and \$905,103 as of December 31, 2021 and 2020, respectively. Other receivables, totaling \$792,446 and \$597,536 as of December 31, 2021 and 2020, are primarily comprised of the notes associated with the System's sale of patient accounts receivable, which is more fully described in Note 1. The System's financial assets are available as its general expenditures, liabilities, and other obligations come due.

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

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5. Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2021	2020
Land and improvements	\$ 1,097,939	\$ 971,759
Buildings and improvements	7,389,680	6,666,483
Equipment	6,406,298	5,860,423
	<u>14,893,917</u>	<u>13,498,665</u>
Less: allowances for depreciation	<u>(7,200,916)</u>	<u>(6,565,025)</u>
	7,693,001	6,933,640
Construction in progress	843,374	864,526
	<u>\$ 8,536,375</u>	<u>\$ 7,798,166</u>

Certain hospitals have entered into construction contracts or other commitments for which costs have been incurred and included in construction in progress. These and other committed projects will be financed through operations and proceeds of borrowings. The estimated costs to complete these projects approximated \$173,000 at December 31, 2021.

The System capitalizes the cost of acquired software for internal use. Any internal costs incurred in the process of developing and implementing software are expensed or capitalized, depending primarily on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage. Capitalized software costs and estimated amortization expense in the table below exclude software in progress of approximately \$369,000 and \$168,000 at December 31, 2021 and 2020, respectively. Capitalized software costs and accumulated amortization expense, which are included in property and equipment in the accompanying consolidated balance sheets, were as follows:

	December 31,	
	2021	2020
Capitalized software costs	\$ 380,291	\$ 360,975
Less: accumulated amortization	<u>(293,101)</u>	<u>(247,843)</u>
Capitalized software costs, net	<u>\$ 87,190</u>	<u>\$ 113,132</u>

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

2022	\$ 38,712
2023	13,092
2024	7,076
2025	5,601
2026	5,515
Thereafter	17,194

During periods of construction and periods of developing software, interest costs are capitalized to the respective property accounts. Interest capitalized approximated \$16,800 and \$13,100 for the years ended December 31, 2021 and 2020, respectively.

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6. Other Assets

Other assets consist of the following:

	December 31,	
	2021	2020
Investments in unconsolidated entities	\$ 827,559	\$ 733,265
Goodwill	686,527	201,606
Interests in net assets of unconsolidated foundations	87,769	72,832
Notes and other receivables	58,570	65,075
Other noncurrent assets	45,481	48,708
	<u>\$ 1,705,906</u>	<u>\$ 1,121,486</u>

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

	Ownership Interest	December 31,	
		2021	2020
Health First, Inc.	27%	\$ 407,901	\$ 374,461
Texas Health Huguley, Inc.	49%	209,669	188,668
Centura Health Corporation	35%	100,047	96,518
Other	5% – 50%	109,942	73,618
		<u>\$ 827,559</u>	<u>\$ 733,265</u>

Income from unconsolidated entities totaled \$81,038 and \$74,398 for 2021 and 2020, respectively, and is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

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

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7. Leases

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

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

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

Operating and finance leases consist of the following:

	December 31,	
	2021	2020
Operating Leases		
Operating lease assets	<u>\$ 302,051</u>	<u>\$ 324,218</u>
Other current liabilities	\$ 82,439	\$ 86,786
Operating lease liabilities, net of current portion	<u>248,221</u>	<u>258,450</u>
Total operating lease liabilities	<u>\$ 330,660</u>	<u>\$ 345,236</u>
Finance Leases		
Property and equipment	<u>\$ 30,401</u>	<u>\$ 42,090</u>
Current maturities of long-term debt	\$ 9,096	\$ 6,624
Long-term debt, net of current maturities	<u>19,889</u>	<u>34,639</u>
Total finance lease liabilities	<u>\$ 28,985</u>	<u>\$ 41,263</u>

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

	December 31,	
	2021	2020
Operating lease expense	\$ 106,306	\$ 108,635
Variable lease expense	48,155	34,117
Short-term lease expense	28,454	27,990
Finance lease expense		
Amortization of lease assets	7,840	7,220
Interest on lease liabilities	1,679	3,069
Total lease expense	<u>\$ 192,434</u>	<u>\$ 181,031</u>

Lease term and discount rate were as follows:

	December 31,	
	2021	2020
Weighted-average remaining lease term:		
Operating leases	8.2 years	8.1 years
Finance leases	11.6 years	11.5 years
Weighted-average discount rate:		
Operating leases	2.1%	2.0%
Finance leases	2.0%	5.7%

The following table summarizes the maturity of lease liabilities under finance and operating leases for the next five years and the years thereafter, as of December 31, 2021:

	Operating Leases	Finance Leases	Total
2022	\$ 87,627	\$ 9,532	\$ 97,159
2023	65,456	8,131	73,587
2024	44,636	7,224	51,860
2025	32,448	436	32,884
2026	23,332	436	23,768
Thereafter	115,754	6,676	122,430
Total lease payments	<u>369,253</u>	<u>32,435</u>	<u>\$ 401,688</u>
Less: imputed interest	<u>38,593</u>	<u>3,450</u>	
Total lease liabilities	<u>\$ 330,660</u>	<u>\$ 28,985</u>	

Supplemental cash flow information related to leases was as follows:

	December 31,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 128,294	\$ 110,771
Operating cash flows from finance leases	1,305	2,628
Financing cash flows from finance leases	8,529	7,006
Lease assets obtained in exchange for new operating lease liabilities	38,367	90,721
Lease assets obtained in exchange for new finance lease liabilities	2,502	2,073

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8. Debt Obligations

Long-term debt consisted of the following:

	December 31,	
	2021	2020
Fixed-rate hospital revenue bonds, interest rates from 1.90% to 5.00%, payable through 2051	\$ 3,188,495	\$ 2,303,612
Variable-rate hospital revenue bonds payable through 2039	—	207,000
Other notes payable	6,349	425,088
Finance leases payable	28,985	41,263
Unamortized original issue premium, net	288,770	153,426
Deferred financing costs	(22,029)	(16,943)
	3,490,570	3,113,446
Less: current maturities	(58,102)	(65,011)
	<u>\$ 3,432,468</u>	<u>\$ 3,048,435</u>

Master Trust Indenture

Long-term debt has been issued primarily on a tax-exempt basis. Substantially all bonds are secured under a Master Trust Indenture (MTI), which provides for, among other things, the deposit of revenue with the master trustee in the event of certain defaults, pledges of accounts receivable, pledges not to encumber property, and limitations on additional borrowings. Certain affiliates controlled by Healthcare Corporation comprise the AdventHealth Obligated Group (Obligated Group). Members of the Obligated Group are jointly and severally liable under the MTI to make all payments required with respect to obligations under the MTI. The MTI requires certain covenants and reporting requirements be met by the System and the Obligated Group. At December 31, 2021 and 2020, the Obligated Group had total net assets of approximately \$13,493,000 and \$11,568,000, respectively.

Variable-Rate Bonds and Sources of Liquidity

Certain variable-rate bonds, including \$520,310 and \$324,285 as of December 31, 2021 and 2020, respectively, classified as short-term financings in the accompanying consolidated balance sheets, may be put to the System at the option of the bondholder. The variable-rate bond indentures generally provide the System the option to remarket the obligations at the then prevailing market rates for periods ranging from one day to the maturity dates. The obligations have been primarily marketed for seven-day periods during 2021, with annual interest rates ranging from 0.01% to 0.13%. Additionally, the System paid fees, such as remarketing fees, on variable-rate bonds during 2021.

The System has various sources of liquidity, including a \$500,000 revolving credit agreement (Revolving Note) with a syndicate of banks and a \$500,000 commercial paper program (CP Program). The Revolving Note, which expires in December 2023, is available for letters of credit, liquidity facilities, and general corporate needs, including working capital, capital expenditures, and acquisitions and has certain prime rate and LIBOR-based pricing options. At December 31, 2021 and 2020, the System had approximately \$500 and \$1,100 committed to letters of credit under the Revolving Note. The System's CP Program allows for up to \$500,000 of taxable, commercial paper notes (CP Notes) to be issued for general corporate purposes at an interest rate to be determined at the time of issuance. No amounts were outstanding under the CP Program as of December 31, 2021 and 2020.

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2021 Debt Transactions

During the third quarter of 2021, the System issued fixed-rate, variable-rate and put bonds with total proceeds of \$1,079,996, including premiums of \$159,551. The fixed-rate bonds have par amounts totaling \$491,785, maturity dates ranging from 2037 to 2051, stated interest rates ranging from 3.00% to 5.00%, and effective interest rates ranging from 1.40% to 2.19% through the call date of 2031. The put bonds have par amounts totaling \$228,660, a stated interest rate of 5.00% with mandatory redemptions ranging from 2026 to 2031 and final maturities ranging from 2052 to 2054. The effective interest rates on these put bonds range from 0.56% to 1.17% through the mandatory redemption date. The variable-rate bonds have par amounts totaling \$200,000, mandatory redemption dates ranging from 2054 to 2056, and final maturity dates ranging from 2055 to 2056. These variable-rate bonds provide the System the option to remarket the obligations at the then prevailing market rates for periods ranging from one day to the maturity dates. The obligations have been primarily marketed for seven-day periods during 2021 with annual interest rates ranging from 0.01% to 0.13% and are included in short-term financings in the accompanying consolidated balance sheet. The System used bond proceeds of \$227,000 for repayment of CP Notes, approximately \$348,000 for the repayment of existing bonds, and \$250,000 for repayment of a fixed-rate loan. The System will use the remaining bond proceeds to finance or refinance certain costs of the acquisition, construction and equipping of certain facilities.

During the fourth quarter of 2021, the System issued fixed-rate, taxable bonds totaling \$400,000, with a maturity date of 2051, and interest rate of 2.80%. The System used the bond proceeds as long-term financing of the AH Redmond acquisition (Note 2). During 2020 and 2021, the System made short-term draws under the Revolver and the CP Program. These draws were repaid as described within and no amounts are outstanding as of December 31, 2021 under either program.

2020 Debt Transactions

In response to the COVID-19 pandemic, as more fully discussed in Note 14, actions were taken during 2020 to increase liquidity and mitigate the pandemic's disruption to the System's business. In March 2020 the System drew \$478,500 from its Revolving Note and as a result, certain variable-rate bonds totaling \$221,670 that had been classified as long-term debt, supported by the Revolving Note, were reclassified to short-term debt. As the volatility in operations and financial markets gradually improved, the System repaid \$303,500 of the Revolving Note in August 2020. As of December 31, 2020, \$175,000 was outstanding under the Revolving Note and in 2021 was refinanced as long-term debt.

Additionally, in May 2020, the System borrowed \$250,000 on a 1.73% fixed-rate loan, which was refinanced as long-term debt in 2021. Additional lines of credit were secured in 2020, totaling \$425,000, and were subsequently cancelled in December 2020.

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Debt Maturities

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

2022	\$	48,252
2023		53,137
2024		68,327
2025		60,252
2026		256,947
Thereafter		2,707,929

Cash paid for interest, net of amounts capitalized, approximated \$92,000 and \$96,000 during the years ended December 31, 2021 and 2020, respectively.

9. Retirement Plans

Defined Contribution Plans

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

Contributions to the Plan are included in employee compensation in the accompanying consolidated statements of operations and changes in net assets in the amount of \$202,815 and \$179,243 for the years ended December 31, 2021 and 2020, respectively.

Defined Benefit Plan – Multiemployer Plan

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

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

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

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

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

The most recent available plan asset and benefit obligation data for the Old Plan is as of December 31, 2020 and is as follows:

Total plan assets	\$ 538,689
Actuarial present value of accumulated plan benefits	537,158
Funded status	100.3%

The System did not make contributions to the Old Plan for the years ended December 31, 2021 or 2020.

Defined Benefit Plan – Frozen Pension Plans

Certain of the System's entities sponsored noncontributory, defined benefit pension plans (Pension Plans) that have been frozen such that no new benefits accrue. The following table sets forth the remaining combined projected and accumulated benefit obligations and the assets of the Pension Plans at December 31, 2021 and 2020, the components of net periodic pension cost for the years then ended, and a reconciliation of the amounts recognized in the accompanying consolidated financial statements:

	Year Ended December 31,	
	2021	2020
Accumulated benefit obligation, end of year	<u>\$ 142,168</u>	<u>\$ 160,186</u>
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 160,186	\$ 154,354
Interest cost	4,170	4,959
Benefits paid	(15,445)	(9,027)
Actuarial (gains)/losses	(6,743)	9,900
Projected benefit obligation, end of year	<u>142,168</u>	<u>160,186</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	141,342	131,953
Actual return on plan assets	4,070	18,416
Benefits paid	(15,445)	(9,027)
Fair value of plan assets, end of year	<u>129,967</u>	<u>141,342</u>
Deficiency of fair value of plan assets over projected benefit obligation, included in other noncurrent liabilities	<u>\$ (12,201)</u>	<u>\$ (18,844)</u>

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No plan assets are expected to be returned to the System during the fiscal year ending December 31, 2022.

Included in net assets without donor restrictions at December 31, 2021 and 2020 are unrecognized actuarial losses of \$17,705 and \$23,093, respectively, which have not yet been recognized in net periodic pension cost.

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

	Year Ended December 31,	
	2021	2020
Net actuarial gains	\$ 4,012	\$ 2,081
Amortization of net actuarial losses	235	261
Settlements	1,141	—
Total decrease recognized in net assets without donor restrictions	<u>\$ 5,388</u>	<u>\$ 2,342</u>

The components of net periodic pension cost were as follows:

	Year Ended December 31,	
	2021	2020
Interest cost	\$ 4,170	\$ 4,959
Expected return on plan assets	(6,801)	(6,435)
Recognized net actuarial losses	235	261
Net periodic pension cost	<u>\$ (2,396)</u>	<u>\$ (1,215)</u>

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

	Year Ended December 31,	
	2021	2020
Used to determine projected benefit obligation		
Weighted-average discount rate	2.95%	2.65%
Used to determine pension cost		
Weighted-average discount rate	2.65%	3.35%
Weighted-average expected long-term rate of return on plan assets	5.00%	5.00%

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

Notes to Consolidated Financial Statements

For the years ended
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The expected long-term rate of return on the Pension Plans' assets is based on historical and projected rates of return for current and planned asset categories and the target allocation in the investment portfolio. As of December 31, 2021 and 2020, the target investment allocation for the Pension Plans was 70% and 60% debt securities, 27% and 36% equity securities, and 3% and 4% alternative investments, respectively.

The following table presents the Pension Plans' financial instruments as of December 31, 2021, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 12:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 3,237	\$ 3,237	\$ —	\$ —
Debt securities				
U.S. government agencies and sponsored entities	34,952	—	34,952	—
Corporate bonds	57,185	—	57,185	—
Equity securities				
Domestic equities	3,536	3,536	—	—
Foreign equities	2,141	2,141	—	—
Exchange traded funds				
Domestic equity	18,209	18,209	—	—
Foreign equity	5,458	5,458	—	—
Alternative strategy mutual funds	5,249	5,249	—	—
Total plan assets	<u>\$ 129,967</u>	<u>\$ 37,830</u>	<u>\$ 92,137</u>	<u>\$ —</u>

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

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

Notes to Consolidated Financial Statements

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

2022	\$ 6,891
2023	7,070
2024	7,259
2025	7,452
2026	7,599
2027-2031	39,150

10. General and Professional Liability Program

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

The professional and general liability trust funds are recorded in the accompanying consolidated balance sheets as assets whose use is limited in the amount of \$459,497 and \$446,294 at December 31, 2021 and 2020, respectively. The related accrued claims are recorded in the accompanying consolidated balance sheets as other current liabilities in the amount of \$112,505 and \$101,484 and as other noncurrent liabilities in the amount of \$361,369 and \$362,964 at December 31, 2021 and 2020, respectively. These liabilities are based upon actuarially determined estimates using a discount rate of 3.75% at December 31, 2021 and 2020. The related estimated insurance recoveries are recorded as other assets in the amount of \$9,724 and \$10,719 in the accompanying consolidated balance sheets at December 31, 2021 and 2020, respectively.

11. Commitments and Contingencies

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

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

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

Notes to Consolidated Financial Statements

*For the years ended
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and 2020
(dollars in thousands)*

12. Fair Value Measurements

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

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

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

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

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

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

Notes to Consolidated Financial Statements

For the years ended
December 31, 2021
and 2020
(dollars in thousands)

Recurring Fair Value Measurements

The fair value of financial instruments measured at fair value on a recurring basis at December 31, 2021 was as follows:

	Total	Level 1	Level 2	Level 3
ASSETS				
<i>CASH AND CASH EQUIVALENTS</i>	\$ 506,777	\$ 504,726	\$ 2,051	\$ —
<i>INVESTMENTS AND ASSETS WHOSE USE IS LIMITED</i>				
Cash and cash equivalents	382,355	382,355	—	—
Debt securities				
U.S. government agencies and sponsored entities	3,311,876	—	3,311,876	—
Foreign government agencies and sponsored entities	299,462	—	299,462	—
Corporate bonds	83,288	—	83,288	—
Mortgage backed	38,280	—	38,280	—
Other asset backed	26,253	—	26,253	—
Short-term investments	5,377	—	5,377	—
Domestic equity securities	131,818	131,818	—	—
Exchange traded and mutual funds				
Domestic equity	1,314,482	1,314,482	—	—
Foreign equity	667,974	667,974	—	—
Fixed income	977,468	977,468	—	—
	<u>7,238,633</u>	<u>3,474,097</u>	<u>3,764,536</u>	<u>—</u>
Total	<u>\$ 7,745,410</u>	<u>\$ 3,978,823</u>	<u>\$ 3,766,587</u>	<u>\$ —</u>

Notes to Consolidated Financial Statements

For the years ended
December 31, 2021
and 2020
(dollars in thousands)

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

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

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

	December 31,	
	2021	2020
Investments and assets whose use is limited measured at fair value	\$ 7,238,633	\$ 6,573,742
Hedge funds and private equity funds	1,014,704	872,397
Commingled funds	340,700	373,704
Accrued interest	13,583	9,909
Total	<u>\$ 8,607,620</u>	<u>\$ 7,829,752</u>
Investments	\$ 7,716,423	\$ 6,951,313
Assets whose use is limited:		
Current	438,224	433,910
Noncurrent	452,973	444,529
Total	<u>\$ 8,607,620</u>	<u>\$ 7,829,752</u>

Notes to Consolidated Financial Statements

For the years ended
December 31, 2021
and 2020
(dollars in thousands)

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

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

13. Functional Expenses

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

Expenses by functional classification for the year ended December 31, 2021 consist of the following:

	Healthcare Services	Corporate Services	Total
Employee compensation	\$ 7,015,218	\$ 415,512	\$ 7,430,730
Purchased services and professional fees	1,793,026	199,613	1,992,639
Supplies	2,474,517	5,187	2,479,704
Other	1,891,414	93,610	1,985,024
Total	<u>\$ 13,174,175</u>	<u>\$ 713,922</u>	<u>\$ 13,888,097</u>

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

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

Notes to Consolidated Financial Statements

*For the years ended
December 31, 2021
and 2020
(dollars in thousands)*

14. Significant Events

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient volumes and the related revenue for most services were significantly impacted beginning in mid-March 2020 through early May 2020 as various policies were implemented by federal, state and local governments such as suspension of elective procedures. Since that time, gradual improvement in volumes and related revenue has been experienced and as COVID-19 volumes surge, the System's hospitals monitor non-emergent procedures based on COVID-19 volumes, available staffing, and capacity. Certain of the System's hospitals experienced COVID-19 surges early in 2021 and in the third quarter of 2021, requiring voluntary monitoring of elective and non-emergent procedures. The System's response to the COVID-19 pandemic continues to require supplies utilized at a higher rate and purchased at elevated prices. Labor rates have increased primarily due to certain contract, overtime and other premium rate labor costs being incurred to support our clinical staff and address the surge of COVID-19 patients. The COVID-19 pandemic's impact to the System is driven by many factors, most of which are beyond the System's control. As such, the ultimate impact to the System and its financial condition is presently unknown.

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), was enacted on March 27, 2020. The CARES Act authorizes funding to hospitals and other healthcare providers through the Public Health and Social Services Emergency Fund (Provider Relief Fund). Grant payments from the Provider Relief Fund are intended to reimburse healthcare providers for healthcare related expenses and/or lost revenue attributable to the COVID-19 pandemic. The System began receiving Provider Relief Funds in April 2020. During the years ended December 31, 2021 and 2020, the System recognized approximately \$78,000 and \$539,000, respectively, of Provider Relief Funds as other revenue in the accompanying consolidated statements of operations and changes in net assets.

The CARES Act provides for an expansion of the Medicare Accelerated and Advance Payment Program (Accelerated Payment Program), which allows inpatient acute care hospitals to request accelerated payments of up to 100% of their Medicare payment amount for a six-month period. In 2020, the System received approximately \$446,000 from the Accelerated Payment Program. Consistent with the terms and conditions of the program, repayments began in April 2021. Amounts owed under the Accelerated Payment Program totaled \$265,000 and \$446,000 as of December 31, 2021 and 2020, respectively, and are included in other current liabilities in the accompanying consolidated balance sheets. Repayments will continue based upon the terms and conditions of the program.

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

Notes to Consolidated Financial Statements

*For the years ended
December 31, 2021
and 2020
(dollars in thousands)*

15. Subsequent Events

The System evaluated events and transactions occurring subsequent to December 31, 2021 through March 1, 2022, the date the accompanying consolidated financial statements were issued. During this period, there were no subsequent events, other than those discussed in Note 1, that required recognition in the accompanying consolidated financial statements nor were there any additional nonrecognized subsequent events that required disclosure.

Notes to Consolidated Financial Statements

*For the years ended
December 31, 2021
and 2020
(dollars in thousands)*

16. Fourth Quarter Results of Operations (Unaudited)

The System's operating results for the three months ended December 31, 2021 are presented below:

Revenue	
Net patient service revenue	\$ 3,831,542
Other	267,006
Total operating revenue	<u>4,098,548</u>
Expenses	
Employee compensation	2,048,272
Supplies	658,668
Purchased services	298,154
Professional fees	221,188
Other	380,086
Interest	21,676
Depreciation and amortization	203,402
Total operating expenses	<u>3,831,446</u>
Income from Operations	267,102
Nonoperating Gains (Losses)	
Investment Return	228,777
Other	(1,231)
Total nonoperating gains, net	<u>227,546</u>
Excess of revenue and gains over expenses	494,648
Noncontrolling interests	<u>(2,980)</u>
Excess of Revenue and Gains over Expenses Attributable to Controlling Interest	491,668
Other changes in net assets without donor restrictions, net	27,129
Increase in net assets with donor restrictions, net	4,091
Increase in Net Assets	<u><u>\$ 522,888</u></u>

Supplementary Information

AdventHealth
Consolidating Balance Sheet

December 31, 2021

(dollars in thousands)

	AdventHealth Obligated Group ¹	All Other Entities	Eliminations	Consolidated Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 177,066	\$ 329,711	\$ –	\$ 506,777
Cash management deposits ²	7,523,868	–	(7,523,868)	–
Investments	17,155	7,699,268	–	7,716,423
Current portion of assets whose use is limited	727	437,497	–	438,224
Patient accounts receivable	1,068,952	54,315	–	1,123,267
Due from brokers	–	125,744	–	125,744
Estimated settlements from third parties	243,468	8,138	–	251,606
Other receivables	921,354	24,282	(153,190)	792,446
Inventories	320,257	7,440	–	327,697
Prepaid expenses and other current assets	146,485	53,413	(51,216)	148,682
	<u>10,419,332</u>	<u>8,739,808</u>	<u>(7,728,274)</u>	<u>11,430,866</u>
Property and Equipment	7,634,939	901,436	–	8,536,375
Operating Lease Assets	290,146	11,905	–	302,051
Assets Whose Use is Limited, net of current portion	21,394	431,579	–	452,973
Other Assets	1,611,102	490,445	(395,641)	1,705,906
	<u>\$ 19,976,913</u>	<u>\$ 10,575,173</u>	<u>\$ (8,123,915)</u>	<u>\$ 22,428,171</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 1,274,740	\$ 680,314	\$ (1,906)	\$ 1,953,148
Estimated settlements to third parties	152,129	9,952	–	162,081
Due to brokers	–	124,724	–	124,724
Due to affiliates – cash management deposits ²	–	7,523,868	(7,523,868)	–
Other current liabilities	677,629	299,251	(147,575)	829,305
Short-term financings	520,310	–	–	520,310
Current maturities of long-term debt	50,720	7,382	–	58,102
	<u>2,675,528</u>	<u>8,645,491</u>	<u>(7,673,349)</u>	<u>3,647,670</u>
Long-Term Debt, net of current maturities	3,418,307	14,161	–	3,432,468
Operating Lease Liabilities, net of current portion	239,893	8,328	–	248,221
Other Noncurrent Liabilities	150,081	1,059,002	(446,333)	762,750
	<u>6,483,809</u>	<u>9,726,982</u>	<u>(8,119,682)</u>	<u>8,091,109</u>
Net Assets				
Net assets without donor restrictions	13,258,313	808,267	(4,233)	14,062,347
Net assets with donor restrictions	217,922	3,397	–	221,319
	<u>13,476,235</u>	<u>811,664</u>	<u>(4,233)</u>	<u>14,283,666</u>
Noncontrolling interests	16,869	36,527	–	53,396
	<u>13,493,104</u>	<u>848,191</u>	<u>(4,233)</u>	<u>14,337,062</u>
Commitments and Contingencies	<u>\$ 19,976,913</u>	<u>\$ 10,575,173</u>	<u>\$ (8,123,915)</u>	<u>\$ 22,428,171</u>

¹ The AdventHealth Obligated Group (Obligated Group) is defined by the Amended and Restated Master Trust Indenture dated as of August 1, 2014, which secures substantially all long-term debt.

² Cash management deposits represent deposits by the Obligated Group into the System's cash management program. The System invests these cash management deposits in a central investment pool.

AdventHealth

Consolidating Statement of Operations and Changes in Net Assets

For the Year Ended December 31, 2021

(dollars in thousands)

	AdventHealth Obligated Group	All Other Entities	Eliminations	Consolidated Total
Revenue				
Net patient service revenue	\$ 13,814,677	\$ 362,443	\$ —	\$ 14,177,120
Other	534,896	1,392,105	(1,221,407)	705,594
Total operating revenue	14,349,573	1,754,548	(1,221,407)	14,882,714
Expenses				
Employee compensation	6,636,160	953,360	(158,790)	7,430,730
Supplies	2,410,285	180,767	(111,348)	2,479,704
Purchased services	948,040	205,074	(18,275)	1,134,839
Professional fees	1,464,887	219,240	(826,327)	857,800
Other	1,173,179	114,918	(106,385)	1,181,712
Interest	74,961	743	(2,425)	73,279
Depreciation and amortization	639,981	90,334	(282)	730,033
Total operating expenses	13,347,493	1,764,436	(1,223,832)	13,888,097
Income from Operations	1,002,080	(9,888)	2,425	994,617
Investment return	473,498	51,447	—	524,945
Loss from early extinguishment of debt	(2,768)	(3,275)	—	(6,043)
Nonoperating other	(1,231)	—	—	(1,231)
Nonoperating Gains, net	469,499	48,172	—	517,671
Excess of revenue and gains over expenses	1,471,579	38,284	2,425	1,512,288
Noncontrolling interests	(1,156)	(5,661)	—	(6,817)
Excess of Revenue and Gains over Expenses Attributable to Controlling Interest	1,470,423	32,623	2,425	1,505,471

Continued on following page.

AdventHealth

Consolidating Statement of Operations and Changes in Net Assets (continued)

For the Year Ended December 31, 2021

(dollars in thousands)

	<u>AdventHealth Obligated Group</u>	<u>All Other Entities</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
CONTROLLING INTEREST				
Net Assets Without Donor Restrictions				
Excess of revenue and gains over expenses	\$ 1,470,423	\$ 35,048	\$ —	\$ 1,505,471
Net assets released from restrictions for purchase of property and equipment	17,041	—	—	17,041
Transfers (to) from affiliates	(272,638)	272,638	—	—
Addition of net assets to the Obligated Group ³	664,262	(664,262)	—	—
Other	14,732	3,109	—	17,841
Increase (decrease) in net assets without donor restrictions	1,893,820	(353,467)	—	1,540,353
Net Assets With Donor Restrictions				
Gifts and grants	32,028	349	—	32,377
Net assets released from restrictions for purchase of property and equipment or use in operations	(28,076)	—	—	(28,076)
Investment return	2,774	—	—	2,774
Addition of net assets to the Obligated Group ³	451	(451)	—	—
Other	19,167	(1)	—	19,166
Increase (decrease) in net assets with donor restrictions	26,344	(103)	—	26,241
NONCONTROLLING INTERESTS				
Net Assets Without Donor Restrictions				
Excess of revenue and gains over expenses	1,905	5,475	—	7,380
Distributions	(2,333)	(2,601)	—	(4,934)
Other	5,664	(111)	—	5,553
Increase in noncontrolling interests	5,236	2,763	—	7,999
Increase (Decrease) in Net Assets	1,925,400	(350,807)	—	1,574,593
Net assets, beginning of period	11,567,704	1,198,998	(4,233)	12,762,469
Net assets, end of period	<u>\$ 13,493,104</u>	<u>\$ 848,191</u>	<u>\$ (4,233)</u>	<u>\$ 14,337,062</u>

³ On November 1, 2021, AdventHealth Ottawa, AdventHealth Riverview, AdventHealth South Overland Park, and AdventHealth Redmond became members of the Obligated Group.

AdventHealth Obligated Group

Combined Statement of Cash Flows

For the Year Ended December 31, 2021

(dollars in thousands)

Operating Activities

Increase in net assets	1,925,400
Increase in net assets from additions of entities to the Obligated Group	(664,262)
Depreciation and amortization	639,981
Amortization of deferred financing costs and original issue discounts and premiums	(22,927)
Transfers to affiliates, net	(380,624)
Net realized and unrealized gains on investments	536
Restricted gifts and grants and investment return	(34,802)
Income from unconsolidated entities	(34,688)
Distributions from unconsolidated entities	10,676
Changes in operating assets and liabilities:	
Patient accounts receivable	(1,422,690)
Other receivables	(50,818)
Other current assets	(2,410)
Accounts payable and accrued liabilities	215,804
Estimated settlements to third parties, net	(170,360)
Other current liabilities	(155,310)
Other noncurrent assets and liabilities	(34,038)
Net cash used in operating activities	(180,532)

Investing Activities

Cash from addition of entities to the Obligated Group	13,890
Purchase of property and equipment, net	(1,040,896)
Increase in investments	(1,495)
Decrease in assets whose use is limited	3,370
Return of capital from unconsolidated entities	847
Cash receipts on sold patient accounts receivable	1,096,635
Increase in other assets	(192,219)
Net cash used in investing activities	(119,868)

Financing Activities

Repayments of long-term borrowings	(668,947)
Additional long-term borrowings	1,502,254
Repayments of short-term borrowings	(3,975)
Additional short-term borrowings	200,000
Transfers from affiliates, net	380,624
Restricted gifts and grants and investment return	34,802
Net cash provided by financing activities	1,444,758

Increase in Cash, Cash Equivalents, and Cash Management Deposits

1,144,358

Cash, cash equivalents, and cash management deposits at beginning of period

6,556,576

Cash, Cash Equivalents, and Cash Management Deposits at End of Period

\$ 7,700,934

Noncash Investing Activity

Beneficial interest obtained in exchange for patient accounts receivable

\$ (1,225,686)

AdventHealth Obligated Group

Combined Interim Statement of Operations and Changes in Net Assets
(Unaudited)

For the Three Months Ended December 31, 2021

(dollars in thousands)

Revenue	
Net patient service revenue	\$ 3,752,936
Other	216,612
Total operating revenue	<u>3,969,548</u>
Expenses	
Employee compensation	1,837,348
Supplies	634,706
Purchased services	249,560
Professional fees	335,474
Other	364,321
Interest	23,359
Depreciation and amortization	175,957
Total operating expenses	<u>3,620,725</u>
Income from Operations	348,823
Nonoperating Gains	
Investment return	220,007
Nonoperating other	(1,231)
	<u>218,776</u>
Excess of revenue and gains over expenses	567,599
Noncontrolling interests	<u>795</u>
Excess of Revenue and Gains over Expenses Attributable to Controlling Interest	568,394
Other changes in net assets without donor restrictions, net	466,868
Increase in net assets with donor restrictions, net	3,112
Increase in Net Assets	<u><u>\$ 1,038,374</u></u>

Report of Independent Auditors

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

Opinion

We have audited the consolidated financial statements of Adventist Health System Sunbelt Healthcare Corporation (the System), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the System at December 31, 2021 and 2020, and the results of its operations and changes in net assets and its 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 Company 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 of 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 Company's ability to continue as a going concern for one year after the date that the financial statements are 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 of 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.

Report of Independent Auditors

- 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 Company'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 Company'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 audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating details and other supplementary information on pages 37 through 41 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information, except for that portion marked "unaudited," has been subjected to the auditing procedures applied in the audits 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, except for that portion marked "unaudited" on which we express no opinion, is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

Orlando, Florida
March 1, 2022