# Consolidated Financial Statements, Supplementary Information, and Reports and Schedule Required by the Uniform Guidance

AdventHealth
Years Ended December 31, 2022 and 2021
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

# AdventHealth

## Consolidated Financial Statements, Supplementary Information, and Reports and Schedule Required by the Uniform Guidance

Years Ended December 31, 2022 and 2021

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# Consolidated Balance Sheets

*December 31, 2022 and 2021*

| *(dollars in thousands)* | 2022 | 2021 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 602,891 | $ 506,777 |
| Investments | 6,090,304 | 7,716,423 |
| Current portion of assets whose use is limited | 450,606 | 438,224 |
| Patient accounts receivable | 1,394,202 | 1,123,267 |
| Due from brokers | 77,907 | 125,744 |
| Estimated settlements from third parties | 335,797 | 251,606 |
| Other receivables | 863,786 | 792,446 |
| Inventories | 321,835 | 327,697 |
| Prepaid expenses and other current assets | 185,882 | 148,682 |
| | 10,323,210 | 11,430,866 |
| **Property and Equipment** | 8,433,791 | 8,536,375 |
| **Operating Lease Assets** | 326,651 | 302,051 |
| **Assets Whose Use is Limited, net of current portion** | 398,803 | 452,973 |
| **Other Assets** | 1,764,502 | 1,705,906 |
| | $ 21,246,957 | $ 22,428,171 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | $ 1,899,628 | $ 1,953,148 |
| Estimated settlements to third parties | 214,855 | 162,081 |
| Due to brokers | 103,659 | 124,724 |
| Other current liabilities | 610,213 | 829,305 |
| Short-term financings | 727,256 | 520,310 |
| Current maturities of long-term debt | 125,633 | 58,102 |
| | 3,681,244 | 3,647,670 |
| **Long-Term Debt, net of current maturities** | 3,146,598 | 3,432,468 |
| **Operating Lease Liabilities, net of current portion** | 270,325 | 248,221 |
| **Other Noncurrent Liabilities** | 644,529 | 762,750 |
| | 7,742,696 | 8,091,109 |
| **Net Assets** | | |
| Net assets without donor restrictions | 13,241,885 | 14,062,347 |
| Net assets with donor restrictions | 217,604 | 221,319 |
| | 13,459,489 | 14,283,666 |
| Noncontrolling interests | 44,772 | 53,396 |
| | 13,504,261 | 14,337,062 |
| **Commitments and Contingencies** | | |
| | $ 21,246,957 | $ 22,428,171 |

*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, 2022 and 2021*

| *(dollars in thousands)* | 2022 | 2021 |
|---|---|---|
| **Revenue** | | |
| Net patient service revenue | $ 15,021,739 | $ 14,177,120 |
| Other | 678,689 | 705,594 |
| Total operating revenue | 15,700,428 | 14,882,714 |
| **Expenses** | | |
| Employee compensation | 8,558,161 | 7,430,730 |
| Supplies | 2,474,928 | 2,479,704 |
| Purchased services | 1,142,819 | 1,134,839 |
| Professional fees | 1,163,105 | 857,800 |
| Other | 1,154,358 | 1,181,712 |
| Interest | 98,516 | 73,279 |
| Depreciation and amortization | 824,790 | 730,033 |
| Total operating expenses | 15,416,677 | 13,888,097 |
| **Income from Operations** | 283,751 | 994,617 |
| **Nonoperating (Losses) Gains** | | |
| Investment return | (1,159,315) | 524,945 |
| Gain (loss) on extinguishment of debt | 31,929 | (6,043) |
| Other | – | (1,231) |
| Total nonoperating (losses) gains | (1,127,386) | 517,671 |
| (Deficiency) excess of revenue and gains over expenses and losses | (843,635) | 1,512,288 |
| Noncontrolling interests | 5,714 | (6,817) |
| **(Deficiency) Excess of Revenue and Gains over Expenses and Losses Attributable to Controlling Interest** | (837,921) | 1,505,471 |



*Continued on following page.*

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

*For the years ended December 31, 2022 and 2021*

| *(dollars in thousands)* | 2022 | 2021 |
|---|---|---|
| **CONTROLLING INTEREST** | | |
| **Net Assets Without Donor Restrictions** | | |
| (Deficiency) excess of revenue and gains over expenses and losses | $ (837,921) | $ 1,505,471 |
| Net assets released from restrictions for purchase of property and equipment | 11,539 | 17,041 |
| Other | 5,920 | 17,841 |
| (Decrease) increase in net assets without donor restrictions | (820,462) | 1,540,353 |
| **Net Assets With Donor Restrictions** | | |
| Gifts and grants | 50,813 | 32,377 |
| Net assets released from restrictions for purchase of property and equipment or use in operations | (25,820) | (28,076) |
| Investment return | (154) | 2,774 |
| Other | (28,554) | 19,166 |
| (Decrease) increase in net assets with donor restrictions | (3,715) | 26,241 |
| **NONCONTROLLING INTERESTS** | | |
| **Net Assets Without Donor Restrictions** | | |
| (Deficiency) excess of revenue and gains over expenses and losses | (5,714) | 7,380 |
| Distributions | (2,478) | (4,934) |
| Other | (432) | 5,553 |
| (Decrease) increase in noncontrolling interests | (8,624) | 7,999 |
| **(Decrease) Increase in Net Assets** | (832,801) | 1,574,593 |
| Net assets, beginning of year | 14,337,062 | 12,762,469 |
| Net assets, end of year | $ 13,504,261 | $ 14,337,062 |

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

# Consolidated Statements of Cash Flows

*For the years ended December 31, 2022 and 2021*

| *(dollars in thousands)* | 2022 | 2021 |
|---|---|---|
| **Operating Activities** | | |
| (Decrease) increase in net assets | $ (832,801) | $ 1,574,593 |
| Depreciation and amortization | 824,790 | 730,033 |
| Amortization of deferred financing costs and original issue discounts and premiums | (27,610) | (22,927) |
| (Gain) loss on extinguishment of debt | (31,929) | 6,043 |
| Gain on partial sale of Illinois Entities | (67,589) | – |
| (Gain) loss on sale of property, equipment and other assets | (40,839) | 1,127 |
| Net realized and unrealized losses (gains) on investments | 1,269,977 | (344,255) |
| Unrealized losses (gains) on assets whose use is limited | 67,170 | (2,306) |
| Restricted gifts and grants and investment return | (50,659) | 35,151 |
| Loss (income) from unconsolidated entities | 50,390 | (81,038) |
| Distributions from unconsolidated entities | 53,043 | 10,675 |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable | (1,349,815) | (1,443,205) |
| Other receivables | (62,500) | (65,859) |
| Other current assets | (49,274) | (514) |
| Accounts payable and accrued liabilities | (52,491) | 400,170 |
| Estimated settlements to third parties, net | (31,417) | (173,055) |
| Other current liabilities | (311,275) | (175,574) |
| Other noncurrent assets and liabilities | 8,881 | (47,161) |
| Net cash (used in) provided by operating activities | (633,948) | 401,898 |
| **Investing Activities** | | |
| Purchases of property and equipment, net | (1,007,002) | (1,335,739) |
| Cash paid for acquisitions, net of cash received | – | (646,052) |
| Cash received for partial sale of Illinois Entities, net | 219,827 | – |
| Sales and maturities of investments | 12,535,646 | 5,163,486 |
| Purchases of investments | (12,179,504) | (5,582,291) |
| Due from brokers | 47,837 | 772,424 |
| Due to brokers | (21,065) | (958,291) |
| Sales, maturities, and uses of assets whose use is limited | 1,035,041 | 129,081 |
| Purchases of and additions to assets whose use is limited | (1,065,578) | (114,566) |
| Return of capital from equity method investments | 28,252 | 848 |
| Consideration paid to acquire noncontrolling interest | – | (125,000) |
| Cash receipts on sold patient accounts receivable | 1,070,040 | 1,096,635 |
| Increase in other assets | (38,135) | (33,559) |
| Net cash provided by (used in) investing activities | 625,359 | (1,633,024) |
| **Financing Activities** | | |
| Repayments of long-term borrowings | (492,202) | (1,100,387) |
| Additional long-term borrowings | 335,727 | 1,494,395 |
| Repayments of short-term borrowings | (46,705) | (3,975) |
| Additional short-term borrowings | 252,721 | 200,000 |
| Payment of deferred financing costs | (652) | – |
| Restricted gifts and grants and investment return | 50,659 | (35,151) |
| Net cash provided by financing activities | 99,548 | 554,882 |
| **Increase (Decrease) in Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents** | 90,959 | (676,244) |
| Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of year | 889,132 | 1,565,376 |
| **Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents at End of Year** | $ 980,091 | $ 889,132 |
| **Noncash Investing Activity** | | |
| Beneficial interest obtained in exchange for patient accounts receivable | $ (1,078,880) | $ (1,225,686) |

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

# Notes to Consolidated Financial Statements

*For the years ended December 31, 2022 and 2021 (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 43 affiliated hospitals and related healthcare facilities are controlled through their by-laws, governing board appointments, or operating agreements. The System manages six additional hospitals within noncontrolled joint ventures. These 49 hospitals, along with 10 nursing homes and philanthropic foundations, operate in 9 states – Colorado, Florida, Georgia, Illinois, Kansas, Kentucky, North Carolina, Texas, and Wisconsin.

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

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

### Mission

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

Specifically, the System provides:

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

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

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

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

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

## 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 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 September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 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. The System adopted the standard effective January 1, 2022, 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. This ASU will be effective for the System beginning in 2023. Management does not anticipate this guidance will have a material impact.

## 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 settings. 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 $59,000 and $34,000 for the years ended December 31, 2022 and 2021, 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.

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 copays 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

# Notes to Consolidated Financial Statements

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

debt expense. Bad debt expense for the years ended December 31, 2022 and 2021 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, | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Amount | % | Amount | % |
| Managed Care | $ 7,837,129 | 52% | $ 7,518,396 | 53% |
| Medicare | 2,504,454 | 17 | 2,404,793 | 17 |
| Managed Medicare | 2,485,974 | 16 | 2,214,713 | 15 |
| Medicaid | 576,351 | 4 | 528,947 | 4 |
| Managed Medicaid | 910,994 | 6 | 802,751 | 6 |
| Self-pay | 130,719 | 1 | 113,715 | 1 |
| Other | 576,118 | 4 | 593,805 | 4 |
| | $ 15,021,739 | 100% | $ 14,177,120 | 100% |

## 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.

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, | |
|---|---|---|
| | 2022 | 2021 |
| **Charity Care Cost** | | |
| Cost of providing charity care services | $ 442,754 | $ 378,686 |
| **Charity Care Funding** | | |
| Funds received to offset or subsidize charity care services (included in patient service revenue) | $ 299,914 | $ 304,613 |
| Funds paid into trusts (included in other expenses) | (332,302) | (261,757) |
| Net charity care funding (paid) received | $ (32,388) | $ 42,856 |

### 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. 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 agreements.

| | December 31, 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents | $ 602,891 | $ 506,777 |
| Restricted cash and restricted cash equivalents included in assets whose use is limited | 377,200 | 382,355 |
| Total cash, cash equivalents, restricted cash, and restricted cash equivalents shown in the statements of cash flows | $ 980,091 | $ 889,132 |

### 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 of the funds are audited annually by independent auditors. The System’s risk is limited to its investment in the fund. 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 $892,000 and $114,000 as of December 31, 2022 and 2021, 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 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 $200,000 and $240,000 as of December 31, 2022 and 2021, respectively. The Bonds had an original 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.

As of December 31, 2022 and 2021, 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 $818,366 and $849,526, 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 $50,000 and $60,000 at December 31, 2022 and 2021, 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 $568,366 and $549,526 at December 31, 2022 and 2021, 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.

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

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, | |
|---|---|---|
| | 2022 | 2021 |
| Goodwill | $ 744,677 | $ 745,612 |
| Less: accumulated amortization | (133,046) | (59,085) |
| Goodwill, net | $ 611,631 | $ 686,527 |

Goodwill is amortized over a period of ten years. Amortization expense for goodwill was $75,175 and $35,633 for the years ended December 31, 2022 and 2021, respectively, and is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets.

## 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, 2022 and 2021.

NAHS also has temporary deductible differences of approximately $18,200 and $33,000 at December 31, 2022 and 2021, respectively, primarily as a result of net operating loss carryforwards. At December 31, 2022, NAHS had net operating loss carryforwards of approximately $10,000, expiring in 2023 through 2026. Deferred taxes have been provided for these amounts, resulting in a net deferred tax asset of approximately $4,500 and $8,100 at December 31, 2022 and 2021, 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, 2022 and 2021 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.

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, 2022 and 2021.

## Reclassifications

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

# Notes to Consolidated Financial Statements

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

## 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 |
| | | 652,279 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | | 4,532 |
| Other current liabilities | | 135 |
| Operating lease liabilities, net of current portion | | 1,549 |
| | | 6,216 |
| **Fair Value of Net Assets Acquired** | $ | 646,063 |

The goodwill acquired, totaling $520,000, represents the excess of the purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of the business acquired. Goodwill is included in other assets (noncurrent) in the accompanying consolidated balance sheets as of December 31, 2021.

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.

# Notes to Consolidated Financial Statements

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

The following pro forma combined results of operations present the acquisition as if it had occurred on January 1, 2021 and, as such, reflect 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, 2021. 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 |
|---|---|
| Pro forma revenue | $ 15,102,923 |
| Pro forma excess of revenue and gains over expenses and losses attributable to controlling interest | 1,486,179 |
| Pro forma change in net assets without donor restrictions | 1,510,821 |

### Illinois Market Changes

Effective April 1, 2022, the System and Ascension finalized the unwinding of their AMITA Health partnership, the joint operating company serving the healthcare needs of residents of the greater Chicago area. The change did not have a material impact on the System's accompanying consolidated financial statements.

The System entered into an affiliation agreement with The University of Chicago Medical Center (UCMC), an unrelated third party, that became effective December 31, 2022 (Affiliation). UCMC is an integrated academic health system that includes hospitals, outpatient clinics, and physician practices throughout the Chicago metropolitan area, suburbs, and Northwest Indiana. The transaction resulted in UCMC holding a controlling, 51 percent membership interest in Adventist Midwest Health, Inc. which owns the System's four Illinois hospitals and related facilities (Illinois Entities) as of December 31, 2022. The System will continue to own a noncontrolling, 49 percent membership interest and will manage Adventist Midwest Health, Inc. The System accounted for the transaction as a deconsolidation under Accounting Standards Codification (ASC) 810, as it ceased holding a controlling interest as of the transaction date. Net cash consideration of $219,827 was received by the System for the partial sale and the net carrying amount of the Illinois Entities' assets and liabilities sold, totaling $392,434, was deconsolidated. The System's remaining noncontrolling interest in Adventist Midwest Health, Inc. was measured at fair value totaling $240,196, represents noncash consideration, and is recognized as an equity method investment within other assets in the accompanying consolidated balance sheet as of December 31, 2022. The fair value of the noncontrolling interest was estimated using a combination of the income approach and a market approach. This fair value measurement is based on significant inputs that are not observable in the market and thus represents a Level 3 measurement as defined in ASC 820. The resulting gain of $67,589 was recognized within other revenue in the accompanying consolidated statement of operations and changes in net assets for the year ended December 31, 2022. The portion of the gain attributable to the fair value measurement of the System's noncontrolling interest in the Illinois Entities totaled approximately $46,686. In January 2023, the System and UCMC contributed an aggregate $150,000 to Adventist Midwest Health, Inc. to fund additional working capital needs, of which the System contributed $73,500. In connection with the transaction, effective November 1, 2022, the Illinois Entities withdrew from the System's Obligated Group, as more fully described in Note 8.

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

### Colorado Market Changes

In February 2023, the System and CommonSpirit Health (Sponsors) announced plans to terminate their joint operating agreement whereby Centura Health Corporation, a co-owned management company, managed the Sponsors' healthcare facilities in Colorado and Western Kansas. Following the termination, the System will operate its five hospitals and related healthcare facilities in Colorado and will continue to control and consolidate those facilities. The change will not have a material impact on the System's accompanying consolidated financial statements.

### Divestiture

In January 2023, the System signed definitive agreements with two, unrelated third parties, to sell its nine skilled nursing facilities in Florida, Texas and Kansas. These divestitures are subject to customary regulatory approvals and are expected to close in early 2023. The System exercised its right to terminate a lease for a skilled nursing facility that the System operates in Florida in September 2022. The lease termination is expected to be effective early 2023.

## 3. Investments and Assets Whose Use is Limited

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

| | December 31, 2022 | 2021 |
|---|---|---|
| **Debt securities** | | |
| U.S. government agencies and sponsored entities | $ 3,104,617 | $ 3,311,876 |
| Foreign government agencies and sponsored entities | 185,143 | 299,462 |
| Corporate bonds | 52,761 | 83,288 |
| Mortgage backed | 38,079 | 38,280 |
| Other asset backed | 27,075 | 26,253 |
| Short-term investments | 35,424 | 5,377 |
| Accrued interest | 16,969 | 13,583 |
| | 3,460,068 | 3,778,119 |
| **Domestic equity securities** | 48,981 | 131,818 |
| **Exchange traded and mutual funds** | | |
| Domestic equity | 779,259 | 1,314,482 |
| Foreign equity | 322,579 | 667,974 |
| Fixed income | 680,093 | 977,468 |
| | 1,781,931 | 2,959,924 |
| **Investments at NAV** | | |
| Hedge funds and private equity funds | 955,948 | 1,014,704 |
| Commingled funds | 315,585 | 340,700 |
| | 1,271,533 | 1,355,404 |
| **Cash and cash equivalents – assets whose use is limited** | 377,200 | 382,355 |
| | 6,939,713 | 8,607,620 |
| Less: assets whose use is limited | (849,409) | (891,197) |
| **Investments** | $ 6,090,304 | $ 7,716,423 |

# Notes to Consolidated Financial Statements

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

## Investment Derivatives

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

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | Notional | | Fair Value | |
| | Long | Short | Assets | Liabilities |
| Equity options | $ 201 | $ (582) | $ 201 | $ (582) |
| Interest rate swaps | 10,994 | (21,452) | 10,994 | (21,452) |
| Futures | 1,352,920 | (235,312) | – | – |
| Foreign currency exchange contracts | 39,476 | (259,017) | 1,297 | (6,098) |
| Total derivative instruments, gross | $ 1,403,591 | $ (516,363) | $ 12,492 | $ (28,132) |

| | 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 | $ 1,628,530 | $ (739,780) | $ 7,130 | $ (7,790) |

The System posted collateral related to investment derivative instruments totaling $40,904 and $47,607 as of December 31, 2022 and 2021, 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 $(137,760) and $93,286 for the years ended December 31, 2022 and 2021, 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, | |
|---|---|---|
| | 2022 | 2021 |
| Self-insurance trust funds | $ 421,917 | $ 459,497 |
| Employee benefits funds | 292,748 | 272,136 |
| Other | 134,744 | 159,564 |
| | 849,409 | 891,197 |
| Less: amounts to pay current liabilities | (450,606) | (438,224) |
| | $ 398,803 | $ 452,973 |

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

### Investment Return and Unrealized Gains and Losses

Investment return from cash and cash equivalents, investments, and certain 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, 2022 | 2021 |
|---|---|---|
| Interest and dividend income | $ 238,758 | $ 178,641 |
| Net realized (losses) gains | (136,594) | 202,092 |
| Net change in unrealized (losses) gains | (1,261,479) | 144,212 |
| | $(1,159,315) | $ 524,945 |

## 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 167 and 219 days cash and investments on hand at December 31, 2022 and 2021, respectively. Days cash and investments on hand excludes cash on the balance sheet as of December 31, 2021 from Medicare Accelerated Payments and deferred payroll taxes. As described in Note 14, the System made repayments of $265,000 and $181,000 on the Medicare Accelerated Payments during 2022 and 2021, respectively. Days cash and investments 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, 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents | $ 602,891 | $ 506,777 |
| Investments | 6,090,304 | 7,716,423 |
| Due (to) from brokers, net | (25,752) | 1,020 |
| | $ 6,667,443 | $ 8,224,220 |
| Unrestricted days cash and investments on hand | 167 | 219 |

The System's financial assets also consist of patient accounts receivable totaling $1,394,202 and $1,123,267 as of December 31, 2022 and 2021, respectively. Other receivables, totaling $863,786 and $792,446 as of December 31, 2022 and 2021, respectively, 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.

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

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.

## 5. Property and Equipment

Property and equipment consist of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Land and improvements | $ 1,093,314 | $ 1,097,939 |
| Buildings and improvements | 6,946,339 | 7,389,680 |
| Equipment | 6,796,035 | 6,406,298 |
| | 14,835,688 | 14,893,917 |
| Less: allowances for depreciation | (7,034,526) | (7,200,916) |
| | 7,801,162 | 7,693,001 |
| Construction in progress | 632,629 | 843,374 |
| | $ 8,433,791 | $ 8,536,375 |

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 $272,000 at December 31, 2022.

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 $61,500 and $369,000 at December 31, 2022 and 2021, respectively. The System is implementing Epic, an electronic clinical billing system, throughout 2022 and 2023. As the first locations went live with Epic in March 2022, the System began amortizing the project implementation costs, which totaled $25,700 as of December 31, 2022 and are included in depreciation expense. 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, 2022 | December 31, 2021 |
|---|---|---|
| Capitalized software costs | $ 698,252 | $ 380,291 |
| Less: accumulated amortization | (350,093) | (293,101) |
| Capitalized software costs, net | $ 348,159 | $ 87,190 |

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

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

| | |
|---|---|
| 2023 | $ 40,980 |
| 2024 | 34,620 |
| 2025 | 27,886 |
| 2026 | 25,412 |
| 2027 | 25,389 |
| Thereafter | 193,872 |

During periods of construction and periods of developing software, interest costs are capitalized. Interest capitalized approximated $8,800 and $16,800 for the years ended December 31, 2022 and 2021, respectively.

## 6. Other Assets

Other assets consist of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Investments in unconsolidated entities | $ 970,452 | $ 827,559 |
| Goodwill | 611,631 | 686,527 |
| Interests in net assets of unconsolidated foundations | 59,114 | 87,769 |
| Notes and other receivables | 60,445 | 58,570 |
| Other noncurrent assets | 62,860 | 45,481 |
| | $ 1,764,502 | $ 1,705,906 |

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

| | Ownership Interest | December 31, 2022 | December 31, 2021 |
|---|---|---|---|
| Health First, Inc. | 27% | $ 336,056 | $ 407,901 |
| Adventist Midwest Health, Inc. | 49% | 240,196 | – |
| Texas Health Huguley, Inc. | 49% | 204,437 | 209,669 |
| Centura Health Corporation | 35% | 68,439 | 100,047 |
| Other | 5% – 50% | 121,324 | 109,942 |
| | | $ 970,452 | $ 827,559 |

Loss or income from unconsolidated entities totaled $(50,390) and $81,038 for the year ended December 31, 2022 and 2021, respectively, and is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

As described in Note 2, effective December 31, 2022, the System sold a controlling interest in its Illinois Entities to UCMC. Its remaining noncontrolling interest in Adventist Midwest Health, Inc. is accounted for as an equity method investment, totaling $240,196 at December 31, 2022.

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

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

June 2021. The remaining $100,000 is payable on June 30, 2023 and is included in other current liabilities in the accompanying consolidated balance sheets.

## 7. Leases

The System's leases primarily consist of real estate and medical equipment. The System determines whether 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 three months to twenty 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, 2022 | December 31, 2021 |
|---|---|---|
| **Operating Leases** | | |
| Operating lease assets | $ 326,651 | $ 302,051 |
| Other current liabilities | $ 75,436 | $ 82,439 |
| Operating lease liabilities, net of current portion | 270,325 | 248,221 |
| Total operating lease liabilities | $ 345,761 | $ 330,660 |
| **Finance Leases** | | |
| Property and equipment | $ 16,729 | $ 30,401 |
| Current maturities of long-term debt | $ 7,452 | $ 9,096 |
| Long-term debt, net of current maturities | 10,749 | 19,889 |
| Total finance lease liabilities | $ 18,201 | $ 28,985 |

# Notes to Consolidated Financial Statements

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

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, 2022 | December 31, 2021 |
|---|---|---|
| Operating lease expense | $ 103,198 | $ 106,306 |
| Variable lease expense | 30,470 | 48,155 |
| Short-term lease expense | 48,202 | 28,454 |
| Finance lease expense | | |
| Amortization of lease assets | 6,630 | 7,840 |
| Interest on lease liabilities | 400 | 1,679 |
| Total lease expense | $ 188,900 | $ 192,434 |

Lease term and discount rate were as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Weighted-average remaining lease term: | | |
| Operating leases | 8.1 years | 8.2 years |
| Finance leases | 12.0 years | 11.6 years |
| Weighted-average discount rate: | | |
| Operating leases | 2.0% | 2.1% |
| Finance leases | 1.3% | 2.0% |

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, 2022:

| | Operating Leases | Finance Leases | Total |
|---|---|---|---|
| 2023 | $ 82,743 | $ 7,637 | $ 90,380 |
| 2024 | 64,857 | 7,262 | 72,119 |
| 2025 | 51,283 | 327 | 51,610 |
| 2026 | 41,540 | 315 | 41,855 |
| 2027 | 34,162 | 304 | 34,466 |
| Thereafter | 118,204 | 3,600 | 121,804 |
| Total lease payments | 392,789 | 19,445 | $ 412,234 |
| Less: imputed interest | 47,028 | 1,244 | |
| Total lease liabilities | $ 345,761 | $ 18,201 | |

Supplemental cash flow information related to leases was as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ 107,746 | $ 128,294 |
| Operating cash flows from finance leases | 485 | 1,305 |
| Financing cash flows from finance leases | 8,047 | 8,529 |
| Lease assets obtained in exchange for new operating lease liabilities | 4,305 | 38,367 |
| Lease assets obtained in exchange for new finance lease liabilities | 801 | 2,502 |

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

## 8. Debt Obligations

Long-term debt consisted of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Fixed-rate hospital revenue bonds, interest rates from 2.15% to 5.00%, payable through 2051 | $ 3,033,610 | $ 3,188,495 |
| Other notes payable | 7,537 | 6,349 |
| Finance leases payable | 18,201 | 28,985 |
| Unamortized original issue premium, net | 231,999 | 288,770 |
| Deferred financing costs | (19,116) | (22,029) |
| | 3,272,231 | 3,490,570 |
| Less: current maturities | (125,633) | (58,102) |
| | $ 3,146,598 | $ 3,432,468 |

### 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, 2022 and 2021, the Obligated Group had total net assets of approximately $12,791,000 and $13,493,000, respectively.

### Variable-Rate Bonds and Sources of Liquidity

Certain variable-rate bonds, including $474,535 and $520,310 as of December 31, 2022 and 2021, 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 2022, with annual interest rates ranging from 0.09% to 4.08%. Additionally, the System paid fees, such as remarketing fees, on variable-rate bonds during 2022.

The System has various sources of liquidity, including a revolving credit agreement (Revolving Note) with a syndicate of banks and a commercial paper program (CP Program). The Revolving Note 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 SOFR-based pricing options. In October 2022, the System increased the capacity of its Revolving Note from $500,000 to $750,000 and extended the maturity date from December 2023 to October 2027. As of December 31, 2022, $100,000 was outstanding under the Revolving Note, which is classified as short-term financings on the accompanying consolidated balance sheet. The outstanding balance under the Revolving Note was subsequently paid in January 2023. No amounts were outstanding as of December 31, 2021. At December 31, 2022 and 2021, the System had approximately $3,500 and $500, respectively, 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. As of December 31, 2022, $152,721 is outstanding under the CP Program with an interest rate of 4.68%, which is included in short-term financings in the accompanying consolidated balance sheet. No amounts were outstanding as of December 31, 2021.

## 2022 Debt Transactions

During the second quarter of 2022, the System issued fixed-rate bonds with par amounts totaling $335,007, final maturity dates ranging from 2029 to 2037, and stated interest rates ranging from 2.52% to 2.79%. The System used $296,007 of bond proceeds, along with other available funds, for repayment of fixed-rate and put bonds, which resulted in a gain on extinguishment of debt totaling $15,217 in the accompanying consolidated statement of operations and changes in net assets. The System used the remaining $39,000 of bond proceeds to finance or refinance certain costs of the acquisition, construction, and equipping of certain facilities.

In connection with the Affiliation (Note 2), certain bonds were retired during the third and fourth quarters of 2022. As such, the System drew $152,721 under the CP Program. The System used $54,917 of CP Program proceeds for open market repurchases of fixed-rate bonds, $36,090 for repayment of variable-rate bonds and deposited $61,100 of CP Program proceeds, along with other available funds, into an irrevocable trust for the advance repayment of fixed-rate bonds and the related interest obligations through the respective call or put dates. These open market repurchases and advance payments resulted in an aggregate gain on extinguishment of debt totaling $16,712 in the accompanying consolidated statement of operations and changes in net assets. Effective November 1, 2022, the Illinois Entities withdrew from the Obligated Group.

## 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 were 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 sheets. 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 used 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 2021, the System made short-term draws under the Revolver and the CP Program. These draws were repaid and no amounts are outstanding as of December 31, 2021 under either program.

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

### 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:

| | |
|---|---|
| 2023 | $ 116,712 |
| 2024 | 68,297 |
| 2025 | 146,556 |
| 2026 | 329,400 |
| 2027 | 85,117 |
| Thereafter | 2,295,065 |

Cash paid for interest, net of amounts capitalized, approximated $126,000 and $92,000 during the years ended December 31, 2022 and 2021, 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 $215,809 and $202,815 for the years ended December 31, 2022 and 2021, 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.

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

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, 2021 and is as follows:

| | |
|---|---|
| Total plan assets | $ 500,841 |
| Actuarial present value of accumulated plan benefits | 439,245 |
| Funded status | 114.0% |

The System did not make contributions to the Old Plan for the years ended December 31, 2022 or 2021.

### 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, 2022 and 2021, 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, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| Accumulated benefit obligation, end of year | $ 101,229 | $ 142,168 |
| Change in projected benefit obligation: | | |
| Projected benefit obligation, beginning of year | $ 142,168 | $ 160,186 |
| Interest cost | 4,092 | 4,170 |
| Benefits paid | (9,279) | (15,445) |
| Actuarial gains | (35,752) | (6,743) |
| Projected benefit obligation, end of year | 101,229 | 142,168 |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of year | 129,967 | 141,342 |
| Actual return on plan assets | (27,925) | 4,070 |
| Benefits paid | (9,279) | (15,445) |
| Fair value of plan assets, end of year | 92,763 | 129,967 |
| Deficiency of fair value of plan assets over projected benefit obligation, included in other noncurrent liabilities | $ (8,466) | $ (12,201) |

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

No plan assets are expected to be returned to the System during the fiscal year ending December 31, 2023.

Included in net assets without donor restrictions at December 31, 2022 and 2021 are unrecognized actuarial losses of $16,068 and $17,705, 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, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| Net actuarial gains | $ 1,499 | $ 4,012 |
| Amortization of net actuarial losses | 138 | 235 |
| Settlements | – | 1,141 |
| Total decrease recognized in net assets without donor restrictions | $ 1,637 | $ 5,388 |

The components of net periodic pension benefit were as follows:

| | Year Ended December 31, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| Interest cost | $ 4,092 | $ 4,170 |
| Expected return on plan assets | (6,328) | (6,801) |
| Recognized net actuarial losses | 138 | 235 |
| Net periodic pension benefit | $ (2,098) | $ (2,396) |

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, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| **Used to determine projected benefit obligation** | | |
| Weighted-average discount rate | 5.65% | 2.95% |
| **Used to determine pension cost** | | |
| Weighted-average discount rate | 2.95% | 2.65% |
| 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.

During 2022, the weighted-average discount rate, which is determined using a cash flow matching approach, increased to 5.65%, resulting in an actuarial gain of $35,676. 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, 2022 and

# Notes to Consolidated Financial Statements

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

2021, the target investment allocation for the Pension Plans was 70% debt securities, 27% equity securities, and 3% alternative investments.

The following table presents the Pension Plans' financial instruments as of December 31, 2022, 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 | $ 3,338 | $ 3,338 | $ – | $ – |
| **Debt securities** | | | | |
| U.S. government agencies and sponsored entities | 26,523 | – | 26,523 | – |
| Corporate bonds | 37,312 | – | 37,312 | – |
| **Equity securities** | | | | |
| Domestic equities | 2,986 | 2,986 | – | – |
| Foreign equities | 769 | 769 | – | – |
| **Exchange traded funds** | | | | |
| Domestic equity | 14,476 | 14,476 | – | – |
| Foreign equity | 4,774 | 4,774 | – | – |
| Alternative strategy mutual funds | 2,585 | 2,585 | – | – |
| **Total plan assets** | $ 92,763 | $ 28,928 | $ 63,835 | $ – |

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** | $ 129,967 | $ 37,830 | $ 92,137 | $ – |

# Notes to Consolidated Financial Statements

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

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

| | |
|---|---|
| 2023 | $ 7,050 |
| 2024 | 7,243 |
| 2025 | 7,440 |
| 2026 | 7,586 |
| 2027 | 7,768 |
| 2028-2032 | 39,094 |

## 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 $15,000 was established for the year ended December 31, 2003 and was increased to $20,000 effective April 1, 2020. 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 $421,917 and $459,497 at December 31, 2022 and 2021, respectively. The related accrued claims are recorded in the accompanying consolidated balance sheets as other current liabilities in the amount of $118,173 and $112,505 and as other noncurrent liabilities in the amount of $394,214 and $361,369 at December 31, 2022 and 2021, respectively. These liabilities are based upon actuarially determined estimates using a discount rate of 3.75% at December 31, 2022 and 2021. The related estimated insurance recoveries are recorded as other assets in the amount of $9,501 and $9,724 in the accompanying consolidated balance sheets at December 31, 2022 and 2021, 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.

## 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 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.

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

**Recurring Fair Value Measurements**

The fair value of financial instruments measured at fair value on a recurring basis at December 31, 2022 was as follows:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| *CASH AND CASH EQUIVALENTS* | $ 602,891 | $ 588,407 | $ 14,484 | $ – |
| *INVESTMENTS AND ASSETS WHOSE USE IS LIMITED* | | | | |
| Cash and cash equivalents | 377,200 | 377,200 | – | – |
| **Debt securities** | | | | |
| U.S. government agencies and sponsored entities | 3,104,617 | – | 3,104,617 | – |
| Foreign government agencies and sponsored entities | 185,143 | – | 185,143 | – |
| Corporate bonds | 52,761 | – | 52,761 | – |
| Mortgage backed | 38,079 | – | 38,079 | – |
| Other asset backed | 27,075 | – | 27,075 | – |
| Short-term investments | 35,424 | – | 35,424 | – |
| **Domestic equity securities** | 48,981 | 48,981 | – | – |
| **Exchange traded and mutual funds** | | | | |
| Domestic equity | 779,259 | 779,259 | – | – |
| Foreign equity | 322,579 | 322,579 | – | – |
| Fixed income | 680,093 | 680,093 | – | – |
| | 5,651,211 | 2,208,112 | 3,443,099 | – |
| **Total** | $ 6,254,102 | $ 2,796,519 | $ 3,457,583 | $ – |

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

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** | | | | |
| *CASH AND CASH EQUIVALENTS* | $ 506,777 | $ 504,726 | $ 2,051 | $ – |
| *INVESTMENTS AND ASSETS WHOSE USE IS LIMITED* | | | | |
| 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 | – | – |
| | 7,238,633 | 3,474,097 | 3,764,536 | – |
| **Total** | $ 7,745,410 | $ 3,978,823 | $ 3,766,587 | $ – |

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Investments and assets whose use is limited measured at fair value | $ 5,651,211 | $ 7,238,633 |
| Hedge funds and private equity funds | 955,948 | 1,014,704 |
| Commingled funds | 315,585 | 340,700 |
| Accrued interest | 16,969 | 13,583 |
| Total | $ 6,939,713 | $ 8,607,620 |
| | | |
| Investments | $ 6,090,304 | $ 7,716,423 |
| Assets whose use is limited: | | |
| Current | 450,606 | 438,224 |
| Noncurrent | 398,803 | 452,973 |
| Total | $ 6,939,713 | $ 8,607,620 |

# Notes to Consolidated Financial Statements

*For the years ended December 31, 2022 and 2021 (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.

Additionally, the System is implementing Epic, an electronic clinical and billing system. Certain of its locations went live with Epic in 2022 and therefore, the System began expensing the project implementation costs, many of which are reflected as corporate services.

Expenses by functional classification for the year ended December 31, 2022 consist of the following:

| | Healthcare Services | Corporate Services | Total |
|---|---|---|---|
| Employee compensation | $ 8,065,070 | $ 493,091 | $ 8,558,161 |
| Purchased services and professional fees | 1,952,120 | 353,804 | 2,305,924 |
| Supplies | 2,469,024 | 5,904 | 2,474,928 |
| Other | 1,954,839 | 122,825 | 2,077,664 |
| Total | $ 14,441,053 | $ 975,624 | $ 15,416,677 |

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 | $ 13,174,175 | $ 713,922 | $ 13,888,097 |

## 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 volumes, available staffing, and capacity. The System has experienced repeated surges of COVID-19, which have required the cancellation or delay 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, including elevated premium and contract labor costs and wage inflation resulting from workforce shortages. 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, 2022 and 2021, the System recognized approximately $65,000 and $78,000, 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 (Medicare Accelerated Payments), 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 of Medicare Accelerated Payments. Consistent with the terms and conditions of the program, repayments began in April 2021. Medicare Accelerated Payments owed totaled $265,000 as of December 31, 2021, and are included in other current liabilities in the accompanying consolidated balance sheet. During 2022, the System began making early repayments and the remaining balance was fully repaid as of December 31, 2022.

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, 2021, the System had deferred payroll tax payments of approximately $82,000, which are included in accounts payable and accrued liabilities in the consolidated balance sheet. In December 2022, the System fully repaid the remaining balance.

## 15. Subsequent Events

The System evaluated events and transactions occurring subsequent to December 31, 2022 through February 28, 2023, the date the accompanying consolidated financial statements were issued. During this period, there were no subsequent events, other than those discussed in Note 2 and Note 8, that required recognition in the accompanying consolidated financial statements nor were there any additional nonrecognized subsequent events that required disclosure.

*For the years ended December 31, 2022 and 2021 (dollars in thousands)*

## 16. Fourth Quarter Results of Operations (Unaudited)

The System's operating results for the three months ended December 31, 2022 are presented below:

| | |
|---|---|
| **Revenue** | |
| Net patient service revenue | $ 4,024,136 |
| Other | 283,306 |
| Total operating revenue | 4,307,442 |
| **Expenses** | |
| Employee compensation | 2,200,436 |
| Supplies | 636,684 |
| Purchased services | 293,942 |
| Professional fees | 338,124 |
| Other | 331,633 |
| Interest | 28,125 |
| Depreciation and amortization | 209,159 |
| Total operating expenses | 4,038,103 |
| **Income from Operations** | 269,339 |
| **Nonoperating Gains** | |
| Investment return | 217,435 |
| Gain on extinguishment of debt | 3,295 |
| Total nonoperating gains, net | 220,730 |
| Excess of revenue and gains over expenses | 490,069 |
| Noncontrolling interests | (667) |
| **Excess of Revenue and Gains over Expenses Attributable to Controlling Interest** | 489,402 |
| Other changes in net assets without donor restrictions, net | 23,679 |
| Decrease in net assets with donor restrictions, net | (6,486) |
| **Increase in Net Assets** | $ 506,595 |

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Report of Independent Auditors

Chief Executive Officer
Chief Financial Officer
The Board of Directors
Adventist Health System Sunbelt Healthcare Corporation
d/b/a AdventHealth

## Report on the Audit of the Financial Statements

### *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, 2022 and 2021, 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 as of December 31, 2022 and 2021, 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States *(Government Auditing Standards)*. 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 System, 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 the 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 System'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 from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* 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 and *Government Auditing Standards*, we:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System'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 System's ability to continue as a going concern for a reasonable period of time.

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

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to February 28, 2023. The Schedule of Expenditures of Federal Awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the Consolidated Year-End Financial Report as required by the *Illinois Grant Accountability and Transparency Act*, 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 has been subjected to the auditing procedures applied in the audit of the 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 GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated February 28, 2023 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Ernst + Young LLP

February 28, 2023, except for our report on
the Schedule of Expenditures of Federal
Awards and Consolidated Year-End
Financial Report, for which the date is
September 29, 2023

# Supplementary Information

# AdventHealth

## Schedule of Expenditures of Federal Awards

### Year Ended December 31, 2022

| Federal Awarding Agency/Program Title | Federal Assistance Listing Number | Additional Award Identification | Name of Funder Pass-Through Entity | Identifying Number Assigned By Funder Pass-Through Entity | Total Amount Provided to Sub-Recipients | Federal Expenditures | Federal Program Total | Cluster Name | Cluster Total |
|---|---|---|---|---|---|---|---|---|---|
| **DEPARTMENT OF AGRICULTURE** | | | | | | | | | |
| COMMUNITY FACILITIES LOANS AND GRANTS | 10.766 | | | | | $400,000 | $400,000 | N/A | $0 |
| DISTANCE LEARNING AND TELEMEDICINE LOANS AND GRANTS | 10.855 | | | | | $126,319 | $126,319 | N/A | $0 |
| **TOTAL DEPARTMENT OF AGRICULTURE** | | | | | | $526,319 | | | |
| **DEPARTMENT OF JUSTICE** | | | | | | | | | |
| *CRIME VICTIM ASSISTANCE* | *16.575* | | *CATHOLIC HEALTH INITIATIVES COLORADO FOUNDATION* | *220-VA-21-515-00* | | *$123,310* | *$123,310* | *N/A* | *$0* |
| **TOTAL DEPARTMENT OF JUSTICE** | | | | | | $123,310 | | | |
| **DEPARTMENT OF TREASURY** | | | | | | | | | |
| *COVID-19 CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS* | *21.027* | *COVID-19* | *KANSAS DEPARTMENT OF HEALTH AND ENVIRONMENT* | *N/A* | | *$1,743,738* | *$1,743,738* | *N/A* | *$0* |
| **TOTAL DEPARTMENT OF TREASURY** | | | | | | $1,743,738 | | | |
| **DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | | | | | | | |
| *SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES_PROJECTS OF REGIONAL AND NATIONAL SIGNIFICANCE* | *93.243* | | *COLORADO DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT* | *CT FHLA 2022*0851* | | *$17,505* | *$17,505* | *N/A* | *$0* |
| *COVID-19 SMALL RURAL HOSPITAL IMPROVEMENT GRANT PROGRAM* | *93.301* | *COVID-19* | *GEORGIA DEPARTMENT OF COMMUNITY HEALTH* | *N/A* | | *$67,857* | *$240,615* | *N/A* | *$0* |
| *COVID-19 SMALL RURAL HOSPITAL IMPROVEMENT GRANT PROGRAM* | *93.301* | *COVID-19* | *KANSAS HOSPITALS ASSOCIATION* | *N/A* | | *$172,758* | *$240,615* | *N/A* | *$0* |
| *TRANS-NIH RESEARCH SUPPORT* | *93.310* | | *BALL STATE* | *21-0124-002* | | *$759,706* | *$911,092* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *TRANS-NIH RESEARCH SUPPORT* | *93.310* | | *BALL STATE* | *21-0124-002* | | *$151,386* | *$911,092* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *NATIONAL CENTER FOR ADVANCING TRANSLATIONAL SCIENCES* | *93.350* | | *UNIVERSITY OF FLORIDA* | *SUB00002476* | | *$26,191* | *$26,191* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *CANCER TREATMENT RESEARCH* | *93.395* | | *BRIGHAM AND WOMEN'S HEALTH ALLIANCE CLIN TRIALS ONCOLOGY FOUNDATION* | *ALLIANCE AGREEMENT (FL086)* | | *$170,126* | *$242,479* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *CANCER TREATMENT RESEARCH* | *93.395* | | *CHILDREN'S HOSPITAL OF PHILADELPHIA* | *145-01* | | *$11,000* | *$242,479* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *CANCER TREATMENT RESEARCH* | *93.395* | | *CHILDREN'S HOSPITAL OF PHILADELPHIA* | *9500080216-13C* | | *$48,300* | *$242,479* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *CANCER TREATMENT RESEARCH* | *93.395* | | *UNIVERSITY OF PITTSBURGH* | *CNVA00061476* | | *$13,053* | *$242,479* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *CANCER CONTROL* | *93.399* | | *CATHOLIC HEALTH INITIATIVES INSTITUTE FOR RESEARCH AND INNOVATION* | *5UG1CA189809-09* | | *$12,150* | *$12,150* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| COVID-19 TESTING FOR THE UNINSURED | 93.461 | COVID-19 | | | | $9,631,896 | $9,631,896 | N/A | $0 |
| COVID-19 PROVIDER RELIEF FUND | 93.498 | COVID-19 | | | | $74,715,363 | $74,715,363 | N/A | $0 |
| *COVID-19 CHILD CARE AND DEVELOPMENT BLOCK GRANT* | *93.575* | *COVID-19* | *KANSAS DEPARTMENT FOR CHILDREN AND FAMILIES/CHILD CARE AWARE OF KANSAS* | *N/A* | | *$168,916* | *$168,916* | *N/A* | *$0* |
| COVID-19 TESTING FOR RURAL HEALTH CLINICS | 93.697 | COVID-19 | | | | $439,708 | $439,708 | N/A | $0 |
| CARDIOVASCULAR DISEASES RESEARCH | 93.837 | | | | $31,678 | $659,595 | $972,218 | RESEARCH AND DEVELOPMENT | $5,467,665 |
| *CARDIOVASCULAR DISEASES RESEARCH* | *93.837* | | *BROWN UNIVERSITY* | *00001352* | | *$208,935* | *$972,218* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |

| Federal Awarding Agency/Program Title | Federal Assistance Listing Number | Additional Award Identification | Name of Funder Pass-Through Entity | Identifying Number Assigned By Funder Pass-Through Entity | Total Amount Provided to Sub-Recipients | Federal Expenditures | Federal Program Total | Cluster Name | Cluster Total |
|---|---|---|---|---|---|---|---|---|---|
| *CARDIOVASCULAR DISEASES RESEARCH* | *93.837* | | *JAEB CENTER FOR HEALTH RESEARCH FOUNDATION, INC.* | *N/A* | | *$12,496* | *$972,218* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *CARDIOVASCULAR DISEASES RESEARCH* | *93.837* | | *THE OHIO STATE UNIVERSITY* | *N/A* | | *$7,576* | *$972,218* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *CARDIOVASCULAR DISEASES RESEARCH* | *93.837* | | *THE UNIVERSITY OF CHICAGO* | *AWD100270 (SUB00000167)* | | *$51,328* | *$972,218* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *CARDIOVASCULAR DISEASES RESEARCH* | *93.837* | | *UNIVERSITY OF CENTRAL FLORIDA* | *16268283-01* | | *$32,288* | *$972,218* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| ARTHRITIS, MUSCULOSKELETAL AND SKIN DISEASES RESEARCH | 93.846 | | | | $20,236 | $132,965 | $132,965 | RESEARCH AND DEVELOPMENT | $5,467,665 |
| DIABETES, DIGESTIVE, AND KIDNEY DISEASES EXTRAMURAL RESEARCH | 93.847 | | | | $73,506 | $423,881 | $1,686,431 | RESEARCH AND DEVELOPMENT | $5,467,665 |
| DIABETES, DIGESTIVE, AND KIDNEY DISEASES EXTRAMURAL RESEARCH | 93.847 | | | | $731,222 | $851,959 | $1,686,431 | RESEARCH AND DEVELOPMENT | $5,467,665 |
| DIABETES, DIGESTIVE, AND KIDNEY DISEASES EXTRAMURAL RESEARCH | 93.847 | | | | | $61,341 | $1,686,431 | RESEARCH AND DEVELOPMENT | $5,467,665 |
| *DIABETES, DIGESTIVE, AND KIDNEY DISEASES EXTRAMURAL RESEARCH* | *93.847* | | *HENRY FORD HEALTH SYSTEM* | *B11155_ADVENT* | | *$8,514* | *$1,686,431* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *DIABETES, DIGESTIVE, AND KIDNEY DISEASES EXTRAMURAL RESEARCH* | *93.847* | | *JAEB CENTER FOR HEALTH RESEARCH FOUNDATION, INC.* | *N/A* | | *$132,391* | *$1,686,431* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *DIABETES, DIGESTIVE, AND KIDNEY DISEASES EXTRAMURAL RESEARCH* | *93.847* | | *THE PENNSYLVANIA STATE UNIVERSITY* | *AHSDK127384* | | *$61,106* | *$1,686,431* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *DIABETES, DIGESTIVE, AND KIDNEY DISEASES EXTRAMURAL RESEARCH* | *93.847* | | *THE PENNSYLVANIA STATE UNIVERSITY* | *AHSDK127384-SUP* | | *$8,125* | *$1,686,431* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *DIABETES, DIGESTIVE, AND KIDNEY DISEASES EXTRAMURAL RESEARCH* | *93.847* | | *THE UNIVERSITY OF TEXAS - MD ANDERSON CANCER CENTER* | *3001707440* | | *$87,372* | *$1,686,431* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *DIABETES, DIGESTIVE, AND KIDNEY DISEASES EXTRAMURAL RESEARCH* | *93.847* | | *UNIVERSITY OF FLORIDA* | *SUB00002480* | | *$51,742* | *$1,686,431* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *CHILD HEALTH AND HUMAN DEVELOPMENT EXTRAMURAL RESEARCH* | *93.865* | | *CHILDREN'S RESEARCH INSTITUTE* | *30004438-18* | | *$10,600* | *$10,600* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| AGING RESEARCH | 93.866 | | | | $423,479 | $613,228 | $1,413,469 | RESEARCH AND DEVELOPMENT | $5,467,665 |
| *AGING RESEARCH* | *93.866* | | *CALIFORNIA PACIFIC MEDICAL CENTER RESEARCH INSTITUTE* | *280201015-S217* | | *$247,073* | *$1,413,469* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *AGING RESEARCH* | *93.866* | | *PENNINGTON BIOMEDICAL RESEARCH CENTER* | *AG069476-AH01* | | *$81,690* | *$1,413,469* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *AGING RESEARCH* | *93.866* | | *THE OHIO STATE UNIVERSITY* | *60070766* | | *$195,373* | *$1,413,469* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *AGING RESEARCH* | *93.866* | | *UNIVERSITY OF ALABAMA AT BIRMINGHAM* | *AWD00000026 (132575-2)* | | *$195,373* | *$1,413,469* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *AGING RESEARCH* | *93.866* | | *UNIVERSITY OF KANSAS MEDICAL CENTER RESEARCH INSTITUTE* | *AWD-0001709* | | *$6,361* | *$1,413,469* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *AGING RESEARCH* | *93.866* | | *UNIVERSITY OF PITTSBURGH* | *AWD00000219 (132902-1)* | | *$7,102* | *$1,413,469* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *AGING RESEARCH* | *93.866* | | *UNIVERSITY OF PITTSBURGH* | *AWD00005394* | | *$4,208* | *$1,413,469* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| *AGING RESEARCH* | *93.866* | | *WAKE FOREST UNIVERSITY HEALTH SCIENCES* | *1144-33664-11000000326* | | *$63,061* | *$1,413,469* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| RURAL HEALTH CARE SERVICES OUTREACH, RURAL HEALTH NETWORK DEVELOPMENT AND SMALL HEALTH CARE PROVIDER QUALITY IMPROVEMENT | 93.912 | | | | | $262,906 | $262,906 | N/A | $0 |
| *TUBERCULOSIS DEMONSTRATION, RESEARCH, PUBLIC AND PROFESSIONAL EDUCATION* | *93.947* | | *BIOTHERAPEUTICS, INC.* | *ABA001* | | *$60,070* | *$60,070* | *RESEARCH AND DEVELOPMENT* | *$5,467,665* |
| **TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | | | $1,280,121 | $90,944,574 | | | |
| | | | | | | | | | |
| **TOTAL EXPENDITURE OF FEDERAL AWARDS** | | | | | $1,280,121 | $93,337,941 | | | |

**Please Note:**
*Italicized award lines indicate pass-through funding*

*The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of the schedule.*

## 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Adventist Health System Sunbelt Healthcare Corporation d/b/a AdventHealth (the System) under programs of the federal government for the year ended December 31, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Expenditures reported on the Schedule are reported on the accrual basis of accounting. Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the combined financial position, results of operations or cash flows of the System.

## 2. 10% De Minimis Cost Rate

The System has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## 3. Reporting Entity

The System's reporting entity is defined in Note 1 to the System's consolidated financial statements. For the year ended December 31, 2022, federal expenditures related to the following entity was not included in the System's total federal expenditures reported in the Schedule. This entity has a separate financial statement audit, and, as such, their expenditures are subject to the requirements of the Uniform Guidance at that reporting level. The Entity not included in the Schedule is as follows:

- Adventist University of Health Sciences, Inc. d/b/a AdventHealth University

## 4. Contingencies

Grant monies received and disbursed by the System are for specific purposes and are subject to audit by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. The System does not believe that such disallowances, if any, would have a material effect on the combined financial position of the System.

## 5. COVID-19 Provider Relief Fund (Assistance Listing No. 93.498)

The Schedule includes $74,715,363 received from HHS between January 1, 2021 through December 31, 2021, under the Provider Relief Fund (PRF) program of Assistance Listing No. 93.498. In accordance with guidance from HHS, $31,081 in interest income earned on funds received from HHS has been included as a reportable PRF payment. These amounts are reported as Period 3 and Period 4 in the HHS PRF Reporting Portal. These amounts were recognized as other revenue and investment income in the System's consolidated financial statements in the accompanying consolidated statements of operations and changes in net assets for the years ended December 31, 2022 and 2021.

The amount presented on the Schedule for PRF is for the year ended December 31, 2022. The amount presented reconciles to the PRF information reported to HHS as follows:

| Name of Reporting Entity for HHS Reporting Periods 3 and 4 Provider Relief Fund Report | Reporting Entity Tax Identification Number (TIN) | Type of Distribution | Total Lost Revenues and Expenditures Reported |
|---|---|---|---|
| AdventHealth Family Medicine Rural Health Clinics, Inc. | 271858033 | General | $ 111,775 |
| AdventHealth Family Medicine Rural Health Clinics, Inc. | 271858033 | Targeted | 119,962 |
| AdventHealth Polk North, Inc. | 841793121 | General | 1,194,554 |
| AdventHealth Polk North, Inc. | 841793121 | Targeted | 251,741 |
| AdventHealth Polk South, Inc. | 834672945 | General | 357,150 |
| AdventHealth Polk South, Inc. | 834672945 | Targeted | 337,009 |
| AdventHealth Ransom Memorial, Inc. | 830976641 | General | 338,431 |
| AdventHealth Ransom Memorial, Inc. | 830976641 | Targeted | 1,373,547 |
| Adventist Bolingbrook Hospital | 651219504 | General | 459,688 |
| Adventist Bolingbrook Hospital | 651219504 | Targeted | 64,424 |
| Adventist Care Centers - Courtland, Inc. | 205774723 | General | 328,461 |
| Adventist Care Centers - Courtland, Inc. | 205774723 | Targeted | 243,301 |
| Adventist GlenOaks Hospital | 363208390 | General | 341,372 |
| Adventist GlenOaks Hospital | 363208390 | Targeted | 55,339 |
| Adventist Health Partners, Inc. | 364138353 | General | 1,702,946 |
| Adventist Health Partners, Inc. | 364138353 | Targeted | 7,919 |
| Adventist Health Partners, Inc. DBA Illinois Heart & Vascular | 800607953 | General | 107,234 |
| Adventist Health Partners, Inc. DBA Illinois Heart & Vascular | 800607953 | Targeted | 4,041 |
| Adventist Health System Georgia, Inc. | 581425000 | General | 586,813 |
| Adventist Health System Georgia, Inc. | 581425000 | Targeted | 2,948,064 |

## 5. COVID-19 Provider Relief Fund (Assistance Listing No. 93.498) (continued)

| Name of Reporting Entity for HHS Reporting Periods 3 and 4 Provider Relief Fund Report | Reporting Entity Tax Identification Number (TIN) | Type of Distribution | Total Lost Revenues and Expenditures Reported |
|---|---|---|---|
| Adventist Health System Georgia, Inc. dba AdventHealth Medical Group | 582629795 | General | $ 257,632 |
| Adventist Health System Georgia, Inc. dba AdventHealth Medical Group | 582629795 | Targeted | 616,765 |
| Adventist Health System/Sunbelt, Inc. DBA AdventHealth Centra Care | 593209688 | General | 201,738 |
| Adventist Health System/Sunbelt, Inc. DBA AdventHealth Centra Care | 593209688 | Targeted | 47,819 |
| Adventist Health System/Sunbelt, Inc. DBA AdventHealth Orlando | 590724459 | Targeted | 1,517,434 |
| Adventist Health System/Sunbelt, Inc. DBA AdventHealth Sebring | 590725553 | General | 1,657,347 |
| Adventist Health System/Sunbelt, Inc. DBA AdventHealth Sebring | 590725553 | Targeted | 4,322,318 |
| Adventist Midwest Health | 362276984 | General | 1,538,175 |
| Adventist Midwest Health | 362276984 | Targeted | 86,074 |
| Adventist Midwest Health DBA Adventist La Grange Memorial Hospital | 371762682 | General | 519,538 |
| Adventist Midwest Health DBA Adventist La Grange Memorial Hospital | 371762682 | Targeted | 45,316 |
| AHP Specialty Care, NFP | 811105774 | Targeted | 834 |
| Burleson Nursing & Rehab Center, Inc. | 205782243 | General | 241,015 |
| Burleson Nursing & Rehab Center, Inc. | 205782243 | Targeted | 41,514 |
| Chippewa Valley Hospital & Oakview Care Center, Inc. | 391365168 | General | 384,822 |
| Chippewa Valley Hospital & Oakview Care Center, Inc. | 391365168 | Targeted | 311,645 |
| East Orlando Health & Rehab Center, Inc. | 205774748 | General | 65,876 |
| East Orlando Health & Rehab Center, Inc. | 205774748 | Targeted | 252,113 |
| Fletcher Hospital, Inc. | 560543246 | General | 3,066,083 |
| Fletcher Hospital, Inc. | 560543246 | Targeted | 962,752 |
| FLNC, Inc. | 205774761 | General | 390,542 |
| FLNC, Inc. | 205774761 | Targeted | 5,373 |
| Florida Hospital Dade City, Inc. | 822567308 | General | 256,727 |
| Florida Hospital Dade City, Inc. | 822567308 | Targeted | 354,744 |
| Florida Hospital Medical Group, Inc. | 593214635 | Targeted | 126,539 |
| Florida Hospital Medical Group, Inc. dba AdventHealth Medical Group RAD | 262157500 | General | 1,137,174 |

## 5. COVID-19 Provider Relief Fund (Assistance Listing No. 93.498) (continued)

| Name of Reporting Entity for HHS Reporting Periods 3 and 4 Provider Relief Fund Report | Reporting Entity Tax Identification Number (TIN) | Type of Distribution | Total Lost Revenues and Expenditures Reported |
|---|---|---|---|
| Florida Hospital Medical Group, Inc. dba AdventHealth Medical Group RAD | 262157500 | Targeted | $ 100,999 |
| Florida Hospital Ocala, Inc. | 824372339 | General | 1,570,748 |
| Florida Hospital Ocala, Inc. | 824372339 | Targeted | 563,185 |
| Florida Hospital Physician Group, Inc. | 462021581 | General | 579,853 |
| Florida Hospital Physician Group, Inc. | 462021581 | Targeted | 77,429 |
| Florida Hospital Waterman, Inc. | 593140669 | General | 2,046,831 |
| Florida Hospital Waterman, Inc. | 593140669 | Targeted | 432,801 |
| Florida Hospital Zephyrhills, Inc. | 592108057 | General | 2,867,197 |
| Florida Hospital Zephyrhills, Inc. | 592108057 | Targeted | 734,277 |
| Florida Radiology Imaging at Lake Mary, LLC. | 550789387 | General | 62,969 |
| Florida Radiology Imaging at Lake Mary, LLC. | 550789387 | Targeted | 6,167 |
| Fountain Inn Nursing & Rehab Center, Inc. | 472180518 | General | 91,462 |
| Fountain Inn Nursing & Rehab Center, Inc. | 472180518 | Targeted | 211,074 |
| Hospice of the Comforter, Inc. | 592935928 | General | 304,530 |
| Hospice of the Comforter, Inc. | 592935928 | Targeted | 19,857 |
| Memorial Health Systems, Inc. | 590973502 | General | 1,743,177 |
| Memorial Health Systems, Inc. | 590973502 | Targeted | 458,948 |
| Memorial Hospital - West Volusia, Inc. | 593256803 | General | 2,258,833 |
| Memorial Hospital - West Volusia, Inc. | 593256803 | Targeted | 521,040 |
| Memorial Hospital Flagler, Inc. | 592951990 | General | 998,429 |
| Memorial Hospital Flagler, Inc. | 592951990 | Targeted | 207,546 |
| Memorial Hospital, Inc. | 610594620 | General | 858,147 |
| Memorial Hospital, Inc. | 610594620 | Targeted | 7,828,531 |
| Metroplex Adventist Hospital, Inc. | 742225672 | General | 604,163 |
| Metroplex Clinic Physicians, Inc. | 113762050 | Targeted | 15,078 |
| Metroplex Adventist Hospital, Inc. | 742225672 | Targeted | 722,814 |
| Overland Park Nursing & Rehab Center, Inc. | 205774821 | General | 548,263 |
| Overland Park Nursing & Rehab Center, Inc. | 205774821 | Targeted | 28,720 |
| Pasco-Pinellas Hillsborough Community Health System, Inc. | 208488713 | General | 631,265 |
| Pasco-Pinellas Hillsborough Community Health System, Inc. | 208488713 | Targeted | 150,861 |
| Portercare Adventist Health System | 840438224 | General | 2,759,331 |
| Portercare Adventist Health System | 840438224 | Targeted | 1,775,273 |
| Princeton Homecare Services, LLC | 814196648 | General | 568,259 |
| San Marcos Nursing & Rehab Center, Inc. | 205782224 | Targeted | 31,436 |
| Shawnee Mission Medical Center, Inc. | 480637331 | General | 3,496,748 |

## 5. COVID-19 Provider Relief Fund (Assistance Listing No. 93.498) (continued)

| Name of Reporting Entity for HHS Reporting Periods 3 and 4 Provider Relief Fund Report | Reporting Entity Tax Identification Number (TIN) | Type of Distribution | Total Lost Revenues and Expenditures Reported |
|---|---|---|---|
| Shawnee Mission Medical Center, Inc. | 480637331 | Targeted | $ 1,229,683 |
| Shawnee Mission Medical Center, Inc. DBA AdventHealth Medical Group | 753164164 | General | 800,669 |
| Shawnee Mission Medical Center, Inc. DBA AdventHealth Medical Group | 753164164 | Targeted | 120,457 |
| Shawnee Mission Prairie Star Surgery Center, LLC. | 364634843 | General | 23,589 |
| Shawnee Mission Prairie Star Surgery Center, LLC. | 364634843 | Targeted | 13,870 |
| Shawnee Mission Surgery Center, LLC. | 481243914 | General | 327,498 |
| Shawnee Mission Surgery Center, LLC. | 481243914 | Targeted | 22,089 |
| Southeast Volusia Healthcare Corporation | 473793197 | General | 786,639 |
| Southeast Volusia Healthcare Corporation | 473793197 | Targeted | 158,307 |
| Southwest Volusia Healthcare Corporation | 593149293 | General | 1,642,425 |
| Southwest Volusia Healthcare Corporation | 593149293 | Targeted | 136,285 |
| Sunbelt Health & Rehab Center - Apopka, Inc. | 205774856 | General | 301,327 |
| Sunbelt Health & Rehab Center - Apopka, Inc. | 205774856 | Targeted | 115,585 |
| Tarpon Springs Hospital Foundation, Inc. | 590898901 | General | 1,386,248 |
| Tarpon Springs Hospital Foundation, Inc. | 590898901 | Targeted | 167,421 |
| Tri-County Nursing and Rehab Center, Inc. | 472219363 | Targeted | 73,269 |
| University Community Hospital, Inc. | 591113901 | Targeted | 415,117 |
| West Florida Health Home Care, Inc. | 593686109 | General | 818,765 |
| West Florida Health Home Care, Inc. | 593686109 | Targeted | 48,391 |
| Zephyr Haven Health & Rehab Center, Inc. | 205774930 | General | 519,889 |
| Zephyr Haven Health & Rehab Center, Inc. | 205774930 | Targeted | 213,337 |
| Zephyrhills Health & Rehab Center, Inc. | 205774967 | General | 67,817 |
| Zephyrhills Health & Rehab Center, Inc. | 205774967 | Targeted | 108,765 |
| | | | $ 74,715,363 |

AdventHealth

Consolidated Year-End Financial Report

Year Ended December 31, 2022
*(In Thousands)*

| CSFA# | Program Name | State | Federal | Other | Total |
|---|---|---|---|---|---|
| 482-00-1716 | Hospital Health Protection Grant Program | $ 2,000 | $ – | $ – | $ 2,000 |
| Federal Grant | Other grant programs and activities | – | 93,338 | – | 93,338 |
| Other | All other cost not allocated | – | – | 15,321,339 | 15,321,339 |
| Totals | | $ 2,000 | $ 93,338 | $ 15,321,339 | $ 15,416,677 |

# Reports and Schedule Required by the Uniform Guidance

Ernst & Young LLP
Suite 2800
200 South Orange Avenue
Orlando, Florida 32801

Tel: +1 407 872 6600
ey.com

Building a better working world

# Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Chief Executive Officer
Chief Financial Officer
The Board of Directors
Adventist Health System Sunbelt Healthcare Corporation
d/b/a AdventHealth

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the consolidated financial statements of Adventist Health System Sunbelt Healthcare Corporation (the System), which comprise the consolidated balance sheet as of December 31,2022 and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"), and have issued our report thereon dated February 28,2023.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

February 28, 2023

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# Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Chief Executive Officer
Chief Financial Officer
The Board of Directors
Adventist Health System Sunbelt Healthcare Corporation
d/b/a AdventHealth

## Report of Independent Auditors on Compliance for Each Major Federal Program

### *Opinion on Each Major Federal Program*

We have audited Adventist Health System Sunbelt Healthcare Corporation's (the System) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2022. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

### *Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of the System's compliance with the compliance requirements referred to above.

### *Other Matter – Federal Expenditures Not Included in the Compliance Audit*

The System's consolidated financial statements include the operations of AdventHealth University, which expended $23,758,100 in federal awards that is not included in the System's schedule of expenditures of federal awards during the year ended December 31, 2022. Our compliance audit, described in the "Opinion on Each Major Federal Program" section, does not include the operations of AdventHealth University, because AdventHealth University engaged other auditors to perform an audit of compliance.

### *Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the System's federal programs.

### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the System's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the System's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

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

- Identify and assess the risks of material noncompliance, 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 System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

***Other Matters***

Our audit of the major federal program identified as Assistance Listing Number 93.461 included certain audit procedures for the compliance requirement associated with activities allowed or unallowed that were limited to tests of compliance that reimbursements received, or expected to be received, related to health services allowed under this federal program. Our audit of compliance was not designed to test or provide assurance on the determination of whether a service was medically necessary, obtained through a legally appropriate referral, properly performed, rendered in a quality manner from a clinical perspective, adequately supervised, accurately documented and classified (i.e., that the correct medical bill code assigned represents the health service performed), or rendered and billed by non-sanctioned individuals. Performing procedures related to these matters is not within our professional expertise. Additional information on the nature of our procedures is available in the AICPA Audit and Accounting Guide, *Health Care Entities*. Our audit procedures for the compliance requirement associated with eligibility were limited to tests of compliance that services reimbursed, or expected to be reimbursed, were for individuals who received a temporary member identification number from the third-party service provider used by HRSA to identify a lack of active health care coverage.

***Report on Internal Control Over Compliance***

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs to be a material weakness.

| Finding No. | Assistance Listing No. | Program Name | Compliance Requirement |
|---|---|---|---|
| 2022-001 | 93.461 | COVID-19 Testing for the Uninsured Program | A. Activities Allowed or Unallowed<br>E. Eligibility<br>N. Special Tests and Provisions |

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on the System's response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

September 29, 2023

AdventHealth

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2022

**Section I—Summary of Auditor's Results**

**Financial Statements**

| | |
|---|---|
| Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | ____ **yes** X **no** |
| Significant deficiency(ies) identified? | ____ **yes** X **none reported** |
| Noncompliance material to financial statements noted? | ____ **yes** X **no** |

**Federal Awards**

| | |
|---|---|
| Internal control over major federal programs: | |
| Material weakness(es) identified? | X **yes** ____ **no** |
| Significant deficiency(ies) identified? | ____ **yes** X **none reported** |
| Type of auditor's report issued on compliance for major federal programs | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | X **yes** ____ **no** |

Identification of major federal programs:

| **Assistance Listing numbers** | **Name of federal program or cluster** |
|---|---|
| 93.498 | COVID-19 Provider Relief Fund |
| 93.461 | COVID-19 Testing for the Uninsured Program |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $2,800,139 |
| Auditee qualified as low-risk auditee? | ____ **yes** X **no** |

**Section II – Financial Statement Findings**

None reported

**Section III—Federal Award Findings and Questioned Costs**

**Finding 2022-001**

*Identification of the federal program:*

**Federal Grantor**: United States Department of Health and Human Services, Health Resources and Services Administration (HRSA)

**Assistance Listing No.**: 93.461, COVID-19 Testing for the Uninsured Program

*Criteria or specific requirement (including statutory, regulatory or other citation):*

2 CFR Section 200.303 of the Uniform Guidance states the following regarding internal control:

"The Non-Federal entity must:

a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

*Condition:*

Management did not perform sufficient procedures to ensure that patients did not have health care coverage at the time the services were rendered. Refunds required to be made to the COVID-19 Testing for the Uninsured Program were not identified timely. Management represented that it inquired of the patients for insurance coverage, if any, prior to providing the services. However, documentation was not retained to support these inquiries. In addition, there were no procedures performed to support that a reasonable effort beyond inquiry was performed by management to verify the uninsured status of the patients. Further, Management did not maintain sufficient documentation to support the effectiveness of internal controls in place to ensure balance billing was not performed.

**Section III—Federal Award Findings and Questioned Costs (continued)**

*Cause:*

Management did not have sufficient internal controls in place to retain documentation of inquiries and other procedures performed to verify that patients were uninsured at the time services were provided.

Internal controls over balance billing were not suitably designed to maintain supporting documentation to test the operating effectiveness of the internal controls.

Internal controls were not suitably designed to identify refunds in a timely manner.

*Effect or potential effect:*

A patient may not be uninsured, and, therefore, the related encounter may be ineligible for reimbursement under the COVID-19 Testing for the Uninsured Program.

Credit balances may not be resolved timely, and refunds to the COVID-19 Testing for the Uninsured Program may not be identified or completed in a timely manner.

*Questioned costs: None*

*Context:*

Management performed an analysis of payments received from HRSA related to services provided from FY 2020 through the end of the program in March 2022 and identified approximately $2.3 million of claims that should not have been billed to HRSA. The $2.3 million was refunded to HRSA in 2023.

Total HRSA payments on patient claims for FY 2022 was $9,837,735. The amounts on the schedule of expenditures of federal awards (SEFA) is adjusted by $205,839 which represents the amounts reflected on the SEFA pertaining to the refunds made towards the COVID-19 Testing for the Uninsured Program.

*Identification as a repeat finding, if applicable: 2021-002*

**Section III – Federal Award Findings and Questioned Costs (continued)**

*Recommendation:*

The COVID-19 Testing for the Uninsured Program ended in the second quarter of 2022 and therefore development of internal controls is not required. However, if the program were to continue, we recommend Management should enhance its internal controls to ensure that reasonable procedures are performed to verify the uninsured status of the patients and that it documents the inquiries and retains support for other procedures performed. In addition, Management should enhance its internal controls to ensure that any refunds to HRSA, are timely remitted. Finally, Management should also ensure supporting documentation is retained to support the operating effectiveness of internal controls over balance billing.

*Views of responsible officials:*

Management agrees with the finding. Our standard procedure is to verify insurance coverage for all patients. We believe in instances where documentation was not maintained to evidence that additional insurance verification procedures were performed in addition to the standard patient inquiry, such instances were a documentation error and not a process issue. Since the federal program has ended, no further action will be taken.

Management has noted that in certain instances, patients identify themselves as uninsured but following their date of service, AdventHealth identified that the patient either had insurance coverage or was eligible for Medicaid. AdventHealth was not aware that the patient had insurance coverage and requested reimbursement from HRSA, prior to AdventHealth identifying insurance coverage. AdventHealth has processed a refund to HRSA, in instances where reimbursement was received from another payer or another payer was available to provide reimbursement. Documentation was established effective September 30, 2022, to evidence the operating effectiveness of internal controls in place over balance billing.

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## Corrective Action Plan

**December 31, 2022**

**Federal Award Findings and Questioned Costs – For the Year Ended December 31, 2022**

**Finding 2022-001 – Activities Allowed or Unallowed, Eligibility, and Special Tests and Provisions**

*Information on the federal program:*

***Federal Grantor:*** *United States Department* of Health and *Human Services, Health Resources and Services Administration (HRSA)*

***Assistance Listing No***.: *93.461, COVID-19 Testing for the Uninsured*

***Pass-Through Award Numbers:*** *Not applicable*

***Pass-Through Award Period of Performance:*** *01/01/2022–3/31/2022*

*Views of responsible officials and planned corrective actions:* Management agrees with the finding. Our standard procedure is to verify insurance coverage for all patients. We believe in instances where documentation was not maintained to evidence that additional insurance verification procedures were performed in addition to the standard patient inquiry, such instances were a documentation error and not a process issue. Since the federal program has ended, no further action will be taken.

Management has noted that in certain instances, patients identify themselves as uninsured but following their date of service, AdventHealth identified that the patient either had insurance coverage or was eligible for Medicaid. AdventHealth was not aware that the patient had insurance coverage and requested reimbursement from HRSA, prior to AdventHealth identifying insurance coverage. AdventHealth has processed a refund to HRSA, in instances where reimbursement was received from another payer or another payer was available to provide reimbursement. Documentation was established effective September 30, 2022, to evidence the operating effectiveness of internal controls in place over balance billing.

*Responsible official:* Stacey Wilson, Director Grants Management

Summary Schedule of Prior Audit Findings – For the Year Ended December 31, 2020 and 2021

## Finding 2020-001 – Activities Allowed or Unallowed and Allowable Costs/Cost Principles

*Information on the federal program:*
*Federal Grantor: United States Department of the Treasury*
*Assistance Listing No.: 21.019, COVID-19 Coronavirus Relief Fund (CRF)*
*Pass-Through Award Numbers: Various*
*Pass-Through Award Period of Performance: 03/01/2020–12/30/2020*
*Report Number: A-04-22-62861*

Summary of Prior Audit Finding:

*Condition:* As part of our testing of the operating effectiveness of internal controls over the activities allowed and allowable costs compliance requirement, we noted there was no evidence of review and approval of an employee's time sheet if the manager did not certify the hours as the payroll still ran.

*Recommendation:* AdventHealth should reinforce the importance of adherence to policies and procedures and internal controls over payroll. Evidence of review and approval, including elements of the review process validated by the reviewer, and related underlying support for the calculation should be maintained.

*Corrective action status:* AdventHealth requires a supervisor review and approval of employee time sheets for all time charged to a federal program. We believe that supervisor review and approval is occurring manually for all current federal programs across the organization. Since the federal program has ended, no further action will be taken.

*Responsible official:* Stacey Wilson, Director Grants Management

## Finding 2020-002 – Activities Allowed or Unallowed and Allowable Costs/Cost Principles

*Information on the federal program:*
*Federal Grantor: United States Department of the Treasury*
*Assistance Listing No.: 21.019, COVID-19 Coronavirus Relief Fund (CRF)*
*Pass-Through Award Numbers: Various*
*Pass-Through Award Period of Performance: 03/01/2020–12/30/2020*
*Report Number: A-04-22-62861*

Summary of Prior Audit Finding:

*Condition:* We noted there was a lack of evidence of approvals over purchases less than $2,500.

*Recommendation:* AdventHealth should formalize the review and approval process over purchases less than $2,500 that relate to federal expenditures. Evidence of review and approval, including elements of the review process validated by the reviewer, and adequate supporting documents should be maintained.

*Corrective action status:* Corrective action has been completed.

*Responsible official:* Stacey Wilson, Director Grants Management

## Finding 2020-003 – Activities Allowed or Unallowed and Allowable Costs/Cost Principles

*Information on the federal program:*
*Federal Grantor: United States Department of the Treasury*
*Assistance Listing No.: 21.019, COVID-19 Coronavirus Relief Fund (CRF)*
*Pass-Through Award Numbers: Various*
*Pass-Through Award Period of Performance: 03/01/2020–12/30/2020*
*Report Number: A-04-22-62861*

Summary of Prior Audit Finding:

*Condition:* AdventHealth did not reduce expenditures claimed for reimbursement by income received from other sources.

*Recommendation:* AdventHealth should reduce expenditures claimed for reimbursement by income received from other sources.

*Corrective action status:* Corrective action has been completed.

*Responsible official:* Stacey Wilson, Director Grants Management

## Finding 2020-004 – Activities Allowed or Unallowed and Eligibility

*Information on the federal program:*
*Federal Grantor: United States Department of Health and Human Services, Health Resources*
*and Services Administration (HRSA)*
*Assistance Listing No.: 93.461, COVID-19 Testing for the Uninsured*
*Pass-Through Award Numbers: Not applicable*
*Pass-Through Award Period of Performance: 02/04/2020–12/31/2020*
*Report Number: A-04-22-62861*

Summary of Prior Audit Finding:

*Condition:* AdventHealth was unable to determine the complete program expenditures to include on the schedule of expenditures of Federal awards.

*Recommendation:* AdventHealth should ensure billing department personnel are appropriately coding the payments related to the program to the proper payor class, including sufficient review.

*Corrective action status:* Corrective action has been completed.

*Responsible official:* Stacey Wilson, Director Grants Management

## Finding 2020-005 – Procurement and Suspension and Debarment

*Information on the federal program:*
*Federal Grantor: United States Department of Health and Human Services*
*Assistance Listing No.: 93.889, COVID-19 National Bioterrorism Hospital Preparedness Program*
*Pass-Through Award Numbers: Not Applicable*
*Pass-Through Award Period of Performance: 04/10/2020–04/09/2025*
*Report Number: A-04-22-62861*

Summary of Prior Audit Finding:

*Condition:* As part of our testing of the operating effectiveness of internal controls over the Procurement and Suspension and Debarment, we noted AdventHealth did not have entity wide procurement policies that conform to the Uniform Guidance for purchases made with Federal funds.

*Recommendation:* AdventHealth should update its procurement policies to include those provisions required by the Uniform Guidance when making purchases with federal funds.

*Corrective action status:* AdventHealth has appropriate procurement policies in place at AdventHealth Orlando, who prior to 2020 was our only hospital subject to Single Audit requirements. An organization wide procurement policy has been implemented, effective May 2022.

*Responsible official:* Stacey Wilson, Director Grants Management

## Finding 2020-006 – Schedule of Expenditures of Federal Awards (SEFA) - Reporting

*Information on the federal program:*

*Federal Grantor: United States Department of Health and Human Services, Health Resources and Services Administration (HRSA)*

*Assistance Listing No.: 93.461, COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund (Uninsured Program)*

*Pass-Through Award Numbers: Not Applicable*

*Pass-Through Award Period of Performance: 02/04/2020–12/31/2020*

Summary of Prior Audit Finding:

*Condition:* Management identified that certain entities within AdventHealth that received reimbursements from HRSA for the COVID-19 Testing for the Uninsured program were excluded from the federal expenditures reported on the SEFA.

*Recommendation:* Management should enhance its internal controls and review process to ensure that the federal expenditures included on the SEFA are accurate and includes all federal assistance.

*Corrective action status:* To compile the 2020 SEFA, a data query was created to capture all Uninsured Program federal expenses. Subsequent to issuing the SEFA, Management recognized that certain billing systems were not included within the data query. To remediate this error, a reconciliation was performed to identify any AdventHealth billing system for which Uninsured Program federal expenses were received/incurred. Uninsured Program federal expenses were then identified directly from the respective system and compiled to determine the total amount of Uninsured Program federal expenses to include on the SEFA. For the purpose of FY 2022, a reconciliation was performed to identify any AdventHealth billing system for which Uninsured Program payments were received to ensure the SEFA appropriately includes the total amount of Uninsured Program federal expense.

*Responsible official:* Stacey Wilson, Director Grants Management

Finding 2020-007 – Eligibility and Special Tests and Provisions

*Information on the federal program:*

*Federal Grantor: United States Department of Health and Human Services, Health Resources and Services Administration (HRSA)*

*Assistance Listing No.: 93.461, COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund (Uninsured Program)*

*Pass-Through Award Numbers: Not Applicable*

*Pass-Through Award Period of Performance: 02/04/2020–12/31/2020*

Summary of Prior Audit Finding:

*Condition:* AdventHealth did not retain audit evidence to support the report logic that was developed to extract patients from the physician and urgent care patient billing systems that were identified as uninsured and as having an allowable COVID-19 testing and treatment diagnosis code and eligible for reimbursement under this federal program. In addition, management did not retain audit evidence to support the report logic that was developed to ensure eligible patients were not billed for any remaining patient charges after HRSA paid on the account. In addition, supporting documentation was not retained to validate who had access to modify and run the script, what changes were made to the script and how any changes to the script were tested and implemented during the fiscal year based on changes to HRSA guidance and how management validated the completeness and accuracy of the data extracted by the script.

*Recommendation:* The COVID-19 Testing for the Uninsured Program ended in the second quarter of 2022. If the program were to continue, Management should address the following recommendation. AdventHealth should retain evidence of internal controls related to access and change management over the report. Management should implement a quality review process of eligible claims identified on a monthly basis to ensure that patients identified meet the required eligibility requirements.

*Corrective action status:* As it relates to the report logic, management recognized that certain billing systems were not included within the data query referenced in finding 2020-06. To remediate this error, a reconciliation was performed to identify any AdventHealth billing system for which Uninsured Program federal expenses were received/incurred. Uninsured Program federal expenses were then identified directly from the respective system and compiled to determine the total amount of Uninsured Program federal expenses to include on the SEFA. No further action will be taken regarding prospective documentation of patient uninsured status as the Uninsured Program has since ended. AdventHealth will continue to follow our standard practice for verifying patient insurance. Management will also retain supporting documentation to evidence the operating effectiveness of internal controls over balance billing.

*Responsible official:* Stacey Wilson, Director Grants Management

Finding 2021-001 – Reporting

*Information on the federal program:*

*Federal Grantor: United States Department of Health and Human Services, Health Resources and Services Administration (HRSA)*

*Assistance Listing No.: 93.498, COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution*

*Pass-Through Award Numbers: Not applicable*

*Pass-Through Award Period of Performance: 01/01/2021–12/31/2021*

Summary of Prior Audit Finding:

*Condition:* For its controlled affiliates, who filed two of the 103 PRF reports during Period 1 and Period 2, management did not retain sufficient documentation over its review of the HHS HRSA reports filed in the HHS HRSA portal. While management had a process to identify and calculate the lost revenue under the PRF program, documentation to support the review of the data entered in the HHS HRSA portal by appropriate personnel was not retained.

*Recommendation:* Management should enhance its internal controls to ensure that sufficient documentation over the review and approval of the data entered in the HHS HRSA portal prior to submission is maintained.

*Corrective action status:* Management has enhanced the internal control to require documentation to be maintained to evidence the review and approval of data submitted within the HHS HRSA portal.

*Responsible official:* Stacey Wilson, Director Grants Management

## Finding 2021-002 – Activities Allowed or Unallowed, Eligibility, and Special Tests and Provisions

*Information on the federal program:*

*Federal Grantor: United States Department of Health and Human Services, Health Resources and Services Administration (HRSA)*

*Assistance Listing No.: 93.461, COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund*

*Pass-Through Award Numbers: Not applicable*

*Pass-Through Award Period of Performance: 01/01/2021–12/31/2021*

Summary of Prior Audit Finding:

*Condition:* Management did not perform sufficient procedures, at certain facilities, to ensure that patients did not have health care coverage at the time the services were rendered. Management represented that it inquired of the patients for insurance coverage, if any, prior to providing the services. However, documentation was not retained to support these inquiries. In addition, there were no procedures performed to support that a reasonable effort beyond inquiry was performed by management to verify the uninsured status of the patients.

In addition, based on our testing, the following was noted:

- For certain samples tested, adequate patient records were not available to support covered services were provided
- For certain samples where the Uninsured Program was billed and paid for the service, we noted the patient had either retroactive Medicaid coverage or other insurance available at the time services were provided.
- We noted that AdventHealth did not maintain sufficient documentation to support the effectiveness of internal controls in place to ensure balance billing was not performed.

*Recommendation:* The Uninsured Program ended in the second quarter of 2022. If the program were to continue, Management should address the following recommendations.

Management should enhance its internal controls to ensure that reasonable procedures are performed to verify the uninsured status of the patients and that it documents the inquiries and retains support for other procedures performed. In addition, Management should enhance its internal controls to ensure that any refunds to HRSA, are timely remitted.

Finally, Management should also ensure supporting documentation is retained to support the operating effectiveness of internal controls over balance billing.

*Corrective action status:* Documentation was established effective September 30, 2022, to evidence the operating effectiveness of internal controls in place over balance billing. Our standard procedure is to verify insurance coverage for all patients. For the samples noted in the finding, documentation was not maintained to evidence that additional insurance verification procedures were performed in addition to the standard patient inquiry. We believe this was a documentation error and not a process issue. Since the federal program has ended, no further action was taken. AdventHealth uses several billing and electronic medical record systems to document services received by patients and payments received from payers, some of which are managed by third parties. Due to the complexity of the COVID-19 pandemic, patients were often seen in multiple settings (e.g., testing location, physician practice, hospital), with data elements maintained in various systems. This initially created challenges in providing the necessary documentation within the timeframe of the audit. However, management has since confirmed the documentation requested for the audit is available and appropriate.

Management has noted that in certain instances, patients identify themselves as uninsured but following their date of service, AdventHealth identifies that the patient either had insurance coverage or was eligible for Medicaid. For the samples noted in the finding, AdventHealth was not aware that the patient had insurance coverage and requested reimbursement from HRSA, prior to AdventHealth identifying insurance coverage. AdventHealth has processed a refund to HRSA, in instances where reimbursement was received from another payer or another payer was available to provide reimbursement, for Cerner and NextGen, billing systems. AdventHealth is actively analyzing what, if any, refunds are necessary in Athena, billing system. The analysis is expected to be completed by December 31, 2023.

*Responsible official:* Stacey Wilson, Director Grants Management

*Anticipated completion date:* December 31, 2023