Consolidated Interim Financial Statements

(Unaudited)

March 31, 2023

AdventHealth

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Consolidated Balance Sheets

March 31, 2023 and December 31, 2022

(dollars in thousands)	*(Unaudited)* March 31, 2023	December 31, 2022
ASSETS		
Current Assets		
Cash and cash equivalents	$ 887,785	$ 602,891
Investments	6,043,297	6,090,304
Current portion of assets whose use is limited	367,800	450,606
Patient accounts receivable	1,350,635	1,394,202
Due from brokers	290,492	77,907
Estimated settlements from third parties	319,175	335,797
Other receivables	925,019	863,786
Inventories	320,239	321,835
Prepaid expenses and other current assets	344,047	185,882
	10,848,489	10,323,210
Property and Equipment	8,410,081	8,433,791
Operating Lease Assets	339,707	326,651
Assets Whose Use Is Limited, net of current portion	421,311	398,803
Other Assets	1,833,149	1,764,502
	$ 21,852,737	$ 21,246,957
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,636,367	$ 1,899,628
Estimated settlements to third parties	244,808	214,855
Due to brokers	509,812	103,659
Other current liabilities	708,500	610,213
Short-term financings	474,535	727,256
Current maturities of long-term debt	126,201	125,633
	3,700,223	3,681,244
Long-Term Debt, net of current maturities	3,299,987	3,146,598
Operating Lease Liabilities, net of current portion	289,672	270,325
Other Noncurrent Liabilities	653,395	644,529
	7,943,277	7,742,696
Net Assets		
Net assets without donor restrictions	13,641,923	13,241,885
Net assets with donor restrictions	221,549	217,604
	13,863,472	13,459,489
Noncontrolling interests	45,988	44,772
	13,909,460	13,504,261
Commitments and Contingencies		
	$ 21,852,737	$ 21,246,957

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

Consolidated Statements of Operations and Changes in Net Assets

For the three months ended March 31, 2023 and 2022 (Unaudited)

(dollars in thousands)	Three Months Ended March 31, 2023	2022
Revenue		
Net patient service revenue	$ 3,804,117	$ 3,564,252
Other	187,816	106,746
Total operating revenue	3,991,933	3,670,998
Expenses		
Employee compensation	2,107,721	2,060,249
Supplies	621,488	626,206
Purchased services	277,627	275,275
Professional fees	281,380	258,287
Other	304,598	270,271
Interest	26,931	22,907
Depreciation and amortization	200,253	204,554
Total operating expenses	3,819,998	3,717,749
Income (Loss) from Operations	171,935	(46,751)
Nonoperating Gains (Losses)		
Investment return	228,424	(372,164)
Excess (deficiency) of revenue and gains over expenses and losses	400,359	(418,915)
Noncontrolling interests	(84)	1,199
Excess (Deficiency) of Revenue and Gains over Expenses and Losses Attributable to Controlling Interest	400,275	(417,716)

Continued on following page.

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

For the three months ended March 31, 2023 and 2022 (Unaudited)

(dollars in thousands)	Three Months Ended March 31, 2023	2022
CONTROLLING INTEREST		
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenue and gains over expenses and losses	$ 400,275	$ (417,716)
Net assets released from restrictions for purchase of property and equipment	39	1,984
Change in unrealized gains and losses on investments	3,489	(2,493)
Other	(3,765)	(1,635)
Increase (decrease) in net assets without donor restrictions	400,038	(419,860)
Net Assets With Donor Restrictions		
Gifts and grants	6,159	7,874
Net assets released from restrictions for purchase of property and equipment or use in operations	(4,560)	(5,055)
Investment return	743	(805)
Other	1,603	(9,423)
Increase (decrease) in net assets with donor restrictions	3,945	(7,409)
NONCONTROLLING INTERESTS		
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenue and gains over expenses and losses	84	(1,199)
Distributions	(147)	(1,383)
Other	1,279	(81)
Increase (decrease) in noncontrolling interests	1,216	(2,663)
Increase (Decrease) in Net Assets	405,199	(429,932)
Net assets, beginning of period	13,504,261	14,337,062
Net assets, end of period	$ 13,909,460	$ 13,907,130

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

Consolidated Statements of Cash Flows

For the three months ended March 31, 2023 and 2022 (Unaudited)

(dollars in thousands)	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Operating Activities		
Increase (decrease) in net assets	$ 405,199	$ (429,932)
Depreciation and amortization	200,253	204,554
Amortization of deferred financing costs and original issue discounts and premiums	(6,322)	(7,268)
Gain on sale of entities	(5,909)	–
Net realized and unrealized (gains) losses on investments	(419,550)	416,583
Unrealized gains on assets whose use is limited	(30,150)	(26,706)
Restricted gifts and grants and investment return	(6,902)	(7,069)
(Income) loss from unconsolidated entities	(11,021)	12,777
Distributions from unconsolidated entities	3,327	12,557
Changes in operating assets and liabilities:		
Patient accounts receivable	(253,067)	(405,758)
Other receivables	(15,991)	(73,561)
Other current assets	(53,971)	(55,604)
Accounts payable and accrued liabilities	(270,145)	(92,736)
Estimated settlements to third parties, net	46,575	132,081
Other current liabilities	(1,189)	(240,319)
Other noncurrent assets and liabilities	113,967	15,978
Net cash used in operating activities	(304,896)	(544,423)
Investing Activities		
Purchases of property and equipment, net	(261,549)	(270,209)
Sales and maturities of investments	2,293,370	1,881,431
Purchases of investments	(1,826,813)	(956,543)
Due from brokers	(212,585)	(22,021)
Due to brokers	406,153	36,275
Sales, maturities and uses of assets whose use is limited	609,524	45,980
Purchases of and additions to assets whose use is limited	(539,360)	(49,097)
Cash receipts on sold patient accounts receivable	251,392	375,169
Proceeds received for sale of entities	15,426	–
Additional investment in unconsolidated entity	(73,500)	–
(Increase) decrease in other assets	(7,012)	8,677
Net cash provided by investing activities	655,046	1,049,662
Financing Activities		
Repayments of long-term borrowings	(1,992)	(3,365)
Additional long-term borrowings	9,550	1,546
Repayments of short-term borrowings	(100,000)	–
Restricted gifts and grants and investment return	6,902	7,069
Net cash (used in) provided by financing activities	(85,540)	5,250
Increase in Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents	264,610	510,489
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	980,091	889,132
Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents at End of Period	$ 1,244,701	$ 1,399,621
Noncash Investing Activity		
Beneficial interest obtained in exchange for patient accounts receivable	$ (296,634)	$ (271,142)

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

Notes to Consolidated Financial Statements

March 31, 2023
(Unaudited)
(dollars in thousands)

1. Basis of Presentation

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 8 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 and losses 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.

Notes to Consolidated Financial Statements

March 31, 2023
(Unaudited)
(dollars in thousands)

Financial Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the three months ended March 31, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 2022.

Principles of Consolidation

The accompanying unaudited 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.

Recently Adopted Accounting Guidance

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The System adopted the standard effective January 1, 2023, using a modified-retrospective approach. This standard did not have a material impact on the System's accompanying consolidated financial statements.

Recent Accounting Guidance Not Yet Adopted

In March 2023, the FASB issued ASU No. 2023-01, *Leases (Topic 842): Common Control Arrangements*. This ASU requires that leasehold improvements associated with arrangements between entities under common control, which are determined to be leases, be amortized by the lessee over the useful life of the leasehold improvements to the common control group as long as the lessee controls the use of the underlying asset through a lease. In addition, entities will be required to account for leasehold improvements associated with common control leases as a transfer through an adjustment to net assets when the lessee no longer controls the use of the underlying asset. This ASU will be effective for the System beginning in 2024. Management does not anticipate this guidance will have a material impact to the System's consolidated financial statements.

(dollars in thousands)

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.

	March 31, 2023	March 31, 2022
Cash and cash equivalents	$ 887,785	$ 1,190,194
Restricted cash and restricted cash equivalents included in assets whose use is limited	356,916	209,427
Total cash, cash equivalents, restricted cash and restricted cash equivalents shown in the statements of cash flows	$ 1,244,701	$ 1,399,621

Reclassifications
Certain reclassifications were made to the 2022 consolidated financial statements to conform to the classifications used in 2023. These reclassifications had no impact on the consolidated excess of revenue and gains over expenses and losses, changes in net assets or cash flows previously reported.

2. Organizational Changes

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.

In September 2022, 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 continues to own a noncontrolling, 49 percent membership interest and manages 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, represented noncash consideration, and is recognized as an equity method investment within other assets in the accompanying consolidated balance sheets. 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 consolidated statement of operations and changes in net assets during the three months 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 AdventHealth Obligated Group, which is comprised of certain affiliates controlled by Healthcare Corporation.

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. The termination is expected to occur in the third quarter of 2023. 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. In March 2023, the System sold its two skilled nursing facilities in Texas and Kansas. Net cash consideration of $15,426 was received by the System for the sale and the net carrying amount of the assets and liabilities sold, totaling $9,517, was deconsolidated. The resulting gain of $5,909 was recognized within other revenue in the consolidated statement of operations and changes in net assets for the three months ended March 31, 2023.

The remaining Florida skilled nursing facilities were classified as held for sale in the accompanying consolidated balance sheet as of March 31, 2023. Assets held for sale at March 31, 2023 included property and equipment totaling $102,598 and are included in other current assets in the accompanying consolidated balance sheet. Liabilities held for sale at March 31, 2023 totaled $1,449 and are included in accounts payable and accrued liabilities in the accompanying consolidated balance sheet. The System expects to sell its remaining seven skilled nursing facilities in Florida during the second quarter of 2023. Additionally, in September 2022, the System exercised its right to terminate a lease for a skilled nursing facility that the System operates in Florida. The lease termination is expected to be effective during the second quarter of 2023.

3. Net Patient Service Revenue

Overview

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 $6,294 and $2,459 for the three months ended March 31, 2023 and 2022, respectively.

Notes to Consolidated Financial Statements

March 31, 2023
(Unaudited)
(dollars in thousands)

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 debt expense. Bad debt expense for the three months ended March 31, 2023 and 2022 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:

	Three Months Ended March 31,			
	2023		2022	
	Amount	%	Amount	%
Managed Care	$ 2,021,121	53%	$ 1,822,558	51%
Medicare	596,411	16	643,727	18
Managed Medicare	697,545	18	636,839	17
Medicaid	112,947	3	126,478	4
Managed Medicaid	203,001	5	170,141	5
Self-pay	19,580	1	21,997	1
Other	153,512	4	142,512	4
	$ 3,804,117	100%	$ 3,564,252	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 who 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.

(dollars in thousands)

4. 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, such as hedge funds, commingled funds and private market 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 market funds generally require capital commitments over an initial period of time and capital is returned as monetization events occur. Unfunded commitments related to private market funds were approximately $911,000 and $892,000 as of March 31, 2023 and December 31, 2022, 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.

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

	March 31, 2023			
	Notional		Fair Value	
	Long	Short	Assets	Liabilities
Equity options	$ –	$ (152)	$ 182	$ (652)
Interest rate swaps	10,636	(13,605)	8,414	(8,712)
Futures	1,472,582	(271,467)	–	–
Foreign currency exchange contracts	547,488	(549,773)	24,563	–
Total derivative instruments, gross	$ 2,030,706	$ (834,997)	$ 33,159	$ (9,364)

(dollars in thousands)

	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)

The System posted collateral related to investment derivative instruments totaling $32,955 and $40,904 as of March 31, 2023 and December 31, 2022, 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 $13,219 and $(26,798) for the three months ended March 31, 2023 and 2022, respectively.

5. 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 Note 4 and Note 7. 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 (Revolving Note) and commercial paper program (CP Program).

The System had 177 and 181 adjusted days cash and investments on hand at March 31, 2023 and December 31, 2022, respectively. Days cash and investments on hand is calculated as unrestricted cash and cash equivalents, investments and due to brokers, net, divided by a trailing twelve months of daily operating expenses (excluding depreciation and amortization expense). An adjustment was made to remove the daily operating expenses of the Illinois Entities (Note 2) that were deconsolidated as of December 31, 2022 and the nine skilled nursing facilities that are being divested in 2023 (Note 2).

Unrestricted cash and cash equivalents, investments and due to brokers, net consist of the following:

	March 31, 2023	December 31, 2022
Cash and cash equivalents	$ 887,785	$ 602,891
Investments	6,043,297	6,090,304
Due to brokers, net	(219,320)	(25,752)
	$ 6,711,762	$ 6,667,443
Adjusted unrestricted days cash and investments on hand	177	181

The System's financial assets also consist of patient accounts receivable totaling $1,350,635 and $1,394,202 as of March 31, 2023 and December 31, 2022, respectively. Other receivables, totaling $925,019 and $863,786 as of March 31, 2023 and December 31, 2022, respectively, are primarily comprised of the notes associated with the System's sale of patient accounts receivable. The System's financial assets are available as its general expenditures, liabilities and other obligations come due.

Certain assets whose use is limited are to be used for current liabilities for self-insured programs and employee benefit funds.

6. Debt Obligations

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 for the twelve months ended December 31, 2022. 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 for the twelve months ended December 31, 2022. Effective November 1, 2022, the Illinois Entities withdrew from the Obligated Group. As of December 31, 2022, $152,721 was 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. During the three months ended March 31, 2023, the System repaid $152,721 which was outstanding under the CP Program as of December 31, 2022. Additionally, during the three months ended March 31, 2023, the System drew $154,560 under the CP Program with interest rates ranging from 4.92% to 5.05% to finance or refinance certain costs of the acquisition, construction and equipping of certain facilities. As of March 31, 2023, the outstanding amount of $154,560 under the CP Program was classified as long term debt as it is expected to be included in the System's third quarter 2023 financing plan.

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.

7. Fair Value Measurements

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

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

Level inputs are defined as follows:

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

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

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

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

Notes to Consolidated Financial Statements

March 31, 2023
(Unaudited)
(dollars in thousands)

Recurring Fair Value Measurements

The fair value of financial instruments measured at fair value on a recurring basis at March 31, 2023 was as follows:

	Total	Level 1	Level 2	Level 3
ASSETS				
CASH AND CASH EQUIVALENTS	$ 887,785	$ 883,374	$ 4,411	$ –
INVESTMENTS AND ASSETS WHOSE USE IS LIMITED				
Cash and cash equivalents	356,916	356,916	–	–
Debt securities				
U.S. government agencies and sponsored entities	2,870,480	–	2,870,480	–
Foreign government agencies and sponsored entities	191,567	–	191,567	–
Corporate bonds	63,021	–	63,021	–
Mortgage backed	91,232	–	91,232	–
Other asset backed	21,080	–	21,080	–
Short-term investments	190,115	–	190,115	–
Domestic equity securities	33,685	33,685	–	–
Exchange traded and mutual funds				
Domestic equity	780,295	780,295	–	–
Foreign equity	307,564	307,564	–	–
Fixed income	565,917	565,917	–	–
	5,471,872	2,044,377	3,427,495	–
Total	$ 6,359,657	$ 2,927,751	$ 3,431,906	$ –

Notes to Consolidated Financial Statements

March 31, 2023
(Unaudited)
(dollars in thousands)

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	$ –

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

	March 31, 2023	December 31, 2022
Investments and assets whose use is limited measured at fair value	$ 5,471,872	$ 5,651,211
Hedge funds	800,816	747,082
Private market funds	258,270	208,866
Commingled funds	301,450	315,585
Accrued interest	–	16,969
Total	$ 6,832,408	$ 6,939,713
Investments	$ 6,043,297	$ 6,090,304
Assets whose use is limited:		
Current	367,800	450,606
Noncurrent	421,311	398,803
Total	$ 6,832,408	$ 6,939,713

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.

8. 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.

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 $201,000 at March 31, 2023.

See Note 10 for discussion of the COVID-19 pandemic and contingencies related to this significant event.

9. 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 March 2022, and as a result, the System began expensing the project implementation costs, many of which are reflected as corporate services.

(dollars in thousands)

Expenses by functional classification for the three months ended March 31, 2023 consist of the following:

	Healthcare Services	Corporate Services	Total
Employee compensation	$ 1,973,119	$ 134,602	$ 2,107,721
Purchased services and professional fees	478,153	80,854	559,007
Supplies	620,218	1,270	621,488
Other	501,559	30,223	531,782
Total	$ 3,573,049	$ 246,949	$ 3,819,998

Expenses by functional classification for the three months ended March 31, 2022 consist of the following:

	Healthcare Services	Corporate Services	Total
Employee compensation	$ 1,945,284	$ 114,965	$ 2,060,249
Purchased services and professional fees	463,761	69,801	533,562
Supplies	624,474	1,732	626,206
Other	472,947	24,785	497,732
Total	$ 3,506,466	$ 211,283	$ 3,717,749

10. 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 impacted beginning in mid-March 2020 through early 2022 as various policies were implemented by federal, state and local governments such as suspension of elective procedures and as COVID-19 volumes surged. Since that time, gradual improvement in volumes and related revenue has been experienced.

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 three months ended March 31, 2023 and 2022, Provider Relief Funds recognized were not material.

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. 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. In December 2022, the System fully repaid the remaining balance of these deferred taxes.

On May 11, 2023, the public health emergency (PHE) declaration for COVID-19 will expire. Waivers introduced as part of the PHE eased certain administrative requirements, expanded the flexibility for delivery of certain healthcare services, such as telehealth, and allowed for various financial support to healthcare providers during the PHE. These waivers were intended to help healthcare providers respond to the COVID-19 pandemic. 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 cannot be estimated.

11. Subsequent Events

The System evaluated events and transactions occurring subsequent to March 31, 2023 through May 9, 2023, the date the accompanying consolidated financial statements were issued. During this period, there were no subsequent events that required recognition in the accompanying consolidated financial statements, nor were there any additional nonrecognized subsequent events that required disclosure.

Management's Discussion and Analysis of Financial Condition and Results of Operations

March 31, 2023
(Unaudited)
(dollars in thousands)

The following information should be read with the unaudited consolidated financial statements and related notes included elsewhere in this report, as well as the System's 2022 audited financial statements. Certain of the discussions included in the Management's Discussion and Analysis section of the following document may include certain "forward-looking statements" that involve known and unknown risks and uncertainties inherent in the operation of healthcare facilities. In some cases, you can identify forward-looking statements by terms such as "plan," "expect," "believe," "estimate," "budget," or similar expressions intended to identify forward-looking statements. These statements reflect the current views of AdventHealth with respect to future events and are based on assumptions and subject to risks and uncertainties. All statements other than statements of historical fact are, or may be deemed to be, forward looking statements. The COVID-19 health situation and related available information, government programs and restrictions, the economy and related impacts are all continually changing. Investors and potential investors should not place undue reliance on forward looking statements. Each forward-looking statement speaks only as of the date of the particular statement. AdventHealth undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or other information. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this particular disclosure for the quarter ended March 31, 2023.

Volume Trends

During the three months ended March 31, 2022, the System experienced a surge of patients with the Omicron variant of COVID-19, which was a less acute variant than previous surges and less impactful to the System's capacity. However, patients and caregivers testing positive resulted in the cancellation and delay of non-emergent procedures and consumer hesitancy to use the healthcare system impacted volumes during the period. For the three months ended March 31, 2023, admissions and adjusted admissions increased by 10.6% and 13.9%, respectively. Emergency room visits have improved 7.6% compared to the three months ended March 31, 2022. These same store volume trends exclude the Illinois Entities, which were deconsolidated as of December 31, 2022 in connection with the Affiliation (Note 2).

Volume Trends
Same Store

	Three Months Ended March 31,	
	2023	**2022**
Admissions	110,013	99,433
Observation status patients	30,687	30,694
Adjusted admissions	219,567	192,713
Emergency room visits	401,316	372,920
Average length of stay (days)	6.06	6.39
Case mix	1.71	1.78

*Same store excludes the Illinois Entities which were deconsolidated as of December 31, 2022 in connection with the Affiliation.

Management's Discussion and Analysis of Financial Condition and Results of Operations

March 31, 2023
(Unaudited)
(dollars in thousands)

Income from Operations

For the three months ended March 31, 2023, adjusted income from operations totaled $245,340 and was 6.1% of adjusted total operating revenue. Same store adjustments were made to exclude the operating results of the Illinois Entities which were deconsolidated as of December 31, 2022 in connection with the Affiliation, as further described in Note 2. Additionally, the System is implementing Epic, an electronic clinical and billing system, through 2023. As the first locations went live with Epic in March 2022, the System began expensing the project implementation costs along with related training costs. These one-time implementation costs totaling $73,405 and $67,890 were adjusted from income (loss) from operations for the three months ended March 31, 2023 and 2022, respectively.

The System's adjusted total operating revenue for the three months ended March 31, 2023, which excludes the Illinois Entities, increased 15.7% to $3,991,933 compared to the same period in the prior year. Additionally, adjusted operating expenses totaled $3,746,593 for the three months ended March 31, 2023, which is an increase of 10.1% compared to the same period in the previous year. The increase in total operating revenue is largely driven by increase in volume trends, compared to the three months ended March 31, 2022, which were impacted by the Omicron variant of COVID-19. During the latter part of 2022, the System experienced a measured volume recovery as the pandemic stabilized. The System also continued to experience increased expenses primarily resulting from elevated premium and contract labor costs and wage inflation resulting from ongoing workforce shortages. The System continues to implement workforce stabilization plans to reduce turnover and the use of premium labor. These plans include innovative clinical care models, internal staffing pools and programs to retain the best talent such as clinical ladders to encourage the development and career growth of our workforce, more frequent evaluation of and adjustment to market compensation and benefit enhancements. During the first quarter of 2023, clinical turnover continued to moderate and premium labor costs improved. The System is focused on maintaining a sustainable cost structure and focusing on performance improvement to respond to inflationary pressures. This continued stewardship will ensure continued expansion of our mission.

Income (Loss) from Operations

	Three Months Ended March 31,	
	2023	**2022**
Income (loss) from operations	$ 171,935	$ (46,751)
Add: Operating loss of Illinois Entities*	–	26,908
Add: Epic implementation costs	73,405	67,890
Adjusted income from operations	$ 245,340	$ 48,047
Adjusted income from operations as a percent of adjusted total operating revenue	6.1%	1.4%

*Same store excludes the Illinois Entities which were deconsolidated as of December 31, 2022 in connection with the Affiliation.

(dollars in thousands)

Balance Sheet Ratios

The System has 177 and 181 adjusted days cash and investments on hand as of March 31, 2023 and December 31, 2022, respectively. Days cash and investments on hand is calculated as unrestricted cash and cash equivalents, investments and due to brokers, net, divided by a trailing twelve months of daily operating expenses (excluding depreciation and amortization expense). Days cash and investments on hand was adjusted to remove the daily operating expenses of the Illinois Entities (Note 2) that were deconsolidated as of December 31, 2022 and the nine skilled nursing facilities that are being divested in 2023 (Note 2). Cash to total debt improved to 172% as of March 31, 2023 compared to 167% at December 31, 2022. Total debt to capitalization remained strong as of March 31, 2023, at 22.2% compared to 23.2% at the beginning of the year.

Balance Sheet Ratios

	March 31, 2023	December 31, 2022
Cash and cash equivalents	$ 887,785	$ 602,891
Investments	6,043,297	6,090,304
Due to brokers, net	(219,320)	(25,752)
	$ 6,711,762	$ 6,667,443
Adjusted days cash and investments on hand	**177**	**181**
Total debt to capitalization	**22.2%**	**23.2%**
Cash to total debt	**172%**	**167%**

The System continues to adhere to its balance sheet planning model, which includes a strong operating focus and a self-regulating capital expenditure model that is based on a percentage of earnings before depreciation, interest, taxes and amortization (EBDITA). Based on current balance sheet ratios, the System has decreased capital expenditures by adjusting its capital expenditure model as of January 2023. Management has executed strategic operating portfolio decisions, such as the Chicago Affiliation and divestiture of its skilled nursing facilities described in Note 2 and anticipates continued operating margin improvement as labor costs stabilize and performance improvement plans continue to progress.

Community Benefit

The System exists solely to improve and enhance the local communities that it serves. The benefits provided to those communities, measured based on the cost to provide the care and services, for the three months ended March 31, 2023 and 2022 are included in the accompanying table.

Community Benefit (at cost)

	Three Months Ended March 31, 2023	2022
Benefits to the underprivileged	$ 401,858	$ 335,751
Benefits to the elderly	351,224	357,040
Benefits to the community's overall health and wellness	40,601	42,460
Benefits to the faith-based and spiritual needs of the community	6,065	5,879
	$ 799,748	$ 741,130

The System also provides benefits to the community's infrastructure by investing in capital improvements to ensure the facilities and technology provide the best possible care to the community. The cost of capital improvements for the three months ended March 31, 2023 and 2022 was $262,158 and $270,209, respectively.