



Consolidated Financial Statements
and Supplementary Information

Adventist Health System/West

Years Ended December 31, 2020
and 2019 with Report of
Independent Auditors

Audited Consolidated Financial Statements
and Supplementary Information

Adventist Health System/West

Years Ended December 31, 2020 and 2019

Audited Consolidated Financial Statements

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Report of Independent Auditors

The Board of Directors
Adventist Health System/West

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Ernst & Young LLP

March 19, 2021

Adventist Health

Consolidated Balance Sheets
(In millions of dollars)

| | December 31 | |
|---|--------------------|-------------|
| | 2020 | 2019 |
| Assets | | |
| Cash and cash equivalents | \$ 261 | \$ 482 |
| Short-term investments | 176 | 356 |
| Patient accounts receivable | 612 | 598 |
| Receivables from third-party payors | 501 | 394 |
| Other current assets | 243 | 182 |
| Total current assets | 1,793 | 2,012 |
| Noncurrent investments | 2,236 | 1,459 |
| Other assets | 413 | 426 |
| Property and equipment, net | 2,302 | 2,336 |
| Total assets | \$ 6,744 | \$ 6,233 |
| Liabilities and net assets | | |
| Accounts payable | \$ 265 | \$ 296 |
| Accrued compensation and related payables | 306 | 283 |
| Liabilities to third-party payors | 232 | 35 |
| Other current liabilities | 140 | 122 |
| Short-term financing | 60 | - |
| Current maturities of long-term debt | 20 | 58 |
| Total current liabilities | 1,023 | 794 |
| Long-term debt, net of current maturities | 2,036 | 2,114 |
| Other noncurrent liabilities | 570 | 337 |
| Total liabilities | 3,629 | 3,245 |
| Net assets without donor restrictions: | | |
| Controlling | 3,040 | 2,914 |
| Noncontrolling | 14 | 16 |
| Net assets with donor restrictions | 61 | 58 |
| Total net assets | 3,115 | 2,988 |
| Total liabilities and net assets | \$ 6,744 | \$ 6,233 |

See notes to consolidated financial statements.

Adventist Health

Consolidated Statements of Operations and Changes in Net Assets
(In millions of dollars)

| | Year Ended December 31 | |
|--|-------------------------------|-------------|
| | 2020 | 2019 |
| Revenues and support: | | |
| Patient service revenue | \$ 4,097 | \$ 4,123 |
| Premium revenue | 185 | 152 |
| Other revenue | 477 | 245 |
| Net assets released from restrictions for operations | 15 | 17 |
| Total revenues and support | 4,774 | 4,537 |
| Expenses: | | |
| Employee compensation | 2,246 | 2,092 |
| Professional fees | 587 | 555 |
| Supplies | 641 | 627 |
| Purchased services and other | 1,105 | 1,100 |
| Interest | 68 | 66 |
| Depreciation and amortization | 201 | 192 |
| Total expenses | 4,848 | 4,632 |
| Loss from operations | (74) | (95) |
| Nonoperating income: | | |
| Investment income | 178 | 85 |
| (Loss) gain on acquisition and divestitures | (1) | 160 |
| Other nonoperating gain (loss) | 6 | (5) |
| Total nonoperating income | 183 | 240 |
| Excess of revenues over expenses | 109 | 145 |
| Deficit (excess) of revenues over expenses from noncontrolling interests | 2 | (1) |
| Excess of revenues over expenses from controlling interests | 111 | 144 |

See notes to consolidated financial statements.

Adventist Health

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

| | Year Ended December 31 | |
|---|-------------------------------|-------------|
| | 2020 | 2019 |
| Net assets without donor restrictions: | | |
| Controlling: | | |
| Excess of revenues over expenses from controlling interests | \$ 111 | \$ 144 |
| Net change in unrealized gains and losses on other-than-trading securities | 7 | 14 |
| Donated property and equipment | 1 | – |
| Net assets released from restrictions for capital additions | 7 | 19 |
| Increase in net assets without donor restrictions – controlling | 126 | 177 |
| Noncontrolling: | | |
| (Deficit) excess of revenues over expenses from noncontrolling interests | (2) | 1 |
| (Decrease) increase in net assets without donor restrictions – noncontrolling | (2) | 1 |
| Net assets with donor restrictions: | | |
| Restricted gifts and grants | 24 | 22 |
| Net assets released from restrictions | (22) | (36) |
| Other donor-restricted activity | 1 | 2 |
| Increase (decrease) in net assets with donor restrictions | 3 | (12) |
| Increase in net assets | 127 | 166 |
| Net assets, beginning of year | 2,988 | 2,822 |
| Net assets, end of year | \$ 3,115 | \$ 2,988 |

See notes to consolidated financial statements.

Adventist Health

Consolidated Statements of Cash Flows
(In millions of dollars)

| | Year Ended December 31 | |
|---|-------------------------------|---------------|
| | 2020 | 2019 |
| Operating activities | | |
| Increase in net assets | \$ 127 | \$ 166 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Inherent contribution from affiliation | – | (160) |
| Depreciation and amortization | 201 | 192 |
| (Gain) loss on early extinguishment of debt | (4) | 5 |
| Amortization of bond issuance costs and discount/premium | (7) | (4) |
| Noncash operating lease expense | 37 | 33 |
| Loss on note receivable | 1 | 3 |
| Net gain on investments | (27) | (36) |
| Net gain on sale of property and equipment | – | (8) |
| Net changes in operating assets and liabilities: | | |
| Patient accounts receivable | (14) | (78) |
| Other assets | (36) | (59) |
| Net payables to third-party payors | 289 | 4 |
| Other liabilities | – | (28) |
| Net cash provided by operating activities | 567 | 30 |
| Investing activities | | |
| Purchases of property and equipment | (167) | (184) |
| Proceeds from sale of property and equipment | – | 18 |
| Net issuance and payment in notes receivable | (2) | (3) |
| Purchase of investments | (1,060) | (1,443) |
| Proceeds from sale of investments | 487 | 1,271 |
| Cash acquired in affiliation | – | 51 |
| Net cash used in investing activities | (742) | (290) |
| Financing activities | | |
| Proceeds from issuance of short-term financing | 60 | – |
| Proceeds from lines of credit | 200 | 395 |
| Payments on lines of credit | (200) | (594) |
| Proceeds from issuance of long-term debt | – | 797 |
| Payments on long-term debt | (106) | (579) |
| Bond issuance premium/discount, net | – | 23 |
| Net cash (used in) provided by financing activities | (46) | 42 |
| Decrease in cash and cash equivalents | (221) | (218) |
| Cash and cash equivalents, beginning of year | 482 | 700 |
| Cash and cash equivalents, end of year | \$ 261 | \$ 482 |

See notes to consolidated financial statements.

Adventist Health

Notes to Consolidated Financial Statements

(In millions of dollars)

Note A – Summary of Significant Accounting Policies

Reporting Entity and Principles of Consolidation: Adventist Health System/West (Adventist Health) is a California not-for-profit religious corporation that controls and operates hospitals and other healthcare facilities, and wellness promoting operations in the western United States (collectively, the “System”). Many of the hospitals now controlled and operated by Adventist Health were formerly operated by various conferences of the Seventh-day Adventist Church (the “Church”). The obligations and liabilities of Adventist Health and its hospitals and other healthcare facilities are neither obligations nor liabilities of the Church or any of its other affiliated organizations.

The consolidated financial statements include the accounts of the following entities:

Adventist Health System/West dba Adventist Health – Roseville, California
San Joaquin Community Hospital dba Adventist Health Bakersfield – Bakersfield, California
Castle Medical Center dba Adventist Health Castle – Kailua, Hawaii
Adventist Health Clearlake Hospital, Inc., dba Adventist Health Clear Lake – Clearlake, California
Adventist Health Delano – Delano, California
Feather River Hospital dba Adventist Health Feather River – Paradise, California
Glendale Adventist Medical Center dba Adventist Health Glendale – Glendale, California
Hanford Community Hospital dba Adventist Health Hanford – Hanford, California
Willits Hospital, Inc., dba Adventist Health Howard Memorial – Willits, California
Lodi Memorial Hospital Association, Inc., dba Adventist Health Lodi Memorial – Lodi, California
Adventist Health Mendocino Coast – Mendocino, California
Adventist Health Plan, Inc – Roseville, California
Adventist Health Physicians Network – Roseville, California
Portland Adventist Medical Center dba Adventist Health Portland – Portland, Oregon
Reedley Community Hospital dba Adventist Health Reedley – Reedley, California
Rideout Memorial Hospital dba Adventist Health and Rideout – Marysville, California
Simi Valley Hospital and Health Care Services dba Adventist Health Simi Valley – Simi Valley, California
Sonora Community Hospital dba Adventist Health Sonora – Sonora, California
St. Helena Hospital dba Adventist Health St. Helena – St. Helena, California
Adventist Health Medical Center Tehachapi dba Adventist Health Tehachapi Valley – Tehachapi, California
Northwest Medical Foundation of Tillamook dba Adventist Health Tillamook – Tillamook, Oregon
Adventist Health Tulare – Tulare, California
Ukiah Adventist Hospital dba Adventist Health Ukiah Valley – Ukiah, California
White Memorial Medical Center dba Adventist Health White Memorial – Los Angeles, California
Western Health Resources dba Adventist Health Home Care Services – Roseville, California

The Board of Directors (the “Board”) of Adventist Health and/or Adventist Health management constitutes the membership and/or serves as the legal board of the individual hospital corporations. All material intercompany transactions have been eliminated in consolidation.

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note A – Summary of Significant Accounting Policies (continued)

Basis of Accounting: The financial statements are prepared in conformity with United States generally accepted accounting principles (U.S. GAAP).

Cash and Cash Equivalents: Cash and cash equivalents consist primarily of unrestricted readily marketable securities with original maturities not in excess of three months when purchased and net deposits in demand accounts. Cash deposits are federally insured in limited amounts.

Inventories: Inventories, which consist principally of medical and other supplies, are stated at the lower of cost or net realizable value as determined by the average cost method. Inventories are included in other current assets of \$92 and \$68 at December 31, 2020 and 2019, respectively.

Marketable Securities: Marketable securities, stated at fair value, consist primarily of U.S. government treasury, U.S. agency securities, corporate notes, exchange-traded funds, open-end mutual funds comprised of fixed-income securities and domestic and international equities, and alternative investments comprised of commingled funds and hedge funds. Investment income or loss (including realized gains and losses on investments and unrealized gains and losses on trading investments) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Interest and dividends are included in other revenue. Securities with remaining maturity dates of one year or less as of the consolidated balance sheet date are classified as current.

Investments and Assets Whose Use is Limited: Certain System investments are limited as to use through Board resolution, provisions of contractual arrangements with third parties, terms of indentures, self-insurance trust arrangements, or donors who restrict the use of specific assets. Assets that are expected to be expended within one year are classified as current, including board-designated assets that are available and periodically borrowed for working capital needs.

Split-interest Agreements: The System is the trustee and beneficiary of various split-interest agreements. The carrying amounts of the System's split-interest assets are included with investments held by trustee and donor-restricted investments and include marketable securities and real estate. Trust assets are carried at fair value. Assets under split-interest agreements were \$8 and \$16 at December 31, 2020 and 2019, respectively. Trust obligations are reported in other noncurrent liabilities at their discounted estimated present value using actuarially determined life expectancy tables. Discount rates range between approximately 6% and 12%. Liabilities under split-interest agreements were \$3 at December 31, 2020 and 2019.

Goodwill: The System records goodwill as the excess of purchase price and related costs over the fair value of net assets acquired. These amounts are evaluated for impairment annually or when there is an indicator of impairment. If it is determined that goodwill is impaired, the carrying value is reduced. The System had goodwill of \$65 and \$22 at December 31, 2020 and 2019, respectively, which is included in other long-term assets with additions of \$43 and \$1 in 2020 and 2019, respectively.

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note A – Summary of Significant Accounting Policies (continued)

Property and Equipment: Property and equipment are reported on the basis of cost, except for donated items, which are recorded as an increase in net assets without donor restrictions based on fair market value at the date of the donation. During the period of construction, the System capitalizes expenditures and interest costs, net of earnings on invested bond proceeds that materially increase values, change capacities, and extend useful lives.

Management periodically evaluates the carrying amounts of long-lived assets for possible impairment. The System estimates that it will recover the carrying value of long-lived assets from the estimated future undiscounted cash flows; however, considering the regulatory environment, competition, and other factors affecting the industry, there is at least a reasonable possibility this estimate might change in the near term. The effect of any change could be material.

Depreciation is computed using the straight-line method over the expected useful lives of the assets, which range from 3 to 40 years. Amortization of equipment is included in depreciation expense.

Short Term Financing: In December 2020, the System initiated a taxable commercial paper program supported by self-liquidity for general corporate purposes. Under the program, the System is registered to issue up to \$150. At December 31, 2020, \$60 of commercial paper was outstanding and is included in short-term financing on the consolidated balance sheet.

Debt Issuance Costs: Debt issuance costs are reported as a reduction of long-term debt and are deferred and amortized over the life of the financings using the effective-interest method.

Bond Discounts/Premiums: Bonds payable are included in long-term debt, net of unamortized original issue discounts or premiums. Such discounts or premiums are amortized using the effective interest method based on outstanding principal over the life of the bonds.

Other Noncurrent Liabilities: Other noncurrent liabilities are comprised primarily of accruals for repayment of funds advanced or deferred payments under the CARES Act, workers' compensation claims, professional and general liability claims, deferred revenue, lease liabilities, and long-term charitable gift annuity obligations.

Net Assets: All resources not restricted by donors are included in net assets without donor restrictions. Resources restricted by donors for specific operating purposes, or for a period of time greater than one year, are reported as net assets with donor restrictions. When the restrictions have been met, the net assets with donor restrictions are reclassified to net assets without donor restrictions. Resources restricted by donors for additions to property and equipment are initially reported as net assets with donor restrictions and are transferred to net assets without donor restrictions when expended. Investment income is classified as net assets without donor restrictions or net assets with donor restrictions based on the intent of the donor. Gifts of future interests are reported as net assets with donor restrictions. Gifts, grants, and bequests not restricted by donors are reported as other revenue.

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note A – Summary of Significant Accounting Policies (continued)

Charity Care: The System provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. In assessing a patient's ability to pay, the System uses federal poverty income levels and evaluates the relationship between the charges and the patient's income. The System did not change its charity care policy during 2020. The estimated cost of charity care was \$26 and \$24 in 2020 and 2019, respectively. The costs were determined using cost-to-charge ratios.

Premium Revenue: The System has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the System receives monthly capitation payments based on the number of each HMO's covered participants, regardless of the services actually performed by the System.

Other Revenue: Other revenue is comprised primarily of contributions received related to the CARES Act, rental income, retail pharmacy, interest and dividend income, and other miscellaneous income.

Income Tax: The principal operations of the System are exempt from taxation pursuant to Internal Revenue Code Section 501(c)(3) and related state provisions. The System recognizes tax benefits from any uncertain tax positions only if it is more-likely-than-not the tax position will be sustained, based solely on its technical merits, with the taxing authority having full knowledge of all relevant information. The System records a liability for unrecognized tax benefits from uncertain tax positions as discrete tax adjustments in the first interim period the more-likely-than-not threshold is not met. The System recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities, along with net operating loss and tax credit carryovers only for tax positions that meet the more-likely-than-not recognition criteria. At December 31, 2020 and 2019, no such assets or liabilities were recorded.

The System currently files Form 990 (informational return of organizations exempt from income taxes) and Form 990-T (business income tax return for an exempt organization) in the U.S. federal jurisdiction and the state of California. The System is not subject to income tax examinations prior to 2016 in major tax jurisdictions.

Loss from Operations: The System's consolidated statements of operations and changes in net assets include an intermediate measure of operations, labeled "Loss from operations." Items that are considered nonoperating are excluded from loss from operations and include investment income and losses, gains and losses on acquisitions and divestitures, and gains and losses on debt refinancing.

Excess of Revenues Over Expenses: The consolidated statements of operations and changes in net assets include excess of revenues over expenses as a performance indicator. Changes in net assets without donor restrictions that are excluded from excess of revenues over expenses include unrealized gains and losses on investments in other-than-trading debt securities, contributions of long-lived assets, use of net assets with donor restricted funds for capital additions, and gains and losses from discontinued operations.

Adventist Health

Notes to Consolidated Financial Statements – Continued (In millions of dollars)

Note A – Summary of Significant Accounting Policies (continued)

Use of Estimates: The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and the accompanying notes. Actual results could differ from these estimates.

Reclassifications: Certain 2019 footnote amounts have been reclassified to conform to 2020 presentation.

Note B – Fair Value of Financial Instruments

The System accounts for certain assets at fair value. A fair value hierarchy for valuation inputs has been established to prioritize the valuation inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels determined by the lowest level of input considered significant to the fair value measurement in its entirety. These levels are defined as follows:

Level 1: Quoted prices are available in active markets for identical assets as of the measurement date. Financial assets in this category include U.S. treasury securities, U.S. and foreign equities, and exchange-traded mutual funds.

Level 2: Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Financial assets in this category generally include U.S. government agencies and municipal bonds, asset-backed securities, and U.S. corporate bonds.

Level 3: Pricing inputs are generally unobservable for the assets and include situations where there is little, if any, market activity for the investment. The System had no Level 3 investments at December 31, 2020 and 2019.

There were no transfers of financial assets between Level 1 and Level 2 of the fair value hierarchy.

Adventist Health

Notes to Consolidated Financial Statements – Continued
(In millions of dollars)

Note B – Fair Value of Financial Instruments (continued)

The following represents assets measured at fair value or at NAV as a practical expedient on a recurring basis at December 31, 2020:

| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Observable Inputs (Level 2) | Totals |
|---|--|--|---------------|
| Cash and cash equivalents | \$ 332 | \$ – | \$ 332 |
| Fixed income: | | | |
| U.S. government treasury obligations | 143 | – | 143 |
| U.S. corporation and agency debentures | – | 51 | 51 |
| U.S. agency mortgage-backed securities | – | 4 | 4 |
| U.S. corporate debt securities | – | 227 | 227 |
| Municipal bonds | – | 24 | 24 |
| Mutual funds | 679 | 200 | 879 |
| Equities: | | | |
| Equities | 6 | – | 6 |
| Mutual funds | 717 | – | 717 |
| Total financial assets stated at fair value | \$ 1,877 | \$ 506 | 2,383 |
| Commercial real estate | | | 26 |
| Investments measured at NAV | | | 264 |
| Other investments | | | 79 |
| Total cash and investments | | | \$ 2,752 |

Cash and cash equivalents of \$332 at December 31, 2020 includes \$61 of cash equivalents held in the System's investments held by trustees for self-insurance programs and \$10 in unrestricted investments.

Adventist Health

Notes to Consolidated Financial Statements – Continued
(In millions of dollars)

Note B – Fair Value of Financial Instruments (continued)

The following represents assets measured at fair value or at NAV as a practical expedient on a recurring basis at December 31, 2019:

| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Observable Inputs (Level 2) | Totals |
|---|--|--|---------------|
| Cash and cash equivalents | \$ 550 | \$ – | \$ 550 |
| Fixed income: | | | |
| U.S. government treasury obligations | 257 | – | 257 |
| U.S. corporation and agency debentures | – | 78 | 78 |
| U.S. agency mortgage-backed securities | – | 4 | 4 |
| U.S. corporate debt securities | – | 343 | 343 |
| Municipal bonds | – | 31 | 31 |
| Mutual funds | 300 | 183 | 483 |
| Equities: | | | |
| Mutual funds | 388 | – | 388 |
| Total financial assets stated at fair value | \$ 1,495 | \$ 639 | 2,134 |
| Commercial real estate | | | 35 |
| Investments measured at NAV | | | 128 |
| Other investments | | | 174 |
| Total cash and investments | | | \$ 2,471 |

Cash and cash equivalents of \$550 at December 31, 2019 includes \$51 of cash equivalents held in the System’s investments held by trustees for self-insurance programs and \$17 in unrestricted investments.

Commercial real estate investments are recorded at cost or fair market value if donated. These investments are periodically reviewed for impairment and written down if necessary. Other investments include retirement plan assets, joint ventures, and partnerships and are included in other assets.

Adventist Health

Notes to Consolidated Financial Statements – Continued (In millions of dollars)

Note B – Fair Value of Financial Instruments (continued)

As of December 31, 2020 and 2019, the Level 2 instruments listed in the fair value hierarchy tables above use the following valuation techniques and inputs:

U.S. corporation and agency debentures: The fair value of investments in U.S. corporation and agency debentures is primarily determined using consensus pricing methods of observable market-based data. Significant observable inputs include quotes, spreads, and data points for yield curves.

U.S. agency mortgage-backed securities: The fair value of U.S. agency mortgage-backed securities is primarily determined using matrices. These matrices utilize observable market data of bonds with similar features, prepayment speeds, credit ratings, and discounted cash flows. Additionally, observed market movements, tranche cash flows, and benchmark yields are incorporated in the pricing models.

U.S. corporate debt securities: The fair value of investments in corporate debt securities is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include reported trades, dealer quotes, security-specific characteristics, and multiple sources of spread data points in developing yield curves.

Municipal bonds: The fair value of municipal bonds is determined using a market approach. The inputs include yield benchmark curves, prepayment speeds, and observable market data, such as institutional bids, dealer quotes, and two-sided markets.

Certain of the investments are reported using a calculated NAV or its equivalent. These investments are not expected to be sold at amounts that are different from NAV. The following table and explanations identify attributes relating to the nature of the risk of such investments:

| | December 31, 2020 | | | |
|--------------------------------------|-------------------|-------------------------|---|---|
| | NAV | Unfunded Commitments | Redemption Frequency (if currently Eligible) | Redemption Notice Period (if currently Eligible) |
| Commingled funds – equity securities | \$ 96 | \$ – | Weekly/Monthly | 4-30 days |
| Hedge funds | 139 | 23 | Monthly/Quarterly | 45-60 days |
| Private equity funds | 29 | 36 | None | None |
| Total | \$ 264 | \$ 59 | | |

Adventist Health

Notes to Consolidated Financial Statements – Continued
(In millions of dollars)

Note B – Fair Value of Financial Instruments (continued)

| | December 31, 2019 | | | |
|--------------------------------------|--------------------------|---------------------------------|---|---|
| | NAV | Unfunded Commitments | Redemption Frequency (if currently Eligible) | Redemption Notice Period (if currently Eligible) |
| Commingled funds – equity securities | \$ 68 | \$ – | Weekly/Monthly | 4-30 days |
| Hedge Funds | 60 | 25 | Monthly/Quarterly | 45-60 days |
| Total | \$ 128 | \$ 25 | | |

Commingled funds – equity securities: This class includes investments in commingled funds that invest primarily in U.S. or foreign equity securities and attempt to match the returns of specific equity indices.

Hedge funds: This class includes investments in hedge funds that expand the universe of potential investment approaches available by employing a variety of strategies and techniques within and across various asset classes. The primary objective for these funds is to balance returns while limiting volatility by allocating capital to external portfolio managers selected for expertise in one or more investment strategies, which may include, but are not limited to, equity long/short, event driven, relative value, and directional. The following summarizes the redemption criteria for the hedge fund portfolio as of December 31, 2020:

| % of Hedge Funds | Redemption Criteria | Notice Period |
|-----------------------------|--|--------------------------|
| 47% | Redeemable monthly | 45–60 days |
| 25% | Redeemable quarterly | 45 days |
| 26% | Redeemable quarterly after June 1, 2021 | 45 days |
| 2% | Up to 12.5% redeemable quarterly on non-consecutive quarters | 60 days |

Private equity funds: These investments cannot be redeemed by the System; rather the System has committed an amount to invest in the private funds over the respective commitment periods. After the commitment period has ended, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets.

Adventist Health

Notes to Consolidated Financial Statements – Continued
(In millions of dollars)

Note C – Patient Accounts Receivable

The System’s primary concentration of credit risk is patient accounts receivable, which consists of amounts owed by various governmental agencies, insurance companies, and self-pay patients. The System manages its receivables by regularly reviewing its patient accounts and contracts and by providing an appropriate allowance for contractual reimbursement, policy discounts, charity, and price concessions. These allowances are estimated based upon an evaluation of governmental reimbursements, negotiated contracts, and historical payments.

The following is a summary of significant concentrations of gross patient accounts receivable:

| | December 31 | |
|--------------------------|--------------------|-------------|
| | 2020 | 2019 |
| Medicare | 35% | 36% |
| Medicaid | 30 | 32 |
| Other third-party payors | 29 | 28 |
| Self-pay | 6 | 4 |
| | 100% | 100% |

Adventist Health

Notes to Consolidated Financial Statements – Continued
(In millions of dollars)

Note D – Investments and Assets Whose Use is Limited

The following is a summary of unrestricted investments and assets whose use is limited:

| | December 31 | |
|--|--------------------|-------------|
| | 2020 | 2019 |
| Total unrestricted investments | \$ 2,232 | \$ 1,621 |
| Assets designated by the Board, primarily for property and equipment | 13 | 12 |
| Investments held by trustees for: | | |
| Debt service | – | 8 |
| Self-insurance programs | 150 | 150 |
| Charitable annuities and other | 3 | 11 |
| Total investments held by trustees | 153 | 169 |
| Donor-restricted investments for: | | |
| Charitable trusts and life estate tenancies | 5 | 5 |
| Other purposes | 9 | 8 |
| Total donor-restricted investments | 14 | 13 |
| Total investments | 2,412 | 1,815 |
| Less short-term investments | 176 | 356 |
| Total noncurrent investments | \$ 2,236 | \$ 1,459 |

Liquidity Management: As part of its liquidity management, the System’s strategy is to structure its financial assets to be available to satisfy general operating expenses, current liabilities, and other obligations as they come due. The System invests cash in excess of daily requirements in short-term investments and has a committed syndicated line of credit and a commercial paper program to help manage unanticipated liquidity needs. Additionally, other unrestricted noncurrent investments of \$2,132 at December 31, 2020 may be utilized if necessary.

Adventist Health

Notes to Consolidated Financial Statements – Continued
(In millions of dollars)

Note D – Investments and Assets Whose Use is Limited (continued)

The System’s financial assets available for general operating expenses within one year are as follows:

| | December 31 2020 |
|-------------------------------------|-----------------------------|
| Cash and cash equivalents | \$ 261 |
| Short-term investments | 176 |
| Patient accounts receivable | 612 |
| Receivables from third-party payors | 501 |
| Other receivables | 98 |
| | \$ 1,648 |

Note E – Investment Income

Net realized and unrealized investment income, including capital gains on unrestricted, board designated, and trustee-held funds, includes the following:

| | Year Ended December 31 | |
|------------------------------|-------------------------------|---------------|
| | 2020 | 2019 |
| Realized gains, net | \$ 37 | \$ 38 |
| Unrealized gains, net | 141 | 47 |
| | 178 | 85 |
| Interest and dividend income | 38 | 53 |
| | \$ 216 | \$ 138 |

Interest and dividend income are included in other revenue. For purposes of performance evaluation, management considers interest and dividend earnings to be components of operating income. Realized and unrealized gains and losses are components of nonoperating income and are reported in investment income on the accompanying consolidated financial statements.

Changes in net unrealized gains and losses on other-than-trading debt securities, reported at fair value, are separately disclosed in the consolidated statements of operations and changes in net assets. Unrealized gains and losses associated with these securities relate principally to market changes in interest rates for similar types of securities. Since the System has the intent and ability to hold these securities for the foreseeable future, and it is more-likely-than-not that the System will not be required to sell the investments before their recovery, the declines are not reported as realized unless they are deemed to be other-than-temporary. In determining whether the losses are other-than-temporary, the System considers the length of time and extent to which the fair value has been less than cost or carrying value, the financial strength of the issuer, and the intent and ability of the System to retain the security for a period of time sufficient to allow for anticipated recovery or maturity.

Adventist Health

Notes to Consolidated Financial Statements – Continued
(In millions of dollars)

Note F – Property and Equipment

The following is a summary of property and equipment:

| | December 31 | |
|-------------------------------|------------------------|------------------------|
| | <u>2020</u> | <u>2019</u> |
| Land | \$ 179 | \$ 158 |
| Land improvements | 101 | 100 |
| Buildings and improvements | 3,016 | 2,940 |
| Equipment | <u>1,307</u> | <u>1,292</u> |
| | 4,603 | 4,490 |
| Less accumulated depreciation | <u>(2,402)</u> | <u>(2,247)</u> |
| | 2,201 | 2,243 |
| Construction-in-progress | <u>101</u> | <u>93</u> |
| | <u>\$ 2,302</u> | <u>\$ 2,336</u> |

The System has commitments to complete certain construction projects approximating \$64 (unaudited) at December 31, 2020.

The System is in the process of developing internal use software for clinical and financial operations. Depreciation expense for the software placed in service totaled \$19 for the years ended 2020 and 2019, respectively. Amounts capitalized are included in property and equipment as follows:

| | December 31 | |
|-------------------------------|----------------------|----------------------|
| | <u>2020</u> | <u>2019</u> |
| Equipment | \$ 278 | \$ 274 |
| Less accumulated depreciation | <u>(179)</u> | <u>(160)</u> |
| | 99 | 114 |
| Construction-in-progress | <u>3</u> | <u>11</u> |
| | <u>\$ 102</u> | <u>\$ 125</u> |

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note G – Long-Term Debt

A master note under the master bond indenture provides security for substantially all long-term debt. Under the terms of the master bond indenture, substantially all System consolidated entities are jointly and severally obligated for the payments to be made under the master note. In addition, security is provided by bank letters of credit aggregating to \$47 at December 31, 2020. Bonds are not secured by any property of the System.

The System is obligated under variable-rate demand instruments, which are subject to certain market risks. The letters of credit, which the System intends to renew on a long-term basis, expire between 2022 and 2024, with the arrangements converting any unpaid amounts to term loans due within three years after conversion. The term loans would bear interest based on prime or the London Interbank Offered Rate.

Certain financing agreements impose limitations on the issuance of new debt by the System and require it to maintain specified financial ratios. The System was in compliance with its debt covenants at December 31, 2020.

Interest paid, net of amounts capitalized, totaled \$64 and \$60 in 2020 and 2019, respectively. Interest capitalized totaled \$2 and \$4 in 2020 and 2019, respectively.

In February 2020, the System defeased in full \$14 of bonds issued in 2012 through the City of Delano for Adventist Health Delano. The bonds were defeased with assets placed in an irrevocable trust and derecognized at the date of refunding. The extinguishment and defeasance of this bond issue resulted in a loss on refinancing of \$1.

In September 2020, the System redeemed \$60 of bonds. The redemption of these bonds resulted in a gain on refinancing of \$4.

In October 2019, the System issued \$752 of Adventist Health System/West Taxable Bonds for the purpose of refinancing certain notes payable and general operating use. The retirement of the notes payable resulted in a loss on refinancing of \$4.

In November 2019, the System issued \$53 of bonds through The Hospital Facilities Authority of Multnomah County, Oregon (HFA) for the purposes of refinancing the 2009 HFA bonds. The refinancing of these bonds resulted in a loss of \$1. Additionally, a reoffering of the 2011 California Health Facilities Financing Authority (CHFFA) Series A bonds in the amount of \$105 and the 2007 California Statewide Communities Development Authority (CSCDA) Series A bonds in the amount of \$55 was completed. As a result, the Assured Guarantee bond insurance policy was removed from the 2007 CSCDA Series A bonds.

The 2019 financing transactions above resulted in the springing of an amended and restated master trust indenture dated October 31, 2019.

Adventist Health

Notes to Consolidated Financial Statements – Continued
(In millions of dollars)

Note G – Long-Term Debt (continued)

The following is a summary of long-term debt:

| | December 31 | |
|---|--------------------|-----------------|
| | 2020 | 2019 |
| Non-taxable debt: | | |
| Long-term bonds payable, with fixed rates currently ranging from 3.00% to 5.00%, payable in installments through 2048 | \$ 1,058 | \$ 1,157 |
| Long-term bonds payable, with rates that vary with market conditions, payable in installments through 2038 | 47 | 48 |
| Taxable debt: | | |
| Long-term bonds payable, with fixed rates currently ranging from 2.43% to 3.63%, payable in installments through 2049 | 802 | 802 |
| Long-term notes payable, with fixed rates currently ranging from 2.00% to 6.50%, payable in installments through 2045 | 80 | 83 |
| Net unamortized debt issuance costs and original issue premium | 69 | 82 |
| | 2,056 | 2,172 |
| Less current maturities | (20) | (58) |
| | \$ 2,036 | \$ 2,114 |

Adventist Health

Notes to Consolidated Financial Statements – Continued (In millions of dollars)

Note G – Long-Term Debt (continued)

Scheduled maturities of long-term debt are as follows as of December 31, 2020:

| | Long-Term Debt |
|------------|---------------------------|
| 2021 | \$ 13 |
| 2022 | 30 |
| 2023 | 81 |
| 2024 | 184 |
| 2025 | 31 |
| Thereafter | 1,648 |
| | <u>\$ 1,987</u> |

Note H – Leases

The System leases certain locations, office space, land, and equipment. The System determines whether an arrangement contains a lease at inception. Assets held under finance leases are included in property and equipment. Operating leases are expensed on a straight-line basis over the life of the lease beginning on the commencement date. Any direct and indirect costs for the leases are expensed and are immaterial for the System.

At lease commencement, the System determines the lease term by assuming the exercise of the renewal option that are reasonably certain to be exercised. The exercise of lease renewal or termination options are at the System's sole discretion. The depreciable life of assets and leasehold improvements is limited by the expected lease terms, unless there is a transfer of title or purchase option reasonably certain of exercise.

Some lease agreements include rental payments based on annual percentage increases, and others include rental payments adjusted periodically for inflation. Certain leases require the System to pay real estate taxes, insurance, maintenance, and other operating expenses associated with the leased premises.

The System's lease agreements do not contain any material residual value guarantees or material restricted covenants.

The System uses the incremental borrowing rate based on the information available at the lease commencement date to determine the present value of lease payments. The System used the incremental borrowing rate at January 1, 2019 for operating leases that commenced prior to that date.

The System elected the package of practical expedients within the lease transitional guidance, which allow it to carry forward its historical assessments of: 1) whether contracts are or contain leases, 2) lease classification and 3) initial direct costs, where applicable. The System also elected the practical expedient to not separate lease components from non-lease components for all existing lease classes. The System implemented a policy of not recording leases on its balance sheets when the leases have a term of 12 months or less. The System did not elect the practical expedient allowing the use-of-hindsight, which would require the System to reassess the lease term of its leases based on all facts and circumstances through the effective date.

Adventist Health

Notes to Consolidated Financial Statements – Continued
(In millions of dollars)

Note H – Leases (continued)

| | | December 31 | |
|--------------------------|------------------------------|--------------------|---------------|
| | <u>Classification</u> | <u>2020</u> | <u>2019</u> |
| Lease assets | Other assets | \$ 186 | \$ 177 |
| Lease liabilities | | | |
| Current | Other current liabilities | \$ 28 | \$ 27 |
| Noncurrent | Other noncurrent liabilities | 162 | 151 |
| Total lease liabilities | | <u>\$ 190</u> | <u>\$ 178</u> |

| | | December 31 | |
|--------------------------------|------------------------------|--------------------|-------------|
| | <u>Classification</u> | <u>2020</u> | <u>2019</u> |
| Operating lease expense | Purchased services and other | \$ 36 | \$ 33 |

| | December 31 | |
|---|--------------------|--------------|
| Cash paid for amounts not included in the measurement of lease liabilities | <u>2020</u> | <u>2019</u> |
| Operating cash outflows for operating leases | <u>\$ 37</u> | <u>\$ 37</u> |

Operating lease payments include payments relating to options to extend lease terms that are reasonably certain of being exercised. Excluded are any legally binding lease payments for signed leases not yet commenced, which are immaterial for the System. Minimum lease payments for operating leases with initial terms in excess of one year are as follows for the period ended December 31, 2020:

| Maturity of Lease Liabilities | <u>Operating Leases</u> |
|--------------------------------------|-------------------------|
| 2021 | \$ 34 |
| 2022 | 31 |
| 2023 | 26 |
| 2024 | 22 |
| 2025 | 17 |
| Thereafter | 104 |
| Total lease payments | <u>234</u> |
| Less imputed interest | (48) |
| | <u>\$ 186</u> |

Adventist Health

Notes to Consolidated Financial Statements – Continued
(In millions of dollars)

Note H – Leases (continued)

| Lease Term and Discount Rate | December 31 2020 |
|---|-----------------------------|
| Weighted average remaining lease term (years) | 10.6 |
| Weighted average discount rate | 3.54% |

Note I – Net Assets With Donor Restrictions

The System receives donations from generous individuals and organizations that support certain programs and services. Donations included in net assets with donor restrictions were maintained for the following purposes:

| | December 31 | |
|---|--------------------|-------------|
| | 2020 | 2019 |
| Subject to expenditure for specified purpose: | | |
| Capital projects and medical equipment | \$ 23 | \$ 20 |
| Research and education | 25 | 26 |
| | 48 | 46 |
| Subject to passage of time | 3 | 3 |
| Investment in perpetuity – endowment | 10 | 9 |
| | \$ 61 | \$ 58 |

The Board has designated certain net assets without donor restrictions funds to be used in the future for specific projects. Board-designated funds included in net assets without donor restrictions are held for the following purposes:

| | December 31 | |
|--|--------------------|-------------|
| | 2020 | 2019 |
| Subject to expenditures for patient care, education, and other | \$ 6 | \$ 6 |
| Board designated – endowments | 7 | 6 |
| | \$ 13 | \$ 12 |

Note J – Patient Service Revenue and Premium Revenue

Patient service revenue is reported at the amount the System expects to be paid for providing patient care. These amounts are due from patients and third-party payors (including health insurers and government programs) and include variable consideration for retroactive revenue adjustments due to the settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payors soon after the services are performed.

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note J – Patient Service Revenue and Premium Revenue (continued)

Patient service revenue is recognized as performance obligations are satisfied based on the nature of the services provided by the System. Revenue for performance obligations that are satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient services. The System measures the performance obligation for inpatient services 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. The System measures the performance obligations for outpatient services over a period of less than one day when goods or services are provided and the System does not believe it is required to provide additional goods or services to the patient.

Because all its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in ASC 606. Under this exemption, the System is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Since the unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient services at the end of the reporting period, the performance obligations for these contracts are generally completed within days or weeks of the end of the reporting period.

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and other implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and its historical settlement experience. The System determines its estimate of implicit price concessions for uninsured patients based on its historical collection experience with this class of patients.

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

- **Medicare:** Certain services are paid at prospectively determined rates based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies (subject to certain limits) with final settlement determined after Medicare Administrative Contractors have audited annual cost reports submitted by the System. Physician services are paid based upon established fee schedules based on services provided.
- **Medicaid:** Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member. Supplemental funding is generally provided by the various states in which the System operates for Medicaid Disproportionate Share and hospital fee programs.
- **Other:** Payment agreements with certain commercial insurance carriers, HMOs, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note J – Patient Service Revenue and Premium Revenue (continued)

The healthcare industry is subject to laws and regulations concerning government programs, including Medicare and Medicaid, which are complex and subject to varying interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. While the System operates a Compliance Program, which reviews its compliance with these laws and regulations, there can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations 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 from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Subsequent revisions compared favorably to original estimates by \$7 and \$15 for the years ended December 31, 2020 and 2019, respectively.

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

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2020 and 2019 was not significant.

Adventist Health

Notes to Consolidated Financial Statements – Continued
(In millions of dollars)

Note J – Patient Service Revenue and Premium Revenue (continued)

The composition of patient service revenues by payor is as follows:

| | Year Ended December 31 | |
|--------------|-------------------------------|-----------------|
| | 2020 | 2019 |
| Medicare | \$ 1,520 | \$ 1,506 |
| Medicaid | 1,292 | 1,253 |
| Other payors | 1,285 | 1,364 |
| | \$ 4,097 | \$ 4,123 |

The composition of patient service revenues by area of operation and business type is as follows:

| | Year Ended December 31, 2020 | | | | | Total |
|----------------------|-------------------------------------|----------------------------|---------------------------|----------------------------|---------------|-----------------|
| | Pacific Northwest | Northern California | Central California | Southern California | Other | |
| Inpatient | \$ 248 | \$ 579 | \$ 877 | \$ 772 | \$ (5) | \$ 2,471 |
| Outpatient and other | 179 | 214 | 344 | 134 | 61 | 932 |
| Emergency | 54 | 24 | 184 | 69 | – | 331 |
| Physician services | 66 | 127 | 168 | 11 | 75 | 447 |
| Eliminations | (14) | (23) | (23) | (11) | (13) | (84) |
| Grand total | \$ 533 | \$ 921 | \$ 1,550 | \$ 975 | \$ 118 | \$ 4,097 |

| | Year Ended December 31, 2019 | | | | | Total |
|----------------------|-------------------------------------|----------------------------|---------------------------|----------------------------|--------------|-----------------|
| | Pacific Northwest | Northern California | Central California | Southern California | Other | |
| Inpatient | \$ 267 | \$ 641 | \$ 772 | \$ 767 | \$ – | \$ 2,447 |
| Outpatient and other | 193 | 156 | 382 | 182 | 46 | 959 |
| Emergency | 61 | 95 | 176 | 90 | – | 422 |
| Physician services | 68 | 105 | 173 | 11 | 67 | 424 |
| Eliminations | (21) | (35) | (36) | (17) | (20) | (129) |
| Grand total | \$ 568 | \$ 962 | \$ 1,467 | \$ 1,033 | \$ 93 | \$ 4,123 |

Adventist Health

Notes to Consolidated Financial Statements – Continued
(In millions of dollars)

Note J – Patient Service Revenue and Premium Revenue (continued)

Premium revenues: The System has entered into payment agreements with certain HMOs to provide medical services to subscribing participants. Under these agreements, the System receives monthly capitation payments based on the number of each HMO’s covered participants regardless of the services actually provided by the System. The transaction price may be adjusted for stop loss recoveries, ceded premiums, and risk adjustment factors. Performance obligations are satisfied over the passage of time by standing ready to provide services.

The composition of premium revenues based on area of operation and payor class is as follows:

| | Year Ended December 31, 2020 | | | | | |
|-----------------------|------------------------------|---------------------|--------------------|---------------------|--------------|---------------|
| | Pacific Northwest | Northern California | Central California | Southern California | Other | Total |
| Medicaid managed care | \$ 21 | \$ 85 | \$ 11 | \$ 41 | \$ 3 | \$ 161 |
| Other managed care | 2 | – | – | – | 22 | 24 |
| | <u>\$ 23</u> | <u>\$ 85</u> | <u>\$ 11</u> | <u>\$ 41</u> | <u>\$ 25</u> | <u>\$ 185</u> |
| | Year Ended December 31, 2019 | | | | | |
| | Pacific Northwest | Northern California | Central California | Southern California | Other | Total |
| Medicaid managed care | \$ 1 | \$ 88 | \$ 21 | \$ 37 | \$ 3 | \$ 150 |
| Other managed care | 2 | – | – | – | – | 2 |
| | <u>\$ 3</u> | <u>\$ 88</u> | <u>\$ 21</u> | <u>\$ 37</u> | <u>\$ 3</u> | <u>\$ 152</u> |

The composition of premium revenues based on type of service and area of operation is as follows:

| | Year Ended December 31, 2020 | | | | | |
|------------------------|------------------------------|---------------------|--------------------|---------------------|--------------|---------------|
| | Pacific Northwest | Northern California | Central California | Southern California | Other | Total |
| Institutional services | \$ 17 | \$ 74 | \$ 9 | \$ 41 | \$ – | \$ 141 |
| Professional services | 6 | 11 | 2 | – | 25 | 44 |
| | <u>\$ 23</u> | <u>\$ 85</u> | <u>\$ 11</u> | <u>\$ 41</u> | <u>\$ 25</u> | <u>\$ 185</u> |
| | Year Ended December 31, 2019 | | | | | |
| | Pacific Northwest | Northern California | Central California | Southern California | Other | Total |
| Institutional services | \$ – | \$ 82 | \$ 18 | \$ 37 | \$ – | \$ 137 |
| Professional services | 3 | 6 | 3 | – | 3 | 15 |
| | <u>\$ 3</u> | <u>\$ 88</u> | <u>\$ 21</u> | <u>\$ 37</u> | <u>\$ 3</u> | <u>\$ 152</u> |

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note J – Patient Service Revenue and Premium Revenue (continued)

The System recorded variable consideration from state programs for serving a disproportionate share of Medicaid and low-income patients in the amount of \$49 and \$51 in 2020 and 2019, respectively, including final settlements on prior years.

The State of California enacted legislation for a hospital fee program to fund certain Medi-Cal program coverage expansions. The program charges hospitals a quality assurance fee that is used to obtain federal matching funds for Medi-Cal with the proceeds redistributed as supplemental payments to California hospitals that treat Medi-Cal patients. There was one hospital fee program active in 2020: a 30-month program covering the period from July 1, 2019 to December 31, 2021, which was submitted to CMS for approval on September 30, 2019, and was approved on February 26, 2020. Accordingly, all related supplemental payments have been recognized as variable consideration and related quality assurance fees recognized as expense as of December 31, 2020.

Federal and state payments received from these programs are included in patient service revenue, and fees paid or payable to the state and California Health Foundation and Trust (CHFT) are included in purchased services and other expenses, as follows:

| | Year Ended December 31 | |
|---|------------------------|--------|
| | 2020 | 2019 |
| Patient service revenue | \$ 432 | \$ 440 |
| Purchased services: | | |
| Quality assurance fees | 167 | 195 |
| CHFT payments | 3 | 1 |
| Total purchased services and other expenses | 170 | 196 |
| Income from operations | \$ 262 | \$ 244 |

Accrued net receivables related to the hospital fee programs are included in receivables from third-party payors, and amount to \$422 and \$357 as of December 31, 2020 and 2019, respectively.

Adventist Health

Notes to Consolidated Financial Statements – Continued (In millions of dollars)

Note K – COVID-19

On March 11, 2020, the World Health Organization declared the novel coronavirus disease (COVID-19) a pandemic. Following this, the Center for Disease Control declared a national public health emergency, followed by state emergency declarations, and the Centers for Medicare and Medicaid Services (CMS) issued guidance regarding elective procedures. Several national restrictions were put in place and the governors in the states in which the System has operations issued shelter-in-place orders and executive orders postponing nonessential or elective surgeries. Several unavoidable factors are impacting both revenue and expense as the result of necessary actions by the System as well as local, state, and federal governments to mitigate the spread and effect of the virus. Clinic visits and elective surgical volumes have dropped as patients have been directed or have chosen to stay home to avoid unnecessary exposure. Medical patient volumes in most markets have experienced significant fluctuations throughout the year. Labor costs have increased as a result of shortages in nurses and support teams that have been quarantined related to COVID-19 or are faced with childcare issues related to school closures. Supply shortages are ongoing impacting both cost per unit and changes in treatment protocol, which have increased the quantity of supplies required. This has caused significant increases in supplies expense.

The System took measures to respond to COVID-19, including:

- Initiated System and hospital incident command centers to coordinate readiness, monitor and manage labor, personal protective equipment and other supplies, and resolve issues;
- Ensured local, state, and federal guidelines were followed for screening, triaging, testing, isolating, and caring for COVID-19 patients while protecting staff and other patients;
- Launched virtual ambulatory care services that allow patients to visit their doctors by phone or computer;
- Opened a virtual 150-bed hospital, Adventist Health Hospital@Home, in collaboration with Medically Home and Huron, to create capacity for COVID-19 patients by caring for patients with other specified diagnosis in their homes through medical command centers and rapid response teams;
- Reconfigured facilities to maximize patient service capacity during COVID-19 surge periods and to allow for social distancing, screening and other safety measures;
- Temporarily closed unused services or minimized services at medical office buildings, clinics and hospitals to meet the critical need to conserve personal protective equipment, and limit exposure to COVID-19 for both patients and employees;
- Launched web pages, a chatbot and patient email responses to answer community members' questions and direct them to appropriate services;
- Used System marketing and communication campaigns to remind community members not to neglect emergency care, inform the community as services resumed and shared enhanced safety measures to reduce patients' fears;
- Adjusted supplemental and contract workforce, flexed staffing, furloughed positions and temporarily or permanently reduced staff.

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note K – COVID-19 (continued)

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security Act (the “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 lost revenue and increased expenses due to the pandemic. As of December 31, 2020, the System received approximately \$288 of provider relief funds from various provisions in the CARES Act of which all have been recognized as contributions in other revenue in the consolidated statement of operations and changes in net assets.

On March 28, 2020, CMS expanded the existing Accelerated and Advance Payments Program to a broader group of Medicare Part A providers and Part B suppliers. At the end of April 2020, the System received approximately \$358 of Medicare advance payments as part of the CMS Accelerated and Advance Payments Program. Originally, CMS announced that it will begin to offset the payments by future Medicare reimbursements up to 210 days after disbursement, depending on whether a facility is an acute or non-acute facility. On October 1, 2020, a continuing resolution was signed, which included an extension to delay repayments to one year from receipt of these accelerated and advance disbursements. The repayment terms specify that for the first 11 months after repayment begins, repayment will occur through an automatic recoupment of 25% of Medicare payments otherwise owed to the provider. At the end of the eleven-month period, recoupment will increase to 50% for six months. At the end of the six months (29 months from the receipt of the initial accelerated payment), Medicare will issue a letter for full repayment of any remaining balance, as applicable. The System has recorded \$160 in other current liabilities and \$198 in other noncurrent liabilities in the consolidated balance sheet.

The CARES Act also allows for deferred payment of the employer portion of certain payroll taxes between March 27, 2020 and December 31, 2020, with half due December 31, 2021 and the remaining half due December 31, 2022. As of December 31, 2020, the System had deferred payroll tax payments of approximately \$75 with \$37.5 included in accrued compensation and related payable and \$37.5 included in other noncurrent liabilities in the consolidated balance sheet.

Due to the evolving nature of the COVID-19 pandemic, the future impact to the System and its consolidated financial condition is presently unknown.

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note L – Functional Classification of Expenses

The System groups like expenses into financial statement lines and classifies programmatic expenses by business line. Expenses that are attributable to one or more programs or supporting functions are allocated based on operating expenses, square footage, and other criteria.

The following is a functional classification of the System’s expenses:

| | Year Ended December 31, 2020 | | |
|-------------------------------|-------------------------------------|---------------------------------------|--------------|
| | Program Services | General and Administrative | Total |
| Employee compensation | \$ 1,835 | \$ 411 | \$ 2,246 |
| Professional fees | 496 | 91 | 587 |
| Supplies | 631 | 10 | 641 |
| Purchased services and other | 895 | 210 | 1,105 |
| Interest | 68 | – | 68 |
| Depreciation and amortization | 191 | 10 | 201 |
| Total expenses | \$ 4,116 | \$ 732 | \$ 4,848 |

| | Year Ended December 31, 2019 | | |
|-------------------------------|-------------------------------------|---------------------------------------|--------------|
| | Program Services | General and Administrative | Total |
| Employee compensation | \$ 1,738 | \$ 354 | \$ 2,092 |
| Professional fees | 460 | 95 | 555 |
| Supplies | 618 | 9 | 627 |
| Purchased services and other | 861 | 239 | 1,100 |
| Interest | 66 | – | 66 |
| Depreciation and amortization | 184 | 8 | 192 |
| Total expenses | \$ 3,927 | \$ 705 | \$ 4,632 |

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note M – Retirement Plan

Most of the System’s operating entities participate in a single defined contribution plan (the “Plan”). The Plan is exempt from the Employee Retirement Income Security Act of 1974. The Plan provides, among other things, that the employer will contribute 3% of wages plus additional amounts for employees earning more than the Social Security wage base capped by the IRS compensation limit for the Plan year. Additionally, the Plan provides that the employer will match 50% of the employee’s contributions up to 4% of the contributing employee’s wages. Substantially all full-time employees who are at least 18 years of age are eligible for coverage in the Plan. The cost to the System for the Plan is included in employee compensation in the amount of \$64 and \$63 for the years ended December 31, 2020 and 2019, respectively.

Note N – Self-Insurance Liability Programs

The System has established a separate self-insured revocable trust (the “System Trust”) that covers the System’s entities for professional and general liability claims up to \$9 per occurrence and \$25 in the aggregate for the year ended December 31, 2020 and up to \$8 per occurrence and \$23 in the aggregate for the year ended December 31, 2019. The System contracts with Adhealth, Limited (Adhealth), a Bermuda company, to provide excess coverage for professional and general liability claims that exceed the self-insured revocable trust limits. Adhealth provided excess coverage with aggregate and per claim limits of \$125 for professional and general liability claims for the years ended December 31, 2020 and 2019, which brought total coverage per claim and aggregate limits to \$134 and \$133 for the years ended December 31, 2020 and 2019, respectively. Adhealth has purchased reinsurance through commercial insurers for 100% of the excess limits of coverage.

Claim liabilities (reserves) for future losses and related loss adjustment expenses for professional liability claims have been determined by an actuary at the present value of future claim payments using a 2% discount rate for program years 2020 and 2019. Such claim reserves are based on the best data available to the System; however, these estimates are subject to a significant degree of inherent variability. Accordingly, there is at least a reasonable possibility that a material change to the estimated reserves will occur in the near term. The System Trust’s accrued liability for professional and general liability claims is included in the consolidated balance sheets in the amount of \$119 at December 31, 2020 and 2019.

The System has a 50% ownership position in Adhealth at December 31, 2020 and 2019, and accounts for its investment using the equity method of accounting. The cost of acquiring commercial insurance by Adhealth is reflected as an expense in the consolidated statements of operations and changes in net assets.

The System maintains a self-insured workers’ compensation plan to pay for the cost of workers’ compensation claims. The System has entered into an excess insurance agreement with an insurance company to limit its losses on claims. The cost of workers’ compensation claims is accrued using actuarially determined estimates that are based on historical factors. Such claim reserves are based on the best data available to the System; however, these estimates are subject to a significant degree of inherent variability. Accordingly, there is at least a reasonable possibility that a material change to the estimated reserves will occur in the near term.

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note N – Self-Insurance Liability Programs (continued)

Workers' compensation claim liabilities have been determined by an actuary at the present value of future claim payments using a 2% discount rate for program years 2020 and 2019. The System's accrued liability for workers' compensation claims is recorded in the consolidated balance sheets in the amount of \$80 and \$78 at December 31, 2020 and 2019, respectively.

Note O – Commitments and Contingencies

Certain member organizations are involved in litigation and investigations arising in the ordinary course of business. In addition, certain member organizations in the ordinary course of business identified matters that they have reported to CMS, CMS contractors, or Medicaid/Medi-Cal contractors. Such disclosures typically involve simple repayment of affected claims; however, federal and state contractors may refer these matters to the Department of Health and Human Services' Office of Inspector General to investigate whether certain member organizations have submitted false claims to the Medicare and Medicaid programs or have violated other laws. Submission of false claims or violation of other laws can result in substantial civil and/or criminal penalties and fines, including treble damages and/or possible debarment from future participation in such programs. The System is committed to cooperating in such investigations as they arise. Although management does not believe these matters will have a material adverse effect on the System's consolidated financial position, there can be no assurance that this will be the case.

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note P – Acquisitions

The System entered into an affiliation agreement with Central California Foundation for Health dba: Delano Regional Medical Center, located in Delano, California, to become the sole member of Delano. This agreement was effective December 31, 2019. This acquisition allowed the System the ability to provide expanded healthcare services in the Delano, California, market.

The fair value of assets acquired and liabilities assumed at the acquisition date consisted of the following:

| | |
|---|---------------|
| Assets acquired: | |
| Cash and cash equivalents | \$ 51 |
| Patient accounts receivable | 11 |
| Prepays and other current assets | 19 |
| Assets whose use is limited | 3 |
| Property and equipment | 62 |
| Other assets, including noncurrent investments | 46 |
| | <u>\$ 192</u> |
| Liabilities assumed: | |
| Accounts payable and accrued compensation | \$ 11 |
| Long-term debt | 17 |
| Other liabilities | 4 |
| | <u>32</u> |
| Net assets without donor restrictions – controlling | 160 |
| | <u>\$ 192</u> |

As a part of the affiliation agreement, the System committed to developing a 12-bed private room obstetric and delivery unit during the next five years. The affiliation resulted in the System recording a gain on acquisition of \$160, which is reported as a gain on acquisition in a separate line in the accompanying consolidated financial statements. No intangible assets were recorded as a result of this affiliation.

Delano's results of operations and changes in net assets were included in the System's consolidated financial statements beginning December 31, 2019. As such, there were no operating results for 2019 to report.

On March 10, 2020, the System finalized the purchase of Blue Zones, LLC and Thrive Production, Inc. for \$78 in initial consideration. These companies focus on supporting a number of activities, including charitable and education activities, designed to help people live longer and better through community transformation programs that lower healthcare costs, improve productivity, and boost national recognition as great places to live, work, and play. The purchase resulted in \$42 of goodwill and \$30 of other identifiable intangible assets primarily related to trade name and customer relationships.

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note P – Acquisitions (continued)

The following pro forma consolidated operating results for the years ended December 31, 2020 and 2019 give effect to the acquisitions as if they had occurred on January 1, 2019. Pro forma amounts for both periods were adjusted to exclude the gain on acquisition recognized from acquisitions. The pro forma consolidated operating results do not necessarily represent the System's consolidated operating results had the acquisitions occurred on the date assumed, nor are these results necessarily indicative of the System's future consolidated operating results.

| | Year Ended December 31 | |
|--|------------------------|----------|
| | 2020 | 2019 |
| Pro forma revenues and support | \$ 4,775 | \$ 4,639 |
| Pro forma excess of revenues over expense | 109 | – |
| Pro forma increase in net assets without donor restrictions | 126 | 31 |
| Pro forma increase (decrease) in donor-restricted net assets | 3 | (12) |

In July 2020, the System commenced a long-term lease with Mendocino Coast Health Care District to become the sole operator of Mendocino Coast District Hospital, located in Fort Bragg, California. The lease agreement specifies that the hospital remain an acute care in-patient hospital, maintain at least 25 beds (the current number), and continue to provide emergency room services. It is expected that, as a result of the affiliation, more resources will be available to recruit and retain staff as well as bolster departments that currently have unmet needs such as new equipment and upgrading existing facilities. A new community board was formed with members appointed by Adventist Health consisting of 15 members, including two members from Adventist Health, two members from the Mendocino Coast Health District Board, the hospital's Chief of Staff and ten representatives from the local community.

Note Q – Camp Fire Impact

In November 2018, the System's Adventist Health Feather River (AHFR) facilities in Paradise, California, and neighboring communities incurred extensive damage as a result of the Camp Fire. Since the Camp Fire, most of the AHFR properties, including the 100-bed acute care hospital, remain temporarily closed and non-operational as the System completes the damage assessments. These assessments may include the restoration of the properties to an operational condition, or a determination of other plans associated with rebuilding properties that were fully or partially destroyed during the Camp Fire. The System is currently unable to provide any estimates of re-opening dates for the facilities, and it is expected that most of the facilities will continue to be closed for the foreseeable future. In the aggregate, these properties comprised approximately 4.8% of total revenues and support during the 12 months ended December 31, 2017, which was the last complete year of AHFR operations before the Camp Fire.

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note Q – Camp Fire Impact (continued)

At the time of the Camp Fire, the System maintained an insurance policy with an insurance company providing for total per occurrence aggregate coverage of \$1,000 subject to a one hundred twenty-five thousand dollars per-occurrence deductible with other limitations. This policy provides full replacement value coverage, with valuation under the policy based on the lesser of the cost to repair or replace on the same site with new materials of like size, kind, and quality. This also includes the costs to clean smoke and/or soot impacted buildings, equipment, and inventory and supplies. Subject to certain limitations, the policy also includes provisions that allow for replacement on sites other than the current facility sites. In addition, during the period that these properties are non-operational, the System believes it is entitled to business interruption recoveries for the lost income related to these properties, subject to certain deductibles and other limitations.

The System also filed a claim against Pacific Gas and Electric (PG&E), which has accepted responsibility for the Camp Fire and filed for bankruptcy protection in January 2019.

When all property insurance coverage and PG&E claims applicable to the above-mentioned Camp Fire damaged and destroyed buildings and assets are considered, the System believes it is entitled to the recovery of substantially all Camp Fire related expenses and reconstruction costs. In addition, pursuant to the business interruption policy, the System believes it is entitled to substantially all lost income at the impacted properties resulting from the Camp Fire. However, there can be no assurance that the System will ultimately collect substantially all of the Camp Fire related expenses and reconstruction costs and the lost income resulting from the related interruption of business at the impacted properties.

As of December 31, 2020, the System has disposed of all fixed assets that were fully destroyed during the Camp Fire. The System has also written off current assets with a book value of \$5 primarily related to destroyed inventory. The System had recorded receivables in the amount of \$89 related to recovery of expenses, primarily related to payroll and professional fees expenses, fire remediation and demolition expenses, and the costs of property damage primarily related to certain destroyed outbuildings. As of December 31, 2020, the System received initial Camp Fire related insurance payments of \$60. These payments have been applied as an offset to the recovery receivables recorded on the consolidated balance sheet. After the application of the \$60, there is a remaining \$29 in recovery receivables included in other current assets. As of December 31, 2020, AHFR has property and equipment with a net book value of \$35 that is currently non-operational as a result of the Camp Fire. As of December 31, 2020, the System has received no payments related to its PG&E claim. Based on an impairment analysis, management does not believe these assets are impaired. However, based on the preliminary nature of the damage assessments and management's intentions with regard to reconstruction, there can be no assurance that a future impairment may not be recognized.

As of December 31, 2020, the System's consolidated financial statements do not include any business interruption recoveries related to lost profits since no business interruption proceeds were received as of that date for that purpose. The System has also not included any recoveries for expected receipts above the book value of the assets recorded in the consolidated financial statements at the time of the loss unless cash was received and specifically identified in the payment as relating to those assets. However, the System expects that business interruption and other recoveries will be recognized in future periods for these items when recovery proceeds are probable and/or insurance carrier notifications are received.

Adventist Health

Notes to Consolidated Financial Statements – Continued

(In millions of dollars)

Note Q – Camp Fire Impact (continued)

The Camp Fire related expenses and insurance recoveries recorded to date are based upon the preliminary damage assessments of the real property at AHFR properties. The System is unable to assess the ultimate repair cost of the damaged property or the amount of total recoveries it may ultimately receive. Although the System expects to receive additional Camp Fire related proceeds in the future, the timing and amount of such proceeds cannot be determined at this time since it will be based upon factors such as the ultimate replacement costs of damaged assets and the ultimate value of the business interruption claims. Therefore, in connection with the Camp Fire, it is likely that the System will record additional Camp Fire related expenses and recoveries in future periods, which could be material.

Note R – Subsequent Events

The System has evaluated subsequent events and disclosed all material events through March 19, 2021, the date the accompanying consolidated financial statements were issued.



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Report of Independent Auditors on Supplementary Information

The Board of Directors
Adventist Health System/West

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating financial statement schedules for Adventist Health System/West 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 audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

March 19, 2021

Adventist Health
Consolidating Balance Sheets
(In millions of dollars)
December 31, 2020

| | Consolidated Balances | Adjustments and Eliminations | Adventist Health System Office | Adventist Health Bakersfield | Adventist Health Castle | Adventist Health Clear Lake | Adventist Health Delano | Adventist Health Feather River | Adventist Health Glendale | Adventist Health Hanford | Adventist Health Howard Memorial | Adventist Health Lodi Memorial |
|--|----------------------------------|---|---|---|--|--|--|---|--|---|---|---|
| Assets | | | | | | | | | | | | |
| Cash and cash equivalents | \$ 261 | \$ (2,105) | \$ – | \$ 130 | \$ 128 | \$ 27 | \$ 112 | \$ – | \$ 128 | \$ 370 | \$ 59 | \$ 51 |
| Short-term investments | 176 | – | 170 | – | – | – | – | – | 1 | – | – | 1 |
| Patient accounts receivable | 612 | (13) | – | 54 | 23 | 23 | 11 | 2 | 64 | 47 | 8 | 36 |
| Receivables from third-party payors | 501 | (1) | 1 | 35 | 2 | 23 | 17 | 23 | 38 | 69 | 7 | 30 |
| Other current assets | 243 | (257) | 273 | 15 | 6 | 3 | 3 | 33 | 19 | 9 | 1 | 13 |
| Total current assets | 1,793 | (2,376) | 444 | 234 | 159 | 76 | 143 | 58 | 250 | 495 | 75 | 131 |
| Noncurrent investments | 2,236 | (9) | 2,214 | – | 12 | – | – | 3 | 3 | – | – | – |
| Other assets | 413 | 8 | 158 | 4 | 8 | 5 | – | 1 | 26 | 25 | 11 | 7 |
| Property and equipment, net | 2,302 | – | 303 | 162 | 108 | 37 | 54 | 44 | 181 | 172 | 48 | 132 |
| Total assets | \$ 6,744 | \$ (2,377) | \$ 3,119 | \$ 400 | \$ 287 | \$ 118 | \$ 197 | \$ 106 | \$ 460 | \$ 692 | \$ 134 | \$ 270 |
| Liabilities and net assets | | | | | | | | | | | | |
| Accounts payable | \$ 265 | \$ – | \$ 84 | \$ 12 | \$ 7 | \$ 4 | \$ 3 | \$ 1 | \$ 22 | \$ 12 | \$ 3 | \$ 13 |
| Accrued compensation and related payables | 306 | (13) | 156 | 13 | 7 | 4 | 6 | 1 | 18 | 11 | 3 | 9 |
| Liabilities to third-party payors | 232 | (1) | 5 | 13 | 5 | 5 | 7 | – | 34 | 13 | 7 | 17 |
| Other current liabilities | 140 | (260) | 123 | 16 | 7 | 8 | 3 | 3 | 24 | 17 | 3 | 16 |
| Short-term financing | 60 | (115) | 62 | – | – | – | – | 3 | – | – | – | – |
| Current maturities of long-term debt | 20 | – | 7 | 1 | – | 1 | – | – | 3 | 1 | – | 2 |
| Total current liabilities | 1,023 | (389) | 437 | 55 | 26 | 22 | 19 | 8 | 101 | 54 | 16 | 57 |
| Long-term debt, net of current maturities | 2,036 | – | 703 | 77 | 60 | 55 | 15 | 18 | 161 | 206 | 25 | 125 |
| Other noncurrent liabilities | 570 | (1,988) | 2,180 | 11 | 11 | 11 | 2 | 1 | 45 | 22 | 18 | 14 |
| Total liabilities | 3,629 | (2,377) | 3,320 | 143 | 97 | 88 | 36 | 27 | 307 | 282 | 59 | 196 |
| Net assets (deficit) without donor restrictions: | | | | | | | | | | | | |
| Controlling | 3,040 | – | (202) | 255 | 187 | 29 | 161 | 77 | 147 | 409 | 74 | 71 |
| Noncontrolling | 14 | – | – | – | – | – | – | – | (1) | – | – | – |
| Net assets with donor restrictions | 61 | – | 1 | 2 | 3 | 1 | – | 2 | 7 | 1 | 1 | 3 |
| Total net assets | 3,115 | – | (201) | 257 | 190 | 30 | 161 | 79 | 153 | 410 | 75 | 74 |
| Total liabilities and net assets | \$ 6,744 | \$ (2,377) | \$ 3,119 | \$ 400 | \$ 287 | \$ 118 | \$ 197 | \$ 106 | \$ 460 | \$ 692 | \$ 134 | \$ 270 |

See accompanying auditors' report on supplementary information.

| Adventist Health Mendocino Coast | Adventist Health Physicians Network | Adventist Health Plan | Adventist Health Portland | Adventist Health Reedley | Adventist Health and Rideout | Adventist Health Simi Valley | Adventist Health Sonora | Adventist Health St. Helena | Adventist Health Tehachapi Valley | Adventist Health Tillamook | Adventist Health Tulare | Adventist Health Ukiah Valley | Adventist Health White Memorial | Western Health Resources |
|---|--|------------------------------|----------------------------------|---------------------------------|-------------------------------------|-------------------------------------|--------------------------------|------------------------------------|--|-----------------------------------|--------------------------------|--------------------------------------|--|---------------------------------|
| \$ - | \$ 13 | \$ 5 | \$ 178 | \$ 86 | \$ 121 | \$ 13 | \$ 205 | \$ 24 | \$ 10 | \$ 62 | \$ - | \$ 110 | \$ 534 | \$ - |
| - | - | - | - | - | - | - | - | 2 | - | - | - | - | 2 | - |
| 14 | 2 | - | 39 | 26 | 62 | 28 | 22 | 13 | 12 | 13 | 32 | 17 | 51 | 26 |
| - | 4 | 1 | 8 | 22 | 44 | 7 | 24 | 12 | 6 | 5 | 18 | 21 | 85 | - |
| 16 | 9 | - | 6 | 3 | 18 | 5 | 9 | 29 | 2 | 2 | 2 | 6 | 18 | - |
| <u>30</u> | <u>28</u> | <u>6</u> | <u>231</u> | <u>137</u> | <u>245</u> | <u>53</u> | <u>260</u> | <u>80</u> | <u>30</u> | <u>82</u> | <u>52</u> | <u>154</u> | <u>690</u> | <u>26</u> |
| - | - | - | - | - | - | - | - | 13 | - | - | - | - | - | - |
| 8 | - | - | 34 | 44 | 12 | 16 | 11 | 8 | - | 4 | 11 | 10 | - | 2 |
| - | - | - | 114 | 41 | 343 | 123 | 85 | 95 | 40 | 10 | 6 | 74 | 129 | 1 |
| <u>\$ 38</u> | <u>\$ 28</u> | <u>\$ 6</u> | <u>\$ 379</u> | <u>\$ 222</u> | <u>\$ 600</u> | <u>\$ 192</u> | <u>\$ 356</u> | <u>\$ 196</u> | <u>\$ 70</u> | <u>\$ 96</u> | <u>\$ 69</u> | <u>\$ 238</u> | <u>\$ 819</u> | <u>\$ 29</u> |
| \$ 3 | \$ 4 | \$ 1 | \$ 11 | \$ 10 | \$ 17 | \$ 6 | \$ 8 | \$ 10 | \$ 2 | \$ 3 | \$ 3 | \$ 7 | \$ 17 | \$ 2 |
| 2 | 1 | - | 12 | 5 | 19 | 6 | 8 | 8 | 1 | 3 | 2 | 5 | 16 | 3 |
| - | - | 1 | 14 | 5 | 22 | 7 | 18 | 12 | 5 | 9 | 1 | 10 | 23 | - |
| 3 | 21 | 2 | 21 | 13 | 21 | 9 | 11 | 21 | 2 | 4 | 5 | 14 | 30 | 3 |
| 25 | - | - | - | - | - | - | - | - | - | - | 62 | - | - | 23 |
| - | - | - | - | - | 2 | 2 | - | 1 | - | - | - | - | - | - |
| <u>33</u> | <u>26</u> | <u>4</u> | <u>58</u> | <u>33</u> | <u>81</u> | <u>30</u> | <u>45</u> | <u>52</u> | <u>10</u> | <u>19</u> | <u>73</u> | <u>36</u> | <u>86</u> | <u>31</u> |
| - | - | - | 74 | 19 | 138 | 100 | 72 | 52 | 60 | 3 | - | 43 | 29 | 1 |
| 6 | 1 | - | 42 | 31 | 46 | 18 | 22 | 26 | 3 | 8 | 6 | 14 | 19 | 1 |
| <u>39</u> | <u>27</u> | <u>4</u> | <u>174</u> | <u>83</u> | <u>265</u> | <u>148</u> | <u>139</u> | <u>130</u> | <u>73</u> | <u>30</u> | <u>79</u> | <u>93</u> | <u>134</u> | <u>33</u> |
| (1) | 1 | 2 | 200 | 138 | 320 | 43 | 215 | 45 | (5) | 66 | (10) | 144 | 678 | (4) |
| - | - | - | - | - | 15 | - | - | - | - | - | - | - | - | - |
| - | - | - | 5 | 1 | - | 1 | 2 | 21 | 2 | - | - | 1 | 7 | - |
| <u>(1)</u> | <u>1</u> | <u>2</u> | <u>205</u> | <u>139</u> | <u>335</u> | <u>44</u> | <u>217</u> | <u>66</u> | <u>(3)</u> | <u>66</u> | <u>(10)</u> | <u>145</u> | <u>685</u> | <u>(4)</u> |
| <u>\$ 38</u> | <u>\$ 28</u> | <u>\$ 6</u> | <u>\$ 379</u> | <u>\$ 222</u> | <u>\$ 600</u> | <u>\$ 192</u> | <u>\$ 356</u> | <u>\$ 196</u> | <u>\$ 70</u> | <u>\$ 96</u> | <u>\$ 69</u> | <u>\$ 238</u> | <u>\$ 819</u> | <u>\$ 29</u> |

Adventist Health
Consolidating Statements of Operations and Changes in Net Assets
(In millions of dollars)
Year Ended December 31, 2020

| | Consolidated Balances | Adjustments and Eliminations | Adventist Health System Office | Adventist Health Bakersfield | Adventist Health Castle | Adventist Health Clear Lake | Adventist Health Delano | Adventist Health Feather River | Adventist Health Glendale | Adventist Health Hanford | Adventist Health Howard Memorial | Adventist Health Lodi Memorial |
|---|----------------------------------|---|---|---|--|--|--|---|--|---|---|---|
| Revenues and support: | | | | | | | | | | | | |
| Patient service revenue | \$ 4,097 | \$ (84) | \$ (5) | \$ 426 | \$ 161 | \$ 116 | \$ 83 | \$ 5 | \$ 445 | \$ 314 | \$ 71 | \$ 232 |
| Premium revenue | 185 | (11) | – | – | 2 | 9 | – | – | – | 20 | 4 | – |
| Other revenue | 477 | (725) | 760 | 13 | 15 | 14 | 3 | – | 97 | 13 | 10 | 23 |
| Net assets released from restrictions for operations | 15 | – | 2 | – | – | 1 | – | – | 2 | 1 | – | 3 |
| Total revenues and support | 4,774 | (820) | 757 | 439 | 178 | 140 | 86 | 5 | 544 | 348 | 85 | 258 |
| Expenses: | | | | | | | | | | | | |
| Employee compensation | 2,246 | (101) | 424 | 156 | 85 | 59 | 43 | – | 208 | 121 | 33 | 98 |
| Professional fees | 587 | – | 65 | 34 | 7 | 27 | 9 | 1 | 34 | 33 | 9 | 31 |
| Supplies | 641 | – | (25) | 79 | 32 | 11 | 10 | – | 80 | 45 | 12 | 33 |
| Purchased services and other | 1,105 | (716) | 312 | 144 | 52 | 41 | 17 | 2 | 185 | 112 | 21 | 84 |
| Interest | 68 | (3) | 24 | 2 | 2 | 2 | – | 2 | 6 | 7 | 1 | 4 |
| Depreciation and amortization | 201 | – | 31 | 12 | 7 | 4 | 8 | – | 17 | 14 | 5 | 9 |
| Total expenses | 4,848 | (820) | 831 | 427 | 185 | 144 | 87 | 5 | 530 | 332 | 81 | 259 |
| (Loss) income from operations | (74) | – | (74) | 12 | (7) | (4) | (1) | – | 14 | 16 | 4 | (1) |
| Nonoperating income: | | | | | | | | | | | | |
| Investment income | 178 | – | 111 | 4 | 4 | 1 | 3 | 1 | 3 | 10 | 2 | 2 |
| Loss on acquisition and divestitures | (1) | – | (1) | – | – | – | – | – | – | – | – | – |
| Other nonoperating gains (losses) | 6 | – | 7 | – | – | – | (1) | – | – | – | – | – |
| Total nonoperating income | 183 | – | 117 | 4 | 4 | 1 | 2 | 1 | 3 | 10 | 2 | 2 |
| Excess (deficit) of revenues over expenses | 109 | – | 43 | 16 | (3) | (3) | 1 | 1 | 17 | 26 | 6 | 1 |
| Deficit of revenues over expenses from noncontrolling interests | 2 | – | – | – | – | – | – | – | – | – | – | – |
| Excess (deficit) of revenues over expense from controlling interests | <u>111</u> | <u>–</u> | <u>43</u> | <u>16</u> | <u>(3)</u> | <u>(3)</u> | <u>1</u> | <u>1</u> | <u>17</u> | <u>26</u> | <u>6</u> | <u>1</u> |

See accompanying auditors' report on supplementary information.

| Adventist Health Mendocino Coast | Adventist Health Physicians Network | Adventist Health Plan | Adventist Health Portland | Adventist Health Reedley | Adventist Health and Rideout | Adventist Health Simi Valley | Adventist Health Sonora | Adventist Health St. Helena | Adventist Health Tehachapi Valley | Adventist Health Tillamook | Adventist Health Tulare | Adventist Health Ukiah Valley | Adventist Health White Memorial | Western Health Resources |
|---|--|------------------------------|----------------------------------|---------------------------------|-------------------------------------|-------------------------------------|--------------------------------|------------------------------------|--|-----------------------------------|--------------------------------|--------------------------------------|--|---------------------------------|
| \$ 27 | \$ 82 | \$ – | \$ 297 | \$ 165 | \$ 425 | \$ 161 | \$ 249 | \$ 153 | \$ 43 | \$ 89 | \$ 62 | \$ 147 | \$ 380 | \$ 53 |
| – | 25 | 17 | 4 | 2 | – | – | – | 29 | – | – | – | 43 | 41 | – |
| 1 | 7 | – | 34 | 29 | 38 | 16 | 28 | 30 | 5 | 9 | 2 | 17 | 36 | 2 |
| – | – | – | – | – | – | – | 1 | 1 | – | – | – | 1 | 3 | – |
| <u>28</u> | <u>114</u> | <u>17</u> | <u>335</u> | <u>196</u> | <u>463</u> | <u>177</u> | <u>278</u> | <u>213</u> | <u>48</u> | <u>98</u> | <u>64</u> | <u>208</u> | <u>460</u> | <u>55</u> |
| 13 | 46 | – | 170 | 66 | 199 | 72 | 100 | 71 | 18 | 44 | 25 | 67 | 186 | 43 |
| 6 | 82 | – | 10 | 34 | 48 | 9 | 35 | 22 | 6 | 8 | 10 | 30 | 34 | 3 |
| 5 | 13 | – | 42 | 13 | 68 | 25 | 48 | 30 | 3 | 12 | 7 | 30 | 66 | 2 |
| 4 | (28) | 17 | 98 | 53 | 162 | 61 | 67 | 100 | 12 | 27 | 19 | 65 | 184 | 10 |
| – | – | – | 2 | – | 5 | 3 | 3 | 1 | 2 | – | 2 | 1 | 1 | 1 |
| – | – | – | 11 | 4 | 24 | 9 | 7 | 9 | 2 | 2 | 3 | 6 | 17 | – |
| <u>28</u> | <u>113</u> | <u>17</u> | <u>333</u> | <u>170</u> | <u>506</u> | <u>179</u> | <u>260</u> | <u>233</u> | <u>43</u> | <u>93</u> | <u>66</u> | <u>199</u> | <u>488</u> | <u>59</u> |
| – | 1 | – | 2 | 26 | (43) | (2) | 18 | (20) | 5 | 5 | (2) | 9 | (28) | (4) |
| – | – | – | 5 | 2 | 3 | 1 | 5 | 1 | – | 2 | – | 3 | 15 | – |
| – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| <u>–</u> | <u>–</u> | <u>–</u> | <u>5</u> | <u>2</u> | <u>3</u> | <u>1</u> | <u>5</u> | <u>1</u> | <u>–</u> | <u>2</u> | <u>–</u> | <u>3</u> | <u>15</u> | <u>–</u> |
| – | 1 | – | 7 | 28 | (40) | (1) | 23 | (19) | 5 | 7 | (2) | 12 | (13) | (4) |
| – | – | – | – | – | 2 | – | – | – | – | – | – | – | – | – |
| <u>–</u> | <u>1</u> | <u>–</u> | <u>7</u> | <u>28</u> | <u>(38)</u> | <u>(1)</u> | <u>23</u> | <u>(19)</u> | <u>5</u> | <u>7</u> | <u>(2)</u> | <u>12</u> | <u>(13)</u> | <u>(4)</u> |

Adventist Health
Consolidating Statements of Operations and Changes in Net Assets (continued)
(In millions of dollars)
Year Ended December 31, 2020

| | <u>Consolidated Balances</u> | <u>Adjustments and Eliminations</u> | <u>Adventist Health System Office</u> | <u>Adventist Health Bakersfield</u> | <u>Adventist Health Castle</u> | <u>Adventist Health Clear Lake</u> | <u>Adventist Health Delano</u> | <u>Adventist Health Feather River</u> | <u>Adventist Health Glendale</u> | <u>Adventist Health Hanford</u> | <u>Adventist Health Howard Memorial</u> | <u>Adventist Health Lodi Memorial</u> |
|---|----------------------------------|---|---|---|--|--|--|---|--|---|---|---|
| Net assets without donor restrictions: | | | | | | | | | | | | |
| Controlling: | | | | | | | | | | | | |
| Excess (deficit) of revenues over expenses from controlling interests | \$ 111 | \$ – | \$ 43 | \$ 16 | \$ (3) | \$ (3) | \$ 1 | \$ 1 | \$ 17 | \$ 26 | \$ 6 | \$ 1 |
| Net change in unrealized gains (losses) on other-than-trading securities | 7 | – | 7 | – | – | – | – | – | – | – | – | – |
| Donated property and equipment | 1 | – | – | – | – | – | – | – | – | – | – | 1 |
| Net assets released from restrictions for capital additions | 7 | – | – | 3 | – | 4 | – | – | 1 | – | – | – |
| Transfers from (to) related parties | – | – | 20 | (2) | – | – | – | – | (3) | (1) | – | (1) |
| Increase (decrease) in net assets without donor restrictions – controlling | 126 | – | 70 | 17 | (3) | 1 | 1 | 1 | 15 | 25 | 6 | 1 |
| Noncontrolling: | | | | | | | | | | | | |
| Deficit of revenues over expenses from noncontrolling interests | (2) | – | – | – | – | – | – | – | – | – | – | – |
| Decrease in net assets without donor restrictions – noncontrolling | (2) | – | – | – | – | – | – | – | – | – | – | – |
| Net assets with donor restrictions: | | | | | | | | | | | | |
| Restricted gifts and grants | 24 | – | 1 | 1 | 1 | 5 | – | – | 4 | 1 | 1 | 3 |
| Net assets released from restrictions | (22) | – | (2) | (3) | – | (5) | – | – | (3) | (1) | – | (3) |
| Other donor-restricted activity | 1 | – | – | – | – | – | – | – | – | – | – | – |
| Increase (decrease) in net assets with donor restrictions | 3 | – | (1) | (2) | 1 | – | – | – | 1 | – | 1 | – |
| Increase (decrease) in net assets | 127 | – | 69 | 15 | (2) | 1 | 1 | 1 | 16 | 25 | 7 | 1 |
| Net assets, beginning of year | 2,988 | – | (270) | 242 | 192 | 29 | 160 | 78 | 137 | 385 | 68 | 73 |
| Net assets, end of year | <u>\$ 3,115</u> | <u>\$ –</u> | <u>\$ (201)</u> | <u>\$ 257</u> | <u>\$ 190</u> | <u>\$ 30</u> | <u>\$ 161</u> | <u>\$ 79</u> | <u>\$ 153</u> | <u>\$ 410</u> | <u>\$ 75</u> | <u>\$ 74</u> |

See accompanying auditors' report on supplementary information.

| <u>Adventist Health Mendocino Coast</u> | <u>Adventist Health Physicians Network</u> | <u>Adventist Health Plan</u> | <u>Adventist Health Portland</u> | <u>Adventist Health Reedley</u> | <u>Adventist Health and Rideout</u> | <u>Adventist Health Simi Valley</u> | <u>Adventist Health Sonora</u> | <u>Adventist Health St. Helena</u> | <u>Adventist Health Tehachapi Valley</u> | <u>Adventist Health Tillamook</u> | <u>Adventist Health Tulare</u> | <u>Adventist Health Ukiah Valley</u> | <u>Adventist Health White Memorial</u> | <u>Western Health Resources</u> |
|---|--|------------------------------|----------------------------------|---------------------------------|-------------------------------------|-------------------------------------|--------------------------------|------------------------------------|--|-----------------------------------|--------------------------------|--------------------------------------|--|---------------------------------|
| \$ - | \$ 1 | \$ - | \$ 7 | \$ 28 | \$ (38) | \$ (1) | \$ 23 | \$ (19) | \$ 5 | \$ 7 | \$ (2) | \$ 12 | \$ (13) | \$ (4) |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | (1) | - | - | - | - | - | - | - |
| <u>(1)</u> | <u>-</u> | <u>2</u> | <u>(3)</u> | <u>(1)</u> | <u>(5)</u> | <u>-</u> | <u>(1)</u> | <u>(1)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1)</u> | <u>(2)</u> | <u>-</u> |
| (1) | 1 | 2 | 4 | 27 | (43) | (1) | 21 | (20) | 5 | 7 | (2) | 11 | (15) | (4) |
| - | - | - | - | - | (2) | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | (2) | - | - | - | - | - | - | - | - | - |
| - | - | - | - | 1 | - | - | - | 1 | 1 | - | - | 1 | 3 | - |
| - | - | - | - | - | - | - | - | (1) | - | - | - | (1) | (3) | - |
| - | - | - | - | - | - | - | - | 1 | - | - | - | - | - | - |
| - | - | - | - | 1 | - | - | - | 1 | 1 | - | - | - | - | - |
| (1) | 1 | 2 | 4 | 28 | (45) | (1) | 21 | (19) | 6 | 7 | (2) | 11 | (15) | (4) |
| - | - | - | 201 | 111 | 380 | 45 | 196 | 85 | (9) | 59 | (8) | 134 | 700 | - |
| <u>\$ (1)</u> | <u>\$ 1</u> | <u>\$ 2</u> | <u>\$ 205</u> | <u>\$ 139</u> | <u>\$ 335</u> | <u>\$ 44</u> | <u>\$ 217</u> | <u>\$ 66</u> | <u>\$ (3)</u> | <u>\$ 66</u> | <u>\$ (10)</u> | <u>\$ 145</u> | <u>\$ 685</u> | <u>\$ (4)</u> |