Consolidated Financial Statements

Orlando Health, Inc. and Subsidiaries
Years Ended September 30, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

Orlando Health, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended September 30, 2021 and 2020

Contents

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

Tel: +1 407 872 6600
ey.com

Report of Independent Auditors

The Board of Directors
Orlando Health, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Orlando Health, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 consolidated 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 Orlando Health, Inc. and Subsidiaries as of September 30, 2021 and 2020, and the consolidated changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated January 31, 2022 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Ernst & Young LLP

January 31, 2022

Orlando Health, Inc. and Subsidiaries

Consolidated Balance Sheets
(In Thousands)

	September 30 2021	2020
Assets		
Current assets:		
Cash and cash equivalents	**$ 657,353**	$ 686,339
Assets limited as to use	**60,904**	93,690
Accounts receivable	**570,599**	382,369
Other receivables	**186,046**	68,577
Inventory	**126,374**	115,201
Other current assets	**47,228**	224,088
Total current assets	**1,648,504**	1,570,264
Assets limited as to use:		
Debt service and reserve funds held by bond trustee	**50,897**	45,933
Construction funds held by bond trustee	**2,877**	29,234
Interest rate swap contract collateral	**17,748**	30,691
Malpractice self-insurance	**17,470**	17,066
	88,992	122,924
Less amount required to meet current obligations	**(60,904)**	(93,690)
	28,088	29,234
Long-term investments – without donor restrictions	**2,529,594**	2,080,067
Long-term investments – with donor restrictions	**156,486**	139,167
Investments in related parties	**59,262**	59,504
Other assets	**422,572**	368,958
Operating lease assets	**158,371**	125,296
Property and equipment, net	**2,606,663**	2,263,181
Total assets	**$ 7,609,540**	$ 6,635,671
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 560,287**	$ 454,701
Contract liabilities – deferred revenues	–	189,996
Other current liabilities	**283,960**	194,686
Current portion of long-term debt and lease obligations	**33,764**	174,725
Total current liabilities	**878,011**	1,014,108
Long-term debt, less current portion	**1,891,142**	1,506,835
Operating lease obligations, less current portion	**142,296**	111,407
Accrued malpractice claims	**138,944**	129,495
Other noncurrent liabilities	**172,233**	193,913
Total liabilities	**3,222,626**	2,955,758
Net assets		
Net assets without donor restrictions:		
Orlando Health, Inc. and Subsidiaries	**4,219,650**	3,538,777
Noncontrolling interests in Subsidiaries	**5,345**	1,396
Total net assets without donor restrictions	**4,224,995**	3,540,173
Net assets with donor restrictions	**161,919**	139,740
Total net assets	**4,386,914**	3,679,913
Total liabilities and net assets	**$ 7,609,540**	$ 6,635,671

See accompanying notes.

Orlando Health, Inc. and Subsidiaries

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

	Year Ended September 30	
	2021	**2020**
Revenues and other support without donor restrictions		
Net patient service revenue	**$ 4,237,094**	$ 3,546,272
Other revenue	**403,264**	233,398
Federal Cares Act funding	**570**	82,448
Net assets released from donor restrictions	**6,013**	6,052
Total revenues and other support without donor restrictions	**4,646,941**	3,868,170
Expenses		
Salaries and benefits	**2,246,291**	1,935,631
Supplies and other	**1,760,340**	1,316,191
Professional fees	**41,443**	33,312
Depreciation and amortization	**241,489**	199,841
Interest	**65,685**	55,175
Total expenses	**4,355,248**	3,540,150
Income from operations	**291,693**	328,020
Nonoperating gains and (losses)		
Investment income	**386,218**	132,285
Change in fair value of interest rate swap agreements	**12,112**	(6,399)
Other nonoperating gains	**1,955**	19,512
Loss on early extinguishment of debt	**(10,511)**	–
Nonoperating gains, net	**389,774**	145,398
Excess of revenues, other support, and gains over expenses and losses	**681,467**	473,418
Excess of revenues, other support, and gains over expenses and losses attributed to noncontrolling interests in Subsidiaries	**(787)**	(314)
Excess of revenues, other support, and gains over expenses and losses attributed to Orlando Health, Inc. and Subsidiaries	**680,680**	473,104

Continued on next page

Orlando Health, Inc. and Subsidiaries

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

	Year Ended September 30	
	2021	**2020**
Net assets without donor restrictions		
Excess of revenues, other support, and gains over expenses and losses	**$ 681,467**	$ 473,418
Other changes in unrestricted net assets:		
Net assets released from restrictions for property and equipment	**1,245**	302
Other	**2,110**	(478)
Increase in net assets without donor restrictions	**684,822**	473,242
Net assets with donor restrictions		
Contributions	**23,649**	16,504
Net assets released from restrictions	**(7,258)**	(6,354)
Net realized and unrealized gains on investments	**5,989**	2,049
Other	**(201)**	(253)
Increase in net assets with donor restrictions	**22,179**	11,946
Increase in net assets	**707,001**	485,188
Net assets at beginning of year	**3,679,913**	3,194,725
Net assets at end of year	**$ 4,386,914**	$ 3,679,913

See accompanying notes.

Orlando Health, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended September 30	
	2021	**2020**
Operating activities		
Increase in net assets	**$ 707,001**	$ 485,188
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**241,489**	199,841
Change in fair value of interest rate swap agreements	**(12,112)**	6,399
Net realized, unrealized, and investment income gains	**(386,218)**	(132,285)
Loss on early extinguishment of debt	**10,511**	–
Gain on fair value of equity method interest	**–**	(17,595)
Restricted contributions and investment income	**(29,638)**	(18,553)
Changes in operating assets and liabilities:		
Accounts receivable, net	**(187,706)**	9,860
Other operating assets	**(161,031)**	(66,503)
Accounts payable and accrued expenses	**68,596**	1,280
Contract liabilities – deferred revenues	**(189,996)**	189,996
Other operating liabilities	**53,581**	49,395
Net cash provided by operating activities	**114,477**	707,023
Investing activities		
Purchases of property, equipment, and other noncurrent assets	**(256,503)**	(354,019)
Net cash paid for business combinations	**(37,976)**	(200,304)
Prepayment for future business combination	**–**	(185,644)
Decrease in assets limited as to use	**28,726**	83,914
Purchase of trading securities, net of sales	**(80,335)**	(75,424)
Other investing activities	**5,454**	3,632
Net cash used in investing activities	**(340,634)**	(727,845)
Financing activities		
Proceeds from issuance of debt	**516,775**	151,079
Refunding and repayments of debt, including financing lease obligations	**(370,895)**	(57,117)
Bond proceeds used for loan costs	**(2,753)**	–
Grant proceeds received for long-term purposes	**19,547**	16,243
Restricted contributions and investment income	**29,638**	18,553
Net cash provided by financing activities	**192,312**	128,758
(Decrease) increase in cash, cash equivalents and restricted cash	**(33,845)**	107,936
Cash, cash equivalents and restricted cash, beginning of year	**760,187**	652,251
Cash, cash equivalents and restricted cash, end of year	**$ 726,342**	$ 760,187
Cash and cash equivalents	**$ 657,353**	$ 686,339
Restricted cash and cash equivalents in assets limited as to use	**50,897**	42,778
Restricted cash and cash equivalents in long-term investments – with donor restrictions	**344**	379
Restricted cash and cash equivalents in Interest rate swap contract collateral	**17,748**	30,691
Cash, cash equivalents and restricted cash, end of year	**$ 726,342**	$ 760,187
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	**$ 66,909**	$ 63,004
Purchases of property and equipment accrued and not paid	**47,076**	32,641

See accompanying notes.

1. Organization

Orlando Health, Inc. (Orlando Health or the System); Orlando Health Central, Inc. (Health Central); Orlando Health South Lake Hospital, Inc. (South Lake); and OsceolaSC, LLC (dba Orlando Health St. Cloud Hospital) comprise the Obligated Group. Orlando Health is a tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code, which controls a diversified health care delivery system headquartered in Orlando, Florida. Orlando Health includes the following hospitals: Orlando Health Orlando Regional Medical Center, Orlando Health Dr. P. Phillips Hospital, Orlando Health Arnold Palmer Hospital for Children, Orlando Health Winnie Palmer Hospital for Women and Babies, Orlando Health South Seminole Hospital, Orlando Health South Lake Hospital, Orlando Health St. Cloud Hospital, Orlando Health-Health Central Hospital, Orlando Health Horizon West Hospital, and Bayfront Health St. Petersburg. Health Central includes a hospital and Health Central Park, a skilled nursing facility. Orlando Health also has eight medical residency programs.

Effective October 1, 2020, Orlando Health completed a transaction to purchase the 480-bed Bayfront Health St. Petersburg (Bayfront) and its associated health care operations in St. Petersburg, Florida. The System recorded the Bayfront assets acquired and liabilities assumed at fair value. Prior to October 1, 2020, the accounts of Bayfront are excluded from these consolidated financial statements.

Effective July 1, 2020, Orlando Health finalized the purchase of the remaining 80% ownership interest in OsceolaSC, LLC (OsceolaSC), which owned and operated the 84-bed St. Cloud Regional Medical Center and its associated health care operations in Osceola County. Prior to July 1, 2020, Orlando Health held a 20% non-controlling interest in the hospital and the interest in OsceolaSC was accounted for using the equity method, with the accounts of OsceolaSC excluded from these consolidated financial statements.

Subsidiaries are those entities Orlando Health controls as the sole or majority member, sole shareholder, or through board appointment and approval of all major transactions. Subsidiaries operate a variety of health care-related services, including physician practice groups (Orlando Health Medical Group, Inc.; Orlando Physician Network, Inc.; Orlando Cancer Center, Inc.; and OHRI, LLC (dba Orlando Health Imaging Centers), which operates six imaging centers, a fund-raising organization (Orlando Health Foundation, Inc.), OHI West, Inc. (dba Bayfront Health St. Petersburg); and other health care-related services. Healthnet Services, Inc. and its subsidiaries are taxable corporations and are a part of the Subsidiaries. The Obligated Group, together with its Subsidiaries, is collectively referred to herein as the “System.” These consolidated financial

1. Organization (continued)

statements include the consolidated accounts of Orlando Health, Health Central, South Lake, and OsceolaSC, LLC and their Subsidiaries. Significant transactions between entities have been eliminated.

2. COVID-19 Outbreak and Orlando Health's Response

Orlando Health, like many health systems across the United States, continues to experience and respond to operational and financial challenges related to COVID-19.

The Coronavirus Aid, Relief and Economic Securities (CARES) Act Provider Relief Fund was signed into law to provide temporary and limited relief to individuals and businesses impacted by the COVID-19 outbreak, including the appropriation of funds for health care providers for reimbursement of expenses and lost revenue attributable to COVID-19. The System received distributions of approximately $0.6 million and $82.4 million for the years ended September 30, 2021 and 2020, respectively, under the CARES Act Provider Relief Fund, which has been recognized under the financial statement caption, Federal CARES Act funding within the System's consolidated statements of operations and changes in net assets. This funding has been used to support lost revenues and healthcare-related expenses attributable to COVID-19 and to ensure uninsured individuals can obtain testing and treatment for COVID-19. The System may receive additional grant funding under the CARES Act, but management cannot predict the amount or timing of any such future distributions. The System's assessment of whether the terms and conditions for amounts received have been met considers all frequently asked questions and other interpretive guidance issued by the Department of Health and Human Services (HHS) that is applicable to the years ended September 30, 2021 and 2020.

Of the available programs established under the CARES Act Provider Relief Fund, the System elected to participate in the Medicare Accelerated Payment Program and the Employer Payroll Tax Deferral Provisions. The System received $190.0 million in accelerated Medicare payments as of September 30, 2020, which are included in the financial statement caption, Contract liabilities – deferred revenues on the consolidated balance sheets. The program required the Centers for Medicare & Medicaid Services (CMS) to begin recouping payments 120 days after receipt by the provider, although no payments were recouped during the year ended September 30, 2020. In 2021, the System repaid early all accelerated Medicare payments.

2. COVID-19 Outbreak and Orlando Health's Response (continued)

The System participated in the deferred employer social security payroll tax program. Amounts deferred as of September 30, 2020 under the Employer Payroll Tax Deferral Provisions are included in the financial statement caption, Other noncurrent liabilities. In 2021, the System repaid all deferred employer social security payroll taxes early.

3. Significant Accounting Policies

Pending Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The new standard requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected and separately measure an allowance for credit losses that is deducted from the amortized cost basis of the financial assets. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The System is evaluating the impact that the adoption of this update will have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment,* as an update to ASC 350, *Intangibles – Goodwill and Other*. This update eliminates step 2 of the goodwill impairment test, which required an entity to determine the fair value of individual assets and liabilities of the reporting unit. Under this updated guidance, the impairment amount will be determined using the step 1 comparison of fair value to carrying value. The updated guidance will be effective for the annual and any interim goodwill impairment tests in fiscal years beginning after December 15, 2022. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 2017. The System is evaluating the impact that the adoption of this ASU will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The System is evaluating the impact that the adoption of this update will have on its consolidated financial statements.

3. Significant Accounting Policies (continued)

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This update increases the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. ASU 2020-07 is effective for fiscal years beginning after June 15, 2021, and interim periods within fiscal years beginning after June 15, 2022. The System is evaluating the impact that the adoption of this update will have on its consolidated financial statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents and Restricted Cash

Investments with maturities of three months or less when purchased are classified as cash equivalents. Cash deposits are federally insured in limited amounts. Highly liquid instruments with original, short-term maturities of less than 90 days that are included as part of the investment portfolio are excluded from cash equivalents, as they are commingled with longer-term investments. Amounts included in restricted cash include cash held within investments and may represent funds set aside within the investment portfolio based on management's policy, contractual arrangements or donor restrictions.

3. Significant Accounting Policies (continued)

Investments and Investment Income

Investments in marketable equity securities, mutual funds invested in equity securities, and all debt securities are stated at fair value in the consolidated balance sheets. All investments have been designated by management as trading securities. Investment income or loss, including realized and unrealized gains and losses, interest, and dividends, is included in excess of revenues, other support, and gains over expenses and losses, unless the income or loss is restricted by donor or law. The System classifies unrestricted investments, regardless of maturity date, as either short-term or long-term based on management's intent and ability to hold or reinvest the investments on a long-term basis.

Investments Without Readily Determinable Values

Investments without readily determinable values consist of funds-of-funds, funds invested in real estate holdings, investments in private equity companies, partnerships, and limited liability companies and are included with investments at fair value. Under U.S. GAAP, a reporting entity is permitted, as a practical expedient, to estimate the fair value of such an investment using the net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) of certain investments, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of investment funds. At September 30, 2021 and 2020, the net asset value approximates the fair value of the funds as reported by the investment fund managers. Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market of these investments existed, and the differences could be material.

Income Taxes

Orlando Health, Inc. and its non-profit affiliates are exempt from federal income taxes under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and are also exempt from state income taxes. Healthnet Services, Inc. and its subsidiaries (owned by Orlando Health, Inc.) are taxable corporations and file a consolidated federal and state tax return. As of January 1, 2020, Orlando Cancer Center, Inc. is a taxable not-for-profit corporation and will file a federal and state tax return. Income taxes for the System, on a consolidated basis, are immaterial.

3. Significant Accounting Policies (continued)

At September 30, 2021 and 2020, the System has net deferred tax assets (before valuation allowance) of approximately $18.8 million and $16.7 million, respectively. Deferred tax assets are primarily composed of federal and state net operating loss carryforwards. At September 30, 2021 and 2020, the System has $80.4 million and $85.4 million, respectively, of federal net operating loss carryforwards and $80.4 million and $85.4 million, respectively, of state net operating carryforwards. The 2018 and prior portion of these net operating losses will expire starting in 2021. Under the Tax Cuts and Jobs Act of 2017 (Tax Act), net operating losses generated in 2019 and beyond can be carried forward indefinitely. A valuation allowance has been provided to offset the full amount of the System's net deferred tax asset as of September 30, 2021 and 2020, as management determined that it is more likely than not that the benefit of the deferred tax assets will not be realized in future periods.

FASB Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, prescribes the accounting for uncertainty in income tax positions recognized in the financial statements. ASC Topic 740 provides guidance and measurement of a tax position taken or expected to be taken in a tax return. There were no material uncertain tax positions as of September 30, 2021 and 2020.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under bond indenture agreements, assets whose use is limited due to statutory requirements of the state of Florida for future malpractice claims, assets whose use is limited by board for property and equipment and collateral held for an interest rate swap agreement. Amounts required to meet related current liabilities are reported as current.

Restricted Investments

Restricted investments consist of investments that are restricted as to use by donors for a specific time period or purpose.

Inventory

Inventory, which consists primarily of medical and drug supplies, is stated at the lower of cost or market value. Cost is determined using the first-in, first-out method.

3. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost, except for donated items, which are recorded at fair value at the date of the contribution. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as are interest costs during periods of construction. Depreciation is computed utilizing the straight-line method at rates estimated by management to amortize the cost of the various assets within the periods of expected use.

Goodwill and Other Intangible Assets

Goodwill results from the excess of the purchase price over the fair value of net assets of investments accounted for under the equity method and acquisitions accounted for as business combinations. The System applies accounting alternatives developed by the Private Company Council (PCC) on the accounting for goodwill and certain other intangible assets. The alternatives adopted include the amortization of goodwill on a straight-line basis of 10 years, the option to perform a test for impairment at the entity level and the option to perform such a test only when there is a triggering event indicating that the fair value of the entity may be below its carrying value. The gross carrying amount of goodwill is $237.6 million and $196.8 million at September 30, 2021 and 2020, respectively, the accumulated amortization is $40.8 million and $18.3 million as of September 30, 2021 and 2020, respectively, and the total amortization expense for 2021 and 2020 is $22.5 million and $10.7 million, respectively. During the year ended September 30, 2021, the System increased the balance of goodwill by approximately $40.8 million from business combinations. The net goodwill balance is included in other assets on the consolidated balance sheets. The qualitative impairment analyses performed in 2021 and 2020 did not identify a triggering event indicating that the fair value of the System was below its carrying amount.

Investments in Related Parties

Investments in related parties in which the System owns or controls at least a 20% interest and less than a 50% voting interest are recorded using the equity method. Investments in related parties of less than a 20% interest are recorded using the cost method, and income is recognized only when cash dividends are received. Income or losses from equity investments and cash dividends received from cost method investments are included in other revenue.

3. Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

If indicators of impairment are present, the System evaluates the financial recoverability of long-lived assets by comparing their carrying value to the expected future undiscounted cash flows. If such evaluations indicate that the carrying value of the assets has been impaired, the assets are adjusted to their fair values. Additionally, long-lived assets held for sale are similarly evaluated by comparison of the carrying value to fair value less costs to sell. If the carrying value exceeds fair value less costs to sell, the assets are adjusted to fair value less costs to sell. Adjustments are reported as impairment expense. There was no impairment of long-lived assets in the years ended September 30, 2021 and 2020.

Unrestricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value as of the date the promise is received. Unrestricted gifts are recognized in other revenue.

Net Assets With Donor Restrictions

Net assets with donor restrictions reflect the portion of the System's net assets whose use is subject to donor-imposed restrictions. Donor-imposed restrictions may be temporary in nature, such as those that will be met by the passage of time of other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the assets have been restricted by donors to be maintained by the System in perpetuity.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or the condition has been met. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions.

3. Significant Accounting Policies (continued)

Estimated Malpractice Costs

The provision for estimated medical malpractice expense is an estimate of the ultimate cost of reported claims and claims incurred, but not reported.

Derivative Instruments and Hedging Activities

The System has entered into derivative transactions in the form of interest rate swap agreements which it uses to manage the relative amounts of fixed and variable rate long-term debt exposure. The interest rate swap agreements are contracts between the System and a third party (counterparty) that provide for economic payments between the parties based on specified notional amounts and defined interest rates. The interest rate swap agreements are exposed to counterparty credit risk, which is the risk that contractual obligations of the counterparty will not be fulfilled. All realized and unrealized interest rate swap agreement gains and losses are included in nonoperating gains and losses on the consolidated statements of operations and changes in net assets. Collateral posted under interest rate swap contracts is recorded gross of the related asset or liability and classified as assets limited as to use when held by the counterparty and as other noncurrent liability when held by the System.

Excess of Revenues, Other Support, and Gains Over Expenses and Losses

The consolidated statements of operations and changes in net assets include excess of revenues, other support, and gains over expenses and losses, which is analogous to income from continuing operations for a for-profit enterprise. Nonoperating gains and losses represent activities peripheral to direct patient care services and include investment income, change in fair value of interest rate swap agreements, and loss on early extinguishment of debt. Changes in unrestricted net assets that are excluded from excess of revenues, other support, and gains over expenses and losses, consistent with industry practice, primarily include contributions of long-lived assets, including assets acquired using contributions, which, by donor restriction, were to be used for the purposes of acquiring such assets.

4. Revenue Recognition

The System recognizes net patient service revenue in the period in which performance obligations under its contracts are satisfied by transferring services to patients. The System measures the performance obligation for inpatient services from admission to the System facility to the point when it is no longer required to provide services to the patient, which is generally at the time of discharge. Performance obligations for inpatient services are satisfied over time during the patient's stay at the applicable facility. For in-house patients, revenue is recognized based on the amount of actual charges incurred as of the end of the reporting period, reduced by an estimate of contractual and other adjustments based on a combination of negotiated rates and historical experience for the payor class. Performance obligations for outpatient services are generally satisfied on the date of the outpatient visit. Bills to patients and third-party payors are generally sent within a few days or weeks of the inpatient discharge or outpatient visit.

Net patient service revenue is reported at amounts that reflect the consideration to which the System expects to be entitled for providing patient care. The System's patients include those covered under Medicare, Medicaid, managed care health plans and commercial insurance companies, as well as uninsured patients. The System has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and negotiated daily rates. Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient diagnosis-related group classification system that is based on clinical, diagnostic, and other factors. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid under prospectively determined rates per discharge and prospectively determined rates per service. The System uses a portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios primarily consist of the major payor classes as described above.

The initial transaction price for each patient is based on the gross charges for services provided, reduced by contractual adjustments and discounts determined based on contractual or negotiated rates as described above. The transaction price is further reduced by implicit price concessions, which are estimated using historical collection percentages, which reduce the amount of revenue recognized to amounts the System expects to collect.

4. Revenue Recognition (continued)

Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments and significant regulatory actions. Provisions for third-party payor settlement and adjustments are estimated and recorded in the period the related services are rendered and adjusted in future periods as final settlements are determined. At September 30, 2021 and 2020, the System has estimated third-party settlements of $16.3 million and $17.5 million, respectively, recorded in accounts payable and accrued expenses in the consolidated balance sheets. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Patient service revenue includes variable consideration for these retroactive revenue adjustments resulting from the settlement of audits, review and investigation. Such amounts are estimated using the most likely outcome method. For fiscal year 2021, revenue increased $1.7 million and, for fiscal year 2020, revenue increased $2.1 million related to changes in estimates for cost report reopenings, appeals, and tentative and final cost report settlements on filed cost reports, of which some are still subject to audit, additional reopening, and/or appeal.

The transaction price for patient services provided depends greatly upon the System's payor mix, as collections on gross charges can vary significantly, depending on a patient's insurance coverage, or lack thereof, and the extent of amounts due from patients for copays, coinsurance and deductibles. Various factors affect collection trends within each major class of payors. These include general economic conditions, including unemployment rates, which may influence the number of uninsured and underinsured patients; regulatory changes that affect reimbursement rates from governmental programs such as Medicare and Medicaid; and ongoing contract negotiations with managed care health plans and commercial insurance providers.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined that it has provided implicit price concessions to uninsured patients and patients with other uninsured balances such as copays and deductibles. The difference between amounts billed to patients and the amounts expected to be collected based on the System's collection history with those patients is recorded as implicit price concessions, or as a direct reduction to net patient revenue. Subsequent adjustments that are determined to be the result of an adverse change in the patient's or payor's ability to pay are recognized as bad debt expense. Bad debt expense is recorded as a component of other operating expenses in the accompanying consolidated statements of operations and changes in net assets. Bad debt expense for the years ended September 30, 2021 and 2020 was not significant for the System.

4. Revenue Recognition (continued)

The following table summarizes the amount of net patient service revenue recognized by payor during the years ended September 30, 2021 and 2020 (in thousands):

	2021	% of Total	2020	% of Total
Medicare	**$ 1,130,273**	**26%**	$ 912,008	26%
Medicaid	**332,795**	**8**	293,742	8
Managed care	**2,742,000**	**65**	2,320,975	65
Self-pay	**32,026**	**1**	19,547	1
Net patient service revenue	**$ 4,237,094**	**100%**	$ 3,546,272	100%

As substantially all of 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 and, therefore, 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. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged which, for the majority of the System's in-house patients, occurs within days or weeks after the end of the reporting period.

The System also receives payments through state supplemental payment programs, which includes Disproportionate Share (DSH) payments and Low-Income Pool (LIP) payments. Such amounts are recorded as other revenue. Refer to the other revenue section below for further details.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, participation requirements of government health care programs, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Termination of the System's participation in the Medicare or Medicaid programs could have a material impact on the consolidated financial statements.

4. Revenue Recognition (continued)

In addition, government agencies may review the System's compliance with various payment regulations and conduct audits under CMS's Recovery Audit Contractor (RAC), as well as other programs. The RAC program has been made permanent and was required to be expended broadly to health care providers pursuant to the Tax Relief and Health Care Act of 2006. The results of the enhanced medical necessity reviews and the RAC program audits could have an adverse effect on the System's consolidated financial statements. To the extent these reviews result in an adverse finding, the System may appeal the adverse finding, though it may incur significant legal expense.

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy at no charge or at amounts less than its established charges. Because the System does not pursue collection of amounts determined to qualify as charity care and does not expect payment for such amounts, they are excluded from net patient service revenue. Patients are eligible for charity care if their documented household income is less than 225% of the federal poverty level guidelines, or the amount of their medical bill is more than 25% of their annual household income and their household income does not exceed 400% of the federal poverty level guidelines. Charity care is provided to all patients meeting these criteria. Charity care provided was approximately 5% of total services rendered during both years ended September 30, 2021 and 2020, respectively, based on total charges for all services in those years. The estimated cost of charity care delivered was approximately $177.1 million and $173.7 million during the years ended September 30, 2021 and 2020, respectively. Cost is estimated based on the System's ratio of expenses to established patient service charges.

Patient Accounts Receivable

The System grants credit without collateral to its patients, most of whom are local residents of the geographies of the various System health care centers and are insured under third-party payor agreements. The mix of accounts receivable, net of applicable allowances, from patient and third-party payors at September 30 was as follows:

	2021	2020
Medicare	**23%**	22%
Medicaid	**10**	9
Managed care organizations	**66**	67
Self-pay	**1**	2

4. Revenue Recognition (continued)

Other Revenue

The System earns other revenue from various sources. The majority of such revenue, outside of state supplemental programs revenue which is described below, is earned at the point of sale and recognized as incurred in accordance with ASC 606. The System's other operating revenue also includes unrestricted donation revenue and rental income that are not within the scope of ASC 606. Amounts from these sources are not significant.

As noted above, the System receives payments through state supplemental payment programs, which includes DSH and LIP payments. Federal law permits state Medicaid programs to make DSH payments to hospitals that serve a disproportionate large number of Medicaid and low-income patients. These funds are not tied to specific services for Medicaid-eligible patients. The federal government distributes federal Medicaid DSH and LIP funds to each state based on a statutory formula. Revenue under the DSH and LIP programs is recognized as a component of other revenue over the benefit period when information is received from the states regarding the amount and timing of DSH and LIP payments to be received for the applicable period. The System believes that its performance obligations are generally satisfied ratably over the applicable period and recognizes revenue on a monthly basis, or when the amount is known if the state makes only one payment for DSH or LIP. The System recorded approximately $97.0 million and $90.5 million in other revenue during fiscal years 2021 and 2020, respectively, related to the DSH and LIP programs.

Florida Hospital Directed Payment Program

In Florida, hospitals are reimbursed approximately 60% of their Medicaid costs. The difference between the actual cost to provide care to a Medicaid beneficiary and the payment the hospital receives in reimbursement is known as the "Medicaid shortfall." To address the Medicaid shortfall, as part of the 2021 General Appropriations Act, the Florida Legislature authorized the Agency for Health Care Administration (AHCA) to establish the Medicaid Hospital Directed Payment Program (Hospital DPP) for the State fiscal year 2021-2022. The Hospital DPP program operates on a regional basis and provides enhanced payments to participating hospitals in a region where Intergovernmental Transfers are contributed.

The Federal government provides matching dollars to the share contributed by the State. For nonpublic hospitals, local governments pass special assessments to collect from nonpublic hospitals only. Such assessments do not impose any costs on the State or local governments. Local

4. Revenue Recognition (continued)

governments send the collected funds to the State, where they draw down the Federal match. That pool of money (the nonfederal share made up of local government contributions, with the addition of the Federal match) is disbursed to hospitals in participating regions through Medicaid managed care organizations (MCOs) responsible for reimbursing providers.

Orlando Health has hospitals in regions three and seven, two of the regions participating in Program Year 1. Orange County adopted the required ordinance in September and passed the resolution to establish the assessment for the State fiscal year 2021-2022. Given the dependency on Medicaid as a payor, the Hospital DPP program represents a source of revenue for Orlando Health. Orlando Health paid assessments of $57.8 million to Orange County in October 2021, which was accrued within other current liabilities and supplies and other expense as of and for the year ended September 30, 2021. The System also recognized approximately $138.4 million expected to be received from the MCOs within other receivables and other revenue as of and for the year ended September 30, 2021.

The Hospital DPP program requires annual approval by the CMS. As such, amounts for future fiscal years are uncertain given matters associated with State and Federal budgets, CMS and judicial interpretation of governmental regulations, which are subject to political issues, economic factors, and other considerations that cannot be predicted at this time.

5. Fair Value Measurements

The System follows ASC 820, *Fair Value Measurement*, which provides a framework for measuring the fair value of certain assets and liabilities and disclosures about fair value measurements. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

5. Fair Value Measurements (continued)

Certain of the System's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed income and equity instruments, mutual funds invested in equity securities, and interest rate swap agreements. The three levels of the fair value hierarchy defined by ASC 820 and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. This includes mutual funds with daily redemption invested in equity securities.

Level 2 – Observable pricing inputs other than quoted prices included within Level 1, including quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable or are derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3 – Unobservable pricing inputs that are supported by little or no market activity, are significant to the fair value of the assets or liabilities and reflect management's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument in accordance with the provisions of ASC 820:

Cash and cash equivalents: The carrying amount reported in the consolidated balance sheets approximates fair value.

Long-term investments and assets limited as to use: The carrying amount reported in the consolidated balance sheets is fair value, based on quoted market prices, or estimated using quoted market prices for similar securities.

Investments in related parties: The fair value of investments in related parties is not practicable to estimate, due to the uncertainty regarding the timing of future payments.

5. Fair Value Measurements (continued)

Interest rate swap agreements: Assets are included in other assets, and liabilities are included in other noncurrent liabilities. Estimates are based on quoted market prices or estimated based on derivative pricing models that involve adjusting the periodic mid-market values to incorporate nonperformance risk of the System when the financial instrument is a liability or the nonperformance risk of the counterparty when the financial instrument is an asset.

Deferred compensation plans: Investments held in conjunction with the System's 457(b) and 409(a) deferred compensation plans amount to approximately $72.8 million and $55.6 million as of September 30, 2021 and 2020, respectively, and are included in other assets. These investments are valued using unadjusted quoted prices in active markets and are considered Level 1 assets.

The derivative valuations determined by mid-market quotations are considered Level 2 assets or liabilities, since quoted prices can be obtained from a number of dealer counterparties and other independent market sources based on observable interest rates and yield curves for the full term of the asset or liability.

The estimated fair value of interest rate swap agreements that hedge interest rate fluctuations on variable rate bonds and loans is presented below. These amounts are included in other noncurrent liabilities in the accompanying consolidated balance sheets.

	Asset (Liability)	
	September 30	
	2021	**2020**
	(In Thousands)	
2011 swaps	**$ (34,864)**	$ (45,366)
2008E swap	**(3,238)**	(4,848)

5. Fair Value Measurements (continued)

The following table represents the fair value hierarchy of the System's financial assets and liabilities measured at fair value using the market approach as of September 30, 2021 (in thousands):

	Level 1	Level 2	Level 3	Total
Financial assets				
Mutual funds	$ 2,363,337	$ –	$ –	$ 2,363,337
Equity securities	125	–	–	125
U.S. corporate bonds	–	59,792	–	59,792
U.S. Treasury and agency obligations	173,949	54,804	–	228,753
Mortgage-backed obligations	–	4,024	–	4,024
Cash and cash equivalents	68,587	–	–	68,587
	$ 2,605,998	$ 118,620	$ –	2,724,618
Investments measured at net asset value				32,706
Interest rate swap contract collateral				17,748
Total financial assets at fair value				$ 2,775,072
Financial liabilities				
Interest rate swap agreements	$ –	$ 38,102	$ –	$ 38,102
	$ –	$ 38,102	$ –	$ 38,102

5. Fair Value Measurements (continued)

The following table represents the fair value hierarchy of the System's financial assets and liabilities measured at fair value using the market approach as of September 30, 2020 (in thousands):

	Level 1	Level 2	Level 3	Total
Financial assets				
Mutual funds	$ 1,914,983	$ –	$ –	$ 1,914,983
Equity securities	116,674	–	–	116,674
U.S. corporate bonds	–	79,417	–	79,417
U.S. Treasury and agency obligations	–	62,469	–	62,469
Mortgage-backed obligations	–	7,982	–	7,982
Auction rate securities	–	–	5,403	5,403
Cash and cash equivalents	94,870	–	–	94,870
	$ 2,126,527	$ 149,868	$ 5,403	2,281,798
Investments measured at net asset value				29,669
Interest rate swap contract collateral				30,691
Total financial assets at fair value				$ 2,342,158
Financial liabilities				
Interest rate swap agreements	$ –	$ 50,214	$ –	$ 50,214
	$ –	$ 50,214	$ –	$ 50,214

Total financial assets at fair value of $2.8 billion and $2.3 billion as of September 30, 2021 and 2020, respectively, is composed of the following financial statement captions within the consolidated balance sheets: debt service and reserve funds held by bond trustee, construction funds held by bond trustee, interest rate swap contract collateral, malpractice self-insurance, long-term investments – without donor restrictions and long-term investments – with donor restrictions.

5. Fair Value Measurements (continued)

The following table shows the System's investments in commingled funds by asset class, along with commitments and redemption ability as of September 30, 2021 (in thousands):

	Net Asset Value	Redemption Frequency	Redemption Notice Period
Real Estate – Real Assets [a]	**$ 1,890**	None	None
Real Estate – Real Assets [a]	**29,817**	Quarterly	45 days
Real Estate – Real Assets [a]	**999**	Quarterly	60 days
	$ 32,706		

The following table shows the System's investments in commingled funds by asset class along with commitments and redemption ability as of September 30, 2020 (in thousands):

	Net Asset Value	Redemption Frequency	Redemption Notice Period
Real Estate – Real Assets [a]	$ 28,526	Quarterly	45 days
Real Estate – Real Assets [a]	1,143	Quarterly	60 days
	$ 29,669		

[a] These real asset funds have holdings, including but not limited to, apartment building and office building properties. These properties are located throughout the U.S. They are intended to protect the real value of the portfolio. When inflation increases the nominal value of the dollar, assets in this category should also increase in value. The funds portfolio construction makes them a diversifier to other core funds. The fair values of the investments in these groups have been estimated using the net asset values of the System's interest in these funds.

6. Investments

Interest and dividend earnings (net of expenses), net realized gains and losses on investments and the net change in unrealized gains and losses on investments are considered investment income and are included in investment income on the consolidated statements of operations and changes in net assets. The following is a summary of investment income for the years ended September 30, 2021 and 2020:

	Year Ended September 30	
	2021	**2020**
	(In Thousands)	
Interest and dividend income	**$ 18,380**	$ 36,958
Change in unrealized gains and losses	**255,963**	35,101
Net realized gains on sales of securities	**111,875**	60,226
	$ 386,218	$ 132,285

7. Investments in Related Parties

CareSpot

The System partners through a joint venture with CareSpot Urgent Care to provide urgent/non-emergent care throughout Orlando and Central Florida. There are currently thirteen locations. The System holds a 49.9% interest in the joint venture. The System's equity investment in CareSpot is included in investments in related parties and amounted to approximately $9.4 million and $11.6 million at September 30, 2021 and 2020, respectively. Earnings on the investment before cash distributions are included in other revenue and amounted to approximately $2.5 million and $2.1 million for the years ended September 30, 2021 and 2020, respectively. Cash distributions amounted to approximately $4.7 million and $0 for the years ended September 30, 2021 and 2020, respectively.

Winter Park Surgery Center

On January 1, 2020, the System acquired a non-controlling interest in a joint venture that operates Winter Park Surgery Center which provides outpatient surgical care. The System holds a 52.5% interest in the joint venture. The System's equity investment in the surgery center is included in

7. Investments in Related Parties (continued)

investments in related parties and amounted to approximately $34.2 million and $34.0 million at September 30, 2021 and 2020, respectively. Earnings on the investment before cash distributions are included in other revenue and amounted to approximately $3.9 million and $2.5 million for the years ended September 30, 2021 and 2020, respectively.

The remaining balance consists of various smaller investments in related parties that aggregate to a total of approximately $15.6 million and $13.9 million at September 30, 2021 and 2020, respectively.

8. Property and Equipment

Property and equipment consist of the following:

	September 30	
	2021	**2020**
	(In Thousands)	
Land and improvements	**$ 339,610**	$ 280,825
Buildings	**1,827,152**	1,577,299
Equipment	**2,863,701**	2,543,403
	5,030,463	4,401,527
Less: Accumulated depreciation	**(2,518,982)**	(2,290,020)
	2,511,481	2,111,507
Construction-in-progress	**95,182**	151,674
	$ 2,606,663	$ 2,263,181

Construction

Construction-in-progress represents numerous construction and renovation projects. Estimated costs to complete these projects as of September 30, 2021 are approximately $1.3 billion, which primarily includes $124.2 million for freestanding emergency departments, $716.9 million for new bed towers, $130.1 million for a medical pavilion, and $338.9 million for other projects. Projects will be funded through operating cash flows and pledges received and are expected to be completed within five years.

9. Long-Term Debt

Long-term debt consists of the following:

	September 30 2021	2020
	(In Thousands)	
Fixed Rate Hospital Revenue Bonds – secured		
Series 2020A and B – less unamortized issuance costs of $3,385,000 and $0 at September 30, 2021 and 2020, respectively; interest rate of 2.291% to 3.477%, payable 2028 through 2050	**$ 513,390**	$ –
Series 2019A (Orlando Health Central) – plus unamortized premium of $4,220,000 and $4,371,000 at September 30, 2021 and 2020, respectively; interest rates from 4.0% to 5.0%, payable 2047 through 2049	**104,220**	104,371
Series 2019B – plus net unamortized premium and issuance costs of $4,885,000 and $7,505,000 at September 30, 2021 and 2020, respectively; interest rates from 4.0% to 5.0%, payable through 2026	**119,165**	135,350
Series 2019C – interest rate of 4.461%, payable through 2049	**100,000**	100,000
Series 2018 – less net unamortized issuance costs of $2,506,000 and $2,628,000 at September 30, 2021 and 2020, respectively; interest rates from 3.205% to 4.089%, payable through 2049	**451,494**	454,373
Series 2016A – plus unamortized premium and issuance costs of $21,024,000 and $22,595,000 at September 30, 2021 and 2020, respectively; interest rates from 3.0% to 5.0%, payable through 2041	**193,059**	195,480
Series 2016B (Orlando Health Central) – plus net unamortized premium and issuance costs of $1,243,000 and $1,295,000 at September 30, 2021 and 2020, respectively; interest rates from 4.0% to 5.0%, payable 2045 through 2046	**67,818**	67,870
Series 2016C (Orlando Health Central) – less net unamortized issuance costs of $1,129,000 and $1,176,000 at September 30, 2021 and 2020 respectively; interest rate of 4.416%, payable 2044 through 2045	**75,594**	75,641
Series 2012A and B – plus net unamortized premium and issuance costs of $0 and $2,851,000 at September 30, 2021 and 2020, respectively. Series 2012 were refunded as of October 2020.	**–**	187,726
Variable rate hospital revenue bonds – secured		
Series 2011 – interest rates of 0.4267% and 0.4856% at September 30, 2021 and 2020, respectively, less unamortized issuance costs of $210,000 and $221,000 at September 30, 2021 and 2020, respectively, payable 2027 through 2041	**82,965**	82,954
Series 2008E – interest rates of 0.40% and 0.10% at September 30, 2021 and 2020, respectively, less unamortized issuance costs of $111,000 and $133,000 at September 30, 2021 and 2020, respectively, payable through 2026	**38,764**	42,912
Notes payable and other indebtedness		
2020 TD Bank fixed rate taxable loan repaid in October 2021	**–**	140,000
Finance lease obligations and other notes	**178,437**	94,883
Total debt, net of unamortized premiums, discounts and issuance costs	**1,924,906**	1,681,560
Less current portion	**(33,764)**	(174,725)
Total long-term debt	**$ 1,891,142**	$ 1,506,835

9. Long-Term Debt (continued)

Aggregate principal amounts of long-term debt outstanding, including finance leases as disclosed in Note 10, but excluding premiums, discounts, and issuance costs, are due during the following years ending September 30: $33.7 million in 2022, $35.1 million in 2023, $35.9 million in 2024, $38.0 million in 2025, $37.4 million in 2026, and $1.7 billion thereafter.

Master Trust Indenture

Orlando Health, Health Central, South Lake, and OsceolaSC, LLC comprise the Obligated Group created under the Master Trust Indenture. The Obligated Group is obligated for the payment of principal and premium, if any, and interest on any outstanding bonds or debt issued under the Master Trust Indenture, and is subject to any other obligation or restriction set forth in any agreement, note, or indenture entered into or issued by the Obligated Group in connection with the issuance of any debt or related obligations issued under the Master Trust Indenture.

An Amended and Restated Master Indenture (Master Indenture), dated as of August 1, 1999, was executed by Orlando Health. All obligations issued under the Master Indenture are equally and ratably secured by a pledge of the accounts (as defined in Article 9 of the Florida Uniform Commercial Code) and the Gross Revenue of the Obligated Group. The System is subject to certain restrictive covenants, including a debt service coverage requirement, under the Master Indenture, revolving credit agreement, reimbursement agreements, and irrevocable letter of credit. Financial information of the Obligated Group is included in the Supplementary Information.

Hospital Revenue Bonds, Series 2020A and 2020B

On October 7, 2020, Orlando Health, Inc. issued $516.8 million taxable fixed rate hospital revenue bonds on behalf of the Obligated Group through its Series 2020 Bonds. The proceeds of the Series 2020A Bonds were applied for general corporate purposes, including financing, refinancing or reimbursing the System for its prior payments of the costs of acquiring, constructing and equipping certain of its existing health care facilities and/or to acquire certain new health care facilities, paying various capital expenditures, current operating expenses, and a portion of the costs of issuance of the Bonds. The proceeds of the Series 2020B Bonds were used to refund and defease all of the outstanding Series 2012A and Series 2012B Bonds. The System recorded a loss from early extinguishment of debt of $10.2 million during the year ended September 30, 2021, which is included in nonoperating gains and losses in the consolidated statement of operations and changes in net assets.

9. Long-Term Debt (continued)

Hospital Revenue Bonds, Series 2019A, B, and C

On February 1, 2019, Orlando Health issued $100.0 million tax-exempt fixed rate hospital revenue bonds on behalf of the Obligated Group through its Series 2019A Bonds and $100.0 million taxable fixed rate hospital revenue bonds through its Series 2019C Bonds. The proceeds of the Series 2019A Bonds will be used by Health Central to finance construction and equipping of a new acute care hospital to be known as Horizon West. The proceeds of the Series 2019C Bonds were applied for general corporate purposes, including construction and renovation of facilities. On February 1, 2019, Orlando Health, Inc. issued $144.1 million tax-exempt fixed rate hospital revenue refunding bonds through its Series 2019B Bonds to provide advance refunding of all of the outstanding Series 2009 Bonds as part of a forward delivery that closed on July 3, 2019.

Hospital Revenue Bonds, Series 2018

On February 1, 2018, Orlando Health, Inc. issued $475.0 million taxable fixed rate hospital revenue bonds on behalf of the Obligated Group through its Series 2018 Bonds. The proceeds of the Series 2018 Bonds were applied for general corporate purposes, including construction and renovation of facilities and used to advance refund all of the outstanding Series 1996A, Series 1996C, Series 2008A, and Series 2008B Bonds.

Hospital Revenue Bonds, Series 2016A, B, and C

On April 27, 2016, the Orange County Health Facilities Authority (Authority) issued $173.7 million and $66.6 million tax-exempt fixed rate bond obligations on behalf of the Obligated Group through its Series 2016A Bonds and Series 2016B Bonds, respectively. The proceeds of the Series 2016A Bonds were used to currently refund all of the outstanding Series 2006B Bonds, advance refund $11.6 million of the outstanding Series 2008A Bonds, advance refund $43.9 million of the Series 2008B Bonds, and advance refund all of the Series 2008C Bonds. The proceeds of the Series 2016B Bonds were used by Health Central to refinance $70.6 million of the $141.1 million outstanding on the note payable to the West Orange Healthcare District. At the same time, the Obligated Group issued $74.5 million of taxable fixed rate bond obligations through its Series 2016C Bonds. The proceeds of this bond obligation issue were used to refinance the remaining balance of the note payable to the West Orange Healthcare District.

9. Long-Term Debt (continued)

Hospital Revenue Bonds, Series 2012A and 2012B

On May 23, 2012, the Authority issued $184.9 million tax-exempt fixed rate hospital revenue bonds on behalf of the Obligated Group through its Series 2012 Bonds. The proceeds of the Series 2012 Bonds were used to pay off a construction loan, establish a project fund for Orlando Health Orlando Regional Medical Center redesign and redevelopment project, and pay costs of issuance. Separately, the interest rate swap that hedged the risk of interest rate fluctuations on the construction loan was terminated. The proceeds of the Series 2012B Bonds were used to repay the construction loan on May 23, 2012. Series 2012 Bonds were refunded and defeased with the issuance of the Series 2020B Bonds.

Hospital Revenue Bonds, Series 2008E

The Series 2008E Bonds are supported by an irrevocable letter of credit with TD Bank, which has an expiration date of July 3, 2024.

Hospital Revenue Bonds, Series 2011

On September 15, 2011, the Authority issued $83.2 million of variable rate Hospital Revenue Bonds (2011 Bonds) on behalf of Orlando Health. The proceeds from the sale of the 2011 Bonds and $7.2 million of remaining 2007A Bonds debt service reserve funds were used to currently refund the 2007A Bonds and pay the costs of issuance of the 2011 Bonds. The 2011 Bonds were issued as tax-exempt, multi-modal bonds, initially operating in bank purchase mode, and privately placed with SunTrust Bank (the Bank). As initially issued, the 2011 Bonds bear interest at a variable index interest rate which approximates 68% of the 30-day London Interbank Offered Rate (LIBOR), plus 84 basis points.

The initial interest rate may be adjusted due to changes in the maximum individual federal income tax rate, and other regulatory changes affecting the cost of the loan to the Bank. On September 22, 2015, the Bank notified Orlando Health and the trustee that it elected not to tender the bonds on the scheduled mandatory purchase date in September 2016, and the next mandatory purchase date will be the first business day of June 2023. Upon mandatory tender for purchase, Orlando Health may convert to another available interest rate mode.

During the initial interest rate period, the 2011 Bonds are subject to optional redemption at the direction of Orlando Health at par on each interest payment date. Interest is payable monthly.

9. Long-Term Debt (continued)

Interest Rate Swap Agreements

In an effort to reduce costs of issuance and take advantage of low interest rates in effect at various times, Orlando Health has entered into interest rate swap arrangements that fix the interest rate on portions of variable rate bonds. The notional amounts under interest rate swap agreements hedging bonds are substantially the same as the principal maturities of the respective outstanding bond series. The construction loan swap hedged the majority of the construction loan at the maximum loan amount. Net interest receipts and payments are recognized as an adjustment to interest expense or as capitalized interest during periods of construction. The interest rate swap agreements are not accounted for under hedge accounting criteria. Therefore, changes in the value of these swaps are included in changes in fair value of interest rate swap agreements on the consolidated statements of operations and changes in net assets.

Collateral was required and posted on the 2011 swaps in the amount of approximately $17.7 million and $30.7 million at September 30, 2021 and 2020, respectively, and is included in the interest rate swap contract collateral in assets limited as to use.

The following summarizes outstanding swap positions as of September 30, 2021:

	2008E Swap	**2011 Swaps**
	(Dollars in Thousands)	
Initial notional amount	$ 54,130	$ 90,000
Notional amount at September 30, 2021	$ 38,875	$ 90,000
Current bond or loan hedged	2008E Bonds	2011 Bonds
Original bond or loan hedged	2006A Bonds	2007A1A2 Bonds
Maturity date	10/1/2026	10/1/2041
Fixed rate paid	3.57%	3.86%
Floating rate received	68% 30-day USD-LIBOR-BBA	68% 30-day USD-LIBOR-BBA

9. Long-Term Debt (continued)

The following summarizes swap liability positions held during each year recorded within other noncurrent liabilities in the accompanying consolidated balance sheets:

	2008E Swap	2011 Swap	Total
	(In Thousands)		
Cumulative position at September 30, 2019	$ (4,687)	$ (39,128)	$ (43,815)
Net losses during the year ended September 30, 2020	(161)	(6,238)	(6,399)
Cumulative position at September 30, 2020	(4,848)	(45,366)	(50,214)
Net gains during the year ended September 30, 2021	**1,610**	**10,502**	**12,112**
Cumulative position at September 30, 2021	**$ (3,238)**	**$ (34,864)**	**$ (38,102)**

Interest Costs

During periods of construction, interest costs on construction borrowings are capitalized to the respective property accounts. Capitalized interest is reduced by earnings on the investments held by the bond trustee for construction. Capitalized interest costs amounted to approximately $2.7 million and $4.0 million for the years ended September 30, 2021 and 2020, respectively. The total of interest cost expensed and capitalized approximates interest paid.

The System maintains a revolving credit agreement for purposes of working capital support or capital asset acquisition. This revolving credit agreement has a commitment amount of $200.0 million and is secured by the Master Indenture. No amounts were outstanding under the revolving credit agreement as of September 30, 2021 and 2020.

10. Leases

The System's leases primarily consist of real estate and medical equipment. The System determines if an arrangement is a lease at contract inception. Lease assets and lease liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. As most of the System's operating leases do not provide an implicit rate, the System uses a risk-free rate based on the daily treasury yield curve at lease commencement in determining the present value of lease payments. Most leases include one or more options to renew. The exercise of such lease renewal options is at the System's sole discretion. For purposes of calculating lease liabilities, lease terms include options to extend or terminate the lease when it is reasonably certain that the System will exercise that option. Many of the System's leases include rental escalation clauses and renewal options that are factored into the determination of lease payments when appropriate. Leases with a lease term of 12 months or less at commencement are not recorded on the consolidated balance sheets. Lease expense for these arrangements is recognized on a straight-line basis over the lease term.

Operating and finance leases consist of the following as of September 30 (in thousands):

	2021	2020
Operating lease assets	**$ 158,371**	$ 125,296
Accounts payable and accrued expenses	**(27,509)**	(22,674)
Operating lease liabilities, less current portion	**(142,296)**	(111,407)
Total operating lease liabilities	**$ (169,805)**	$ (134,081)
Finance leases		
Property and equipment, net	**$ 142,105**	$ 75,083
Current portion of long-term debt and lease obligations	**(8,674)**	(6,312)
Long-term debt, less current portion	**(136,440)**	(71,537)
Total finance lease liabilities	**$ (145,114)**	$ (77,849)

10. Leases (continued)

The following table represents lease expense included in the consolidated statement of operations and changes in net assets for the years ended September 30 (in thousands):

	2021	2020
Operating lease cost	**$ 24,947**	$ 20,167
Variable lease cost	**1,661**	4,311
Short-term lease cost	**16**	141
Finance lease cost:		
Interest on lease liabilities	**2,567**	2,019
Amortization of right-of-use-asset	**10,147**	6,300
Total lease expense	**$ 39,338**	$ 32,938

Lease term and discount rates as of September 30 were as follows:

	2021	
	Operating Leases	**Finance Leases**
Weighted-average remaining lease term	**5.03**	**4.78**
Weighted-average discount rate	**1.59%**	**1.62%**

	2020	
	Operating Leases	**Finance Leases**
Weighted-average remaining lease term	5.55	4.01
Weighted-average discount rate	1.69%	1.54%

10. Leases (continued)

The following table summarizes the maturity of lease liabilities under operating and finance leases for each of the next five years and thereafter, as of September 30, 2021 (in thousands):

	Operating Leases	Finance Leases	Total
2022	$ 30,048	$ 10,933	$ 40,981
2023	26,548	10,841	37,389
2024	24,485	10,492	34,977
2025	21,783	9,713	31,496
2026	20,057	9,327	29,384
Thereafter	57,894	118,610	176,504
Total lease payments	180,815	169,916	350,731
Less: amount of lease payments representing interest	(11,010)	(24,802)	(35,812)
Present value of future lease obligations	169,805	145,114	314,919
Less: current portion of lease obligations	(27,509)	(8,674)	(36,183)
Long-term lease obligations	$ 142,296	$ 136,440	$ 278,736

Supplemental cash flow information related to leases for the year ended September 30, 2021 is as follows:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	**$ 28,395**
Financing cash flows from financing leases	**12,010**
Lease assets obtained in exchange for new operating lease liabilities	**54,019**
Lease assets obtained in exchange for new financing lease liabilities	**78,260**

Supplemental cash flow information related to leases for the year ended September 30, 2020 is as follows (in thousands):

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 20,460
Financing cash flows from financing leases	6,525
Lease assets obtained in exchange for new operating lease liabilities	13,984
Lease assets obtained in exchange for new financing lease liabilities	44,233

11. Employee Retirement Plans

The System has defined contribution retirement plans. Certain employees of the System are eligible to participate in 401(a) and 403(b) plans, and certain Physician Associates, LLC employees are eligible to participate in a 401(k) plan. Most plan participants may elect to contribute up to the lesser of $19,500 or 50% of their annual compensation. For most plan participants, the System will match the first 2% of the participants' contribution plus 50% of the participants' contributions up to 8% or 10% of the participants' compensation, based on years of service. The System's expense under the employee retirement plans amounted to approximately $67.3 million and $50.8 million for the years ended September 30, 2021 and 2020, respectively. The System maintains deferred compensation plans for key management or highly compensated employees. The plans are intended to be nonqualified and unfunded and provide for the deferral of salary, as well as additional discretionary system matching contributions.

12. Malpractice Insurance

The System is self-insured for medical malpractice risk not covered under a commercial malpractice policy. Losses are accrued based on estimates provided by an independent actuary, and are based on actuarial assumptions that incorporate the System's past experience and other considerations, including the nature of each claim or incident, and relevant trends. The accrued liability for self-insured claims amounted to approximately $163.4 million and $152.8 million at September 30, 2021 and 2020, respectively, of which approximately $24.5 million and $23.3 million, respectively, are included in other current liabilities. The System has on deposit, in a revocable trust, cash and investments totaling approximately $17.5 million and $17.1 million at September 30, 2021 and 2020, respectively, to be used for the payment of self-insured claims in the future. The System does not have any claims that are discounted.

For newly acquired entities, claims occurring after the date of acquisition are covered under the System's medical malpractice policy and self-insured malpractice fund. The System is not liable for any events pertaining to acquired entities that occurred prior to their acquisition date.

13. Commitments

The System has committed an amount of approximately $99.4 million in capital improvements at the South Lake hospital campus. In accordance with this commitment, the System will cause South Lake to spend at least an average of $19.88 million per year for a period of five years towards capital improvements in the South Lake hospital campus and off-campus locations within Lake County.

14. Business Combinations

Bayfront Health St. Petersburg

Effective October 1, 2020, the System, through its subsidiary OHI West, Inc., purchased the assets of Bayfront Health St. Petersburg and its associated health care operations in St. Petersburg, Florida. The transaction was accounted for using the acquisition method of accounting.

During 2021, the System recorded the Bayfront assets acquired and liabilities assumed at fair value.

In accordance with ASC 958-805, the System recognized the fair values of the assets acquired and liabilities assumed. The fair values assigned are summarized as follows (in thousands):

Consideration transferred:	
Cash	$ 182,042
Fair value debt issued	12,000
Total	$ 194,042
Fair values of assets acquired and liabilities assumed:	
Other current assets	$ 13,096
Property and equipment	261,896
Other noncurrent assets	27,121
Accounts payable and other current liabilities	(8,122)
Other noncurrent liabilities	(26,461)
Long-term lease liability	(73,488)
	$ –

The System used valuation techniques to determine the fair value of real and personal property (property and equipment). Acquired land was valued using the sales comparison approach which relied on recent market transactions of similar tracts of land adjusted for individual characteristics. Other real and personal property were valued using the cost approach which relied on market data for similar assets.

14. Business Combinations (continued)

The following table summarizes amounts attributable to the System from the acquisition date through September 30, 2021 that are included in the accompanying 2021 consolidated statement of operations and changes in net assets (in thousands):

Total revenues and other support without donor restrictions	$ 276,428
Total expenses	328,165
Loss from operations	(51,737)
Nonoperating gains, net	98
Deficit of revenues, other support, and gains over expenses and losses	$ (51,639)
Change in net assets:	
Without donor restrictions	$ (51,639)
With donor restrictions	–
Total change in net assets	$ (51,639)

OsceolaSC, LLC

Effective July 1, 2020, the System finalized the purchase of the remaining 80% ownership interest in OsceolaSC, LLC, dba St. Cloud Regional Medical Center. Prior to July 1, 2020, the System held a 20% non-controlling interest in the hospital for more than 15 years. The transaction was accounted for using the acquisition method of accounting.

During 2020, the System recorded the St. Cloud assets acquired and liabilities assumed at fair value and recognized goodwill associated with business combination of approximately $120.2 million.

14. Business Combinations (continued)

In accordance with ASC 958-805, the System recognized goodwill as the excess of the consideration transferred over the fair values of the assets acquired and liabilities assumed at the acquisition date. The fair values assigned are summarized as follows (in thousands):

Consideration transferred:	
Cash	$ 130,766
Fair value of preexisting equity interest on July 1, 2020	31,250
Total	$ 162,016
Fair values of assets acquired and liabilities assumed:	
Patient accounts receivable	$ 9,664
Other current assets	3,359
Property and equipment	34,124
Other noncurrent assets	19,795
Accounts payable and other current liabilities	(6,811)
Long-term lease liability	(18,307)
Goodwill	$ 120,192

The System used valuation techniques to determine the fair value of real and personal property (property and equipment). Acquired land was valued using the sales comparison approach which relied on recent market transactions of similar tracts of land adjusted for individual characteristics. Other real and personal property were valued using the cost approach which relied on market data for similar assets.

14. Business Combinations (continued)

The following table summarizes amounts attributable to the System from the acquisition date through September 30, 2020 that are included in the accompanying 2020 consolidated statement of operations and changes in net assets (in thousands):

Total revenues and other support without donor restrictions	$ 18,725
Total expenses	19,891
Loss from operations	(1,166)
Nonoperating gains, net	11
Deficit of revenues, other support, and gains over expenses and losses	$ (1,155)
Change in net assets:	
Without donor restrictions	$ (1,155)
With donor restrictions	–
Total change in net assets	$ (1,155)

For the prior fiscal year, assuming the acquisitions of Bayfront Health St. Petersburg and St. Cloud Regional Medical Center had taken place on October 1, 2019, the following table summarizes the fiscal year 2020 consolidated statement of operations and statement of changes in net assets (in thousands):

Total revenues and other support without donor restrictions	$ 4,195,057
Total expenses	3,845,999
Income from operations	349,058
Non-operating gains, net	150,079
Excess of revenues, other support, and gains over expenses and losses	$ 499,137
Change in net assets:	
Without donor restrictions	$ 498,961
With donor restrictions	11,946
Total change in net assets	$ 510,907

15. Functional Expenses

The System's primary activities involve providing general health care services to its patients. Expenses related to providing these services for the years ended September 30, 2021 and 2020 are as follows (in thousands):

	2021		
	Health Care Services	**General and Administrative**	**Total**
Salaries and benefits	**$ 1,742,783**	**$ 503,508**	**$ 2,246,291**
Supplies and other	**1,451,311**	**309,029**	**1,760,340**
Professional fees	**41,040**	**403**	**41,443**
Depreciation and amortization	**216,422**	**25,067**	**241,489**
Interest	**57,805**	**7,880**	**65,685**
Total expenses	**$ 3,509,361**	**$ 845,887**	**$ 4,355,248**

	2020		
	Health Care Services	**General and Administrative**	**Total**
Salaries and benefits	$ 1,506,872	$ 428,759	$ 1,935,631
Supplies and other	1,047,815	268,376	1,316,191
Professional fees	33,246	66	33,312
Depreciation and amortization	160,977	38,864	199,841
Interest	54,499	676	55,175
Total expenses	$ 2,803,409	$ 736,741	$ 3,540,150

16. Liquidity

Financial assets available for general expenditure within one year of the consolidated balance sheet date consist of the following as of September 30, 2021 (in thousands):

Cash and cash equivalents	$ 657,353
Accounts receivable	570,599
Other receivables	186,046
Long-term investments – without donor restrictions	2,529,594
	$ 3,943,592

The System has the ability to structure certain of its financial assets to be available as its general expenditures and other obligations come due. As described in Note 3, long-term investments – without donor restrictions are classified as such based on management's intent and ability to hold or reinvest the investments on a long-term basis. However, these investments do not have any liquidity restrictions and can be made available for general expenditure within one year and are therefore reflected in the amounts above. The System has certain assets limited to use for various purposes as more fully described in Note 3. These assets limited as to use are not available for general expenditure within the next year and are not reflected in the amounts above.

17. Subsequent Events

In preparing these consolidated financial statements, the System has evaluated events and transactions for potential recognition and disclosure through January 31, 2022, the date the consolidated financial statements were available to be issued.

On November 17, 2021, the System completed a transaction to purchase a minority interest in a physician-based company for $80.0 million.