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

Supplementary Information

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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
Liablitities 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.

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.

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.

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.

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.

(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.

(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.

(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**		

(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.

(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%

(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.

(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.

(In millions of dollars)

Note F – Property and Equipment

The following is a summary of property and equipment:

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

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	
	2020	**2019**
Equipment	**$ 278**	$ 274
Less accumulated depreciation	**(179)**	(160)
	99	114
Construction-in-progress	**3**	11
	$ 102	$ 125

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.

(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

(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
	$ 1,987

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.

(In millions of dollars)

Note H – Leases (continued)

		December 31	
	Classification	**2020**	**2019**
Lease assets	Other assets	**$ 186**	$ 177
Lease liabilities			
Current	Other current liabilities	**$ 28**	$ 27
Noncurrent	Other noncurrent liabilities	**162**	151
Total lease liabilities		**$ 190**	$ 178

		December 31	
	Classification	**2020**	**2019**
Operating lease expense	Purchased services and other	**$ 36**	$ 33

	December 31	
Cash paid for amounts not included in the measurement of lease liabilities	**2020**	**2019**
Operating cash outflows for operating leases	**$ 37**	$ 37

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	**Operating Leases**
2021	$ 34
2022	31
2023	26
2024	22
2025	17
Thereafter	104
Total lease payments	234
Less imputed interest	(48)
	$ 186

(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.

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.

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.

(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					
	Pacific Northwest	**Northern California**	**Central California**	**Southern California**	**Other**	**Total**
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					
	Pacific Northwest	**Northern California**	**Central California**	**Southern California**	**Other**	**Total**
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

(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**
	$ 23	**$ 85**	**$ 11**	**$ 41**	**$ 25**	**$ 185**

	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
	$ 3	$ 88	$ 21	$ 37	$ 3	$ 152

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**
	$ 23	**$ 85**	**$ 11**	**$ 41**	**$ 25**	**$ 185**

	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
	$ 3	$ 88	$ 21	$ 37	$ 3	$ 152

(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.

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.

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.

(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

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.

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.

(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
Prepaids and other current assets		19
Assets whose use is limited		3
Property and equipment		62
Other assets, including noncurrent investments		46
	$	192
Liabilities assumed:		
Accounts payable and accrued compensation	$	11
Long-term debt		17
Other liabilities		4
		32
Net assets without donor restrictions – controlling		160
	$	192

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.

(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.

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.

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
Liablitities 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 Heath 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	–
30	28	6	231	137	245	53	260	80	30	82	52	154	690	26
–	–	–	–	–	–	–	–	13	–	–	–	–	–	–
8	–	–	34	44	12	16	11	8	–	4	11	10	–	2
–	–	–	114	41	343	123	85	95	40	10	6	74	129	1
$ 38	$ 28	$ 6	$ 379	$ 222	$ 600	$ 192	$ 356	$ 196	$ 70	$ 96	$ 69	$ 238	$ 819	$ 29
$ 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	–	–	–	–	–	–
33	26	4	58	33	81	30	45	52	10	19	73	36	86	31
–	–	–	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
39	27	4	174	83	265	148	139	130	73	30	79	93	134	33
(1)	1	2	200	138	320	43	215	45	(5)	66	(10)	144	678	(4)
–	–	–	–	–	15	–	–	–	–	–	–	–	–	–
–	–	–	5	1	–	1	2	21	2	–	–	1	7	–
(1)	1	2	205	139	335	44	217	66	(3)	66	(10)	145	685	(4)
$ 38	$ 28	$ 6	$ 379	$ 222	$ 600	$ 192	$ 356	$ 196	$ 70	$ 96	$ 69	$ 238	$ 819	$ 29

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	111	–	43	16	(3)	(3)	1	1	17	26	6	1

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	–
28	114	17	335	196	463	177	278	213	48	98	64	208	460	55
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	–
28	113	17	333	170	506	179	260	233	43	93	66	199	488	59
–	1	–	2	26	(43)	(2)	18	(20)	5	5	(2)	9	(28)	(4)
–	–	–	5	2	3	1	5	1	–	2	–	3	15	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	5	2	3	1	5	1	–	2	–	3	15	–
–	1	–	7	28	(40)	(1)	23	(19)	5	7	(2)	12	(13)	(4)
–	–	–	–	–	2	–	–	–	–	–	–	–	–	–
–	1	–	7	28	(38)	(1)	23	(19)	5	7	(2)	12	(13)	(4)

Adventist Health
Consolidating Statements of Operations and Changes in Net Assets (continued)
(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
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	$ 3,115	$ –	$ (201)	$ 257	$ 190	$ 30	$ 161	$ 79	$ 153	$ 410	$ 75	$ 74

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
$ –	$ 1	$ –	$ 7	$ 28	$ (38)	$ (1)	$ 23	$ (19)	$ 5	$ 7	$ (2)	$ 12	$ (13)	$ (4)
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	(1)	–	–	–	–	–	–	–
(1)	–	2	(3)	(1)	(5)	–	(1)	(1)	–	–	–	(1)	(2)	–
(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	–
$ (1)	$ 1	$ 2	$ 205	$ 139	$ 335	$ 44	$ 217	$ 66	$ (3)	$ 66	$ (10)	$ 145	$ 685	$ (4)

Management Discussion and Analysis of Financial Condition and Results of Operations

Year End: December 31 , 2020

AdventistHealth

Adventist Health Overview

Adventist Health System/West, doing business as Adventist Health (the "Corporation"), is a faith-based, nonprofit organization. The health system serves communities in California, Hawaii, Oregon and Washington (collectively with the Corporation, the "System" or "Adventist Health"). With a workforce of approximately 37,000 associates including physicians, allied health professionals and support services, this transformational organization is realizing its mission by providing health, wholeness and hope. Teams of clinical staff provide coordinated care across networks utilizing advanced medical technology, innovative models of health transformation and compassionate care, to revolutionize the delivery of health. Adventist Health operates 23 hospitals, approximately 290 clinics (physician clinics, hospital-based clinics, and the largest rural health clinic network in California), 15 home care agencies, eight hospice agencies, one fully-owned continuing care retirement community and three joint-venture retirement centers.

With an emphasis on wellness and prevention of disease rooted in the Seventh-day Adventist healthcare legacy, the team is focused on caring for mind, body and spirt. The System is dedicated to the integration of hospitals, physicians and other providers in a manner that best serves and cooperates with its communities, both in terms of commitment to quality and a demonstrated ability to provide cost-effective care in an environment increasingly driven by competitive market forces.

Adventist Health's brand is woven throughout the Western United States. The map on the next page of this analysis shows the location of the Corporation's headquarters and the System's owned or leased hospital facilities. The corporate office is centrally located in Roseville, California. Outside California, the System includes Hawaii medical services and two medical centers in Oregon. While the map does not show the location of each of the System's 290 clinics, the geographic area served by the System's clinics, as well as its hospital facilities, is depicted in the map.

Strategy and Mission

The 2030 Strategy:

Adventist Health has laid out an aggressive plan based on the calling of our mission of living God's love by inspiring health, wholeness and hope. The diversified, growth-oriented strategy focuses on building an organization that will bring **"affordable consumer health and wellbeing within reach"** for everyone we serve. Within 10 years we will grow to reach more than 10 million individuals annually with wellbeing initiatives or health services, operate near a 10% margin, and achieve $10 billion of annual revenue.

Embedded within the Adventist Health strategy are several key themes:

- Becoming a consumer-oriented company by using **consumer insights** and segmentation to **develop products and service**s to better serve individuals on their **personal wellbeing** path.
- **Transforming costs and pricing** to improve **affordability of health** services for individuals, employers, communities and payers.
- **Integrating with payers** to **manage health** of populations, lower costs, and **improve market share**.
- Innovating and integrating around **early-intervention behavioral health** services.
- Developing standalone **community wellbeing** businesses that can be implemented in and beyond communities where Adventist Health has care delivery services.
- Elevating and **uniting philanthropic efforts** in support of both community care services and large-scale wellbeing initiatives.

Adventist Health Overview (Continued)

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Organization Structure

Operating Structure Updates:

Adventist Health has reorganized itself around its 2030 strategic plan. Three key divisions, oriented around product rather than geography, were formed with five offices of service supporting each of them. Building off the progress toward standardization, modernization and optimization, Adventist Health transitioned to a single Care Division with a unified leadership team in 2020. The Care Division has been positioned alongside newly established Well-Being and Heath Divisions, with support from Consumer, Culture, Mission, People & Services and Philanthropy offices providing the capabilities necessary to accomplish our 2030 strategic plan. All three divisions are guided by system leadership, our governance model, and most importantly our mission.

Care Division Affiliation and Other Activities

Dameron Hospital

In December 2019, Adventist Health entered into an 18-month agreement to manage Dameron Hospital in Stockton, California. Extending the service area of Adventist Health Lodi Memorial in neighboring Lodi, California, Dameron Hospital adds more than 200 inpatient beds to Adventist Health's footprint and ensures ongoing access to a population of more than 310,000. At the conclusion of the management services agreement, the corporation will have the option to pursue a membership transfer.

Adventist Health Mendocino Coast

On March 3, 2020 more than 90% of the voters of the Mendocino Coast Healthcare District in Mendocino County, California voted to approve terms of Adventist Health's long-term lease of Mendocino Coast District Hospital (MCDH) in Fort Bragg. Adventist Health entered into a management services agreement with MCDH effective May 4, 2020 allowing Adventist Health to manage MCDH alongside the other Adventist Health assets in the county. A long-term lease agreement commenced on July 1, 2020 and the hospital is now operating as Adventist Health Mendocino Coast (AHMC). AHMC is a 25-bed critical access acute care hospital which includes operations of rural health clinics. The agreement extends Adventist Health's coverage in Mendocino County and ensures continued access to a coastal population of more than 15,000.

Adventist Health Feather River - Camp Fire

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 most destructive wildfire in California history. The fire destroyed the majority of homes and businesses throughout the community. Most of the AHFR properties, including the 100-bed acute care hospital, remain temporarily closed and non-operational as the System completes damage assessments. As of December 31, 2020, the timelines of Adventist Health's fixed acute care services in Paradise was yet to be determined.

Adventist Health St. Helena - Glass Fire

On September 27, 2020, a large fire erupted near St. Helena, California causing local residents to evacuate and businesses to temporarily close, including Adventist Health St. Helena's hospital and adjacent Medical Office Building. The hospital building endured minimal damage, although there was extensive damage to the outlying water and sewer systems. While the hospital and clinics at the Medical Office Building were temporarily closed, services that were available on campus were relocated to local clinics, thus minimizing the disruption of services to the community. The Medical Office Building reopened on November 18, 2020 and the hospital reopened on December 8, 2020.

COVID-19 Update

On March 11, 2020, the World Health Organization declared the novel coronavirus disease (COVID-19) a pandemic. Following this, the Centers 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 our 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 cost per unit, and changes in treatment protocol have increased the quantity of supplies required. These factors have 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, resolve issues and monitor and manage labor, PPE and other supplies
- Ensured local, state, and federal guidelines 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 the coronavirus and other specified diagnoses 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 taking other safety measures
- Temporarily closed unused services or minimized services at medical office buildings to meet the critical need to conserve personal protective equipment, and limit exposure to COVID-19 for both team members 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 announced temporarily or permanent staff reductions

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 million of provider relief funds from various provisions in the CARES Act, all of which 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 million of Medicare advance payments as part of the CMS Accelerated and Advance Payments Program. Originally, CMS announced that it would begin to offset the payments by future Medicare reimbursements up to 210 days after disbursement, depending on whether a facility was 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 11-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 million in other current liabilities and $198 million 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 million with $37.5 million included in accrued compensation and related payable and $37.5 million 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 financial condition is presently unknown.

Well-Being Division Activities

Adventist Health's Well-Being Division & Blue Zones, LLC

Since Adventist Health purchased Blue Zones in early 2020, the System has been building on its 150-year well-being heritage to help associates and community members live their best lives while also diversifying services and establishing itself as a leader in the future of healthcare.

Following the Blue Zones purchase, the System formed the Well-Being Division, which works with Blue Zones to innovate and activate evidence-informed transformation for communities, organizations and individuals. The Wellbeing Division implemented and resourced a structure to support nine new initiatives in 2020 within the Adventist Health footprint in five areas:

- Blue Zones Projects in four Adventist Health communities to make healthy choices easier through permanent and semi-permanent changes to the environment, policy and social networks
- Blue Zones Campus Certifications in four Adventist Health facilities and markets to create a culture of well-being and empower associates to move more, eat better and connect to purpose and friends
- Blue Zones at Adventist Health, an online platform designed to support associates in their personal well-being journeys, scheduled to launch on April 1, 2021
- Mental and behavioral well-being strategies with Synchronous Health which leverages AI technology to connect patients and providers through a tele-health approach
- Scaling of our Restoration Solutions which is work aimed at well-being improvement for the most vulnerable in our communities

Outside of the traditional Adventist Health footprint, Blue Zones continues to develop a multi-prong business model focused on well-being transformation:

- Despite the impacts of the pandemic, Blue Zones has seen renewals, expansions and sales of its Transformation solutions in four communities over the last year
- Blue Zones Brands work continues to grow and gain traction particularly in the food, beverage and real estate sectors

Our well-being strategies are proven to improve the health and well-being of communities. Participating communities and organizations have experienced double-digit drops in obesity and tobacco use and reductions in body mass index, achieving hundreds of millions of dollars in savings in healthcare costs. All of these initiatives are intended to be replicated to serve other communities and organizations in their well-being goals.

Health Division Activities

Adventist Health continues to expand its capitated lives and risk-based arrangements within its geographical footprint while establishing new strategic risk-based partnerships with third parties.

Ratings and Outlook Affirmed

In September 2020, Fitch Ratings affirmed its ‘A+’ long-term rating with Stable outlook and S&P Global Ratings affirmed its ‘A’ long-term rating with Stable outlook on Adventist Health’s bonds. The Fitch ‘A+’ long-term rating reflects Fitch Ratings’ view of Adventist Health’s position as the leading acute care provider in multiple growing markets, supporting midrange revenue defensibility, despite its comparatively higher levels of Medicaid and self-pay volumes. Fitch also considered Adventist Health’s historically solid operating income levels, a gradually improving balance sheet and recent affiliation and expansion activity. The S&P ‘A’ long-term rating reflects S&P’s view of Adventist Health’s sizable geographic and revenue diversity, solid operating liquidity and standardization and centralization of administrative processes over the past several years.

Key Operating Metrics: Volume Trends

During the 12 months ended December 31, 2020, the System’s inpatient discharges were down 8.7%. Combined inpatient and observation stays decreased by 9.9% from the same period in the previous year. On a same store basis that excludes Adventist Health Delano, Adventist Health Mendocino Coast and Adventist Health Tulare, inpatient discharges were down 11.3% primarily driven by impacts of COVID-19.

Total inpatient surgeries decreased by 15.2% and outpatient surgeries decreased by 13.6% from the same period in the previous year. On a same store basis, inpatient surgeries decreased by 18.3% and outpatient surgeries decreased by 17.3% from the same period in the previous year.

UTILIZATION STATISTICS

12 Months Ended December 31,	2020	2019
Discharges	122,788	134,458
Patient days	588,530	586,048
Observation stays	18,614	22,568
Outpatient procedures	3,551,601	3,798,691
Emergency department visits	638,221	757,362
Inpatient surgeries	21,950	25,892
Outpatient surgeries	44,382	51,363
Capitated lives	217,768	196,560
Average length of stay (in days)	4.8	4.4
Outpatient revenues as % of gross patient revenue	45.0%	47.2%

Key Operating Metrics: Total Operating Revenue and Income from Operations

Total operating revenue increased 5.2% for the 12 months ended December 31, 2020 as compared to the previous year. On a same store basis and normalizing for hospital fee impact, total operating revenue increased 2.2% for the 12 months ended December 31, 2020 as compared to the previous year. The increase in operating revenue was the result of Adventist Health Delano, Adventist Health Mendocino Coast and Adventist Health Tulare additions. The net patient revenue loss from COVID-19 volume declines was primarily offset by other revenue from the CARES act, yield improvement and contractual rate increases.

Total operating expenses increased 4.7% for the 12 months ended December 31, 2020 as compared to the previous year. On a same store basis, total operating expenses increased 1.6% for the 12 months ended December 31, 2020 as compared to the previous year. Salaries and benefits expenses increased 7.4% for the 12 months ended December 31, 2020 as compared to the previous year. On a same store basis and excluding the rebadging of Cerner employees to support revenue cycle improvement, salaries and benefits expenses decreased 1.1%. This same store basis decrease was a result of FTE reductions, reduced employee health plan utilization, flexing and hiring freezes throughout COVID-19. Departments have been accelerated to top quartile labor productivity.

Professional fees increased by 5.8% from the previous year due to increased investment in clinic services and physician recruitment and retention. Supplies increased by 2.2% from the previous year due to increase in per unit pricing and inventory build for personal protective equipment as a part of COVID-19 preparedness.

Income from operations as a percent of total operating revenue was (1.6%) and (2.1%) for the 12 months ended December 31, 2020 and December 31, 2019, respectively. On a same store basis, income from operations as a percent of total operating revenue was (1.5%) and (1.9%) for the 12 months ended December 31, 2020 and December 31, 2019, respectively.

TOTAL OPERATING REVENUE AND INCOME FROM OPERATIONS

12 Months Ended December 31,	2020	2019
Total operating revenue	$4,774	$4,537
Total EBIDA expenses	$4,579	$4,374
EBIDA	$195	$163
EBIDA as a percentage of total operating revenue	4.1%	3.6%
Depreciation and interest expense	$269	$258
Loss from operations	($74)	($95)
Loss from operations as a percentage of total operating revenue	(1.6%)	(2.1%)

Key Operating Metrics: Total Nonoperating Income

Investment income increased by 109.4% for the 12 months ended December 31, 2020 as compared to the previous year. Management maintains a long-term asset allocation strategy. Strong equity markets have generated significant unrealized gains.

NONOPERATING INCOME

12 Months Ended December 31,	2020	2019
Investment income	$178	$85
Other nonoperating gains (losses)	$6	($5)
Nonoperating income before gain on acquisition and divestitures	$184	$80
Gain (Loss) on acquisition and divestitures	($1)	$160
Nonoperating income	$183	$240

Balance Sheet Ratios

Cash and unrestricted investments increased by $391 for the 12 months ended December 31, 2020. Days cash on hand increased to 197.0 at December 31, 2020 from 173.9 at December 31, 2019. Overall cash and unrestricted investments increased primarily due to receipt of Medicare advance payments discussed previously and investment returns. Long-term debt to capitalization decreased to 40.0% at December 31, 2020 from 41.9% at December 31, 2019. Adventist Health is able to maintain lower-than-median cash to debt and long-term debt to capitalization ratios as the system has no pension liability and operates under a defined contribution plan. As a result of operating performance declines, management continues to evaluate and defer capital commitments as part of the COVID-19 pandemic response.

BALANCE SHEET RATIOS

Period Ended December 31,	2020	2019
Total cash and unrestricted investments	$2,506	$2,115
Days cash on hand	197.4	173.9
Cash to debt	123%	100%
Long-term debt to capitalization	40.0%	41.9%
Capital expenditures as a percentage of depreciation expense	83.1%	95.8%

Adventist Health Hospitals

OBLIGATED GROUP MEMBERS

Adventist Health Bakersfield
Adventist Health Castle
Adventist Health Delano
Adventist Health Feather River
Adventist Health Glendale
Adventist Health Hanford
Adventist Health Selma
Adventist Health Howard Memorial
Adventist Health Lodi Memorial
Adventist Health Portland
Adventist Health Reedley
Adventist Health and Rideout
United Com-Serve
Adventist Health Simi Valley
Adventist Health Sonora
Adventist Health St. Helena
St. Helena Center for Behavioral Health
Adventist Health Tillamook
Adventist Health Ukiah Valley
Adventist Health White Memorial

NON-MEMBER ENTITIES

Adventist Health Clear Lake
Adventist Health Plan, Inc.
Adventist Health Mendocino Coast
Adventist Health Tehachapi Valley
Adventist Health Tulare

Entities in italics are consolidated with their respective parent entities