Consolidated Financial Statements

Orlando Health, Inc. and Subsidiaries
Years Ended September 30, 2023 and 2022
With Report of Independent Auditors

Ernst & Young LLP



Orlando Health, Inc. and Subsidiaries

Consolidated Financial Statements

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Report of Independent Auditors

Management and the Board of Directors
Orlando Health, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Orlando Health, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the System at September 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2023 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Ernst & Young LLP

December 1, 2023

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Orlando Health, Inc. and Subsidiaries

Consolidated Balance Sheets
(In Thousands)

	September 30 2023	2022
Assets		
Current assets:		
Cash and cash equivalents	**$ 939,923**	$ 818,980
Assets limited as to use	**81,604**	71,053
Accounts receivable	**639,138**	551,970
Other receivables	**314,465**	218,956
Inventory	**114,333**	114,857
Other current assets	**67,952**	170,968
Total current assets	**2,157,415**	1,946,784
Assets limited as to use:		
Debt service and reserve funds held by bond trustee	**64,818**	56,850
Construction funds held by bond trustee	**346,580**	297,840
Malpractice self-insurance	**18,148**	16,916
	429,546	371,606
Less amount required to meet current obligations	**(81,604)**	(71,053)
	347,942	300,553
Long-term investments – without donor restrictions	**2,478,759**	2,106,916
Long-term investments – with donor restrictions	**159,572**	136,288
Investments in related parties	**173,106**	145,420
Other assets	**584,450**	410,304
Operating lease assets	**184,456**	136,742
Property and equipment, net	**3,539,799**	2,867,147
Total assets	**$ 9,625,499**	$ 8,050,154
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 755,898**	$ 611,128
Other current liabilities	**307,449**	264,249
Current portion of long-term debt and lease obligations	**49,450**	37,786
Total current liabilities	**1,112,797**	913,163
Long-term debt, less current portion	**2,737,036**	2,271,673
Operating lease obligations, less current portion	**160,436**	120,779
Accrued malpractice claims	**150,411**	148,160
Other noncurrent liabilities	**147,913**	132,897
Total liabilities	**4,308,593**	3,586,672
Net assets		
Net assets without donor restrictions:		
Orlando Health, Inc. and Subsidiaries	**5,064,453**	4,230,573
Noncontrolling interests in Subsidiaries	**28,905**	6,356
Total net assets without donor restrictions	**5,093,358**	4,236,929
Net assets with donor restrictions	**223,548**	226,553
Total net assets	**5,316,906**	4,463,482
Total liabilities and net assets	**$ 9,625,499**	$ 8,050,154

See accompanying notes.

Orlando Health, Inc. and Subsidiaries

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

	Year Ended September 30	
	2023	**2022**
Revenues and other support without donor restrictions		
Net patient service revenue	**$ 5,345,127**	$ 4,680,990
Other revenue	**728,807**	563,014
Net assets released from donor restrictions	**14,768**	9,055
Total revenues and other support without donor restrictions	**6,088,702**	5,253,059
Expenses		
Salaries and benefits	**2,921,079**	2,562,616
Supplies	**1,248,297**	1,054,870
Other expenses	**1,034,104**	877,822
Depreciation and amortization	**324,203**	262,637
Interest	**69,699**	65,688
Total expenses	**5,597,382**	4,823,633
Income from operations	**491,320**	429,426
Nonoperating gains and (losses)		
Investment income (loss)	**311,547**	(446,308)
Change in fair value of interest rate swap agreements	**6,522**	23,601
Other nonoperating losses	**(7,296)**	(20)
Nonoperating gains (losses), net	**310,773**	(422,727)
Excess of revenues, other support, and gains over expenses and losses	**802,093**	6,699
Deficit (excess) of revenues, other support, and gains over expenses and losses attributed to noncontrolling interests in Subsidiaries	**3,304**	(686)
Excess of revenues, other support, and gains over expenses and losses attributed to Orlando Health, Inc. and Subsidiaries	**805,397**	6,013

Continued on next page

Orlando Health, Inc. and Subsidiaries

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

	Year Ended September 30	
	2023	**2022**
Net assets without donor restrictions		
Excess of revenues, other support, and gains over expenses and losses	**$ 802,093**	$ 6,699
Other changes in unrestricted net assets:		
Net assets released from restrictions for property and equipment	**25,191**	7,198
Other	**29,145**	(1,963)
Increase in net assets without donor restrictions	**856,429**	11,934
Net assets with donor restrictions		
Contributions	**33,318**	87,923
Net assets released from restrictions	**(39,959)**	(16,253)
Net realized and unrealized gains (losses) on investments	**4,084**	(6,750)
Other	**(448)**	(286)
(Decrease) increase in net assets with donor restrictions	**(3,005)**	64,634
Increase in net assets	**853,424**	76,568
Net assets at beginning of year	**4,463,482**	4,386,914
Net assets at end of year	**$ 5,316,906**	$ 4,463,482

See accompanying notes.

Orlando Health, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended September 30 2023	2022
Operating activities		
Increase in net assets	**$ 853,424**	$ 76,568
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**324,203**	262,637
Change in fair value of interest rate swap agreements	**(6,522)**	(23,601)
Net realized, unrealized, and investment income (gains) losses	**(311,547)**	446,308
Restricted contributions and investment income	**(37,402)**	(81,173)
Changes in operating assets and liabilities:		
Accounts receivable, net	**(87,168)**	18,629
Other operating assets	**(153,425)**	(16,179)
Accounts payable and accrued expenses	**62,960**	13,980
Other operating liabilities	**49,417**	(15,748)
Net cash provided by operating activities	**693,940**	681,421
Investing activities		
Purchases of property, equipment, and other noncurrent assets	**(594,484)**	(432,763)
Net cash paid for business combinations	**(141,080)**	–
Prepayment for future investing activities	**–**	(123,472)
Increase in assets limited as to use	**(49,451)**	(295,862)
Purchase of trading securities, net of sales	**(67,345)**	(1,468)
Other investing activities	**(62,923)**	(84,782)
Net cash used in investing activities	**(915,283)**	(938,347)
Financing activities		
Proceeds from issuance of debt	**333,743**	351,412
Refunding and repayments of debt, including financing lease obligations	**(42,093)**	(30,694)
Bond proceeds used for loan costs	**(1,323)**	(1,409)
Grant proceeds received for long-term purposes	**23,745**	6,255
Restricted contributions and investment income	**37,402**	81,173
Net cash provided by financing activities	**351,474**	406,737
Increase in cash, cash equivalents and restricted cash	**130,131**	149,811
Cash, cash equivalents and restricted cash, beginning of year	**876,153**	726,342
Cash, cash equivalents and restricted cash, end of year	**$ 1,006,284**	$ 876,153
Cash and cash equivalents	**$ 939,923**	$ 818,980
Restricted cash and cash equivalents in assets limited as to use	**64,819**	56,850
Restricted cash and cash equivalents in long-term investments – with donor restrictions	**1,542**	323
Cash, cash equivalents and restricted cash, end of year	**$ 1,006,284**	$ 876,153
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	**$ 85,864**	$ 72,933
Purchases of property and equipment accrued and not paid	**$ 81,810**	$ 54,512

See accompanying notes.

Orlando Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2023

1. Organization

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

Subsidiaries are those entities Orlando Health controls as the sole or majority member, sole shareholder, or through board appointment and approval of all major transactions. Subsidiaries operate a variety of health care-related services, including physician practice groups (Orlando Health Medical Group, Inc. and Orlando Physician Network, Inc. (dba Orlando Health Physician Associates)); OHRI, LLC (dba Orlando Health Imaging Centers), which operates nine imaging centers, a fund-raising organization (Orlando Health Foundation, Inc.), Doctors' Center Hospital Orlando Health – Dorado; and other health care-related services. Healthnet Services, Inc. and its subsidiaries are taxable corporations and are a part of the Subsidiaries. The Obligated Group, together with its Subsidiaries, is collectively referred to herein as the "System." These consolidated financial statements include the consolidated accounts of Orlando Health, Health Central, South Lake, OsceolaSC, LLC, OHI West, and their Subsidiaries. Significant transactions between entities have been eliminated.

2. Significant Accounting Policies

New Accounting Pronouncements

There have been no new accounting pronouncements adopted in 2023.

Pending Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The new standard requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected and separately measure an allowance for credit losses that is deducted from the amortized cost basis of the financial assets. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The System is evaluating the impact that the adoption of this update will have on its consolidated financial statements.

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

In September 2022, the FASB issued ASU 2022-04, *Liabilities – Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*. This update will require entities that use supplier finance programs in connection with the purchase of goods and services to disclose the key terms of the programs and information about their obligations outstanding at the end of a reporting period, including a rollforward of those obligations. The updated guidance will be effective for fiscal years beginning after December 15, 2022. The System is evaluating the impact that the adoption of this ASU will have on its consolidated financial statements.

2. Significant Accounting Policies (continued)

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842): Common Control Arrangements*. This update amends provisions of ASC 842 that apply to arrangements between related parties under common control. The updated guidance will be effective for fiscal years beginning after December 15, 2023. The System is evaluating the impact that the adoption of this ASU will have on its consolidated financial statements.

Use of Estimates

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

Cash, Cash Equivalents and Restricted Cash

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

Investments and Investment Income

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

2. Significant Accounting Policies (continued)

Investments Without Readily Determinable Values

Investments without readily determinable values consist of funds-of-funds, funds invested in real estate holdings, investments in private equity companies, partnerships, and limited liability companies and are included with investments at fair value. Under U.S. GAAP, a reporting entity is permitted, as a practical expedient, to estimate the fair value of such an investment using the net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) of certain investments, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of investment funds. At September 30, 2023 and 2022, the net asset value approximates the fair value of the funds as reported by the investment fund managers. Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market of these investments existed, and the differences could be material.

Income Taxes

Orlando Health, Inc. and its non-profit affiliates are exempt from federal income taxes under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and are also exempt from state income taxes. Healthnet Services, Inc. and its subsidiaries (owned by Orlando Health, Inc.) are taxable corporations and file a consolidated federal and state tax return. Income taxes for the System, on a consolidated basis, are immaterial.

At September 30, 2023 and 2022, the System has net deferred tax assets (before valuation allowance) of approximately $21.0 million and $19.6 million, respectively. Deferred tax assets are primarily composed of federal and state net operating loss carryforwards. At September 30, 2023 and 2022, the System has $95.2 million and $82.7 million, respectively, of federal net operating loss carryforwards and $95.2 million and $82.7 million, respectively, of state net operating carryforwards. A valuation allowance has been provided to offset the full amount of the System's net deferred tax asset as of September 30, 2023 and 2022, as management determined that it is more likely than not that the benefit of the deferred tax assets will not be realized in future periods.

2. Significant Accounting Policies (continued)

FASB ASC Topic 740, *Income Taxes*, prescribes the accounting for uncertainty in income tax positions recognized in the financial statements. ASC Topic 740 provides guidance and measurement of a tax position taken or expected to be taken in a tax return. There were no material uncertain tax positions as of September 30, 2023 and 2022.

Assets Limited as to Use

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

Investments With Donor Restrictions

Investments with donor restrictions consist of investments that are restricted as to use by donors for a specific time period or purpose.

Inventory

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

Property and Equipment

Property and equipment are recorded at cost, except for donated items, which are recorded at fair value at the date of the contribution. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as are interest costs during periods of construction. Depreciation is computed utilizing the straight-line method at rates estimated by management to amortize the cost of the various assets within the periods of expected use, which range between 3 and 50 years.

2. Significant Accounting Policies (continued)

Goodwill and Other Intangible Assets

Goodwill results from the excess of the purchase price over the fair value of net assets acquired through business combinations. The System applies accounting alternatives developed by the Private Company Council on the accounting for goodwill and certain other intangible assets. The alternatives adopted include the amortization of goodwill on a straight-line basis of ten years, the option to perform a test for impairment at the entity level and the option to perform such a test only when there is a triggering event indicating that the fair value of the entity may be below its carrying value. The gross carrying amount of goodwill is $435.7 million and $237.6 million at September 30, 2023 and 2022, respectively; the accumulated amortization is $101.0 million and $65.2 million as of September 30, 2023 and 2022, respectively; and the total amortization expense for 2023 and 2022 was $35.8 million and $24.4 million, respectively. Total additions to goodwill for 2023 and 2022 was $198.1 million and $0, respectively. The net goodwill balance is included in other assets on the consolidated balance sheets. The qualitative impairment analyses performed in 2023 and 2022 did not identify a triggering event indicating that the fair value of the System was below its carrying amount.

Investments in Related Parties

Investments in related parties in which the System owns or controls at least a 20% interest and less than a 50% voting interest or has the ability to exercise significant influence are recorded using the equity method. Income or losses from equity investments and cash dividends received are included in other revenue.

Impairment of Long-Lived Assets

If indicators of impairment are present, the System evaluates the financial recoverability of long-lived assets by comparing their carrying value to the expected future undiscounted cash flows. If such evaluations indicate that the carrying value of the assets has been impaired, the assets are adjusted to their fair values. Additionally, long-lived assets held for sale are similarly evaluated by comparison of the carrying value to fair value less costs to sell. If the carrying value exceeds fair value less costs to sell, the assets are adjusted to fair value less costs to sell. Adjustments are reported as impairment expense. There was no impairment of long-lived assets in the years ended September 30, 2023 and 2022.

2. Significant Accounting Policies (continued)

Unrestricted Gifts

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

Net Assets With Donor Restrictions

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

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

Estimated Malpractice Costs

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

2. Significant Accounting Policies (continued)

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

The consolidated statements of operations and changes in net assets include excess of revenues, other support, and gains and losses over expenses, which is analogous to income from continuing operations for a for-profit enterprise. Nonoperating gains and losses represent activities peripheral to direct patient care services and include investment income (loss), change in fair value of interest rate swap agreements, and other nonoperating losses. Changes in net assets without donor restrictions that are excluded from excess of revenues, other support, and gains over expenses and losses, consistent with industry practice, primarily include contributions of long-lived assets, including assets acquired using contributions, which, by donor restriction, were to be used for the purposes of acquiring such assets.

3. Revenue Recognition

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

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

3. Revenue Recognition (continued)

outpatient services rendered to Medicaid program beneficiaries are paid under prospectively determined rates per discharge and prospectively determined rates per service. The System uses a portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios primarily consist of the major payor classes as described above.

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

Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments and significant regulatory actions. Provisions for third-party payor settlement and adjustments are estimated and recorded in the period the related services are rendered and adjusted in future periods as final settlements are determined. At September 30, 2023 and 2022, the System has estimated third-party settlements of $32.8 million and $7.9 million, respectively, recorded in accounts payable and accrued expenses in the consolidated balance sheets. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Patient service revenue includes variable consideration for these retroactive revenue adjustments resulting from the settlement of audits, review and investigation. Such amounts are estimated using the most likely outcome method. Revenue increased $42.8 million and $30.0 million in fiscal years 2023 and 2022, respectively, related to changes in estimates for cost report reopenings, appeals, and tentative and final cost report settlements on filed cost reports, of which some are still subject to audit, additional reopening, and/or appeal.

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

3. Revenue Recognition (continued)

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined that it has provided implicit price concessions to uninsured patients and patients with other uninsured balances such as copays and deductibles. The difference between amounts billed to patients and the amounts expected to be collected based on the System's collection history with those patients is recorded as implicit price concessions, or as a direct reduction to net patient revenue. Subsequent adjustments that are determined to be the result of an adverse change in the patient's or payor's ability to pay are recognized as bad debt expense. Bad debt expense is recorded as a component of other operating expenses in the accompanying consolidated statements of operations and changes in net assets. Bad debt expense for the years ended September 30, 2023 and 2022 was not significant for the System.

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

	2023	% of Total	2022	% of Total
Medicare	**$ 1,450,983**	**27%**	$ 1,282,220	27%
Medicaid	**358,444**	**7**	355,879	8
Managed care	**3,492,216**	**65**	3,021,657	64
Self-pay	**43,484**	**1**	21,234	1
Net patient service revenue	**$ 5,345,127**	**100%**	$ 4,680,990	100%

As substantially all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in ASC 606 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged which, for the majority of the System's in-house patients, occurs within days or weeks after the end of the reporting period.

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

3. Revenue Recognition (continued)

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

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

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy at no charge or at amounts less than its established charges. Because the System does not pursue collection of amounts determined to qualify as charity care and does not expect payment for such amounts, they are excluded from net patient service revenue. Patients are eligible for charity care if their documented household income is less than 225% of the federal poverty level guidelines, or the amount of their medical bill is more than 25% of their annual household income and their household income does not exceed 400% of the federal poverty level guidelines. Charity care is provided to all patients meeting these criteria. Charity care provided was approximately 5% of total services rendered during both years ended September 30, 2023 and 2022, based on total charges for all services in those years. The estimated cost of charity care delivered was approximately $222.1 million and $177.3 million during the years ended September 30, 2023 and 2022, respectively. Cost is estimated based on the System's ratio of expenses to established patient service charges.

3. Revenue Recognition (continued)

Patient Accounts Receivable

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

	2023	2022
Medicare	**22%**	23%
Medicaid	**8**	9
Managed care organizations	**68**	67
Self-pay	**2**	1

Other Revenue

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

As noted previously, the System receives payments through state supplemental payment programs, which includes DSH and LIP payments. Federal law permits state Medicaid programs to make DSH payments to hospitals that serve a disproportionate large number of Medicaid and low-income patients. These funds are not tied to specific services for Medicaid-eligible patients. The federal government distributes federal Medicaid DSH and LIP funds to each state based on a statutory formula. Revenue under the DSH and LIP programs is recognized as a component of other revenue over the benefit period when information is received from the states regarding the amount and timing of DSH and LIP payments to be received for the applicable period. The System believes that its performance obligations are generally satisfied ratably over the applicable period and recognizes revenue on a monthly basis, or when the amount is known if the state makes only one payment for DSH or LIP. The System recorded approximately $166.0 million and $143.0 million in other revenue during fiscal years 2023 and 2022, respectively, related to the DSH and LIP programs.

3. Revenue Recognition (continued)

Florida Hospital Directed Payment Program

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

The federal government provides matching dollars to the share contributed by the state. For nonpublic hospitals, local governments pass special assessments to collect from nonpublic hospitals only. Such assessments do not impose any costs on the state or local governments. Local governments send the collected funds to the state, where they draw down the federal match. That pool of money (the nonfederal share made up of local government contributions, with the addition of the federal match) is disbursed to hospitals in participating regions through Medicaid managed care organizations (MCOs) responsible for reimbursing providers.

Orlando Health has hospitals in regions three and seven, two of the regions participating in Program Year 3. Orange, Lake and Osceola Counties adopted the required ordinance in September and passed the resolution to establish the assessment for the state fiscal year 2023-2024. Given the dependency on Medicaid as a payor, the Hospital DPP represents a source of revenue for Orlando Health. Orlando Health will pay an assessment of $87.5 million in December 2023 and paid $55.6 million in November 2022 to Orange, Lake and Osceola Counties, which was accrued within other current liabilities and other expenses as of and for the years ended September 30, 2023 and 2022, respectively. The System also recognized approximately $195.7 million expected to be received from the MCOs within other receivables and other revenue as of and for the year ended September 30, 2023, and recognized $131.1 million received from the MCOs within other receivables and other revenue as of and for the year ended September 30, 2022.

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

4. Fair Value Measurements

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

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

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

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

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

4. Fair Value Measurements (continued)

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

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

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

Deferred compensation plans: Investments held in conjunction with the System's 457(b) and 409(a) deferred compensation plans amount to approximately $106.6 million and $65.6 million as of September 30, 2023 and 2022, respectively, and are included in other assets. These investments are valued using unadjusted quoted prices in active markets and are considered Level 1 assets.

The following table represents the fair value hierarchy of the System's financial assets and liabilities measured at fair value as of September 30, 2023 (in thousands):

	Level 1	Level 2	Level 3	Total
Financial assets				
Mutual funds	**$ 2,012,733**	**$ 352,019**	**$ –**	**$ 2,364,752**
Equity securities	**123**	**–**	**–**	**123**
U.S. corporate bonds	**–**	**86,176**	**–**	**86,176**
U.S. Treasury and agency obligations	**346,580**	**66,092**	**–**	**412,672**
Foreign treasury and agency obligations	**–**	**1,144**	**–**	**1,144**
Mortgage-backed obligations	**–**	**13,405**	**–**	**13,405**
Cash and cash equivalents	**84,916**	**–**	**–**	**84,916**
	$ 2,444,352	**$ 518,836**	**$ –**	**2,963,188**
Investments measured at net asset value				**104,689**
Total financial assets at fair value				**$ 3,067,877**
Financial liabilities				
Interest rate swap agreements	**$ –**	**$ 7,979**	**$ –**	**$ 7,979**
	$ –	**$ 7,979**	**$ –**	**$ 7,979**

4. Fair Value Measurements (continued)

The following table represents the fair value hierarchy of the System's financial assets and liabilities measured at fair value as of September 30, 2022 (in thousands):

	Level 1	Level 2	Level 3	Total
Financial assets				
Mutual funds	$ 1,740,983	$ 347,458	$ –	$ 2,088,441
Equity securities	111	–	–	111
U.S. corporate bonds	–	59,477	–	59,477
U.S. Treasury and agency obligations	297,840	43,698	–	341,538
Mortgage-backed obligations	–	10,572	–	10,572
Cash and cash equivalents	67,195	–	–	67,195
	$ 2,106,129	$ 461,205	$ –	2,567,334
Investments measured at net asset value				47,476
Total financial assets at fair value				$ 2,614,810
Financial liabilities				
Interest rate swap agreements	$ –	$ 14,501	$ –	$ 14,501
	$ –	$ 14,501	$ –	$ 14,501

Total financial assets at fair value of $3.1 billion and $2.6 billion as of September 30, 2023 and 2022, respectively, are composed of the following financial statement captions within the consolidated balance sheets: debt service and reserve funds held by bond trustee, construction funds held by bond trustee, malpractice self-insurance, long-term investments – without donor restrictions and long-term investments – with donor restrictions.

5. Investments

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

	2023	2022
	(In Thousands)	
Interest and dividend income	**$ 47,635**	$ 23,235
Change in unrealized gains and losses	**256,852**	(542,979)
Net realized gains on sales of securities	**7,060**	73,436
	$ 311,547	$ (446,308)

6. Investments in Related Parties

Winter Park Surgery Center

In 2020, the System acquired a non-controlling interest in a joint venture that operates Winter Park Surgery Center which provides outpatient surgical care. The System held a 52.5% interest in the joint venture until January 1, 2023, when the System acquired the remaining ownership interest. The System's prior year equity investment in the surgery center is included in investments in related parties and amounted to approximately $34.0 million at September 30, 2022.

Surround Care

In 2022, the System completed a transaction to purchase a minority interest in the physician-based population health company. The System held an interest in the joint venture of 14.5% and 18.8% at September 30, 2023 and 2022, respectively. The System's equity method investment in Surround Care is included in investments in related parties and amounted to approximately $81.4 million and $78.7 million at September 30, 2023 and 2022, respectively.

6. Investments in Related Parties (continued)

Doctors' Center Group

In 2023, the System completed a transaction to acquire a 25% interest in Doctors' Center Group, a health care system in Puerto Rico. The System's equity method investment is included in investments in related parties and amounted to approximately $65.4 million at September 30, 2023.

The remaining balance consists of various smaller investments in related parties that aggregate to a total of approximately $26.3 million and $32.7 million at September 30, 2023 and 2022, respectively.

7. Property and Equipment

Property and equipment consist of the following:

	September 30	
	2023	**2022**
	(In Thousands)	
Land and improvements	**$ 401,030**	$ 361,151
Buildings	**2,206,632**	1,877,989
Equipment	**3,494,507**	3,040,272
	6,102,169	5,279,412
Less: Accumulated depreciation	**(3,054,275)**	(2,749,327)
	3,047,894	2,530,085
Construction-in-progress	**491,905**	337,062
	$ 3,539,799	$ 2,867,147

Construction

Construction-in-progress represents numerous construction and renovation projects. Estimated costs to complete these projects as of September 30, 2023 are approximately $1.3 billion, which primarily includes $65.5 million for freestanding emergency departments, $483.1 million for new bed towers, $387.2 million for medical pavilions and institutes, and $353.9 million for other projects. Projects are expected to be funded through operating cash flows, bond proceeds and pledges received and are expected to be completed within five years.

8. Long-Term Debt

Long-term debt consists of the following:

	September 30 2023	2022
	(In Thousands)	
Fixed Rate Hospital Revenue Bonds – secured		
Series 2023 – plus net unamortized premium and issuance costs of $29,925,000 and $0 at September 30, 2023 and 2022, respectively; interest rate of 5.0%, payable 2027 through 2053	**$ 329,925**	$ –
Series 2022 – plus net unamortized premium and issuance costs of $25,840,000 and $26,806,000 at September 30, 2023 and 2022, respectively; interest rate of 3.0% to 4.0%, payable 2048 through 2053	**347,255**	348,221
Series 2020A and B – less unamortized issuance costs of $3,075,000 and $3,230,000 at September 30, 2023 and 2022, respectively; interest rate of 2.291% to 3.477%, payable 2028 through 2050	**513,700**	513,545
Series 2019 A (Orlando Health Central) – plus unamortized premium of $3,919,000 and $4,069,000 at September 30, 2023 and 2022, respectively, interest rates from 4.0% to 5.0%, payable 2047 to 2049	**103,919**	104,069
Series 2019B – plus net unamortized premium and issuance costs of $728,000 and $2,594,000 at September 30, 2023 and 2022, respectively; interest rates from 4.0% to 5.0%, payable through 2026	**83,163**	102,984
Series 2019C – interest rate of 4.461%, payable through 2049	**100,000**	100,000
Series 2018 – less net unamortized issuance costs of $2,263,000 and $2,384,000 at September 30, 2023 and 2022, respectively; interest rates from 3.777% to 4.089%, payable through 2049	**447,737**	447,616
Series 2016A – plus unamortized premium and issuance costs of $17,905,000 and $19,460,000 at September 30, 2023 and 2022, respectively; interest rates from 3.0% to 5.0%, payable through 2041	**188,165**	190,620
Series 2016B (Orlando Health Central) – plus net unamortized premium and issuance costs of $1,140,000 and $1,191,000 at September 30, 2023 and 2022, respectively; interest rates from 4.0% to 5.0%, payable 2045 through 2046	**67,715**	67,766
Series 2016C (Orlando Health Central) – less net unamortized premium and issuance costs of $1,035,000 and $1,082,000 at September 30, 2023 and 2022, respectively; interest rate of 4.416%, payable 2044 through 2045	**75,500**	75,547
Variable rate hospital revenue bonds – secured		
Series 2011 – interest rates of 5.2124% and 2.4368% at September 30, 2023 and 2022, respectively, less unamortized issuance costs of $189,000 and $200,000 at September 30, 2023 and 2022, respectively, payable 2027 through 2041	**82,986**	82,975
Series 2008E – interest rates of 3.8% and 2.45% at September 30, 2023 and 2022, respectively, less unamortized issuance costs of $67,000 and $89,000 at September 30, 2023 and 2022, respectively, payable through 2026	**28,188**	34,021
Notes payable and other indebtedness		
Finance lease obligations and other notes	**418,233**	242,095
Total debt, net of unamortized premiums, discounts and issuance costs	**2,786,486**	2,309,459
Less current portion	**(49,450)**	(37,786)
Total long-term debt	**$ 2,737,036**	$ 2,271,673

8. Long-Term Debt (continued)

Aggregate principal amounts of long-term debt outstanding, including finance leases as disclosed in Note 9, but excluding premiums, discounts, and issuance costs, are due during the following years ending September 30: $64.3 million in 2024, $65.1 million in 2025, $63.7 million in 2026, $63.1 million in 2027, $57.2 million in 2028, and $2.6 billion thereafter.

Master Trust Indenture

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

An Amended and Restated Master Indenture (Master Indenture), dated as of February 2, 2023, was executed by Orlando Health. All obligations issued under the Master Indenture are equally and ratably secured by a pledge of the accounts (as defined in Article 9 of the Florida Uniform Commercial Code) and the Gross Revenue of the Obligated Group. The System is subject to certain restrictive covenants, including a debt service coverage requirement, under the Master Indenture, revolving credit agreement, reimbursement agreements, and irrevocable letter of credit. Financial information of the Obligated Group is included in the Supplementary Information.

Hospital Revenue Bonds, Series 2023

On February 2, 2023, Orlando Health, Inc. issued $333.7 million of tax-exempt fixed rate hospital revenue bonds on behalf of the Obligated Group through its Series 2023 Bonds. The proceeds of the Series 2023 Bonds were applied for financing, refinancing or reimbursing the System for its costs of acquiring, constructing, renovating and equipping facilities located on its downtown Orlando campus, South Lake’s Clermont campus, Lakeland’s campus, Health Central’s Ocoee campus, and a portion of the costs of issuance of the bonds.

8. Long-Term Debt (continued)

Hospital Revenue Bonds, Series 2022

On February 15, 2022, Orlando Health, Inc. issued $321.4 million of tax-exempt fixed rate hospital revenue bonds on behalf of the Obligated Group through its Series 2022 Bonds. The proceeds of the Series 2022 Bonds were applied for financing, refinancing or reimbursing the System for its costs of acquiring, constructing, renovating and equipping Orlando Health Lake Mary Hospital and facilities located on its downtown Orlando campus, and a portion of the costs of issuance of the bonds.

Hospital Revenue Bonds, Series 2020A and 2020B

On October 7, 2020, Orlando Health, Inc. issued $516.8 million of taxable fixed rate hospital revenue bonds on behalf of the Obligated Group through its Series 2020 Bonds. The proceeds of the Series 2020A Bonds were applied for general corporate purposes, including financing, refinancing or reimbursing the System for its prior payments of the costs of acquiring, constructing and equipping certain of its existing health care facilities and/or to acquire certain new health care facilities, paying various capital expenditures, current operating expenses, and a portion of the costs of issuance of the bonds. The proceeds of the Series 2020B Bonds were used to refund and defease all of the outstanding Series 2012A and Series 2012B Bonds.

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

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

8. Long-Term Debt (continued)

Hospital Revenue Bonds, Series 2018

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

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

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

Hospital Revenue Bonds, Series 2008E

The Series 2008E Bonds are supported by an irrevocable letter of credit with TD Bank, which has an expiration date of October 1, 2026.

8. Long-Term Debt (continued)

Hospital Revenue Bonds, Series 2011

On September 15, 2011, the Authority issued $83.2 million of variable rate Hospital Revenue Bonds (2011 Bonds) on behalf of Orlando Health. The proceeds from the sale of the 2011 Bonds and $7.2 million of remaining 2007A Bonds debt service reserve funds were used to currently refund the 2007A Bonds and pay the costs of issuance of the 2011 Bonds. The 2011 Bonds were issued as tax-exempt, multi-modal bonds, initially operating in bank purchase mode, and privately placed with Truist Bank (the Bank). The 2011 Bonds bear interest at a variable index interest rate that approximates the secured overnight financing rate plus a spread. The initial interest rate may be adjusted due to other regulatory changes affecting the cost of the loan to the Bank. On September 15, 2022, the Bank notified Orlando Health and the trustee that it elected not to tender the bonds on the scheduled mandatory purchase date in June 2023 and extended the initial bank rate period to the maturity date of the Bonds on October 1, 2041. During the initial interest rate period, the 2011 Bonds are subject to optional redemption at the direction of Orlando Health at par on each interest payment date. Interest is payable monthly.

Interest Costs

During periods of construction, interest costs on construction borrowings are capitalized to the respective property accounts. Capitalized interest is reduced by earnings on the investments held by the bond trustee for construction. Capitalized interest costs amounted to approximately $9.9 million and $9.6 million for the years ended September 30, 2023 and 2022, respectively. The total of interest cost expensed and capitalized approximates interest paid.

The System maintains a revolving credit agreement for purposes of working capital support or capital asset acquisition. This revolving credit agreement has a commitment amount of $200.0 million and is secured by the Master Indenture. No amounts were outstanding under the revolving credit agreement as of September 30, 2023 and 2022.

9. Leases

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

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

	2023	2022
Operating lease assets	**$ 184,456**	$ 136,742
Accounts payable and accrued expenses	**(33,919)**	(25,555)
Operating lease liabilities, less current portion	**(160,436)**	(120,779)
Total operating lease liabilities	**$ (194,355)**	$ (146,334)
Finance leases		
Property and equipment, net	**$ 277,979**	$ 151,594
Current portion of long-term debt and lease obligations	**(22,407)**	(11,848)
Long-term debt, less current portion	**(388,145)**	(147,786)
Total finance lease liabilities	**$ (410,552)**	$ (159,634)

9. Leases (continued)

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

	2023	2022
Operating lease cost	**$ 32,687**	$ 30,164
Variable lease cost	**6,932**	5,699
Finance lease cost:		
Interest on lease liabilities	**6,909**	2,576
Amortization of right-of-use-asset	**17,079**	13,314
Total lease expense	**$ 63,607**	$ 51,753

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

	2023	
	Operating Leases	**Finance Leases**
Weighted-average remaining lease term (in years)	**7.84**	**15.54**
Weighted-average discount rate	**2.55%**	**4.53%**

	2022	
	Operating Leases	**Finance Leases**
Weighted-average remaining lease term (in years)	7.64	17.81
Weighted-average discount rate	1.59%	1.79%

9. Leases (continued)

The following table summarizes the maturity of lease liabilities under operating and finance leases for each of the next five years and thereafter, as of September 30, 2023 (in thousands):

	Operating Leases	Finance Leases	Total
2024	$ 37,666	$ 38,405	$ 76,071
2025	34,111	36,353	70,464
2026	30,905	35,663	66,568
2027	24,050	34,087	58,137
2028	20,606	31,080	51,686
Thereafter	67,454	437,676	505,130
Total lease payments	214,792	613,264	828,056
Less: amount of lease payments representing interest	(20,437)	(202,172)	(233,149)
Present value of future lease obligations	194,355	410,552	604,097
Less: current portion of lease obligations	(33,919)	(22,407)	(56,326)
Long-term lease obligations	$ 160,436	$ 388,145	$ 548,581

Supplemental cash flow information related to leases for the year ended September 30, 2023 is as follows:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	**$ 30,092**
Financing cash flows from financing leases	**7,273**
Lease assets obtained in exchange for new operating lease liabilities	**73,372**
Lease assets obtained in exchange for new financing lease liabilities	**277,676**

Supplemental cash flow information related to leases for the year ended September 30, 2022 is as follows (in thousands):

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 30,164
Financing cash flows from financing leases	13,346
Lease assets obtained in exchange for new operating lease liabilities	3,285
Lease assets obtained in exchange for new financing lease liabilities	16,821

10. Employee Retirement Plans

The System has defined contribution retirement plans. Certain employees of the System are eligible to participate in 401(a) and 403(b) plans, and certain Physician Associates, LLC employees are eligible to participate in a 401(k) plan. Most plan participants may elect to contribute up to the lesser of $22,500 or 50% of their annual compensation. For most plan participants, the System will match the first 2% of the participants' contribution plus 50% of the participants' contributions up to 8% or 10% of the participants' compensation, based on years of service. The System's expense under the employee retirement plans amounted to approximately $83.7 million and $74.4 million for the years ended September 30, 2023 and 2022, respectively. The System maintains deferred compensation plans for key management or highly compensated employees. The plans are intended to be nonqualified and unfunded and provide for the deferral of salary, as well as additional discretionary system matching contributions.

11. Malpractice Insurance

The System is self-insured for medical malpractice risk not covered under a commercial malpractice policy. Losses are accrued based on estimates provided by an independent actuary, and are based on actuarial assumptions that incorporate the System's past experience and other considerations, including the nature of each claim or incident, and relevant trends. Claims above the self-insured retention are insured on a claims-made coverage that is placed with Healthcare Captive. Healthcare Captive has purchased reinsurance through commercial insurers for the excess limits of coverage. The accrued liability for self-insured claims amounted to approximately $177.0 million and $174.3 million at September 30, 2023 and 2022, respectively, of which approximately $26.5 million and $26.1 million, respectively, are included in other current liabilities. The System has on deposit, in a revocable trust, cash and investments totaling approximately $18.1 million and $16.9 million at September 30, 2023 and 2022, respectively, to be used for the payment of self-insured claims in the future. The System does not have any claims that are discounted.

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

12. Commitments

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

13. Business Combinations

During 2023, the System acquired a hospital, a multispecialty group and an ambulatory surgery center. The acquisitions expand the System's geographic reach and provides more integrated and coordinated patient care.

In accordance with ASC 958-805, the System recognized the fair values of the assets acquired and liabilities assumed and recognized goodwill associated with the business combinations of approximately $181.6 million. The fair values assigned are summarized as follows (in thousands):

Consideration transferred	$ 263,580
Total	$ 263,580
Fair values of assets acquired and liabilities assumed:	
Other current assets	$ 12,871
Property and equipment	295,710
Other noncurrent assets	156,395
Accounts payable and other current liabilities	(12,823)
Other noncurrent liabilities	(188,573)
	$ –

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

13. Business Combinations (continued)

The following table summarizes amounts attributable to the System from the acquisition date through September 30, 2023 that are included in the accompanying 2023 consolidated statement of operations and changes in net assets (in thousands):

Total revenues and other support without donor restrictions	$ 82,677
Total expenses	100,975
Loss from operations	(18,298)
Nonoperating gains, net	–
Deficit of revenues, other support, and gains over expenses and losses	$ (18,298)
Change in net assets:	
Without donor restrictions	$ (18,298)
With donor restrictions	–
Total change in net assets	$ (18,298)

14. Functional Expenses

The System's primary activities involve providing general health care services to its patients. The consolidated financial statements present certain expenses that are attributed to more than one program or supporting function; therefore, expenses require allocation on a reasonable basis that is consistently applied. Benefits and payroll taxes are allocated based on factors of either salary expense or hours worked. Overhead costs that include information technology, marketing, finance, administrative and other similar expenses are allocated based on budget. Costs related to space, including occupancy, depreciation and amortization, and property taxes, are allocated on a square footage basis. Expenses related to providing these services for the years ended September 30 are as follows (in thousands):

	2023		
	Health Care Services	**General and Administrative**	**Total**
Salaries and benefits	**$ 2,252,476**	**$ 668,603**	**$ 2,921,079**
Supplies	**1,176,667**	**71,630**	**1,248,297**
Other expenses	**767,646**	**266,458**	**1,034,104**
Depreciation and amortization	**222,110**	**102,093**	**324,203**
Interest	**65,536**	**4,163**	**69,699**
Total expenses	**$ 4,484,435**	**$ 1,112,947**	**$ 5,597,382**

	2022		
	Health Care Services	**General and Administrative**	**Total**
Salaries and benefits	$ 1,948,769	$ 613,846	$ 2,562,616
Supplies	984,298	70,572	1,054,870
Other expenses	625,715	252,107	877,822
Depreciation and amortization	189,229	73,408	262,637
Interest	58,618	7,070	65,688
Total expenses	$ 3,806,629	$ 1,017,003	$ 4,823,633

15. Liquidity

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

	2023	2022
Cash and cash equivalents	**$ 939,923**	$ 818,980
Accounts receivable	**639,138**	551,970
Other receivables	**314,465**	218,956
Long-term investments – without donor restrictions	**2,478,759**	2,106,916
	$ 4,372,285	$ 3,696,822

The System has the ability to structure certain of its financial assets to be available as its general expenditures and other obligations come due. As described in Note 2, long-term investments – without donor restrictions are classified as such based on management's intent and ability to hold or reinvest the investments on a long-term basis. However, these investments do not have any liquidity restrictions and can be made available for general expenditure within one year and are therefore reflected in the amounts above. The System has certain assets limited to use for various purposes as more fully described in Note 2. These assets limited as to use are not available for general expenditure within the next year and are not reflected in the amounts above.

16. Subsequent Events

In preparing these consolidated financial statements, the System has evaluated events and transactions for potential recognition and disclosure through December 1, 2023, the date the consolidated financial statements were available to be issued.

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SINGLE AUDIT AND OTHER COMPLIANCE REPORTS

Orlando Health, Inc. and Subsidiaries
Year Ended September 30, 2023
With Report of Independent Auditors

Ernst & Young LLP



Orlando Health, Inc. and Subsidiaries

Single Audit and Other Compliance Reports

Year Ended September 30, 2023

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Orlando Health, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards and State Financial Assistance Projects

Year Ended September 30, 2023

Federal/State Agency Federal Program/State Project	Assistance Listing/CSFA Number	Additional Award Identification	Contract/Grant Number/ Pass-Through Entity Identifying Number	Expenditures	Amount Provided to Subrecipients
Federal financial assistance					
U.S. Department of Health and Human Services					
Direct:					
Maternal and Child Health Federal Consolidated Programs	93.110		1 H17MC48967-01-00/H1748967	$ 21,788	$ –
Pass-through program from:					
Hemophilia of Georgia Inc.					
Maternal and Child Health Federal Consolidated Programs	93.110		2 H30MC24046-11-00 5 H30MC24046-12-00	5,000	–
Total Maternal and Child Health Federal Consolidated Programs				26,788	–
COVID-19-Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498	COVID-19		10,065,132	–
Pass-through program from:					
Hemophilia of Georgia Inc.					
Blood Disorder Program: Prevention. Surveillance and Research	93.080		NU27DD000020-03-00	25,942	–
Florida Association of Healthy Start Coalitions. Inc:					
Maternal, Infant, and Early Childhood Home Visiting Grant	93.870		1-MIECHV-2223 ORHLTH, Amendment #01 X10MC33573/X11MC41906	475,392	–
Ounce of Prevention Fund of Florida:					
MaryLee Allen Promoting Safe and Stable Families Program	93.556		HF#20-25-03, Amendment #2/HFF ORANGE/OSCEOLA #20-25-03	312,021	–
Temporary Assistance for Needy Families	93.558		HF# 20-25-03 Amendment #2/HFF ORANGE/OSCEOLA #20-25-03	571,215	–
Embrace Families:					
Temporary Assistance for Needy Families	93.558		OROSO019-2223/OROS019-2324	28,577	–
Total Temporary Assistance for Needy Families				599,792	–
Embrace Families:					
Foster Care Title IV-E	93.658		OROS019-2223/OROS019-2324	24,373	–
Central Florida Cares Health System:					
Block Grants for Community Mental Health Services	93.958		ORH23 – Amendment 2, Amendment 4 MH000	21,140	–
Orange County Government Florida Health Services Division:					
Ending the HIV Epidemic: A Plan for America Ryan White HIV/AIDS Program Parts A and B	93.686		1 UT8HA339520100	78,499	–
State of Florida. Department of Health:					
Social Services Block Grant	93.667		CP17A Amendment #5/CP1OS #A2	499,267	–
Maternal and Child Health Services Block Grant to the States	93.994		COQWL #R1A4	109,875	–

Orlando Health, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards and State Financial Assistance Projects (continued)

Federal/State Agency Federal Program/State Project	Assistance Listing/CSFA Number	Additional Award Identification	Contract/Grant Number/ Pass-Through Entity Identifying Number	Expenditures	Amount Provided to Subrecipients
Federal financial assistance (continued)					
Research and Development Cluster					
Direct:					
Department of Health and Human Services:					
Community Programs to Improve Minority Health Grant Program	93.137		5 CPIMP201197-03-00	$ 292,096	$ 166,874
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		5R01NS057676-09	739,991	112,948
Pass-through program from:					
Emory University:					
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		5U24NS100673-05	3,056	–
University of Utah:					
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		1U01NS107486-01A1	9,143	–
Virginia Commonwealth University:					
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		2U24NS100673-06	5,380	–
Total Extramural Research Programs in the Neurosciences and Neurological Disorders				757,570	279,822
National Institute of Nursing Research					
Nursing Research	93.361		1R0INR020003-01A1 5R0INR020003-02	7,517	–
Northwestern University					
Diabetes, Digestive and Kidney Diseases Extramural Research	93.847		1U01DK134321-01	9,900	–
The Regents of the University of California:					
Diabetes, Digestive and Kidney Diseases Extramural Research	93.847		5U01DK122013-03	7,785	–
Total Diabetes, Digestive and Kidney Diseases Extramural Research				17,685	–
NRG Oncology Foundation (formerly NSABP):					
Cancer Treatment Research	93.395		5U10CA180868-09 5U10CA180868-10	23,750	–
Total Research and Development Cluster				1,098,618	279,822
Total U.S. Department of Health and Human Services				13,336,839	279,822

Orlando Health, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards and State Financial Assistance Projects (continued)

Federal/State Agency Federal Program/State Project	Assistance Listing/CSFA Number	Additional Award Identification	Contract/Grant Number/ Pass-Through Entity Identifying Number	Expenditures	Amount Provided to Subrecipients
Federal financial assistance (continued)					
U.S. Department of Labor					
Pass-through program from:					
Career Source Central Florida					
WIOA National Dislocated Worker Grants	17.277		NFA039433	$ 45,575	$ –
Total U.S. Department of Labor				45,575	–
U.S. Department of Justice					
Pass-through program from:					
State of Florida Office of the Attorney General:					
Crime Victim Assistance	16.575		VOCA-2022-833	931,332	–
Total U.S. Department of Justice				931,332	–
U.S. Department of Education					
Pass-through program from:					
State of Florida Department of Health:					
Special Education – Grants for Infants and Families	84.181		COQZC Amendment #R1A3 Amendment R1A4 H181A170099	2,178,132	–
Total Department of Education				2,178,132	279,822
Total Federal Financial Assistance				$ 16,491,878	$ 279,822
State financial assistance					
State of Florida, Department of Health					
Medical Services for Abused and Neglected Children	64.006		CP17A Amendment #5 / CP1OS #A2 G-1901FLSOSR	$ 2,036,638	$ –
Trauma Center Financial Support	64.075		TRA14/TRA03	741,429	–
Children's Special Health Care – Developmental Evaluation	64.022		COQZC Amendment #R1A3 Amendment RIA4	3,234,323	–
Minority Health Initiatives	64.052		CMO65	1,954,432	1,123,528
Children's Special Health Care	64.076		COQXP Amendment #1 H181A170099	97,408	–
Florida Association of Free and Charitable Clinics	64.136		2022-99	73,493	–
Pass-through program from the University of Central Florida:					
James and Esther King Biomedical Research Program	64.041		20K04	27,229	–
Total State of Florida, Department of Health				8,164,952	1,123,528

Orlando Health, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards and State Financial Assistance Projects (continued)

Federal/State Agency Federal Program/State Project	Assistance Listing/CSFA Number	Additional Award Identification	Contract/Grant Number/ Pass-Through Entity Identifying Number	Expenditures	Amount Provided to Subrecipients
Florida Department of Elder Affairs					
Alzheimer Interventions, Memory Disorder Clinics, Brain Banks and Alzheimer Special Projects	65.002		XZK22 – Amendment #4	$ 350,598	$ –
Department of Legal Affairs & Attorney General					
Florida Network of Children's Advocacy Centers	41.031		21/22-GR-CAC14 22/23-GR-CAC14	282,026	–
Department of Children and Families					
Florida Network Children's Advocacy Center	60.124		21-22-DCF-CAC-14 22-23-DCF-CAC-14	4,616	–
Pass-through program from Embrace Families: Out-of-Home Supports	60.074		OROS019-2122/OROS019-2223	9,680	–
Department of Highway Safety and Motor Vehicles					
Child Abuse Prevention and Intervention License Plate Project	76.067		21-22-LPVC-CAC-14/22-23-LPVC-CAC-14	3,095	–
Florida Network of Children's Advocacy Center Voluntary Contribution	76.123		21-22-LPVC-CAC-14/22-23-LPVC-CAC-14	830	–
Total state project expenditures				8,815,797	–
Total federal and state assistance				$ 25,307,675	$ 1,403,350

See accompanying notes.

Orlando Health, Inc. and Subsidiaries

Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance Projects

September 30, 2023

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance (the Schedule) includes the federal awards programs and state financial assistance project activity of Orlando Health, Inc. and Subsidiaries (the System) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the reporting and compliance requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the Florida Single Audit Act (Section 215.97, *Florida Statutes*), and the State of Florida Department of Financial Services, Chapter 691-5, *Florida Administrative Code, State Financial Assistance,* and Chapter 10.650, *Rules of the Auditor General.*

2. Reporting Entity

The Uniform Guidance, Section 215.97, *Florida Statutes,* and Chapter 10.650, *Rules of the Auditor General*, set forth the audit and reporting requirements for federal awards and state financial assistance. The accompanying Schedule includes all federal and state awards expended by the System during the year ended September 30, 2023.

3. Indirect Cost Rate

The System did not use the 10% de minimis indirect cost rate allowed by the Uniform Guidance.

4. Contingency

Grant and project expenditures are subject to audit and adjustment. If any expenditures were to be disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agency could become a liability of the System. In the opinion of management, all grant and project expenditures included in the Schedule are in compliance with the terms of the grant and project agreements and applicable federal and state laws and regulations.

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

The Schedule of Expenditures of Federal Awards (Schedule) includes $10,065,132 received from the U.S. Department of Health and Human Services (HHS) between October 1, 2021 and September 30, 2022, under the Provider Relief Fund (PRF) program of Assistance Listing No. 93.498. In accordance with guidance from HHS, these amounts are presented as Period 4 in the HHS PRF Reporting Portal. This amount was recognized as federal CARES Act funding revenue in the System's consolidated financial statements on the consolidated statement of operations and changes in net assets for the year ended September 30, 2022. Due to the PRF Reporting Portal requirements, this amount is not the total PRF received and/or recognized by the System as federal CARES Act funding in Orlando Health, Inc.'s consolidated financial statements for the year ended September 30, 2023.

The amount presented on the Schedule for PRF is for the fiscal year ended September 30, 2023. The amount presented reconciles to the PRF information reported to HHS as follows:

Name of Reporting Entity for HHS Reporting Period 4 Provider Relief Fund Report	Reporting Entity Tax Identification Number (TIN)	Type of Distribution	Total Other Provider Relief Fund Expenses Reported	Total Lost Revenues Reported	Total
Orlando Health, Inc.	591726273	General	$ –	$ 5,592,897	$ 5,592,897
Orlando Health, Inc.	591726273	ARP	–	832,599	832,599
Orlando Health – Health Central Hospital	800764192	General	–	939,228	939,228
Orlando Health – Health Central Hospital	800764192	ARP	–	127,523	127,523
Orlando Health Southlake Hospital	593322533	General	–	2,329,137	2,329,137
Orlando Health Southlake Hospital	593322533	ARP	–	243,748	243,748
			$ –	$ 10,065,132	$ 10,065,132

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

Management and the Board of Directors
Orlando Health, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States *(Government Auditing Standards)*. the consolidated financial statements of Orlando Health, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheet as of September 30, 2023, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"), and have issued our report thereon dated December 1, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

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Report on Compliance and Other Matters

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

Purpose of This Report

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

Ernst & Young LLP

December 1, 2023

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Report of Independent Auditors on Compliance for Each Major Federal Program and State Financial Assistance Project; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards and State Financial Assistance Projects Required by the Uniform Guidance and Chapter 10.650, *Rules of the Auditor General*

Management and the Board of Directors
Orlando Health, Inc.

Report of Independent Auditors on Compliance for Each Major Federal Program and State Financial Assistance Project

Opinion on Each Major Federal Program and State Financial Assistance Project

We have audited Orlando Health, Inc. and Subsidiaries' (the System) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* and the Department of Financial Services State Compliance Supplement that could have a direct and material effect on each of the System's major federal programs and state financial assistance projects for the year ended September 30, 2023. The System's major federal programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state financial assistance projects for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal Program and State Financial Assistance Project

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.650, *Rules of the Auditor General* (Chapter 10.650). Our responsibilities under those standards, the Uniform Guidance, and Chapter 10.650 are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the System's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and Chapter 10.650 will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the System's compliance with the requirements of each major federal program and state financial assistance project as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and Chapter 10.650, we:

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

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

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- Obtain an understanding of the System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Chapter 10.650. Accordingly, this report is not suitable for any other purpose.

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Report on Schedule of Expenditures of Federal Awards and State Financial Assistance Projects Required by the Uniform Guidance and Chapter 10.650

We have audited the consolidated financial statements of the System as of and for the year ended September 30, 2023, and have issued our report thereon dated December 1, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the System's audited consolidated financial statements subsequent to December 1, 2023. The accompanying schedule of expenditures of federal awards and state financial assistance projects is presented for purposes of additional analysis as required by the Uniform Guidance and Chapter 10.650 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state financial assistance projects is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

January 17, 2024

A member firm of Ernst & Young Global Limited

Orlando Health, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs

Year Ended September 30, 2023

Section I – Summary of Auditor's Results

Consolidated Financial Statements

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

Federal and State Awards

Internal control over major federal programs and state projects:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified?	____ Yes	X None reported
Type of auditor's report issued on compliance for major federal programs and state projects:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) or Chapter 10.650, *Rules of the Auditor General*?	____ Yes	X No

Section I – Summary of Auditor's Results (continued)

Identification of major federal programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
16.575	Crime Victim Assistance
93.498	COVID-19-Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Identification of major state projects:

CSFA Number	Name of State Program
64.006	Medical Services for Abused and Neglected Children
64.052	Minority Health Initiatives
64.075	Trauma Center Financial Support

Dollar threshold used to distinguish between Type A and Type B programs:	Federal awards:	$ 750,000
	State projects:	$ 750,000

Auditee qualified as low-risk auditee for federal purposes? ____ Yes ___X___ No

Section II – Financial Statement Findings

No matters were identified.

Section III – Federal Award and State Project Findings and Questioned Costs

No matters were identified.

Section IV – Management Letter and Summary Schedule of Prior Audit Findings

No matters noted. A summary schedule of prior audit findings is not presented as there were no prior audit findings in either of the prior two years to be reported on.

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