Miami Children's Health System, Inc. d/b/a Nicklaus Children's Health System and Subsidiaries

Consolidated Financial and Compliance Report
December 31, 2022 and 2021

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
Miami Children's Health System, Inc. d/b/a Nicklaus Children's Health System and Subsidiaries

Report on the Audit of the Financial Statements

Opinion
We have audited the consolidated financial statements of Miami Children's Health System, Inc. d/b/a Nicklaus Children's Health System and Subsidiaries (the System), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the System as of December 31, 2022 and 2021, and the results of their operations and their 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 (Government Auditing Standards),* issued by the Comptroller General of the United States. 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 from 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 within one year after the date that the financial statements are issued.

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 from 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 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 to solely 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.

RSM US LLP

Miami, Florida
April 20, 2023

Nicklaus Children's Health System and Subsidiaries

Consolidated Balance Sheets
December 31, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	$ 91,514,923	$ 64,492,604
Patient accounts receivable	105,963,761	93,642,513
Direct payment program receivable	148,520,942	147,463,428
Current portion of assets limited as to use	17,664,819	21,497,019
Other current receivables	23,317,546	14,996,393
Inventories	12,847,199	12,075,409
Prepaid expenses	8,252,277	10,326,944
Total current assets	408,081,467	364,494,310
Assets limited as to use:		
Self insurance funding arrangement held by trustee	36,957,409	43,330,371
Restricted investments	24,235,449	6,103,602
Bond indenture agreements held by trustee	158,858,555	172,019,305
	220,051,413	221,453,278
Pledges receivable, net	28,654,683	15,279,116
Total assets limited as to use, net of current portion	248,706,096	236,732,394
Investments	469,193,663	491,078,018
Note receivable	1,361,150	967,513
Investments in joint ventures	5,928,181	817,647
Property and equipment, net	407,903,666	392,996,875
Assets held for sale, net	-	60,000,000
Operating lease right of use assets, net	48,090,573	36,869,145
Other long-term assets	14,945,809	15,800,544
Total assets	$ 1,604,210,605	$ 1,599,756,446

(Continued)

Nicklaus Children's Health System and Subsidiaries

Consolidated Balance Sheets (Continued)
December 31, 2022 and 2021

	2022	2021
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 181,122,190**	$ 165,231,539
Current portion of liability for self-insurance	**22,879,919**	26,284,320
Current portion of bonds payable	**8,885,000**	11,010,000
Current portion of operating lease liabilities	**9,917,106**	10,075,015
Total current liabilities	**222,804,215**	212,600,874
Liability for self-insurance, net of current portion	**68,996,933**	57,041,825
Fair value of swap agreements	**5,537,063**	32,794,501
Long-term portion of bonds payable	**470,195,399**	481,075,009
Other long-term liabilities	**1,969,358**	2,560,204
Operating lease liabilities, less current portion	**45,079,466**	35,307,317
Total liabilities	**814,582,434**	821,379,730
Net assets:		
Net assets without donor restrictions:		
Nicklaus Children's Health System and Subsidiaries	**648,304,542**	654,510,196
Noncontrolling interest in subsidiary	**3,422,689**	5,416,925
Total net assets without donor restrictions	**651,727,231**	659,927,121
Net assets with donor restrictions	**137,900,940**	118,449,595
Total net assets	**789,628,171**	778,376,716
Total liabilities and net assets	**$ 1,604,210,605**	$ 1,599,756,446

See notes to consolidated financial statements.

Nicklaus Children's Health System and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2022 and 2021

	2022	2021
Revenues, gains and other support:		
Net patient service revenue	$ 867,834,867	$ 793,617,202
Grant, contribution and other revenue	39,740,530	41,763,808
Investment income and realized gains, net	17,376,410	30,389,944
Net assets released from restrictions used for operations	7,657,035	7,432,406
Total revenues, gains and other support	932,608,842	873,203,360
Operating expenses:		
Salaries and benefits	485,121,843	417,935,068
Medical fees	10,784,274	7,004,448
Supplies	91,041,828	82,964,640
Purchased services	87,353,370	68,868,994
Depreciation and amortization	38,921,721	51,206,454
Repairs and maintenance	16,143,852	14,375,888
Equipment rental and facility costs	26,674,497	24,943,162
Malpractice and other insurance	22,242,193	21,898,925
Interest	7,261,656	9,919,679
Advertising	6,587,342	6,336,600
Other	85,661,549	78,329,628
Total expenses	877,794,125	783,783,486
Income from continuing operations before discontinued operations	54,814,717	89,419,874
Gain on discontinued operations	155,449	20,292,680
Income from operations before nonoperating activities	54,970,166	109,712,554
Net unrealized (loss) gains on investments	(78,299,993)	9,583,862
Net payments on swap agreements	(2,973,233)	(4,550,208)
Gain on net change in fair value of swap agreements	27,257,438	9,574,592
Partial termination of interest rate swap	(5,875,000)	-
TMMC expense, net	-	(3,405,044)
Loss on impairment of TMMC	(924,035)	(32,550,672)
Loss on advance refunding	-	(7,973,147)
Other non-operating income	473,631	-
Revenues (under) over expenses	(5,371,026)	80,391,937
Excess of revenues under expenses attributable to noncontrolling interest in subsidiary	(1,607,234)	(336,427)
Revenues (under) over expenses attributable to Nicklaus Children's Health System and Subsidiaries	$ (6,978,260)	$ 80,055,510

(Continued)

Nicklaus Children's Health System and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended December 31, 2022 and 2021

	2022	2021
Changes in net assets without donor restrictions:		
Revenues (under) over expenses attributable to Nicklaus Children's Health System and Subsidiaries	**$ (6,978,260)**	$ 80,055,510
Distribution to noncontrolling interest	**(3,652,365)**	(4,789,451)
Gain on discontinued operations attributable to noncontrolling interest	**51,817**	6,764,227
Revenues over expenses attributable to noncontrolling interest	**1,607,234**	336,427
Net assets released from restrictions used for property and equipment	**771,684**	184,688
(Decrease) increase in net assets without donor restrictions	**(8,199,890)**	82,551,401
Changes in net assets with donor restrictions:		
Contributions to the Foundation	**32,932,927**	20,700,466
Change in value of charitable remainder trusts held by others	**(263,604)**	226,752
Net assets released from restrictions used for operations	**(7,657,035)**	(7,432,406)
Net assets released from restrictions used for property and equipment	**(771,684)**	(184,688)
Net unrealized (loss) gain on investments with donor restrictions	**(4,789,259)**	3,571,535
Increase in net assets with donor restrictions	**19,451,345**	16,881,659
Increase in net assets	**11,251,455**	99,433,060
Net assets at beginning of year	**778,376,716**	678,943,656
Net assets at end of year	**$ 789,628,171**	$ 778,376,716

See notes to consolidated financial statements.

Nicklaus Children’s Health System and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Increase in net assets	$ 11,251,455	$ 99,433,060
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in net unrealized loss (gains) on investments	78,299,993	(9,583,862)
Change in fair value of swap agreements	(27,257,438)	(9,574,592)
Loss on impairment of TMMC	924,035	32,550,672
Loss (gain) on disposals	128,418	(80,498)
Depreciation and amortization	38,921,721	51,206,454
Amortization of operating lease right-of-use assets	(1,607,188)	(1,545,187)
Change in value of charitable remainder trusts	263,604	(226,752)
Net realized losses (gains) on sales of unrestricted investments	1,706,099	(18,613,411)
Amortization of premium / discount	(2,242,186)	(942,203)
Restricted contributions	(45,153,212)	(23,393,176)
Gain on discontinued operations	(155,449)	(20,292,680)
Loss on advanced refunding of bond payable	-	7,973,147
Changes in operating assets	(15,988,615)	(187,075,470)
Changes in operating liabilities	2,375,176	61,537,255
Net cash provided by (used in) operating activities	41,466,413	(18,627,243)
Cash flows from investing activities:		
Purchase of property and equipment	(58,308,241)	(24,036,256)
Purchase of investments	(87,367,392)	(142,379,130)
Sale of TMMC	56,209,145	-
Proceeds from sales and maturities of investments	59,063,482	102,965,686
TMMC expense, net	-	(3,405,044)
Notes receivable	(393,637)	(69,302)
Investments in joint ventures	(5,110,534)	-
Net cash used in investing activities	(35,907,177)	(66,924,046)
Cash flows from financing activities:		
Repayment of bonds payable	(10,762,424)	(105,114,928)
Payment of bond financing charges	-	(2,465,983)
Proceeds from issuance of bond payable	-	277,166,567
Partial termination of interest rate swap	5,875,000	-
Proceeds from restricted contributions	31,777,645	18,990,127
Net cash provided by financing activities	26,890,221	188,575,783
Net increase in cash and cash equivalents, and restricted cash	32,449,457	103,024,494
Cash and cash equivalents, and restricted cash at beginning of year	238,290,185	135,265,691
Cash and cash equivalents, and restricted cash at end of year	$ 270,739,642	$ 238,290,185
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 10,445,551	$ 16,196,885
In-kind contributions	$ 1,752,496	$ 2,181,627
Purchases of property and equipment included in accounts payable	$ 6,977,877	$ 2,626,567

See notes to consolidated financial statements.

Note 1. Organization

The consolidated financial statements of Miami Children's Health System, Inc. d/b/a Nicklaus Children's Health System and Subsidiaries (the System) include the following operations:

- The System is a nonprofit organization formed as a holding company for Variety Children's Hospital d/b/a Nicklaus Children's Hospital and Subsidiaries (the Hospital). Additionally, the System facilitates partnerships with private physicians and explores other revenue opportunities. The System includes a regional pediatric network anchored by the Hospital, located in Miami-Dade County, Florida. The Hospital is complemented by a network of ambulatory centers and pediatric care clinics located throughout South Florida, primarily in Miami-Dade, Broward and Palm Beach counties.

- The Hospital is a nonprofit organization that was formed to provide pediatric health care services. The Hospital is licensed to operate a 309-bed facility and is a subsidiary of the System.

- Nicklaus Children's Pediatric Specialists, LLC (NCPS) is a single member Limited Liability Company formed to support the physician practices deemed necessary by the Hospital. NCPS is a subsidiary of the System.

- Nicklaus Children's Hospital Foundation, LLC (Foundation) is a single member Limited Liability Company formed to raise funds and support the Hospital and other related organizations. The Foundation is a subsidiary of the System.

- Children's Health Ventures, Inc. (CHV) is a for-profit financial holding company created to enter into joint ventures to access new markets and provide revenue opportunities. CHV is a subsidiary of the System.

- Miami Children's Health Plan, LLC (the Health Plan) is a limited liability company formed with an independent third party. The Health Plan operated as a licensed Florida Medicaid provider and was a subsidiary of the Hospital, which owned 75% of member units. In April 2021, the Hospital sold the health plan membership and recorded the sale transaction and all operations within gain on discontinued operations in the consolidated statements of operations and changes in net assets. (see Note 17). The final accounting of the health plan is in wind-down and is anticipated to be completed during 2023.

- Miami Children's Insurance SPC, Limited (the Captive) was formed in the Cayman Islands to access professional liability insurance markets. The Captive is a subsidiary of the Hospital.

- Miami Children's Hospital Ambulatory Surgery Center, LLC (MCH ASC) is a limited liability company which operates an ambulatory surgery center at Florida International University. MCH ASC is a subsidiary of the Hospital, which owns 52.2%.

All significant intercompany balances and transactions have been eliminated in consolidation.

Note 2. Summary of Significant Accounting Policies

Basis of presentation: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Revenues, gains and other support are generally recognized when services are provided. Expenses are recognized when incurred.

Use of estimates: The preparation of the accompanying consolidated financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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. The System considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient revenues; valuation of net accounts receivable, losses and expenses related to health care, professional and general liabilities, claims payable and estimated third-party payor settlements. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ from these estimates.

Cash and cash equivalents: Cash and cash equivalents include investments with maturity of three months or less when purchased, excluding amounts whose use is limited. In addition, highly liquid investments that are readily convertible to cash with an original maturity of three months or less when purchased are also shown as cash and cash equivalents.

Patient accounts receivable: Accounts receivable for medical services are stated at the estimated transaction price. The System estimates the collectability of an implicit price concession based on historical write-offs and the aging of the accounts. Accounts are written off when collection efforts have been exhausted.

Concentration of credit risk: The System maintains its cash and cash equivalents with several financial institutions. All accounts at these financial institutions are insured to the limits established by the Federal Deposit Insurance Corporation, per bank. The System has cash deposits that exceed the federally insured amounts. Management does not anticipate nonperformance by the financial institutions.

The System grants credit without collateral to its patients. The mix of net receivables from patients and third-party payors, which approximated $105,964,000 and $93,643,000 as of December 31, is as follows:

	2022	2021
Medicaid and Medicaid HMO	42%	44%
Commercial	38%	32%
Self pay and other	20%	24%
	100%	100%

Note 2. Summary of Significant Accounting Policies (Continued)

Inventories: Inventories, consisting primarily of medical supplies and drugs, are stated at the lower of cost (as determined by the average cost method) or net realizable value.

Investments (including assets limited as to use): Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included within revenues over expenses, unless the income or loss is restricted by donor or law. Unrealized gains and losses are recognized in non-operating income for trading securities. The System has elected to treat all of its investments, other than the alternative investments, as trading securities. Investments that are not available for current operations as a result of contractual obligations or for other reasons are not included in current assets.

Assets limited as to use include investments held by trustees under bond indenture agreements, self-insurance trust arrangements and investments with donor restrictions.

The System has elected the fair value option prescribed by Accounting Standards Codification (ASC) Topic 825-10, Financial Instruments—Overall, for investments in investment funds which might otherwise qualify for the cost method or equity method of accounting and ASC Topic 958, Accounting for Certain Investments Held by Not-for-Profit Organizations. Management of the System believes that presenting these investments at fair value provides for better indication of the System's financial position as of each reporting date. As of December 31, 2022 and 2021, the System held approximately $143,762,000 and $156,310,000, respectively, of alternative investment funds. As a practical expedient, the System is permitted to report investments that do not have a readily available fair value, based on the net asset value (NAV), or its equivalent, such as ownership interest in the alternative investment funds as of the reporting date, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. In using the NAV as a practical expedient, certain attributes of the investment that may affect the fair value of the investment are not considered in measuring fair value. Attributes of those investments include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitments and the investment strategies of the investees. The System has elected to use the NAV to report the fair value of the alternative investment funds, based on the fair values as reported by the related investment managers to the System.

Bond issuance costs: Bond issuance costs relating to hospital revenue bonds are amortized to operations over the term of the related financing agreement using the effective-interest method. Amortization of bond issuance costs is included in depreciation and amortization expense in the accompanying consolidated statements of operations and changes in net assets. Bond issuance costs are included in the consolidated balance sheets within the long-term portion of bonds payable.

Property and equipment: Property and equipment acquisitions are recorded at cost if purchased or fair value if donated. Expenditures that materially increase values, change capacities or extend useful lives are capitalized. Depreciation is recorded over the estimated useful life of each class of depreciable asset (which ranges from approximately 10 to 40 years for buildings and 3 to 10 years for furniture, fixtures and equipment), except works of art, which are not depreciated, and is computed using the straight-line method.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. During 2022 and 2021, the System capitalized approximately $7,350,000 and $2,137,000 of interest expense, respectively.

Note 2. Summary of Significant Accounting Policies (Continued)

Gifts of long-lived assets such as land, buildings, equipment or works of art are reported at fair value at the date of donation as unrestricted support and are excluded from revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are transferred from restricted to unrestricted when the donated or acquired long-lived assets are placed in service.

Assets held for sale: In the normal course of business, the System continually evaluates the performance of its operating assets, with an emphasis on selling or closing underperforming or non-strategic assets. These assets are evaluated to determine whether they represent assets held for sale or assets held and used. The assets and liabilities of a disposal group classified as held for sale shall be presented separately in the asset and liability sections, respectively, of the consolidated balance sheets in the period in which they are identified. Assets held for sale that qualify as discontinued operations are removed from the results of continuing operations. During the year ended December 31, 2021, the System identified a disposal group of The Miami Medical Center (TMMC) assets that qualified as assets held for sale but did not meet the criteria as a discontinued operation. The sale of TMMC was completed during 2022 (see Note 5).

Other long-term assets, donor restricted: The System is the beneficiary of one irrevocable charitable remainder trust. Assets, which consist of investment accounts held in the trust's name, are released from donor restrictions by the occurrence of time or events specified by the donor. The System's interest in the charitable remainder trust is recorded at fair value and included in other long-term assets on the accompanying consolidated balance sheets. Changes in the fair value are recorded as changes in donor restricted net assets.

Impairment of long-lived assets: The System evaluates long-lived assets regularly for impairment whenever adverse events or changes in circumstances or business climate indicate that expected future cash flows may not be sufficient to support the recorded asset. If circumstances suggest that an asset may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those asset groups for which the estimated fair value is below its carrying amount. The System has concluded no significant impairment of long-lived assets existed as of December 31, 2022 and 2021, with the exception of the TMMC impairment (see Note 5).

Claims payable—Health Plan: The costs of medical and professional services provided to enrollees served under contract are recognized in the period that the services are rendered. A provision has been made for claims in process of review and for claims incurred but not yet reported to the Health Plan. All actual paid amounts are reported using claims data provided by the Health Plan, incurred up to the date of the sale of the Health Plan membership in April 2021.

Incurred but not reported (IBNR) estimates for all service categories are developed utilizing a blend of the medical loss ratio (MLR) method and lag method. The MLR method computes the average medical incurred estimate by applying an estimated proportion of medical expenses and estimated MLR to expected revenue. The MLR method uses an assumed MLR to estimate reserves based on real-time membership mix and revenue. The lag method utilizes claim lag triangles to model expected payments made from one month to the next. Expected claim payments are developed by computing an average rate of claims to be paid in each subsequent month until no further payments are expected. For large claims, amounts of approximately $100,000 and greater are removed from the remaining claims as to not skew the calculation of completion factors and a separate reserve is calculated for these large claims.

Note 2. Summary of Significant Accounting Policies (Continued)

The percentage of blend used for each of the methodologies varies depending on the credibility of the data and follows a schedule of blending dependent on the numbers of months of exposure.

Leases: The System determines whether an arrangement is a lease at the inception of the arrangement based on the terms and conditions in the contract. A contract contains a lease if there is an identified asset and the System has the right to control the asset. Operating lease right of use (ROU) assets represent the System's right to use an underlying asset for the lease term and a lease liability represents the System's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease terms. The System has elected to use the rate implicit in the lease agreement in determining the present value of lease payments unless that rate cannot be readily determined. In that case, the System will use the incremental borrowing rate which is the risk-free rate for the same period of time as the lease term. The System defines the risk-free rate as the U.S. Treasury yield curve rate. Lease terms include options to extend the lease when it is reasonably certain those options will be exercised. The System has elected to not recognize assets and liabilities for leases with a lease term of 12 months or less (short-term leases). Lease payments for short-term leases are recognized as expense on a straight-line basis and any variable lease payments are recognized as expense in the period for which the obligation is incurred. The System has lease agreements with lease and non-lease components, which the System has elected to account for as a single lease component for all asset classes. In the consolidated statements of operations and changes in net assets, lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

Self-insurance programs: The System is self-insured or retains a portion of the risk for certain employee health claims, workers' compensation claims and professional liability claims. The provision for estimated health, workers' compensation claims and professional and general liabilities includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Derivative financial instruments: Under GAAP, the System is required to record all derivative instruments at their respective fair values in the consolidated balance sheets. The System's derivatives consist of interest rate and basis rate swap transactions. See Note 9 for further details. All changes in fair value are reflected in the accompanying consolidated statements of operations and changes in net assets. The System utilizes swap agreements to mitigate volatility and manage exposure to interest rate fluctuations.

Net assets without donor restrictions: Net assets without donor restrictions represent resources generated from operations, proceeds of debt issuance, unrestricted donations and lapse of donor restrictions that are no longer subject to donor-imposed stipulations.

Net assets with donor restrictions: Net assets with donor restrictions are those whose use by the System has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the System in perpetuity. Generally, the donor of the net assets restricted in perpetuity permits the System to use all or part of the income earned on related investments for general or specific purposes.

Net patient service revenue: The System reports patient service revenue at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive adjustments due to settlement of audits and reviews. Revenue is recognized as performance obligations are satisfied.

Note 2. Summary of Significant Accounting Policies (Continued)

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the System does not believe it is required to provide additional goods or services to the patient.

As the System's performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) ASC 606-10-50-14(a) 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 care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The System determines the transaction price based on standard charges for goods and services provided to patients, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy and/or implicit price concessions. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts expected to collect based on the System's collection history with similar class of patients. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2022 and 2021, was not significant.

The System has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Grants and contracts: Reciprocal grant and contract revenue is recognized when the expenses have been incurred for the purpose specified by the grantor or in accordance with the terms of the agreement. Payments received in advance are reported as deferred revenue. Grant and contract amounts due to the System are included in other current receivables.

Charity care: The System provides care to patients, who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Note 2. Summary of Significant Accounting Policies (Continued)

The System maintains records to identify and monitor the level of charity care it provides. These records include the charges for services and supplies furnished under its charity care policy. Adjustments for free care are recorded at the time services are provided. The estimated cost of providing charity care is based on the ratio of cost to gross charges.

Donor contributions: Unconditional promises to give cash and other assets to the System 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 condition is met. The contributions are reported as donor restricted support 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, restricted net assets are reclassified as without restrictions and reported in the accompanying 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 unrestricted contributions in the accompanying consolidated financial statements. All contributions are considered to be available without donor restricted use unless specifically restricted by the donor.

Contributed services: A substantial number of unpaid volunteers have made significant contributions of their time, principally in patient service programs and in the operation of a gift shop. The value of this contributed time is not reflected in these consolidated financial statements since it is not susceptible to objective measurement or valuation and the equivalent of an employer/employee relationship does not exist.

Revenues over expenses: The accompanying consolidated statements of operations and changes in net assets include the revenues over expenses as the System's performance indicator. Changes in net assets without donor restrictions that are excluded from revenues over expenses, consistent with industry practice, include distributions to noncontrolling interest, gain on discontinued operations attributable to noncontrolling interest, revenues over expenses attributable to noncontrolling interest, contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purposes of acquiring such assets) and capital contributions from noncontrolling interest in subsidiary.

COVID-19 pandemic: In January 2020, the Secretary of the U.S. Department of Health and Human Services (HHS) declared a national public health emergency due to a novel strain of coronavirus (COVID-19). In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The resulting measures to contain the spread and impact of COVID-19 have adversely affected the System's results of operations. As a result of the COVID-19 pandemic, federal and state governments have passed legislation, promulgated regulations and taken other administrative actions intended to assist health care providers in providing care to COVID-19 and other patients during the public health emergency which include the Coronavirus Aid, Relief and Economic Security Act (the CARES Act), which was enacted on March 27, 2020. During the years ended December 31, 2022 and 2021, the System was the beneficiary of these stimulus measures. The System's accounting policies for the recognition of these stimulus monies are described below.

Note 2. Summary of Significant Accounting Policies (Continued)

CARES Act and PPPHCE Act Funds: During the years ended December 31, 2022 and 2021, the System received approximately $586,000 and $2,663,000, respectively, in payments through the Public Health and Social Services Emergency Fund (PHSSEF) in both general and targeted distributions. For the years ended December 31, 2022 and 2021, approximately $586,000 and $2,663,000, respectively, of the PHSSEF payments qualified as reimbursement for lost patient care revenue and incremental expenses, and was recognized as grant, contribution and other revenue in the consolidated statements of operations and changes in net assets. The recognition of amounts received is conditioned upon the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, certification that payment will be used to prevent, prepare for and respond to COVID-19 and shall reimburse the recipient only for health care related expenses or lost patient care revenues. The System recognizes grant payments as income when there is reasonable assurance the System has complied with the conditions associated with the grant. The System's estimates could change materially in the future based on operating performance or COVID-19 activities at individual locations, as well as the evolving grant compliance guidance provided by the government.

Direct Payment Program: The Florida Medicaid Supplemental – Direct Payment Program (DPP) was initially approved in Florida during 2021. The System recorded a receivable of $148,520,942 and $147,463,428 in connection with this program as of December 31, 2022 and 2021. The revenue associated with this program is recorded within net patient service revenue. Taxes and other program related costs, totaling $59,216,358 and $59,622,602 for the years ended December 31, 2022 and 2021, respectively, are reflected within other expenses in the consolidated statements of operations and changes in net assets. During the years ended December 31, 2022 and 2021, the System has made payments of $70,581,083 and $29,343,298 with the remaining $18,914,579 and $30,279,304 in accounts payable and accrued expenses within the consolidated balance sheets. As of April 20, 2023, the System received 78.1% of the Year 2 payments associated with DPP and the Year 1 payments have been fully collected.

Income taxes: The System and certain of its affiliated organizations qualify as tax-exempt, nonprofit organizations under Section 501(c)(3) of the Internal Revenue Code (the Code). The Hospital, NCPS and the Foundation are exempt from federal income tax on related income pursuant to Section 501(a) of the Code as described in Section 501(c)(3). These tax-exempt entities had no tax provision for the years ended December 31, 2022 and 2021. The Captive Insurance Company is not subject to income taxes, as no income taxes are levied in the Cayman Islands. The System believes there is no uncertain tax liability which should be recorded as of December 31, 2022 and 2021.

Distributions to noncontrolling interests: Certain consolidated subsidiaries of the System have members who hold a noncontrolling ownership interest. Upon authorization of the boards of those subsidiaries, cash available for distribution, or a portion thereof, arising from operations or other sources may be distributed to the System and the noncontrolling members ratably in accordance with the members' respective membership interests.

Note 2. Summary of Significant Accounting Policies (Continued)

Reclassifications: Certain amounts in the 2021 consolidated financial statements have been reclassified to be consistent with the presentation in the 2022 consolidated financial statements. Estimated third-party settlements payable are immaterial to the consolidated financial statements as a whole and have been combined with accounts payable and accrued expenses in the accompanying consolidated balance sheets for both 2022 and 2021. Prior year eliminations of certain balances in other current receivables, accounts payable and accrued expenses, and net assets with and without donor restrictions, have been reclassified to conform to the current year.

Note 3. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows. See Note 4 for additional information on assets limited as to use.

	2022	2021
Cash and cash equivalents	$ 91,514,923	$ 64,492,604
Restricted cash held under self-insured funding and held by trustee under bond indenture agreements	179,224,719	173,797,581
	$ 270,739,642	$ 238,290,185

Note 4. Investments, Assets Limited as to Use and Fair Value Measurements

The System follows ASC 820, Fair Value Measurements and Disclosures, 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. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). 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: Fair value is determined by using quoted prices for identical assets or liabilities in active markets.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Level 2 investments also include alternative investments, measured using the practical expedient, that do not have any significant redemption restrictions, lock up periods, gates or other characteristics that would cause liquidation and report date NAV to be significantly different, if redemption were requested at report date.

Level 3: These investments are measured using the practical expedient and would have significant redemption and other restrictions that would limit the System's ability to redeem out of the fund at report date NAV. Level 3 investments consists of beneficial interests in charitable remainder trusts.

Note 4. Investments, Assets Limited as to Use and Fair Value Measurements (Continued)

The System's significant financial assets and liabilities that are measured at fair value on a recurring basis for the years ended December 31, is as follows:

	Level	2022	2021
Assets limited as to use:			
Under self-insured funding:			
Malpractice funding arrangements:			
Cash and cash equivalents	1	$ 590,043	$ 414,445
U.S. Treasury and agency obligations	2	16,531,109	16,179,047
Corporate debt securities	2	12,091,367	16,663,279
Equity mutual funds	1	25,409,709	31,570,619
Under bond indenture agreements:			
Cash and cash equivalents	1	158,858,555	172,019,305
Restricted investments:			
Cash and cash equivalents	1	19,776,121	1,363,831
U.S. Treasury and agency obligations	2	4,459,328	4,739,771
Pledges receivable, net	N/A	28,654,683	15,279,116
		266,370,915	258,229,413
Less current portion of assets limited as to use		(17,664,819)	(21,497,019)
		248,706,096	236,732,394
Other investments:			
Cash and equivalents	1	4,638,314	5,243,826
Equity securities	1	78,561,894	99,254,501
Equity mutual funds	1	200,005,214	201,496,274
Fixed income bond fund	2	15,971,760	17,198,832
U.S. Treasury and agency obligations	2	2,865,135	3,278,819
Corporate debt securities	2	16,972,332	2,437,774
Equity securities	2	6,416,722	5,858,298
Alternative investments:			
Specialty equity	NAV	13,860,192	10,895,538
Private capital	NAV	6,803,067	9,429,557
Fixed income	NAV	123,099,033	135,984,599
		469,193,663	491,078,018
Total investment and assets limited as to use		$ 735,564,578	$ 749,307,431
Beneficial interest in charitable remainder trusts	3	$ 4,255,224	$ 4,518,828
Liabilities:			
Interest rate and basis swaps	2	$ 5,537,063	$ 32,794,501

Note 4. Investments, Assets Limited as to Use and Fair Value Measurements (Continued)

The fair values of the following investments have been estimated using the net asset value per share of the investments as of December 31, 2022:

	Fair Value	Remaining Commitments	Redemption Frequency	Redemption Notice Period
Actively managed:				
Specialty equity (1)	$ 13,860,192	N/A	Monthly	30 days
Private capital (2)	6,803,067	$ 2,306,063	Quarterly, (4)	65 days, (4)
Fixed income (3)	123,099,033	428,400	Daily, Monthly, Quarterly (5)	15 - 65 days
	$ 143,762,292			

The fair values of the following investments have been estimated using the net asset value per share of the investments as of December 31, 2021:

	Fair Value	Remaining Commitments	Redemption Frequency	Redemption Notice Period
Actively managed:				
Specialty equity (1)	$ 10,895,538	N/A	Monthly	30 days
Private capital (2)	9,429,557	$ 2,492,063	Quarterly, (4)	65 days, (4)
Fixed income (3)	135,984,599	1,200,000	Daily, Monthly, Quarterly (5)	15 - 65 days
	$ 156,309,694			

(1) Investments with commitments typically to publicly traded common stocks and publicly traded partnerships of companies domiciled in North America and focused in the midstream energy or natural resource sectors.

(2) Includes illiquid investment strategies such as private equity, private credit and private real assets. The investments will be in externally managed separate accounts, commingled funds, limited liability companies or limited partnerships.

(3) Can include, but is not limited to, broad exposure to global fixed income sectors including investment grade and non-investment grade, public and private, US dollar and non-dollar bonds, US and non-US markets and developed and emerging markets. Equity related investments with associated fixed income attributes may be included. Investments can be made in a range of vehicles, including separate accounts, funds and partnership structures.

Note 4. Investments, Assets Limited as to Use and Fair Value Measurements (Continued)

(4) Upon termination of the fund which is estimated to be 2024.

(5) Upon termination of the fund which is estimated to be 2028.

Estimates of fair values are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect the estimates.

Investment income and gains (losses) on assets limited as to use, cash equivalents and other investments comprise the following for the years ended December 31, is as follows:

	2022	2021
Investment income	$ 19,082,509	$ 11,776,533
Net realized (losses) gains	(1,706,099)	18,613,411
	17,376,410	30,389,944
Net unrealized (losses) gains on trading investments	(78,299,993)	9,583,862
	$ (60,923,583)	$ 39,973,806

Investment expenses are recorded as reductions to investment income and realized gains.

Note 5. Property and Equipment

A summary of property and equipment as of December 31, is as follows:

	2022	2021
Land and improvements	$ 14,113,635	$ 13,000,991
Buildings and improvements	524,415,425	541,395,503
Furniture, fixtures and equipment	335,371,790	419,602,295
	873,900,850	973,998,789
Less accumulated depreciation and amortization	(525,393,467)	(609,833,702)
	348,507,383	364,165,087
Construction in progress	59,396,283	28,831,788
	$ 407,903,666	$ 392,996,875

Depreciation and amortization expense for the years ended December 31, 2022 and 2021, amounted to approximately $38,922,000 and $51,206,000, respectively.

As of December 31, 2022, the System completed a study of property and equipment, and the estimated useful lives used to depreciate the cost of the various assets within the periods of expected use. The study resulted in an adjustment to the useful lives used to depreciate the costs of the various assets, which could either be longer or shorter. The new useful lives were determined by incorporating the actual historical life experiences of the various assets. The change in useful lives resulted in a decrease in depreciation totaling approximately $8,108,000 for the year ended December 31, 2022. The study also resulted in a write-off of fully depreciated assets with cost basis of approximately $123,010,000.

Note 5. Property and Equipment (Continued)

Management of the System resolved to dispose of the TMMC building, land, furniture, fixtures and equipment, as well as other smaller buildings and land parcels that comprised TMMC acquired assets. The proceeds of the sale were expected to be lower than the net carrying amount of the relevant assets; therefore, during 2021 an impairment loss was recognized of approximately $32,551,000, in the System's accompanying consolidated statement of operations and changes in net assets. The TMMC assets were classified as assets held for sale in 2021, and were presented separately in the accompanying consolidated balance sheet at $60,000,000. In February 2022, an Agreement of Purchase and Sale was entered into, and the sale was completed in April 2022 for $60,000,000. As of December 31, 2022, a net escrow receivable of $1,450,000 is included in other current receivables and represents the expected final settlement related to the sale transaction.

Note 6. Leases

The System has operating leases that consist of medical equipment and medical office space agreements. The System's leases have remaining lease terms of one to 15 years. For purposes of calculating operating lease liabilities, lease terms include options to extend the lease when it is reasonably certain those options will be exercised. Some leasing arrangements require variable payments that are dependent on usage or other measures. The variable lease payments are not presented as part of the initial ROU asset or lease liability. The System's lease agreements do not contain any material restrictive covenants.

The components of lease expense for operating leases for the years ended December 31, is as follows:

	2022	2021
Operating lease expense	$ 11,032,066	$ 10,053,490
Variable lease expense	-	-
	$ 11,032,066	$ 10,053,490

Lease expense for operating leases is reported in supplies, purchased services and other expense in the accompanying statements of operations and changes in net assets. The System utilizes the rate implicit in the lease agreement in determining the present value of lease payments unless that rate cannot be readily determined. In that case, the System will use the incremental borrowing rate which is the risk-free rate for the same period of time as the lease term.

	2022	2021
Weighted-average remaining lease term (years)		
Operating leases	6.77	6.62
Weighted-average discount rate		
Operating leases	2.92%	2.65%

Note 6. Leases (Continued)

The following table provides the maturities of lease liabilities at December 31, 2022:

Years ending December 31:	
2023	$ 11,381,230
2024	9,980,767
2025	9,086,195
2026	8,715,514
2027	6,532,383
Thereafter	15,465,880
Total future undiscounted lease payments	61,161,969
Less present value discount	(6,165,397)
Lease liabilities	54,996,572
Less current portion	(9,917,106)
Long-term portion	$ 45,079,466

Note 7. Line of Credit Payable

The Hospital has an unsecured revolving line of credit agreement with a bank in the amount of $75,000,000. Borrowings on the line accrues interest at a fluctuating annual rate of 0.45% plus the daily Simple Secured Overnight Financing (SOFR) rate in effect, or at a fluctuating annual rate determined by the Bank to be the base rate in effect from time to time. The agreement extends through December 2024 and is due at maturity. There is a quarterly unused fee at an annual rate of 0.08% on the unutilized line of credit amount. The Hospital had no borrowings on the line of credit as of December 31, 2022 and 2021.

Note 8. Bonds Payable

A summary of bonds payable as of December 31, is as follows:

	2022	2021
Tax-exempt revenue bonds:		
Miami–Dade County Health Facilities Authority Hospital Revenue and Revenue Refunding Bonds (Nicklaus Children's Hospital Project), Series 2021A, consisting of $161,965,000 fixed-rate bonds due 2051 with interest rates between 4.000% and 5.000%. Principal payments are due annually on August 1.	$158,375,000	$161,965,000
Miami–Dade County Health Facilities Authority Hospital Revenue Refunding Bonds (Nicklaus Children's Hospital Project), Series 2021B, consisting of $92,730,000 fixed-rate (Taxable) bonds due 2042 with interest rates between 0.650% and 3.131%. Principal payments are due annually on August 1.	86,885,000	92,730,000
Miami–Dade County Health Facilities Authority Hospital Revenue and Revenue Refunding Bonds (Nicklaus Children's Hospital Project), Series 2017, consisting of $151,570,000 fixed-rate bonds due 2047 with interest rates between 3.625% and 5.000%. Principal payments are due annually on August 1.	150,625,000	151,570,000
Miami–Dade County Health Facilities Authority Hospital Revenue Bonds (Miami Children's Hospital Project), Series 2010B, consisting of $65,000,000 variable rate bonds due 2041. These variable rate bank bonds (fiscal year 2021 average interest rate of 0.687%), are callable beginning May 1, 2024, by the holder. Principal payments are due annually on August 1.	59,050,000	59,680,000
	454,935,000	465,945,000
Net bond premium	28,141,179	30,383,365
Net financing charges	(3,995,780)	(4,243,356)
Total bonds payable	479,080,399	492,085,009
Less current portion of bonds payable	(8,885,000)	(11,010,000)
Long-term portion of bonds payable	$470,195,399	$481,075,009

Scheduled principal repayments on bonds payable are as follows assuming that the 2010B variable rate bonds are not called in 2024. If they are called, an additional $57,880,000 would be due in 2024:

Years ending December 31:	
2023	$ 8,885,000
2024	9,090,000
2025	9,330,000
2026	9,600,000
2027	9,885,000
Thereafter	408,145,000
	$ 454,935,000

Note 8. Bonds Payable (Continued)

On November 10, 2021, $161,965,000 of Miami-Dade County Health Facilities Authority Hospital Revenue and Revenue Refunding Bonds Series 2021A (the "Series 2021A Bonds") and its $92,730,000 Hospital Revenue Refunding Bonds Series 2021B Bonds (Taxable) (the "Series 2021B Bonds") and collectively (the "Series 2021 Bonds") were issued by the Authority on behalf of the Hospital. The proceeds of the 2021 bonds will be used to: (1) fund, including through reimbursements, the acquisition, construction and equipping of certain improvements to the Hospital's facilities, including a new inpatient surgical tower; (2) provide for the refunding of all of the outstanding Series 2010A Bonds and all of the outstanding Series 2013 Bonds; (3) pay certain costs relative to the issuance of the Series 2021 Bonds and the refunding of the Series 2010A Bonds and Series 2013 Bonds. The refunding of the Series 2010A Bonds and the Series 2013 Bonds resulted in a loss on advanced refunding of approximately $7,973,000 recognized in the accompanying consolidated statement of operations and changes in net assets during the year ended December 31, 2021. The 2021 bond issuance resulted in a net present value savings of approximately $11,597,000.

The bonds payable are collateralized by the gross receipts and accounts receivable generated from the Hospital's operations. The Hospital is the only obligated party to these bonds.

Those bonds contain certain restrictive covenants for the Hospital, including maximum annual debt service coverage ratio, days cash on hand and capitalization ratio requirements, which was in compliance as of December 31, 2022 and 2021.

Note 9. Swap Agreements

In 2002, the Hospital entered into four $75,000,000 basis-rate swap agreements consistent with its investment strategy. All four basis-rate swaps were terminated during 2022.

In December 2006, the Hospital entered into an interest rate swap agreement with a notional amount of $209,500,000.

On April 5, 2012, the Hospital entered into a swap novation agreement, whereby Wells Fargo replaced Citibank as the counterparty on the basis and interest rate swaps. The agreement also increased the collateral threshold for all swap agreements based on the Hospital's current credit rating and reduced the interest rate contract to $192,200,000 (with annual reductions ranging from $3,800,000 to $4,175,000).

On December 6, 2022, the Hospital completed a partial termination of the interest rate swap for $5,875,000. The partial termination reduced the interest rate contract from $143,000,000 to $59,050,000 and amended the scheduled termination date to August 1, 2041. The System entered into the partial termination to de-risk the balance sheet; the System was over-hedged with more swap than the value of the related debt.

Swap transactions in effect at December 31, are summarized as follows:

Swap Agreements					
Trade Date	Scheduled Actual Termination Date	Contract Amount (In Millions)	Type of Swap Contract	Cost to Terminate 2022	Cost to Terminate 2021
January 4, 2002	January 8, 2022	$ 75.0	Basis	$ -	$ 456
January 10, 2002	January 14, 2022	75.0	Basis	-	995
April 16, 2002	April 18, 2022	75.0	Basis	-	(6,001)
May 6, 2002	May 8, 2022	75.0	Basis	-	(11,337)
December 1, 2006	August 1, 2041	59.1	Interest rate	5,537,063	32,810,388
				$ 5,537,063	$ 32,794,501

Note 9. Swap Agreements (Continued)

The fair value of swap transactions based on current termination values or quoted market prices of comparable agreements, are recorded as a liability on the accompanying consolidated balance sheets. The change in the fair value of the swap agreements has been recorded within non-operating activities on the consolidated statements of operations and changes in net assets for the years ended December 31, 2022 and 2021. The Hospital has recognized gains of approximately $27,257,000 and $9,575,000 in the net change in the fair value of swap agreements for the years ended December 31, 2022 and 2021, respectively. For the years ended December 31, 2022 and 2021, the Hospital recognized in the accompanying consolidated statements of operations and changes in net assets approximately $2,973,000 and $4,550,000, respectively, related to the net payments made to the swap counterparty in excess of payments received by the Hospital.

Note 10. Self-Insurance Programs

Medical malpractice insurance: In December 2002, the Hospital formed the Captive. The Hospital's medical malpractice insurance includes a self-insured retention for the first $7,500,000 and $5,000,000 for each medical malpractice claim for fiscal year 2022 and 2021, respectively. The Hospital purchases excess medical malpractice insurance from domestic and international commercial insurance carriers above the retention levels. The policies provide malpractice insurance coverage under claims-made policies. Based on historical experience and current actuarial analyses, management believes that the established liabilities are sufficient to cover reported claims and incurred but not reported claims. The Hospital has recorded approximately $12,999,000 and $13,452,000 for 2022 and 2021, respectively, of estimated insurance recoveries which is included in other long-term assets on the accompanying consolidated balance sheets.

The Hospital utilizes a third-party actuary to assist in determining the liability. The actuary estimates the liability using a mix of industry experience and the actual malpractice loss experience of the Hospital as reported under the Hospital's risk management system. In the opinion of management, adequate provision has been made for estimated losses from asserted and unasserted claims. The Hospital funds the liability for the retentions and deductibles and estimated cost of claims and incidents incurred but not reported under its claims-made coverage. The System maintains, through its investment program, investments held by trustee under malpractice funding arrangements (see Note 4).

Workers' compensation insurance: The System maintains a workers' compensation self-insurance trust program, which provides for the estimated deductibles and cost of claims and incidents incurred but not reported. The costs of such claims are paid by the System; however, the System has commercial insurance coverage on a per-occurrence basis in excess of $500,000 for fiscal year 2022 and 2021, with no aggregate limit. The System utilizes a third-party actuary in determining the liability. The System has accrued for the future payment of known workers' compensation claims, as well as an estimate for incurred but not yet reported claims.

Under a workers' compensation trust agreement, the System funds the liability through its investment program, which is classified as assets limited as to use (see Note 4).

Note 10. Self-Insurance Programs (Continued)

Health insurance: The System maintains a self-insured employee health plan. Under the self-insured plan, all claims from employees and their dependents, less deductibles and coinsurance, as provided in the plan, are paid directly by the System, using a third-party administrator.

The System has commercial insurance coverage for claims exceeding a per-member claim limit and aggregate claims in excess of the self-insurance limits. The System records liabilities for outstanding and estimated incurred but not reported claims of its employees covered under this plan in the current portion of liability for self-insurance in the accompanying consolidated balance sheets.

Liabilities for self-insurance comprise of the following for the years ended December 31, is as follows:

	2022	2021
Medical malpractice insurance	$ 85,058,752	$ 76,708,539
Workers' compensation insurance	1,603,001	1,830,305
Health insurance	5,215,099	4,787,301
	91,876,852	83,326,145
Current portion	(22,879,919)	(26,284,320)
	$ 68,996,933	$ 57,041,825

Note 11. Liquidity and Availability

The System regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. In addition, the System has various sources at its disposal, including marketable debt and line of credit. See Note 7 for information on the System's line of credit facility.

The following table summarizes the System's financial assets available for general expenditures and endowment grant obligations within one year after December 31:

	2022	2021
Financial assets:		
Cash and cash equivalents	$ 91,514,923	$ 64,492,604
Investments	493,429,112	497,181,620
Patient accounts receivable	105,963,761	93,642,513
Direct payment program receivable	148,520,942	147,463,428
Current portion of assets limited as to use	17,664,819	21,497,019
Self insurance funding arrangement held by trustee	36,957,409	43,330,371
Pledges receivable, net	28,654,683	15,279,116
Note receivable	1,361,150	967,513
Investments in joint ventures	5,928,181	817,647
Assets held for sale	-	60,000,000
Bond indenture agreements held by trustee	158,858,555	172,019,305
Other current receivables	23,317,546	14,996,393
Other assets	14,945,809	15,800,544
Total financial assets	1,127,116,890	1,147,488,073
Less amounts not available to be used within one year:		
Investments with maturity over one year	(6,848,424)	(9,291,922)
Restricted investments	(24,235,449)	(6,103,602)
Investments in joint ventures	(5,928,181)	(817,647)
Bond indenture agreements held by trustee	(158,858,555)	(172,019,305)
Self insurance funding arrangement held by trustee	(36,957,409)	(43,330,371)
Assets required to be retained in perpetuity	(31,571,319)	(31,380,727)
Pledge receivable due over one year	(19,543,602)	(8,440,515)
Current portion of assets limited as to use	(17,664,819)	(21,497,019)
Other long-term assets	(14,945,809)	(15,800,544)
Total financial assets not available to be used within one year	(316,553,567)	(308,681,652)
Financial assets available to meet general expenditures within one year	$ 810,563,323	$ 838,806,421

Note 12. Donor Restricted Net Assets

Net assets with donor restrictions are restricted for the following purposes at December 31, is as follows:

	2022	2021
Net assets with donor restrictions:		
Irrevocable charitable remainder trusts	$ 3,773,313	$ 3,824,313
Restricted primarily for programs, research, indigent care and education	82,663,066	70,733,252
Restricted for capital-projects in process	19,893,242	12,511,303
Investments to be held in perpetuity, the income from which is expendable to support health care services	31,571,319	31,380,727
	$137,900,940	$118,449,595

For the years ended December 31, 2022 and 2021, net assets were released from donor restrictions by satisfying the time restriction or incurring operating expenses satisfying the restricted purposes in the amounts of approximately $7,657,000 and $7,432,000, respectively. For the years ended December 31, 2022 and 2021, net assets were released from donor restrictions used for purchase of property and equipment in the amounts of approximately $772,000 and $185,000, respectively.

Donor restricted net assets held by the Foundation are reported at fair value and are restricted to investment and reinvestment in perpetuity, the income from which is expendable to support various programs sponsored by the System.

A summary of the revenues for the year ended December 31, 2022, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Public support:			
Unrestricted donations, restricted donations and fundraising events	$ 6,987,414	$ 32,932,927	$ 39,920,341
Gifts in-kind	1,752,496	-	1,752,496
Total public support	8,739,910	32,932,927	41,672,837
Investment	12,058	669,725	681,783
Other revenue	130,807	-	130,807
Released from restrictions	8,282,655	(8,282,655)	-
Total revenues, gains and other support	$ 17,165,430	$ 25,319,997	$ 42,485,427

Note 12. Donor Restricted Net Assets (Continued)

A summary of the revenues for the year ended December 31, 2021, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Public support:			
Unrestricted donations, restricted donations and fundraising events	$ 6,396,592	$ 20,700,466	$ 27,097,058
Gifts in-kind	2,181,627	-	2,181,627
Total public support	8,578,219	20,700,466	29,278,685
Investment	107,780	3,571,535	3,679,315
Other revenue	23,513	-	23,513
Released from restrictions	7,177,497	(7,177,497)	-
Total revenues, gains and other support	$ 15,887,009	$ 17,094,504	$ 32,981,513

Note 13. Endowment Funds

The Not-for-Profit Entities Presentation of Financial Statements Subtopic of the ASC (ASC 958-205) provides guidance, among other things, on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The following disclosures are required by ASC 958-205 for all nonprofit organizations.

The System's endowment funds are established to fund medical research, education and patient social services at the Hospital. Endowments include donor-restricted and board designated endowment funds. As required by U.S. GAAP, net assets associated with donor restricted endowment funds are classified and reported as net assets with donor restrictions based on the existence or absence of donor-imposed restrictions. Net assets associated with board-designated funds are classified as net assets without donor restrictions.

Interpretation of Relevant Law

The management of the System's endowed funds is guided by the laws of the State of Florida. Specifically, the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA). The System classifies net assets with donor restrictions as: (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the donor-restricted fund.

In accordance with FUPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. The purposes of the System
2. The intent of the donors of the endowment fund
3. The terms of the applicable instrument
4. The long-term and short-term needs of the System in carrying out its purposes
5. General economic conditions
6. The possible effect of inflation or deflation
7. The other resources of the System
8. Perpetuation of the endowment

Note 13. Endowment Funds (Continued)

Return Objectives and Risk Parameters

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long term. Endowment assets include those classes of donor-restricted funds that the System must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Directors, the endowment net assets are invested in a manner that is intended to produce a long-term rate of return on assets of 5.5% plus inflation as measured by the CPI and 0.75% for portfolio expenses while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets, on a long-term basis, a diversified allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objective Relates to Spending Policy

The System's approved spending policy for appropriating distributions from the endowments provided for grants equal to 5% of a three-year rolling average of the total value of the endowment.

Endowment net asset composition at December 31, is as follows:

	2022		
	Without Restrictions	With Restrictions	Total Net Endowment
Donor restricted endowment	$ -	$ 37,561,766	$ 37,561,766
Board-designated endowment	9,312,586	4,410,233	13,722,819
Total	$ 9,312,586	$ 41,971,999	$ 51,284,585

	2021		
	Without Restrictions	With Restrictions	Total Net Endowment
Donor restricted endowment	$ -	$ 38,963,333	$ 38,963,333
Board-designated endowment	9,960,066	9,149,503	19,109,569
Total	$ 9,960,066	$ 48,112,836	$ 58,072,902

Note 13. Endowment Funds (Continued)

Changes in endowment net assets for the years ended December 31, are as follows:

	2022		
	Without Restrictions	With Restrictions	Total Net Endowment
Endowment net assets, beginning of year	$ 9,960,066	$ 48,112,836	$ 58,072,902
Contributions	-	190,592	190,592
Net realized and unrealized gains	-	(4,770,002)	(4,770,002)
Interest and dividend income	110,593	686,930	797,523
Spending policy distribution	(758,073)	(2,248,357)	(3,006,430)
Endowment net assets, end of year	$ 9,312,586	$ 41,971,999	$ 51,284,585

	2021		
	Without Restrictions	With Restrictions	Total Net Endowment
Endowment net assets, beginning of year	$ 8,602,601	$ 43,244,550	$ 51,847,151
Contributions	2,204	1,422,075	1,424,279
Net realized and unrealized gains	1,267,196	4,166,084	5,433,280
Interest and dividend income	111,352	1,335,946	1,447,298
Spending policy distribution	(23,287)	(2,055,819)	(2,079,106)
Endowment net assets, end of year	$ 9,960,066	$ 48,112,836	$ 58,072,902

Note 14. Commitments and Contingencies

Litigation: Several claims and lawsuits (other than medical malpractice and workers' compensation) are pending against the System relating to various matters. The claims management of such matters as well as pending litigation is associated with the normal course of doing business. Management believes the outcome of such actions will not have a material effect on the System's consolidated financial statements.

Property and casualty insurance: The System maintains insurance coverage to protect it and its property. Management believes that the current coverage limits provide reasonable coverage under the circumstances to protect the property of the System. Nevertheless, should losses exceed insurance coverage, it could have a material adverse effect on the financial condition of the System. Moreover, the System is unable to predict the cost or availability of any such property and casualty insurance when its current coverage expires.

Compliance with laws and regulations: Laws and regulations governing the Medicaid Program are complex and subject to interpretation. The System believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to audits, claims, inquiries and investigations from government authorities and agencies that occur in the ordinary course of business. Current audits, claims, inquiries and investigations and their ultimate resolutions, individually or in the aggregate, are not expected to have a material adverse effect on the System's business, financial condition, results of operations or cash flows. The System's classification of patients and the appropriateness of their care are subject to review by the fiscal intermediaries administering the Medicaid programs.

Note 15. Net Patient Service Revenue

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

Managed Care (Health Maintenance Organizations and Preferred Provider Organizations): Payment agreements include discounts on established charges and prospectively determined per diem rates.

Medicaid: The Hospital and NCPS participate in the State of Florida Medicaid Program (Medicaid), and approximately 66% and 68% of the System's 2022 and 2021 gross patient service revenue, respectively, was from services to Medicaid beneficiaries. Beginning July 1, 2014, the State of Florida assigned substantially all Medicaid beneficiaries to certain managed care organizations. Florida Medicaid implemented a prospective inpatient reimbursement based on All Patient Refined Diagnostic Related Groups methodology (APR DRG) effective in 2013. Payments under APR DRG assignment are made on a per case basis and are not subject to retrospective rate adjustments. Florida Medicaid implemented a prospective reimbursement methodology for outpatient services using Enhanced Ambulatory Payment Group (EAPG) effective July 1, 2017. Prior to that date, outpatient services were paid based upon a cost reimbursement methodology using a per revenue code line item published rate. Outpatient payments prior to July 2017 are subject to retrospective rate adjustments. All rate periods through June 30, 2017 have been settled.

Laws and regulations concerning government programs, including Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payors may also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the System's historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available) or as years are settled or are no longer subject to such audits, reviews and investigations.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2022 and 2021, there was no additional revenue recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Note 15. Net Patient Service Revenue (Continued)

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

Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The composition of net patient service revenue based on payor source for the years ended December 31, are as follows:

	2022	2021
Medicaid and Medicaid HMO	$ 469,511,597	$ 466,526,492
Commercial	338,025,201	274,920,438
Self pay	7,169,353	5,659,697
Other	53,128,716	46,510,575
Net patient service revenue	$ 867,834,867	$ 793,617,202

Hospital revenue includes a variety of services mainly covering inpatient procedures requiring overnight stays or outpatient operations that require anesthesia or use of complex diagnostic and surgical equipment as well as emergency care. Physician revenue includes services primarily focused on the care of outpatients covering primary and specialty healthcare needs. The composition of net patient service revenue based on services for the years ended December 31, are as follows:

	2022	2021
Inpatient	$ 429,218,575	$ 402,360,550
Outpatient	344,341,163	316,399,453
Physician	94,275,129	74,857,199
Net patient service revenue	$ 867,834,867	$ 793,617,202

Note 16. Functional Expenses

The System provides general health care services to pediatric patients principally from within the South Florida area. Expenses, including restructuring costs, related to providing these services are as follows:

	2022			
	Fundraising	Healthcare Service	General and Administrative	Total
Salaries and benefits	$ 1,563,138	$ 386,474,216	$ 97,084,489	$ 485,121,843
Supplies, purchased services and other	4,131,826	238,645,703	60,893,027	303,670,556
Repairs, equipment rental and facility costs	51,366	34,201,337	8,565,646	42,818,349
Depreciation and amortization	-	31,137,377	7,784,344	38,921,721
Interest	-	5,809,325	1,452,331	7,261,656
	$ 5,746,330	$ 696,267,958	$ 175,779,837	$ 877,794,125

	2021			
	Fundraising	Healthcare Service	General and Administrative	Total
Salaries and benefits	$ 1,628,282	$ 332,298,377	$ 84,008,409	$ 417,935,068
Supplies, purchased services and other	1,404,515	217,164,911	46,833,809	265,403,235
Repairs, equipment rental and facility costs	79,871	31,350,144	7,889,035	39,319,050
Depreciation and amortization	-	40,965,165	10,241,289	51,206,454
Interest	-	7,935,743	1,983,936	9,919,679
	$ 3,112,668	$ 629,714,340	$ 150,956,478	$ 783,783,486

Note 17. Miami Children's Health Plan

The Health Plan was a Florida limited liability company, incorporated in October 2017, which commenced business on December 1, 2018. The Health Plan was jointly owned by Variety Children's Hospital, d/b/a Nicklaus Children's Hospital and Evolent Health, LLC (Evolent), with each holding 75% and 25% of the outstanding member units, respectively.

The Health Plan was awarded a state contract, for a five-year term, on behalf of the Florida Agency for Health Care Administration (AHCA) for a statewide Medicaid Managed Care program and operates a Managed Medical Assistance program and a Specialty Plan for Medically Fragile Children in Palm Beach, Miami-Dade and Monroe counties.

Effective April 2021 the Hospital sold the Health Plan lives for $26,014,000 and recorded the transaction and all operations under gain on discontinued operations within the consolidated statements of operations and changes in net assets. The decision to sell the Health Plan was due to the System having a change in future strategy, in order to focus on its core business of providing services to the pediatric population. Operations subsequent to April 2021 are in wind down; during 2022, the gain on discontinued operations was $155,449. The Health Plan will cease to exist by the end of 2023.

Note 18. Contract Compliance

The Health Plan was required to maintain at all times a minimum surplus in an amount that is the greatest of $1,500,000, 10% of total liabilities or 2% of annualized total annualized revenue. In addition, the Health Plan must maintain 2% of annualized total revenues in a restricted insolvency protection account with a federally guaranteed financial institution licensed to do business in the state of Florida. As of December 31, 2022 and 2021, the Health Plan was in compliance with these requirements.

As of December 31, 2022 and 2021, the Health Plan has certain cash balances in the amount of approximately $1,385,000 and $1,364,000, respectively, that are internally designated as restricted cash to meet the surplus requirements for the state of Florida.

Note 19. Nicklaus Children's Health System Retirement Plan

The System maintains a defined contribution IRC section 403(b) retirement plan established for the purpose of providing retirement benefits for eligible employees who have completed 12 consecutive months of service, during which they have worked at least 1,000 hours per year. The plan provides for a 3% match and a discretionary employer contribution. In 2021, System management, with board approval, took action to reduce the 2021 employer contribution by 2%. Additionally, in 2021 the Board awarded a one time discretionary 3% payment to the 403(b) for all employees. This was accrued in 2021 and was paid in 2022. Pension expense, including matching and discretionary contributions, for the years ended December 31, 2022 and 2021, was approximately $15,376,000 and $10,317,000, respectively, and is included in salaries and benefits within the consolidated statements of operations and changes in net assets.

Note 20. Investment in Joint Ventures

The System has investments in joint ventures under the Hospital and CHV entities.

CHV has an ownership interest in Invoy, a company that offers an automated coaching platform to empower individuals, including kids, to lose weight. The platform takes advantages of a proprietary breath analyzer that provides daily objective information about the individual's fat metabolism. CHV's investment in Invoy was approximately $2,928,000 and $818,000 as of December 31, 2022 and 2021, respectively.

In 2022, CHV invested approximately $3,000,000 in an ownership interest in Everly Health, a company that is looking at diagnostic driven healthcare, centered around a telehealth platform.

Note 21. Subsequent Events

The System evaluated events and transactions occurring subsequent to December 31, 2022, and through April 20, 2023, the date on which the accompanying consolidated financial statements were issued.

RSM

RSM US LLP

Independent Auditor's Report on the Supplementary Information

Board of Directors
Miami Children's Health System, Inc. d/b/a Nicklaus Children's Health System and Subsidiaries

We have audited the consolidated financial statements of Miami Children's Health System, Inc. d/b/a Nicklaus Children's Health System and Subsidiaries (the System) as of and for the years ended December 31, 2022 and 2021, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Miami, Florida
April 20, 2023

Nicklaus Children's Health System and Subsidiaries

Consolidating Balance Sheet

December 31, 2022

	Nicklaus Children's Health System	Nicklaus Children's Hospital and Subsidiaries	Nicklaus Children's Pediatric Specialists, LLC	Nicklaus Children's Hospital Foundation, LLC	Children's Health Ventures, Inc. and Subsidiaries	Eliminations	Consolidated
Current assets:							
Cash and cash equivalents	$ 1,297,211	$ 90,216,592	$ 1,120	$ -	$ -	$ -	$ 91,514,923
Patient accounts receivable	-	91,623,587	14,340,174	-	-	-	105,963,761
Direct payment program receivable	-	148,520,942	-	-	-	-	148,520,942
Current portion of assets limited as to use	-	17,664,819	-	-	-	-	17,664,819
Other current receivables	1,167,397	16,924,184	5,195,922	30,043	-	-	23,317,546
Intercompany receivables	51,378,637	-	-	39,054,213	-	(90,432,850)	-
Inventories	-	12,847,199	-	-	-	-	12,847,199
Prepaid expenses	5,349,064	2,385,420	-	517,793	-	-	8,252,277
Total current assets	59,192,309	380,182,743	19,537,216	39,602,049	-	(90,432,850)	408,081,467
Assets limited as to use:							
Self insurance funding arrangement held by trustee	-	36,957,409	-	-	-	-	36,957,409
Restricted investments	-	2,772,357	-	21,463,092	-	-	24,235,449
Bond indenture agreements held by trustee	-	158,858,555	-	-	-	-	158,858,555
	-	198,588,321	-	21,463,092	-	-	220,051,413
Pledges receivable, net	-	-	-	28,654,683	-	-	28,654,683
Total assets limited as to use, net of current portion	-	198,588,321	-	50,117,775	-	-	248,706,096
Investments	-	415,684,838	-	53,508,825	-	-	469,193,663
Note receivable	-	-	792,569	-	568,581	-	1,361,150
Beneficial interest in the Foundation	-	139,254,060	-	-	-	(139,254,060)	-
Investments in subsidiaries and joint ventures	813,357,667	-	-	-	5,928,181	(813,357,667)	5,928,181
Property and equipment, net	45,451,238	361,924,487	527,941	-	-	-	407,903,666
Operating lease right of use assets, net	-	46,837,743	1,214,813	38,017	-	-	48,090,573
Other long–term assets	1,000	14,775,643	2,469	166,697	-	-	14,945,809
Total assets	$ 918,002,214	$ 1,557,247,835	$ 22,075,008	$ 143,433,363	$ 6,496,762	$ (1,043,044,577)	$ 1,604,210,605
Current liabilities:							
Accounts payable and accrued expenses	$ 123,158,943	$ 44,178,835	$ 10,048,760	$ 3,701,275	$ 34,377	$ -	$ 181,122,190
Intercompany payable	-	74,753,811	9,216,654	-	6,462,385	(90,432,850)	-
Current portion of liability for self-insurance	5,215,100	17,664,819	-	-	-	-	22,879,919
Current portion of bonds payable	-	8,885,000	-	-	-	-	8,885,000
Current portion of operating lease liabilities	-	9,319,122	490,489	107,495	-	-	9,917,106
Total current liabilities	128,374,043	154,801,587	19,755,903	3,808,770	6,496,762	(90,432,850)	222,804,215
Liability for self–insurance, net of current portion	-	68,996,933	-	-	-	-	68,996,933
Fair value of swap agreements	-	5,537,063	-	-	-	-	5,537,063
Long–term portion of bonds payable	-	470,195,399	-	-	-	-	470,195,399
Other long–term liabilities	-	394,150	1,204,675	370,533	-	-	1,969,358
Operating lease liabilities, less current portion	-	43,965,036	1,114,430	-	-	-	45,079,466
Total liabilities	128,374,043	743,890,168	22,075,008	4,179,303	6,496,762	(90,432,850)	814,582,434
Net assets:							
Net assets without donor restrictions:							
Nicklaus Children's Health System and Subsidiaries	648,304,542	653,418,270	-	13,420,777	-	(666,839,047)	648,304,542
Noncontrolling interest in subsidiary	3,422,689	3,422,689	-	-	-	(3,422,689)	3,422,689
Total net assets without donor restrictions	651,727,231	656,840,959	-	13,420,777	-	(670,261,736)	651,727,231
Net assets with donor restrictions	137,900,940	156,516,708	-	125,833,283	-	(282,349,991)	137,900,940
Total net assets	789,628,171	813,357,667	-	139,254,060	-	(952,611,727)	789,628,171
Total liabilities and net assets	$ 918,002,214	$ 1,557,247,835	$ 22,075,008	$ 143,433,363	$ 6,496,762	$ (1,043,044,577)	$ 1,604,210,605

Nicklaus Children's Health System and Subsidiaries

Consolidating Statement of Operations
Year Ended December 31, 2022

	Nicklaus Children's Health System	Nicklaus Children's Hospital and Subsidiaries	Nicklaus Children's Pediatric Specialists, LLC	Nicklaus Children's Hospital Foundation, LLC	Children's Health Ventures, Inc. and Subsidiaries	Eliminations	Consolidated
Revenues, gains and other support:							
Net patient service revenue	$ -	$ 773,559,738	$ 94,275,129	$ -	$ -	$ -	$ 867,834,867
Management fee revenue	161,394,187	-	-	-	-	(161,394,187)	-
Grant, contribution and other revenue	1,214,309	27,478,749	27,547,520	17,126,265	-	(33,626,313)	39,740,530
Investment income and realized gains, net	-	17,364,352	-	12,058	-	-	17,376,410
Net assets released from restrictions used for operations	96,260	5,446,277	2,087,391	27,107	-	-	7,657,035
Total revenues, gains and other support	162,704,756	823,849,116	123,910,040	17,165,430	-	(195,020,500)	932,608,842
Operating expenses:							
Salaries and benefits	71,136,578	277,747,364	133,231,866	3,006,035	-	-	485,121,843
Medical fees	16,323	27,766,424	5,446,703	-	-	(22,445,176)	10,784,274
Supplies	199,631	88,265,474	2,534,514	21,532	20,677	-	91,041,828
Purchased services	58,070,337	19,819,720	8,579,116	305,413	578,784	-	87,353,370
Depreciation and amortization	9,165,968	29,742,099	13,654	-	-	-	38,921,721
Repairs and maintenance	1,061,791	14,994,841	87,220	-	-	-	16,143,852
Equipment rental and facility costs	9,554,413	15,060,697	4,859,088	98,781	-	(2,898,482)	26,674,497
Malpractice and other insurance	1,000	17,110,192	5,131,001	-	-	-	22,242,193
Interest	-	7,261,656	-	-	-	-	7,261,656
Advertising	5,327,430	38,785	2,648	1,218,479	-	-	6,587,342
Other	8,171,285	69,539,743	1,761,520	6,173,953	15,048	-	85,661,549
Management fee expense	-	159,793,399	1,374,346	226,442	-	(161,394,187)	-
Total expenses	162,704,756	727,140,394	163,021,676	11,050,635	614,509	(186,737,845)	877,794,125
Income (loss) from continuing operations	-	96,708,722	(39,111,636)	6,114,795	(614,509)	(8,282,655)	54,814,717
Gain on discontinued operations	-	155,449	-	-	-	-	155,449
Income (loss) from operations before nonoperating activities	-	96,864,171	(39,111,636)	6,114,795	(614,509)	(8,282,655)	54,970,166
Net unrealized loss on investments	-	(76,298,126)	-	(2,001,867)	-	-	(78,299,993)
Net payments on swap agreements	-	(2,973,233)	-	-	-	-	(2,973,233)
Gain on net change in fair value of swap agreements	-	27,257,438	-	-	-	-	27,257,438
Partial termination of interest rate swap	-	(5,875,000)	-	-	-	-	(5,875,000)
Loss on impairment of TMMC	-	(924,035)	-	-	-	-	(924,035)
Loss from joint ventures	(6,978,260)	-	-	-	-	6,978,260	-
Grants to related entities	-	-	-	(8,282,655)	-	8,282,655	-
Guarantee of affiliate losses	-	(39,111,636)	-	-	-	39,111,636	-
Other non-operating income (expenses)	-	(1,636,949)	-	-	2,110,580	-	473,631
Revenues (under) over expenses	(6,978,260)	(2,697,370)	(39,111,636)	(4,169,727)	1,496,071	46,089,896	(5,371,026)
Excess of revenues under expenses attributable to noncontrolling interest in subsidiary	-	(1,607,234)	-	-	-	-	(1,607,234)
Revenues (under) over expenses attributable to Nicklaus Children's Health System and Subsidiaries	$ (6,978,260)	$ (4,304,604)	$ (39,111,636)	$ (4,169,727)	$ 1,496,071	$ 46,089,896	$ (6,978,260)

Variety Children's Hospital d/b/a

Nicklaus Children's Hospital and Subsidiaries

Consolidating Balance Sheet

December 31, 2022

	Obligor Nicklaus Children's Hospital	Miami Children's Insurance SPC, LTD	MCH Ambulatory Surgical Center, LLC	Miami Children's Health Plan, LLC	Eliminations	Consolidated
Current assets:						
Cash and cash equivalents	$ 84,927,240	$ 246,104	$ 1,747,636	$ 3,295,612	$ -	$ 90,216,592
Patient accounts receivable	90,102,260	-	1,521,327	-	-	91,623,587
Direct payment program receivable	148,520,942	-	-	-	-	148,520,942
Current portion of assets limited as to use	780,645	16,884,174	-	-	-	17,664,819
Other current receivables	16,342,964	-	-	581,220	-	16,924,184
Intercompany receivables	11,538	8,959,105	-	-	(8,970,643)	-
Inventories	12,716,847	-	130,352	-	-	12,847,199
Prepaid expenses	2,305,668	36,894	42,858	-	-	2,385,420
Total current assets	355,708,104	26,126,277	3,442,173	3,876,832	(8,970,643)	380,182,743
Assets limited as to use:						
Self insurance funding arrangement held by trustee	2,582,397	34,375,012	-	-	-	36,957,409
Restricted investments	1,391,954	-	-	1,380,403	-	2,772,357
Bond indenture agreements held by trustee	158,858,555	-	-	-	-	158,858,555
Total assets limited as to use, net of current portion	162,832,906	34,375,012	-	1,380,403	-	198,588,321
Investments	415,684,838	-	-	-	-	415,684,838
Beneficial interest in the Foundation	139,254,060	-	-	-	-	139,254,060
Investments in joint ventures	14,566,022	-	-	-	(14,566,022)	-
Property and equipment, net	359,183,151	-	2,741,336	-	-	361,924,487
Operating lease right of use assets, net	39,996,660	-	6,841,083	-	-	46,837,743
Other long-term assets	1,721,625	12,998,967	55,051	-	-	14,775,643
Total assets	$ 1,488,947,366	$ 73,500,256	$ 13,079,643	$ 5,257,235	$ (23,536,665)	$ 1,557,247,835
Current liabilities:						
Accounts payable and accrued expenses	$ 41,861,754	$ 132,572	$ 1,756,430	$ 428,079	$ -	$ 44,178,835
Intercompany payable	83,592,355	-	36,241	95,858	(8,970,643)	74,753,811
Current portion of liability for self-insurance	780,645	16,884,174	-	-	-	17,664,819
Current portion of bonds payable	8,885,000	-	-	-	-	8,885,000
Current portion of operating lease liabilities	8,848,105	-	471,017	-	-	9,319,122
Total current liabilities	143,967,859	17,016,746	2,263,688	523,937	(8,970,643)	154,801,587
Liability for self-insurance, net of current portion	17,822,798	51,174,135	-	-	-	68,996,933
Fair value of swap agreements	5,537,063	-	-	-	-	5,537,063
Long-term portion of bonds payable	470,195,399	-	-	-	-	470,195,399
Other long–term liabilities	394,150	-	-	-	-	394,150
Operating lease liabilities, less current portion	37,672,430	-	6,292,606	-	-	43,965,036
Total liabilities	675,589,699	68,190,881	8,556,294	523,937	(8,970,643)	743,890,168
Net assets:						
Net assets without donor restrictions:						
Nicklaus Children's Hospital and Subsidiaries	653,418,270	5,309,375	2,284,249	3,549,709	(11,143,333)	653,418,270
Noncontrolling interest in subsidiary	3,422,689	-	2,239,100	1,183,589	(3,422,689)	3,422,689
Total net assets without donor restrictions	656,840,959	5,309,375	4,523,349	4,733,298	(14,566,022)	656,840,959
Net assets with donor restrictions	156,516,708	-	-	-	-	156,516,708
Total net assets	813,357,667	5,309,375	4,523,349	4,733,298	(14,566,022)	813,357,667
Total liabilities and net assets	$ 1,488,947,366	$ 73,500,256	$ 13,079,643	$ 5,257,235	$ (23,536,665)	$ 1,557,247,835

Variety Children's Hospital
d/b/a Nicklaus Children's Hospital and Subsidiaries

Consolidating Statement of Operations
Year Ended December 31, 2022

	Obligor Nicklaus Children's Hospital	Miami Children's Insurance SPC, LTD	MCH Ambulatory Surgical Center, LLC	Miami Children's Health Plan, LLC	Eliminations	Consolidated
Revenues, gains and other support:						
Net patient service revenue	$ 765,570,715	$ -	$ 7,989,023	$ -	$ -	$ 773,559,738
Grant, contribution, and other revenue	26,876,257	-	602,492	-	-	27,478,749
Investment income and realized gains, net	16,901,854	462,498	-	-	-	17,364,352
Net assets released from restrictions used for operations	5,446,277	-	-	-	-	5,446,277
Total revenues, gains and other support	814,795,103	462,498	8,591,515	-	-	823,849,116
Operating expenses:						
Salaries and benefits	275,971,618	-	1,775,746	-	-	277,747,364
Medical fees	27,766,424	-	-	-	-	27,766,424
Supplies	87,067,899	-	1,197,575	-	-	88,265,474
Purchased services	18,705,714	186,726	927,280	-	-	19,819,720
Depreciation and amortization	29,509,665	-	232,434	-	-	29,742,099
Repairs and maintenance	14,875,816	-	119,025	-	-	14,994,841
Equipment rental and facility costs	14,283,024	-	777,673	-	-	15,060,697
Malpractice and other insurance	12,330,632	4,730,349	49,211	-	-	17,110,192
Interest	7,254,730	-	6,926	-	-	7,261,656
Advertising	38,785	-	-	-	-	38,785
Other	69,414,077	5,329	120,337	-	-	69,539,743
Management fees	159,793,399	-	-	-	-	159,793,399
Total expenses	717,011,783	4,922,404	5,206,207	-	-	727,140,394
Income (loss) from continuing operations	97,783,320	(4,459,906)	3,385,308	-	-	96,708,722
Gain (loss) on discontinued operations	(51,820)	-	-	207,269	-	155,449
Income (loss) from operations before nonoperating activities	97,731,500	(4,459,906)	3,385,308	207,269	-	96,864,171
Net unrealized loss on investments	(66,195,666)	(10,102,460)	-	-	-	(76,298,126)
Net payments on swap agreements	(2,973,233)	-	-	-	-	(2,973,233)
Gain on net change in fair value of swap agreements	27,257,438	-	-	-	-	27,257,438
Partial termination of interest rate swap	(5,875,000)	-	-	-	-	(5,875,000)
Loss on impairment of TMMC	(924,035)	-	-	-	-	(924,035)
Loss from subsidiaries	(10,969,789)	-	-	-	10,969,789	-
Other non-operating expenses	(1,636,949)	-	-	-	-	(1,636,949)
Guarantee of affiliate losses	(39,111,636)	-	-	-	-	(39,111,636)
Revenues (under) over expenses	(2,697,370)	(14,562,366)	3,385,308	207,269	10,969,789	(2,697,370)
Excess of revenues under expenses attributable to noncontrolling interest in subsidiary	(1,607,234)	-	-	-	-	(1,607,234)
Revenues (under) over expenses attributable to Nicklaus Children's Hospital and Subsidiaries	$ (4,304,604)	$ (14,562,366)	$ 3,385,308	$ 207,269	$ 10,969,789	$ (4,304,604)

Report 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*

Independent Auditor's Report

To the Board of Directors
Miami Children's Health System, Inc. d/b/a Nicklaus Children's Health System and Subsidiaries

We have audited, in accordance with the 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 Miami Children's Health System, Inc. d/b/a Nicklaus Children's Health System and Subsidiaries (the System), which comprise the consolidated balance sheet as of December 31, 2022, the related consolidated statements of operations and changes in net assets and cash flows for the year then ended and the related notes to the consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated April 20, 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.

Report on Compliance and Other Matters
As part of obtaining reasonable assurance about whether the System's financial statements are free from 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.

RSM US LLP

Miami, Florida
April 20, 2023

RSM US LLP

Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
Miami Children's Health System, Inc. d/b/a Nicklaus Children's Health System and Subsidiaries

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program
We have audited Miami Children's Health System, Inc. d/b/a Nicklaus Children's Health System and Subsidiaries' (the System) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the System's major federal program for the year ended December 31, 2022. The System's major federal program is 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 the major federal program for the year ended December 31, 2022.

Basis for Opinion on the Major Federal Program
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*); and 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for the major federal program. 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 Systems' federal programs.

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*, and the Uniform Guidance 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 as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, 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.
- 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, 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 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 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 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. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the financial statements of the System as of and for the year ended December 31, 2022, and have issued our report thereon dated April 20, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Miami, Florida
April 20, 2023

Nicklaus Children's Health System and Subsidiaries
(A Florida Not-for-Profit Organization)

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Department of Health and Human Services:			
Training in General, Pediatric and Public Health Dentistry	93.059		$ 456,882
Training in General, Pediatric and Public Health Dentistry	93.059		111,045
Total Training in General, Pediatric and Public Health Dentistry			567,927
Florida Department of Health –			
Maternal and Child Health Services Block Grant to the States	93.994	DEX37	477,699
Maternal and Child Health Services Block Grant to the States	93.994	DEY02	577,823
Total Maternal and Child Health Services Block Grant to the States			1,055,522
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498		2,662,865
Total Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution			2,662,865
Research and Development Cluster –			
Children's Oncology Group – Cancer Treatment Research	93.395	U10CA180886	13,250
Duke University – Food and Drug Administration Research	93.103	5U18FD006298-02	400
Total Research and Development Cluster			13,650
Total Department of Health and Human Services			4,299,964
Total expenditures of federal awards			$ 4,299,964

See notes to schedules of expenditures of federal awards.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Miami Children's Health System, Inc. d/b/a Nicklaus Children's Health System and Subsidiaries (the System) under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the 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). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the System's consolidated financial statements. Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net assets or cash flows of the System.

Note 2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are recognized under the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The System allocates indirect costs to each program based on the amount specified in the budget for each program. The System has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

The System did not pass through any federal award amounts to subrecipients during 2022.

Note 3. Provider Relief Fund

The System received amounts from the U.S. Department of Health and Human Services (HHS) through the Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution (PRF) program (Assistance Listing 93.498) during the years ended December 31, 2022 and 2021. The System recognized PRF revenue of approximately $586,000 and $2,663,000 for the years ended December 31, 2022 and 2021, respectively, in the financial statements. In accordance with the 2022 Compliance Supplement, $2,662,865 of funding was included in the schedule of expenditures of federal awards for the year ended December 31, 2022.

Nicklaus Children's Health System and Subsidiaries

Schedule of Findings and Questioned Costs
Year Ended December 31, 2022

I. Summary of Auditor's Results

A. Consolidated Financial Statements

1. Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

2. Internal control over financial reporting:

• Material weakness(es) identified?	_____	Yes	X	No
• Significant deficiency(ies) identified?	_____	Yes	X	None reported

3. Noncompliance material to financial statements noted? _____ Yes __X__ No

B. Federal Awards

1. Internal control over major programs:

• Material weakness(es) identified?	_____	Yes	X	No
• Significant deficiency(ies) identified?	_____	Yes	X	None reported

2. Type of auditor's report issued on compliance for major federal programs: Unmodified

   • Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes __X__ No

3. Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster
93.498	Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

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

Auditee qualified as low-risk auditee? __X__ Yes _____ No

(Continued)

II. Financial Statement Findings

No matters to report.

III. Findings and Questioned Costs for Federal Awards

No matters to report.

Nicklaus Children's Health System

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2022

Identifying Number: **2021-001- Allowable Cost and Reporting Requirement**

Criteria: 2 CFR Part 200.303(a) states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations and terms and conditions of the federal award.

Specific criteria are established by the U.S. Department of Health and Human Services (HHS) with respect to allowable cost and reporting requirements for this program, including:

- Funds shall reimburse the recipient only for health care related expenses or lost revenues that are attributable to coronavirus.
- Entities may elect to calculate and report lost revenue using one of three options. For entities electing to report lost revenues using Option ii, the difference between budgeted and actual patient care revenues, budgets must be approved before March 27, 2020 and cover each quarter during the period of availability. Entities electing to calculate lost revenues using another reasonable method should report using Option iii.

Condition: In the System's Period 1 and Period 2 reporting in the PRF reporting portal, the System reported lost revenue using Option ii, the difference between budgeted and actual patient care revenues. The amounts reported as budgeted revenues for each quarter of 2021 were from a budget covering only the period through December 31, 2020. The System did not have a budget approved before March 27, 2020 that covered the 2021 period of availability. Therefore, the System's calculation of lost revenue was inappropriately reported under Option ii and should have been reported under Option iii. Additionally, in the System's Period 1 and Period 2 reporting in the PRF reporting portal, the System overstated actual patient care revenues for each quarter of 2021.

Context: The total overstatement of actual patient care revenues for 2021 was $4,600,089, including $2,178,746 for the quarter ended March 31, 2021. The System reported lost revenue for the quarter ended March 31, 2021, which was understated by $2,178,746. For all other quarters of 2021, the System did not report lost revenue, because actual revenue exceeded budget. Had the correct amounts of actual revenue been reported for the second through fourth quarters of 2021, actual revenue still would have exceeded budget for each of those quarters.

Cause: In the preparation of the reports, the appropriate option for calculating lost revenue was not selected, and certain types of actual 2021 patient care revenues were double counted in error. Review processes were performed before the reports were submitted, but these reviews were not effective in detecting and correcting the errors before report submission.

Effect: The System's reporting in the PRF reporting portal inaccurately described the method used to calculate lost revenue. The calculation of lost revenues did not comply with the Terms and Conditions of the federal program, and total allowable costs reported in the PRF reporting portal were understated.

Corrective Action Taken: Management ensured information in the PRF reporting portal is correct by completing appropriate internal reviews. Laurie Levine, Administrative Director of Corporate Finance, completed the review of the reporting period and noted proper reporting and did not find any non-compliance.