Consolidated Financial Statements, Supplementary Information, and Reports on Federal and State Award Programs

CHRISTUS Health
Years Ended June 30, 2023 and 2022
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

CHRISTUS Health

Consolidated Financial Statements, Supplementary Information and Reports on Federal and State Award Programs

Years Ended June 30, 2023 and 2022

Contents

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Report of Independent Auditors

The Board of Directors and Management
CHRISTUS Health

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CHRISTUS Health'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 CHRISTUS Health'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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to October 6, 2023. The accompanying schedule of compensation information as required by the Louisiana Revised Statute 24: 513A(1)(a)(3) and the schedule of expenditures of federal and state awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *Texas Grant Management Standards* are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 GAAS. In our opinion, the schedule of compensation information and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2023 on our consideration of CHRISTUS Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CHRISTUS Health'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 CHRISTUS Health's internal control over financial reporting and compliance.

Ernst + Young LLP

October 6, 2023, except for our report on the
Schedule of Expenditures of Federal and
State Awards, for which the date is
March 28, 2024.

CHRISTUS Health

Consolidated Balance Sheets

	June 30 2023	June 30 2022
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,151,756**	$ 838,925
Short-term investments and equity in managed funds	**986,190**	1,005,930
Assets whose use is limited or restricted, required for current liabilities	**56,034**	51,237
Patient accounts receivable	**776,110**	733,697
Notes and other receivables	**128,305**	159,818
Inventories	**150,096**	143,438
Other current assets	**278,441**	204,921
Total current assets	**3,526,932**	3,137,966
Assets whose use is limited or restricted, less current portion	**977,461**	843,250
Property and equipment, net of accumulated depreciation	**3,609,836**	3,024,307
Other assets:		
Investments in unconsolidated organizations	**261,380**	221,338
Goodwill and intangible assets, net	**202,256**	163,087
Finance lease right-of-use assets	**142,982**	91,699
Operating lease right-of-use assets	**216,519**	174,508
Beneficial interest in supporting organizations	**136,810**	118,961
Other assets	**331,573**	227,468
Total other assets	**1,291,520**	997,061
Total assets	**$ 9,405,749**	$ 8,002,584

CHRISTUS Health

Consolidated Balance Sheets (continued)

	June 30 2023	June 30 2022
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 919,696**	$ 684,253
Accrued employee compensation and benefits	**315,973**	328,464
Deferred revenue	**262,581**	389,305
Current portion of long-term debt and short-term debt	**275,262**	32,016
Current portion of finance lease liabilities	**13,573**	12,069
Current portion of operating lease liabilities	**52,015**	48,505
Long-term obligations subject to remarketing agreements	**63,805**	–
Total current liabilities	**1,902,905**	1,494,612
Long-term debt, less current portion	**1,779,147**	1,504,680
Derivative financial instruments	**47,153**	72,246
Long-term finance lease liabilities	**160,503**	111,099
Long-term operating lease liabilities	**186,195**	149,958
Other long-term obligations – including self-funded liabilities, less current portion	**312,436**	213,306
Total liabilities	**4,388,339**	3,545,901
Net assets:		
Net assets without donor restrictions:		
Attributable to CHRISTUS Health	**4,271,408**	3,792,223
Attributable to noncontrolling interest	**497,006**	447,227
Total net assets without donor restrictions	**4,768,414**	4,239,450
Net assets with donor restrictions	**248,996**	217,233
Total net assets	**5,017,410**	4,456,683
Total liabilities and net assets	**$ 9,405,749**	$ 8,002,584

See accompanying notes.

CHRISTUS Health

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended June 30	
	2023	**2022**
	(In Thousands)	
Revenues:		
Net patient service revenue	**$ 6,801,035**	$ 6,454,657
Premium revenue	**419,673**	381,485
Other revenue, including provider relief funds *(Note 5)*	**593,505**	529,222
Total revenues	**7,814,213**	7,365,364
Expenses:		
Employee compensation and benefits	**3,538,282**	3,474,428
Services and other	**2,217,422**	2,037,407
Supplies	**1,349,027**	1,234,910
Depreciation and amortization, including impairment	**313,258**	280,852
Interest	**71,723**	51,382
Total expenses	**7,489,712**	7,078,979
Operating income	**324,501**	286,385
Nonoperating investment gain (loss), net	**107,681**	(40,210)
Other nonoperating gains (losses), net	**23,107**	(8,355)
Revenues in excess of expenses	**455,289**	237,820
Less revenues in excess of expenses attributable to noncontrolling interests	**46,109**	27,869
Revenues in excess of expenses attributable to CHRISTUS Health	**409,180**	209,951

CHRISTUS Health

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

	Year Ended June 30	
	2023	**2022**
	(In Thousands)	
Net assets without donor restrictions:		
Revenues in excess of expenses attributable to CHRISTUS Health	**$ 409,180**	$ 209,951
Unrealized gain (loss) on other-than-trading investments	**11,300**	(37,608)
Change in pension liabilities	**3,898**	1,449
Foreign currency translation adjustment	**63,651**	(59,039)
Other activities, net, including net assets released from restrictions for capital	**(8,844)**	27,513
Changes attributable to CHRISTUS Health	**479,185**	142,266
Revenues in excess of expenses attributable to noncontrolling interests	**46,109**	27,869
Distributions	**(15,489)**	(12,826)
Net assets acquired from acquisition and sale of noncontrolling interests, net	**1,590**	(3,217)
Foreign currency translation adjustment	**11,259**	(946)
Other activities, net	**6,310**	3,585
Changes attributable to noncontrolling interests	**49,779**	14,465
Net assets with donor restrictions:		
Net change in beneficial interest in supporting organizations	**17,849**	(11,527)
Contributions	**16,576**	13,801
Unrealized gain (loss) on investments	**2,988**	(5,387)
Other activities, net	**(5,650)**	(11,607)
Changes in net assets with donor restrictions	**31,763**	(14,720)
Change in net assets	**560,727**	142,011
Net assets – beginning of fiscal year	**4,456,683**	4,314,672
Net assets – end of fiscal year	**$ 5,017,410**	$ 4,456,683

See accompanying notes.

CHRISTUS Health

Consolidated Statements of Cash Flows

	Year Ended June 30 2023	2022
	(In Thousands)	
Operating activities		
Change in net assets	**$ 560,727**	$ 142,011
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Change in beneficial interests	**(17,849)**	11,527
Change in pension liabilities recognized in net assets	**(3,898)**	(1,449)
Contributions of net assets with donor restrictions	**(16,576)**	(13,801)
Distributions to, acquisitions, and sale of noncontrolling interest, net	**13,899**	16,043
Distributions from investments in unconsolidated organizations	**12,351**	22,060
Equity in earnings of unconsolidated organizations	**(17,023)**	(24,945)
Unrealized investment loss	**12,115**	156,716
Depreciation and amortization	**313,258**	280,852
Amortization of premiums, discounts, and deferred financing costs	**(2,894)**	(2,330)
Change in derivative fair value	**(25,093)**	(71,841)
Gain on disposal and nonmonetary exchange of property, equipment and other assets	**(50,672)**	(786)
Foreign currency translation adjustment, net of cash impact	**(84,550)**	59,039
Changes in operating assets and liabilities, net of acquisitions:		
Increase in net patient accounts receivable	**(30,767)**	(140,307)
Decrease (increase) in investments and assets whose use is limited or restricted	**195,719**	(156,290)
Decrease in notes and other receivables	**34,336**	71,682
Increase in other current assets and inventories	**(67,617)**	(94,469)
Increase (decrease) in accounts payable, accrued expenses, and accrued employee compensation and benefits	**186,999**	(7,871)
Decrease in deferred revenue	**(126,870)**	(246,946)
Increase (decrease) in other long-term liabilities	**101,950**	(115,436)
Net cash provided by (used in) operating activities	**987,545**	(116,541)
Investing activities		
Purchases of property and equipment	**(773,325)**	(437,569)
Proceeds from sale or disposal of property and equipment	**5,610**	16,580
Purchases of or contributions to investments in unconsolidated organizations	**(10,316)**	(7,671)
(Increase) decrease in other-than-trading investments and assets limited as to use	**(182,083)**	64,646
(Increase) decrease in other assets	**(91,306)**	14,090
Acquisitions of healthcare entities, net of cash acquired	**(45,345)**	–
Net cash used in investing activities	**(1,096,765)**	(349,924)

CHRISTUS Health

Consolidated Statements of Cash Flows (continued)

	Year Ended June 30 2023	2022
	(In Thousands)	
Financing activities		
Contributions of net assets with donor restrictions	**$ 16,576**	$ 13,801
Purchases and sales of noncontrolling interests, net	**1,590**	(3,217)
Proceeds from issuance of new debt	**646,356**	–
Payments on long-term debt, including deposits into escrow for defeasance	**(67,652)**	(45,080)
Payments on financing leases	**(14,311)**	(15,090)
Distributions to noncontrolling interest holders	**(15,489)**	(12,826)
Net cash provided by (used in) financing activities	**567,070**	(62,412)
Net increase (decrease) in cash, cash equivalents, and restricted cash	**457,850**	(528,877)
Cash, cash equivalents, and restricted cash – beginning of fiscal year	**966,985**	1,495,862
Cash, cash equivalents, and restricted cash – end of fiscal year	**$ 1,424,835**	$ 966,985
Reconciliation of cash, cash equivalents, and restricted cash		
Cash and cash equivalents at beginning of fiscal year	**$ 838,925**	$ 1,317,597
Restricted cash included in assets whose use is limited or restricted at beginning of fiscal year	**128,060**	178,265
Cash, cash equivalents, and restricted cash at beginning of fiscal year	**$ 966,985**	$ 1,495,862
Cash and cash equivalents at end of fiscal year	**$ 1,151,756**	$ 838,925
Restricted cash included in assets whose use is limited or restricted at end of fiscal year	**273,079**	128,060
Cash, cash equivalents, and restricted cash at end of fiscal year	**$ 1,424,835**	$ 966,985
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (net of amount capitalized)	**$ 70,995**	$ 57,829

See accompanying notes.

1. Mission, Vision, and Organization of CHRISTUS Health

CHRISTUS Health was incorporated as a Texas nonprofit corporation on December 15, 1998. CHRISTUS is sponsored by the Congregation of the Sisters of Charity of the Incarnate Word of Houston, Texas; the Congregation of the Sisters of Charity of the Incarnate Word of San Antonio, Texas; and the Congregation of the Sisters of the Holy Family of Nazareth. CHRISTUS Health, together with each affiliated entity for which CHRISTUS Health holds, directly or indirectly, at least a majority membership, ownership or other controlling interest, are collectively referred to in these consolidated financial statements as CHRISTUS or the System.

The mission of CHRISTUS is to extend the healing ministry of Jesus Christ. The Gospel values underlying the mission statement challenge CHRISTUS to make choices that respond to the economically disadvantaged and the underserved with healthcare needs. The growth and development of CHRISTUS are determined by the healthcare needs of the communities that CHRISTUS serves, its available resources, and the interrelationship of those serving and those being served. Responsible stewardship mandates that CHRISTUS searches out new, effective means to deliver quality healthcare and to promote wholeness in the human person.

The vision of CHRISTUS is to be a leader, a partner, and an advocate in the creation of innovative health and wellness solutions that improve the lives of individuals and communities so that all may experience God's healing presence and love.

The consolidated financial statements reflect the results of operations of CHRISTUS Health and its affiliated market-based healthcare provider organizations and other related entities and functions (all of which are, or further the work of, CHRISTUS ministries). These include, but are not limited to, hospitals, physician groups, ambulatory surgery centers, diagnostic imaging companies, urgent care centers, health plans, integrated community health networks, foundations, professional office buildings, management services organizations, a collection agency, self-insurance trusts, and an offshore captive insurance company.

CHRISTUS entities control or own, directly or indirectly, or manage various nonprofit and for-profit corporations and other organizations that currently operate domestically in the states of Texas, Louisiana, and New Mexico, and internationally in Grand Cayman, Mexico, Chile, and Colombia.

CHRISTUS Health and certain affiliated nonprofit corporations are generally exempt from federal income taxes under Section 501(a) of the Internal Revenue Code, as organizations described in Section 501(c)(3).

2. Community Health

In accordance with its mission and philosophy, the System commits significant resources to improving the health of the communities it serves. In support of its mission, the System provides programs and services for entire communities, with special consideration for those who are poor and underserved.

CHRISTUS and various hospital participants have elected to provide healthcare services to the indigent population both directly to patients as charity services and by providing financial support to one another for certain community benefit efforts provided throughout the year with the goal being to reach a previously discussed equitable distribution of the cost of care to the low-income and needy populations in the communities they service.

Programs and Services for the Poor and Underserved

These programs and services represent the financial commitment to serve those who have inadequate resources and/or are uninsured or underinsured. Services are offered with the conviction that healthcare is a basic human right and all deserve access. The categories included as programs and services for the poor and the underserved are as follows:

Charity Care – In accordance with the Catholic Health Association (CHA) guidelines, charity care represents the unpaid costs of free or discounted health services provided to persons who cannot afford to pay and who meet the organization's criteria for financial assistance. Traditional charity care is defined by the state of Texas as the unreimbursed costs of providing, funding, or otherwise financially supporting the healthcare services provided to a person classified by the hospital as financially or medically indigent. CHRISTUS generally considers anyone with income at or below 200% of the federal poverty level as qualifying for charity care. Charity care services provided to these patients are not reported as revenue in the consolidated statements of operations and changes in net assets, as there is no expectation of payment. The amount of traditional charity care provided, determined on the basis of cost, estimated using the applicable cost to charge ratios of the hospital participants was $376,336,000 and $332,895,000 for the fiscal years ended June 30, 2023 and 2022, respectively.

Unpaid Costs of Medicaid and Other Public Programs for the Indigent – This category represents the cost of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of any payments received from all sources.

2. Community Health (continued)

Community Services for the Poor and Underserved – This category represents the unpaid cost of services provided for which a patient is not billed or for which a fee has been assessed that recovers only a portion of the cost of the rendered service. This category includes services to those in need through community health programs. The programs cover a broad spectrum of services, including community health centers, immunizations for children and seniors, Meals on Wheels, transportation services, home repair projects, and a variety of other social services. These programs may also seek justice for the vulnerable and work to bring about changes in political and economic systems.

Community Services Provided for the Broader Community – This category represents the unpaid cost of services provided for the benefit of the entire community. The majority of these expenditures are for graduate medical education programs, either through CHRISTUS-sponsored or affiliated programs. Other benefits for the broader community include health promotion and wellness programs, health screenings, newsletters, and radio or television programs intended for health education. These programs are not intended to be financially self-supporting.

Education and Research – This category represents the direct costs associated with medical education and other health professional educational programs in excess of governmental payments.

Other Community Services – This category represents leadership activities, community planning, and advocacy.

3. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of all entities of the System (see Note 1). All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with United States generally accepted accounting principles (U.S. GAAP) requires management of the System to make assumptions, estimates, and judgments that affect the amounts of assets, liabilities, revenues, and expenses reported in the consolidated financial statements, including the notes

3. Summary of Significant Accounting Policies (continued)

thereto, and related disclosures of commitments and contingencies, if any, at the date of the consolidated financial statements. 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 materially from these estimates.

Cash Equivalents and Investments

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less.

The System's investment portfolio is classified as trading, with unrealized gains and losses included in revenues in excess of expenses and cash flows included in operating activities. Certain investments held by the System's foundations are classified as other than trading, with unrealized gains and losses included in changes in net assets and cash flows included in investing activities. Investments in equity securities and funds with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments also include equity investments in managed funds structured as limited liability corporations or partnerships. Equity investments in managed funds without readily determinable fair values are accounted for using net asset value (NAV) as a practical expedient if held within the System's foundations or captive insurer, or under the equity method of accounting if held by another System entity. Investment income or loss (including equity investment earnings (losses) on equity investments in managed funds; realized and unrealized gains and losses, computed on the average-cost basis of the security at the time of sale; and interest and dividends) is included in revenues in excess of expenses, unless the income or loss is restricted by donor or law.

Investment income earned on assets held by trustees under bond indenture agreements, assets held by foundations, assets deposited in trust funds for self-insurance purposes, holdings in healthcare-related investment funds, and funds held by insurance subsidiaries in accordance with industry practices are included in other revenue in the consolidated statements of operations and changes in net assets.

3. Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments

The System utilizes interest rate swaps to mitigate interest rate exposures. Changes in the fair value of the System's interest rate swaps and the expense or income representing the net of the payments made and received under the swap agreements are recorded as a component of nonoperating investment gain (loss) in the accompanying consolidated statements of operations and changes in net assets.

Inventories

The System values inventories, which consist principally of medical supplies and pharmaceuticals, at the lower of cost (first-in, first-out or weighted average cost valuation method) or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at historical cost or, if donated, impaired, or acquired in a business transaction, at fair value at the time of donation, impairment, or acquisition. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged against operations.

Depreciation is calculated and recorded over the estimated useful life of each class of depreciable assets using the straight-line method. The *American Hospital Association – Estimated Useful Lives of Depreciable Hospital Assets* is used as a general guide in establishing depreciable lives. Amortization of capital leases and impairment losses related to long-lived assets are included in depreciation expense.

Internal-Use Software

Costs to develop internal-use software and internal-use software obtained through a hosting arrangement are capitalized during the application development phase in accordance with Accounting Standards Codification (ASC) 350, *Intangibles – Goodwill and Other*. At June 30, 2023 and 2022, the System had capitalized costs related to internal-use software obtained through a hosting arrangement, net of amortization, of $24,360,000 and $27,927,000, respectively, included in other assets in the consolidated balance sheets. The capitalized costs are amortized

3. Summary of Significant Accounting Policies (continued)

over a 10-year life. During both the fiscal years ended June 30, 2023 and 2022, the System recognized amortization expense of $3,567,000, which is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

Asset Impairment

The System periodically evaluates the carrying value of its operating long-lived assets for impairment when indicators of impairment are identified. These evaluations are primarily based on the estimated recoverability of the assets' carrying value. Impairment write-downs are recognized as a reduction in operating income for the operating long-lived assets and as a reduction in nonoperating gain for the assets held for sale at the time the impairment is identified. There were no impairments of operating long-lived assets recognized in fiscal years 2023 or 2022.

Investments in Unconsolidated Organizations

The System has investments in certain organizations for which it does not have a majority ownership interest or control and, therefore, these organizations are not consolidated. Generally, these investments are recorded using the equity method of accounting for those organizations in which the System owns greater than 20% and has significant influence over the organization. The System measures its equity investments in organizations in which the System owns 20% or less at cost less impairment, if any, because these investments do not have a readily determinable fair value.

The System has investments in unconsolidated organizations of $261,380,000 and $221,338,000 at June 30, 2023 and 2022, respectively. Differences between the carrying amounts of the System's investments and the underlying equity in the net assets of the investees total $81,423,000 and $80,589,000 at June 30, 2023 and 2022, respectively. These differences are attributed to the excess fair value over book value of intangible assets at the investee level, and are being reduced as an adjustment to equity earnings over the life of the related contracts. The intangible is reviewed for impairment on an annual basis.

Equity income of $17,023,000 and $24,945,000 for the fiscal years ended June 30, 2023 and 2022, respectively, are reflected in other revenue in the consolidated statements of operations and changes in net assets.

3. Summary of Significant Accounting Policies (continued)

Noncontrolling Interests in Consolidated Subsidiaries

Noncontrolling interests are based on the contractual terms of joint ventures and the ownership percentage of the noncontrolling interests in certain of the System's consolidated subsidiaries. Noncontrolling interests are reflected as a component of net assets without donor restrictions in the consolidated balance sheets, net of distributions.

Goodwill and Intangible Assets

Goodwill and intangible assets recorded in connection with acquisitions completed by the System are accounted for under ASC 350. The System records goodwill as the excess of the purchase price over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. Indefinite-lived intangible assets consist entirely of an acquired trade name asset. Finite-lived intangible assets consist primarily of noncompete assets generated from business combinations and minimum revenue guarantees offered to various non-employed physicians throughout the System.

The changes in the carrying amounts of goodwill and intangible assets as of June 30 are as follows (in thousands):

	Goodwill	Indefinite-Lived Asset	Finite-Lived Assets
Balance at June 30, 2021	$ 104,955	$ 46,000	$ 10,884
Assets acquired	–	–	5,848
Amortization	–	–	(4,874)
Currency translation and other adjustments	1,237	–	(963)
Balance at June 30, 2022	106,192	46,000	10,895
Assets acquired	**40,272**	**–**	**6,678**
Amortization	**–**	**–**	**(7,259)**
Currency translation and other adjustments	**538**	**–**	**(1,060)**
Balance at June 30, 2023	**$ 147,002**	**$ 46,000**	**$ 9,254**

3. Summary of Significant Accounting Policies (continued)

Goodwill assets acquired during the year ended June 30, 2023 were generated by multiple business combinations that were not individually material to the System. Goodwill is evaluated at least annually for impairment at the reporting unit level on April 1 of each year. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Additional impairment assessments may be performed on an interim basis if the System encounters events or changes in circumstances that would indicate that it is more likely than not that the carrying value has been impaired. The System has determined that its reporting units are the various geographically located affiliates.

For goodwill impairment tests, the System may elect to perform a qualitative assessment of each reporting unit to determine whether facts and circumstances support a determination that the reporting unit’s fair value is greater than its carrying value. A quantitative assessment is performed for reporting units if the qualitative analysis is not conclusive or if impairment is indicated.

If a quantitative assessment is required, the System uses a fair-value-based process using a discounted cash flow income method, a guideline public company method, and a mergers and acquisitions method to estimate the fair value of the reporting unit. This analysis requires judgments and estimates about the weighted average cost of capital, risk factors, and forecasted operating margins. If the carrying amount of the reporting unit exceeds its fair value, a goodwill impairment is recognized equal to the lesser of the difference between carrying value and fair value or the amount of the goodwill under evaluation. Judgments and assumptions are inherent in the System’s estimates used to determine the fair value of its reporting units and are consistent with what the System believes would be utilized by a primary market participant. The use of alternative judgments and assumptions could result in the recognition of different impairment charges in the System’s consolidated financial statements.

As a result of the qualitative assessment for fiscal years 2023 and 2022, no impairment loss was recognized related to goodwill.

Indefinite-lived intangible assets are also evaluated annually for impairment on April 1 of each year, by comparing the fair value of the asset with its carrying amount. The System also considers facts and circumstances surrounding the asset on an annual basis to determine whether an indefinite life continues to be appropriate. For indefinite-lived intangible asset impairment tests, the System also may elect to perform a qualitative assessment to determine whether facts and circumstances support a conclusion that it is more likely than not that the asset is not impaired. If the qualitative analysis is not conclusive, or if the System elects to proceed directly with

3. Summary of Significant Accounting Policies (continued)

quantitative testing, the fair values of the intangible assets are determined and compared with their carrying amounts. As a result of the qualitative assessments for both fiscal years ended June 30, 2023 and 2022, no impairment losses on indefinite-lived intangible assets were recorded.

Finite-lived intangible assets are evaluated for impairment whenever indicators of impairment are identified. An impairment loss is recognized if the intangible asset is not recoverable and its carrying amount exceeds its fair value. No impairment losses on finite-lived intangible assets were recognized in fiscal years 2023 or 2022.

Leases

The System determines whether an arrangement is a lease at inception of the contract and performs an analysis to determine whether the lease is an operating lease or a financing lease. Right-of-use assets represent the System's right to use the underlying assets for the lease term and lease liabilities represent the System's obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The System uses its estimated incremental borrowing rate in determining the present value of lease payments to the extent that the rate inherent in the lease is unknown. The incremental borrowing rate is calculated on a quarterly basis by a third party that estimates the rate of interest the System would have to pay over a term similar to the lease term. The System does not record leases with an initial term of 12 months or less in its consolidated balance sheets.

Deferred Financing Costs

Deferred financing costs, net of accumulated amortization, included as a reduction of long-term debt at June 30, 2023 and 2022, are $9,485,000 and $7,548,000, respectively, which are being amortized using the effective interest method over the terms of the indebtedness to which they relate. Amortization expense recognized for fiscal years 2023 and 2022 was $772,000 and $778,000, respectively.

Net Assets With Donor Restrictions

Net assets with donor restrictions reflect the portion of the System's net assets whose use is subject to donor imposed restrictions. Donor imposed restrictions may be temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. These include

3. Summary of Significant Accounting Policies (continued)

the System's beneficial interest in the net assets of affiliated and financially interrelated organizations, whose use has been limited by grant agreements and donors to a specific time period or purpose. Other donor imposed restrictions are perpetual in nature, where the assets have been restricted by donors to be maintained by the System in perpetuity. Net assets with donor restrictions are primarily restricted for healthcare services, capital projects, community outreach and other.

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

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the amount to which CHRISTUS expects to be entitled in exchange for providing patient care. The System has agreements with third-party payors that provide for payments to the System at amounts different from established rates. Estimated retroactive adjustments under reimbursement agreements with third-party payors are included in patient service revenue and estimated third-party payor settlements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. A complete description of the System's revenue recognition policy is included in Note 4 below.

3. Summary of Significant Accounting Policies (continued)

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

	2023	2022
Medicare	**33%**	30%
Medicaid	**12**	15
Managed care organizations	**36**	38
Self-pay	**4**	4
Others	**15**	13
	100%	100%

Charity Care

The System provides care to many patients who cannot afford to pay and who meet the System's criteria for financial assistance. Charity care services provided to these patients are not reported as patient service revenue, as there is no expectation of payment. CHRISTUS estimates the cost of providing charity care using the applicable cost to charge ratios of the hospital participants.

Premium Revenue and Associated Costs

Premium revenue largely represents revenues derived under capitated arrangements with third parties. In return for these premiums, CHRISTUS is responsible for providing essentially all healthcare services to enrolled participants. The System contracts with the Department of Defense (DOD) to treat TRICARE patients through a US Family Health Plan, whereby CHRISTUS earns a negotiated fee per member per month. In return for these premiums, CHRISTUS is responsible for administering covered benefits. Premium revenue recognized under the contract with the DOD was 32.2% and 36.0% of total premium revenue during the years ended June 30, 2023 and 2022, respectively. Revenue under this contract is recognized on a monthly basis, subject to provisions for retrospective adjustments based primarily on the results of membership audits.

3. Summary of Significant Accounting Policies (continued)

Premium revenues are also generated by the System's health maintenance organization, Medicare Advantage plans, and for individual coverage on federal and state-based health exchanges. Premium revenue for individual coverage on the federal and state-based Exchanges and Medicare Advantage programs was 67.8% and 64.0% of total premium revenue for the fiscal years ended June 30, 2023 and 2022, respectively. A significant portion of these premiums is subsidized through the federal government's advance premium tax credit provisions. Revenues from the exchanges are also subject to risk-sharing provisions as outlined in federal regulations. The purpose of the risk-sharing provisions is to transfer funds from health plans with lower risk to health plans with higher risk within the same state. Risk adjustment assessments and distributions are computed based on a health plan's risk score vs. the overall market risk score. Included in net premium revenues for individual coverage on federal and state-based health exchanges are adjustments, decreasing the System's premium revenues for estimated risk-sharing assessments of $20,607,000 and $13,583,000 as of June 30, 2023 and 2022, respectively. Ultimate settlement could differ significantly from these estimates.

Costs for providing services through these contracts were $347,477,000 and $311,722,000 for the fiscal years ended June 30, 2023 and 2022, respectively, and are included as operating expenses in the accompanying consolidated financial statements. At June 30, 2023 and 2022, the System has accrued expenses for incurred but not reported claims based upon actuarial evaluations of claims experience. These estimates are continually reviewed and adjusted as necessary as experience develops or as new information becomes known; such adjustments are included in current operations. The System maintains stop-loss insurance coverage to limit exposure for certain catastrophic claims.

Other Revenue

Other revenue is derived from services other than providing healthcare services or coverage to patients, residents, or enrollees. This revenue typically includes investment income from all funds held by foundations, bond trustees, malpractice funds, or other miscellaneous investment activities; fees for providing management services under the terms of management agreements with certain of the System's joint ventures and related-party joint venture partners; rental of healthcare facility space; sales of medical and pharmaceutical supplies to employees, physicians, and others; proceeds from sales of cafeteria meals and guest trays to employees, medical staff, and visitors; and proceeds from sales at gift shops and other retail activities or other service facilities operated by the System.

3. Summary of Significant Accounting Policies (continued)

Management and license fee contracts include variable consideration, as the fees are not fixed but are based on a percentage of revenue. CHRISTUS recognizes revenue when the uncertainty is resolved, which is generally on a monthly basis as actual revenues are known or can be reasonably estimated. CHRISTUS also evaluates the collectability of each of its management and license fee contracts and applies a constraint, if necessary, to avoid future reversals of revenue. Membership revenues relate primarily to fitness centers operated by various hospitals throughout the System, and are recognized ratably over the membership period. Revenues from point-of-sale transactions are recognized as incurred.

For the years ended June 30, 2023 and 2022, other revenue included amounts received under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The System recognizes grant payments under the CARES Act as revenues when the grant conditions have been substantially met. These estimates could change materially based on evolving grant compliance provisions and guidance provided by the U.S. Department of the Treasury. The System will continue to monitor the evolving guidelines and may record adjustments as additional information is released (see Note 5).

Income Taxes

The authoritative guidance in ASC 740, *Income Taxes*, creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under the requirements of this guidance, tax-exempt organizations could be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. CHRISTUS has interests in various taxable entities, including investments in Mexico, Chile and Colombia. These interests may give rise to U.S. and international tax exposures. CHRISTUS intends to utilize foreign earnings in foreign operations for an indefinite period of time in order to continue investing all earnings into the continued maintenance and expansion of these operations abroad as part of the System's mission. If these amounts were distributed to the United States, in the form of dividends or otherwise, the System could be subject to additional U.S. income taxes. Determination of the amount of unrecognized deferred income tax liabilities on these earnings is not practicable because such liability, if any, depends on circumstances existing if and when remittance occurs. There are no material unrecorded tax liabilities as of June 30, 2023 or 2022.

3. Summary of Significant Accounting Policies (continued)

At June 30, 2023 and 2022, CHRISTUS has operating loss carryforwards in its domestic operations of $187,718,000 and $211,858,000, which result in deferred tax assets of $39,450,000 and $44,490,000, respectively. CHRISTUS has provided a valuation allowance of the same amount, as it is more likely than not that the deferred tax assets will not be realized. CHRISTUS also has net deferred tax assets of approximately $43,611,000 and $28,384,000 as of June 30, 2023 and 2022, respectively, in its international operations, which relate primarily to certain pension liabilities and other provisions, and which is recorded in other assets in the consolidated balance sheets. CHRISTUS has not provided a valuation allowance for this amount, as it is believed the amount will be fully realized.

The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, and technical corrections to tax depreciation methods for qualified improvement property. Management does not expect a material tax impact on CHRISTUS's consolidated financial statements from the provisions of the CARES Act.

Foreign Currency

Functional currency is determined for each entity within the System based on the primary currency in which the entity generates and expends cash. Each entity denominated in a functional currency other than the U.S. Dollar (USD) is subjected to a remeasurement and translation process. First, transactions at these entities that are in a currency other than the functional currency are remeasured into the functional currency. Remeasurement gains (losses) recorded as a component of non-operating income were $21,083,000 and $(33,424,000) for the fiscal years ended June 30, 2023 and 2022, respectively. After all balances are appropriately measured in the functional currency, the balances are then translated to USD and consolidated.

Business Combinations

CHRISTUS accounts for all transactions that represent business combinations in which it obtains control of the acquired entity using the acquisition method of accounting, where the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired entity are recognized and measured at their fair values on the date the System obtains control of the acquiree.

3. Summary of Significant Accounting Policies (continued)

Such fair values that are not finalized for reporting periods following the acquisition date are estimated and recorded as provisional amounts. Adjustments to these provisional amounts during the measurement period (defined as the date through which all information required to identify and measure the consideration transferred, the assets acquired, the liabilities assumed, and any noncontrolling interests has been obtained, limited to one year from the acquisition date) are recorded in the period in which the final amounts are determined. Goodwill is determined as the excess of the purchase price over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. An inherent contribution is recorded if the fair values of identifiable assets and liabilities acquired exceed the consideration conveyed.

Performance Indicator

The performance indicator is revenues in excess of expenses, which includes all changes in net assets without donor restrictions other than changes in the pension liability funded status, changes in noncontrolling interests, net assets released from restrictions for property acquisitions, unrealized gains and losses on other-than-trading investments, cumulative effect of changes in accounting principles, discontinued operations, contributions of property and equipment, and other changes not required to be included within the performance indicator under U.S. GAAP.

Operating and Nonoperating Activities

CHRISTUS's primary mission is to meet the healthcare needs in its market areas through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, physician services, and other healthcare services. Activities directly associated with furthering this purpose are considered to be operating activities. Earnings from the investment activities of the offshore captive, community foundations, and holdings in healthcare-specific investment funds are also classified as operating activities, as such earnings support the operations of those organizations. Other activities that result in gains or losses peripheral to CHRISTUS's primary mission are considered to be nonoperating. Nonoperating activities include all other investment earnings, foreign currency remeasurement gains and losses, gains or losses from bond defeasance, and net settlement cost and changes in fair value of interest rate swaps.

3. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. Accrued pension benefits of $(751,000) as of June 30, 2022 have been included in other long-term obligations – including self-funded liabilities, less current portion. Additionally, the System reclassified $(946,000) of changes in net assets attributable to noncontrolling interests from other activities to foreign currency translation adjustment for the year ended June 30, 2022.

New Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The amendments in the ASU provide optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued due to reference rate reform. The guidance was effective upon issuance and was applicable through December 31, 2022. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*. The amendments in this ASU extended the sunset date of Topic 848 from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The guidance was effective upon issuance. The adoption of ASU 2022-06 did not materially impact the System's consolidated financial statements.

Pending Accounting Pronouncement

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which provides guidance for accounting for credit losses on financial instruments. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The updated guidance will be effective for fiscal years beginning after December 15, 2022, including interim periods within that fiscal year. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. CHRISTUS is currently evaluating the impact of this pronouncement on its consolidated financial statements.

4. Revenue Recognition

Patient Service Revenue

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

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

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

4. Revenue Recognition (continued)

Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated and recorded in the period the related services are rendered and adjusted in future periods as final settlements are determined. At June 30, 2023 and 2022, the System has estimated third-party settlements, net, of $50,140,000 and $24,411,000, respectively, recorded in accounts payable and accrued expenses in the consolidated financial statements. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Patient service revenue includes variable consideration for these retroactive revenue adjustments resulting from the settlement of audits, reviews, and investigations using the most likely outcome method. For fiscal years 2023 and 2022, revenue increased $8,264,000 and $9,535,000, respectively, related to changes in estimates for cost report reopenings, appeals, and tentative and final cost report settlements on filed cost reports, of which some are still subject to audit, additional reopening, and/or appeal.

The transaction price for patient services provided depends greatly upon the System's payor mix, as collections on gross charges can vary significantly, depending on a patient's insurance coverage, or lack thereof, and the extent of amounts due from patients for co-pays, coinsurance, and deductibles. Various factors affect collection trends within each major class of payors. These include general economic conditions, including unemployment rates, which may influence the number of uninsured and underinsured patients; regulatory changes that affect reimbursement rates from governmental programs such as Medicare and Medicaid; and ongoing contract negotiations with managed care health plans and commercial insurance providers. In addition, estimates of implicit price concessions offered to uninsured patients or related to co-pays, coinsurance, and deductibles of patients with insurance are subject to change, as historical collection and write-off experience are analyzed on a monthly basis. These changes are recorded as adjustments to the transaction price in the period in which the estimates are revised. Subsequent adjustments that are determined to be the result of an adverse change in the patient's or the payor's ability to pay are recognized as bad debt expense, which is recorded as a component of other operating expenses in the accompanying consolidated statements of operations and changes in net assets.

4. Revenue Recognition (continued)

The following table summarizes the amount of net patient service revenue recognized by payor (in thousands):

	Year Ended June 30, 2023		Year Ended June 30, 2022	
	Amount	**Percentage of Total**	**Amount**	**Percentage of Total**
Domestic operations:				
Medicare	**$ 2,286,246**	**34%**	$ 2,143,520	33%
Medicaid	**1,049,999**	**15**	953,079	15
Managed care	**2,347,924**	**34**	2,211,497	34
Self-pay	**458,852**	**7**	473,255	7
Other	**177,433**	**3**	228,627	4
Subtotal domestic operations	**6,320,454**	**93**	6,009,978	93
International operations:				
Mexico payors (private insurance and government payors)	**480,581**	**7**	444,679	7
Net patient service revenue	**$ 6,801,035**	**100%**	$ 6,454,657	100%

The System also receives payments through state supplemental payment programs, which includes Disproportional Share (DSH) payments in multiple states, the 1115 (b) Waiver Program (Waiver Program) payments in the state of Texas, as well as other state-related directed payments.

Federal law permits state Medicaid programs to make DSH payments to hospitals that serve a disproportionately large number of Medicaid and low-income patients. These funds are not tied to specific services for Medicaid-eligible patients. The federal government distributes federal Medicaid DSH funds to each state based on a statutory formula. Revenue under the DSH programs is recognized as a component of net patient service revenue over the benefit period when information is received from the states regarding the amount and timing of DSH payments to be received for the applicable period. CHRISTUS believes that its performance obligations are generally satisfied ratably over the applicable period and recognizes revenue on a monthly basis.

The System recorded $118,553,000 and $137,760,000 in net patient service revenue during fiscal years 2023 and 2022, respectively, related to the DSH program.

4. Revenue Recognition (continued)

In December 2011, the Centers for Medicare & Medicaid Services (CMS) approved the Waiver Program submitted by the Texas Health and Human Services Commission (HHSC). The Waiver Program has historically provided supplemental payments to hospitals through two pools: Uncompensated Care (UC) and Delivery System Reform Incentive Payments (DSRIP). On July 14, 2021 HHSC submitted to CMS its request to extend and to amend the waiver program through September 30, 2030. The extension was ultimately granted on April 22, 2022. Per the terms of prior renewals, the DSRIP program ended on September 30, 2021; therefore, only UC payments will continue through the end of the Waiver Program.

Revenue under the Waiver Program is recognized as a component of net patient service revenue over the applicable demonstration year. The System recorded $224,237,000 and $288,230,000 in net patient service revenue during fiscal years 2023 and 2022, respectively, related to the Waiver Program.

In addition to payments under the Waiver Program, the state of Texas also makes directed payments to hospitals for inpatient and outpatient services. These payments were previously made through the Uniform Hospital Incentive Rate Program (UHRIP); however, the UHRIP program expired on August 31, 2021. With the expiration of both DSRIP and UHRIP, the state implemented the Comprehensive Hospital Increase Reimbursement Program (CHIRP). CHIRP was designed to reimburse providers closer to the average commercial rate. During fiscal year 2023, the System recorded approximately $224,810,000 in net patient service revenue related to CHIRP. The System recorded approximately $156,150,000 in net patient service revenue related to CHIRP and UHRIP during fiscal year 2022. Effective July 1, 2022, the state of Louisiana makes directed payments to hospitals for inpatient and outpatient services under the Money Follows the Patient (MFP) program. The System recorded approximately $65,866,000 in net patient service revenue related to MFP during fiscal year 2023.

The System recorded deferred revenues of $77,800,000 and $38,600,000 as of June 30, 2023 and 2022, respectively, for consideration received related to state supplemental payment programs for which the performance obligation has not yet been met. Upon satisfaction of the performance obligations in fiscal years 2023 and 2022, the System recognized $38,600,000 and $0, respectively, in net patient service revenue related to amounts included in deferred revenue as of June 30, 2022 and 2021, respectively.

4. Revenue Recognition (continued)

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

In addition, government agencies may review the System's compliance with various payment regulations and conduct audits under CMS's Recovery Audit Contractor (RAC) and other programs. The results of the enhanced medical necessity reviews and the RAC program audits could have an adverse effect on the System's consolidated financial statements. To the extent these reviews result in an adverse finding, the System may appeal the adverse finding, though it may incur significant legal expense.

5. COVID-19 Pandemic and CARES Act

The outbreak of COVID-19, a respiratory disease caused by a novel strain coronavirus, has and will continue to have significant adverse impacts on the operations and financial condition of healthcare providers generally. Initially, the treatment of this contagious disease at healthcare facilities resulted in a temporary shutdown or diversion of patients from those facilities, deferral or avoidance of elective procedures and other medical treatment unrelated to COVID-19, and in staffing and supply shortages. While the spread of COVID-19 has slowed, the System continues to see impacts related to staffing and supply shortages and increased costs.

A variety of federal, state, and local efforts were initiated in response to the COVID-19 crisis, the largest of which is the CARES Act that was enacted on March 27, 2020. The CARES Act is a federal stimulus package designed to provide emergency assistance to individuals and businesses, including hospitals and other healthcare providers. To date, CHRISTUS has received approximately $410,000,000 in stimulus funding under the Provider Relief Program to cover unreimbursed healthcare-related expenses attributable to the public health emergency and lost revenues resulting from COVID-19. CHRISTUS follows grant accounting to recognize the

5. COVID-19 Pandemic and CARES Act (continued)

stimulus funding as other operating revenue, based on guidance from the U.S. Department of Health & Human Services (HHS). Approximately $81,500,000 and $88,500,000 of these funds have been recognized as other revenue for the fiscal years ended June 30, 2023 and 2022, respectively. Regulations governing the receipt, usage, and reporting of CARES Act funds are complex and subject to interpretation. Revenue under the CARES Act is also subject to audit and potential recoupment if CHRISTUS has not demonstrated that CARES Act funds were properly used for unreimbursed expenses attributable to coronavirus or lost revenue, as defined in the regulations. In addition, the effect of COVID-19 is ongoing and CHRISTUS continues to evaluate expenses and lost revenues in light of evolving guidance provided by HHS. As a result, there is a possibility that estimates of revenue recognized could change by a material amount in the near term. At June 30, 2023 and 2022, the System has deferred $41,000,000 and $122,500,000, respectively, of CARES Act funds received that are anticipated to be recognized as revenue in future periods, which is included in deferred revenue in the consolidated balance sheets.

In response to the COVID-19 pandemic, CMS authorized the Medicare Advance Payment Program. Under the Medicare Advance Payment Program, eligible providers were able to request an advance on up to six months' worth of Medicare reimbursement. Beginning in April 2020, CHRISTUS requested and received approximately $578,000,000 in Medicare Advance Payments during the year ended June 30, 2020. These payments represented an advance on future reimbursements, and the program required CMS to recoup the payments by withholding future Medicare fee-for-service payments for claims until the full accelerated payment was recouped. CMS began recoupment of these payments in April 2021. As of June 30, 2023 and 2022, CHRISTUS has $0 and approximately $171,000,000, respectively, in contract liabilities related to Medicare Advance Payments included in deferred revenue in the consolidated balance sheets.

Regional Advisory Councils (RACs) throughout the state of Texas provided traveling nurses and other medical professionals at no cost to CHRISTUS as part of the RACs' responsibility to develop, implement and monitor regional emergency medical service trauma system plans and coordinate hospital preparedness programs. The System also received services from similar programs in Louisiana and New Mexico. The value of these services was $0 and approximately $95,404,000 for the fiscal years ended June 30, 2023 and 2022, respectively, and is recognized as other revenue and compensation and benefits expense in the accompanying consolidated statements of operations and changes in net assets.

6. Cash and Investments

Total cash and investments for the System at June 30, including assets whose use is limited, are as follows (in thousands):

	2023	2022
Cash and cash equivalents	**$ 1,424,835**	$ 966,985
Certificates of deposit	**39,102**	26,887
Domestic equities	**176,269**	152,106
International equities	**6,186**	9,042
Fixed-income securities	**174,438**	256,772
U.S. government securities	**336,014**	352,427
Mutual funds and other similar investment funds:		
Domestic equity funds	**132,123**	104,931
International equity funds	**123,196**	116,621
Fixed-income funds	**212,984**	237,514
Risk parity, blended, and other funds	**12,774**	33,536
Equity investments in managed funds:		
Fixed-income funds	**154,529**	129,157
Hedge funds	**288,461**	280,431
Private equity, real estate, and other	**90,530**	72,933
	$ 3,171,441	$ 2,739,342

The System's investments are subject to various types of risks, as explained below.

Fixed Income and U.S. Government Securities

This investment class includes investments in various fixed-income instruments that include investment-grade and high-yield domestic and international bonds, preferred stocks, mortgage pools, master limited partnership units, and bonds issued by U.S. government agencies. The fixed-income investments are exposed to various kinds and levels of risk, including interest rate risk, credit risk, foreign exchange risk, and liquidity risk.

6. Cash and Investments (continued)

Equities

This investment class consists primarily of common and preferred equity securities of domestic and foreign companies. These securities trade through the major public domestic and international exchanges. The equity securities investments are exposed to various risks, including market risk; individual security risk; foreign exchange risk; and, for common equity of companies with a small market capitalization, liquidity risk.

Mutual Funds and Other Similar Investment Funds

This investment class includes investments in mutual funds, exchange-traded funds, common collective trust funds, and other similar investment funds that generally hold investments in marketable debt and equity securities. Investments in mutual funds, exchange-traded funds, common collective trust funds, and similar funds in this category are exposed to various risks, including market risk and risks associated with the specific securities held within the funds. Certain funds within this category are valued based on amounts reported to the System by the fund managers, generally in the form of NAV per share or an equivalent measure.

Equity Investments in Managed Funds

Equity investments in managed funds include investments in limited liability partnerships or corporations and other alternative investments. The System's equity investments in managed funds are recorded based on the System's share of the underlying value of marketable securities and nonmarketable interests held by these funds as reported to the System by the fund managers, generally in the form of NAV or an equivalent measure. The underlying securities in managed funds could include marketable debt and equity securities, nonmarketable securities, derivative instruments, or any other investment securities determined at the discretion of the fund managers. These investments are recorded at amounts confirmed by fund managers, and there can be no assurance such reported amounts will ultimately be realized.

These funds are invested with external investment managers who invest primarily in various categories, including fixed income, long and short equity positions, managed futures, emerging markets, distressed enterprises, arbitrage, risk parity, private equity, and real estate positions.

6. Cash and Investments (continued)

These investments are domestic and international in nature, are illiquid, and returns may not be realized for a period of several years after the investments are made. The risks associated with these investments are numerous, resulting in a greater likelihood of losing invested capital. The risks include the following:

Non-Regulation Risk – Some of these funds are not required to register with the Securities and Exchange Commission and are not subject to regulatory controls.

Managerial Risk – Fund managers may fail to produce the intended returns and are not subject to oversight.

Minimal Liquidity – Many funds impose lockup periods or restrictions on timing of redemptions that prevent investors from redeeming their shares or impose penalties to redeem.

Limited Transparency – As unregistered investment vehicles, funds are not required to disclose the holdings in their portfolios to investors.

Investment Strategy Risk – The funds often employ sophisticated, risky investment strategies; are speculative; and may use leverage, which could result in volatile returns.

At June 30, 2023, the System had commitments to fund equity investments in private equity funds totaling $9,259,000, excluding commitments to fund equity investments in private equity funds held by the CHRISTUS Health Cash Balance Plan (the Cash Balance Plan – see Note 13).

Assets whose use is limited or restricted consisted of the following at June 30 (in thousands):

	2023	2022
Assets whose use is limited or restricted, required for current bond indenture and self-insurance liabilities	**$ 56,034**	$ 51,237
Other investments, internally designated for capital expansion and other purposes	**579,472**	650,963
Under bond indenture agreement – held by trustee	**168,789**	25,179
Under liability retention and self-insurance funding arrangement – held by trustee	**3,381**	19,552
Under Emerald Assurance funding arrangements	**133,138**	102,543
Restricted cash and investments	**92,681**	45,013
Total assets whose use is limited or restricted	**$ 1,033,495**	$ 894,487

6. Cash and Investments (continued)

Restricted cash and investments relate primarily to investments required to be maintained in perpetuity under the System's endowments, or to cash and investments restricted by donors for the acquisition of capital assets.

Investment returns and losses for assets limited as to use, cash equivalents, and other unrestricted investments consisted of the following for the fiscal years ended June 30 (in thousands):

	2023	2022
Operating interest and dividend income	**$ 20,901**	$ 19,271
Operating gain (loss), realized and unrealized	**7,874**	(5,658)
Equity investment gain on managed funds	**4,816**	9,529
Total operating investment income	**33,591**	23,142
Nonoperating interest and dividend income	**31,426**	19,149
Nonoperating gain (loss), realized and unrealized	**32,672**	(111,288)
Equity investment gain (loss) on managed funds	**21,334**	(7,311)
Net swap agreement activity	**22,249**	59,240
Total nonoperating investment gain (loss), net	**107,681**	(40,210)
Total investment gain (loss), net	**$ 141,272**	$ (17,068)

7. Fair Value Measurements

The three-level valuation hierarchy for disclosure of fair value measurements is based on the transparency of inputs to the valuation of an asset or liability as of the reporting date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities at the reporting date.

- Level 2 – Inputs to the valuation methodology other than quoted market prices included in Level 1 that are observable for the asset or liability. Level 2 pricing inputs include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

7. Fair Value Measurements (continued)

- Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. There were no significant transfers between levels during the fiscal years ended June 30, 2023 or 2022.

The following tables present the financial instruments carried at fair value as of June 30 (in thousands) by the valuation hierarchy (as described above):

	2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	**$ 1,424,835**	**$ –**	**$ –**	**$ 1,424,835**
Investments:				
Certificates of deposit	**–**	**39,102**	**–**	**39,102**
Domestic equities	**176,269**	**–**	**–**	**176,269**
International equities	**6,186**	**–**	**–**	**6,186**
Fixed-income securities	**–**	**174,438**	**–**	**174,438**
U.S. government securities	**–**	**336,014**	**–**	**336,014**
Mutual funds and other similar investment funds:				
Domestic equity funds	**62,953**	**–**	**–**	**62,953**
International equity funds	**90,868**	**–**	**–**	**90,868**
Fixed-income funds	**121,514**	**–**	**–**	**121,514**
Risk parity, blended, and other funds	**12,774**	**–**	**–**	**12,774**
Total investments at fair value	**$ 1,895,399**	**$ 549,554**	**$ –**	**2,444,953**
Investments measured at net asset value or equivalent:				
Equity funds				**101,498**
Fixed-income funds				**105,422**
Hedge funds				**59,960**
Private equity, real estate, and other funds				**6,354**
Total investment portfolio				**$ 2,718,187**
Liabilities				
Interest rate swap agreements	**$ –**	**$ 47,153**	**$ –**	**$ 47,153**
Total liabilities at fair value	**$ –**	**$ 47,153**	**$ –**	**$ 47,153**

7. Fair Value Measurements (continued)

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 966,985	$ –	$ –	$ 966,985
Investments:				
Certificates of deposit	–	26,887	–	26,887
Domestic equities	152,106	–	–	152,106
International equities	9,042	–	–	9,042
Fixed-income securities	–	256,772	–	256,772
U.S. government securities	–	352,427	–	352,427
Mutual funds and other similar investment funds:				
Domestic equity funds	46,404	–	–	46,404
International equity funds	86,024	–	–	86,024
Fixed-income funds	147,555	–	–	147,555
Risk parity, blended, and other funds	33,536	–	–	33,536
Total investments at fair value	$ 1,441,652	$ 636,086	$ –	2,077,738
Investments measured at net asset value or equivalent:				
Equity funds				89,123
Fixed-income funds				103,724
Hedge funds				56,383
Private equity, real estate, and other funds				5,496
Total investment portfolio				$ 2,332,464
Liabilities				
Interest rate swap agreements	$ –	$ 72,246	$ –	$ 72,246
Total liabilities at fair value	$ –	$ 72,246	$ –	$ 72,246

The tables above include equity investments in managed funds held within the System's foundations and captive insurer. Remaining equity investments in managed funds held by other System entities of $453,254,000 and $406,878,000 at June 30, 2023 and 2022, respectively, are not included in this table, since they are accounted for using the equity method of accounting.

7. Fair Value Measurements (continued)

The valuation methodologies used for instruments measured at fair value as presented in the tables above are as follows:

- *Investments* – Investments valued at quoted prices available in an active market are classified within Level 1 of the valuation hierarchy. Investments valued based on evaluated bid prices provided by third-party pricing services, where quoted market prices are not available, are classified within Level 2 of the valuation hierarchy. Investments measured at fair value using net asset value per share or its equivalent as a practical expedient are not categorized within the fair value hierarchy. These investments consist of hedge funds, commodity funds, common collective trust funds, private equity funds, real estate funds, and some equity and fixed-income funds.

- *Interest rate swap agreements* – Interest rate swap agreements are valued using third-party models that use observable market conditions as their input and are classified within Level 2 of the valuation hierarchy.

At June 30, 2023 and 2022, the System's financial instruments included cash and cash equivalents, accounts receivable, assets limited as to use, accounts payable and accrued expenses, lease right-of-use assets and obligations, and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments, except for long-term debt, approximate their fair values.

8. Leases

The System utilizes operating and finance leases for the use of various facilities and equipment. All lease agreements generally require the System to pay maintenance, repairs, property taxes, and insurance costs, which are variable amounts based on actual costs incurred during each applicable period. Such costs are not included in the determination of the right-of-use asset or lease liability. Variable lease cost also includes escalating rent payments that are not fixed at commencement but are based on an index that is determined in future periods over the lease term based on changes in the consumer price index or other measure of cost inflation. Certain equipment leases include non-lease components, such as minimum purchase requirements for consumable products associated with the equipment. The System has elected the practical expedient that allows lessees to choose not to separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes.

8. Leases (continued)

Leases may include one or more options to renew. The exercise of lease renewal options is at the System's sole discretion. In general, the System does not consider renewal options to be reasonably likely to be exercised; therefore, renewal options are generally not recognized as part of right-of-use assets and lease liabilities. Certain leases also include options to purchase the leased asset.

The components of lease cost for the fiscal year ended June 30 consisted of the following (in thousands):

	2023	2022
Operating lease cost	**$ 59,582**	$ 57,400
Finance lease cost:		
Amortization of right-of-use assets	**14,157**	10,106
Interest on lease liabilities	**9,173**	5,785
Total finance lease cost	**23,330**	15,891
Short-term and variable lease cost	**65,134**	66,037
Total lease cost	**$ 148,046**	$ 139,328

Supplemental cash flow and other information related to leases as of and for the fiscal year ended June 30 are as follows (dollars in thousands):

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 60,222**	$ 57,592
Operating cash flows from finance leases	**8,953**	5,802
Financing cash flows from finance leases	**14,311**	12,004
Right-of-use assets obtained in exchange for new operating leases	**67,917**	15,535
Right-of-use assets obtained in exchange for new financing leases	**42,832**	25,461

8. Leases (continued)

	2023	**2022**
Weighted average remaining lease term:		
Operating leases	**8.1 years**	6.2 years
Finance leases	**13.7 years**	12.2 years
Weighted average discount rate:		
Operating leases	**3.30%**	2.33%
Finance leases	**4.78%**	5.06%

Future undiscounted cash flows and maturities of lease liabilities at June 30, 2023 are presented in the following table (in thousands):

	Operating Leases	**Finance Leases**	**Total**
2024	$ 54,225	$ 19,210	$ 73,435
2025	40,069	19,323	59,392
2026	32,134	19,678	51,812
2027	26,497	15,532	42,029
2028	22,069	15,045	37,114
Thereafter	96,692	132,358	229,050
Total minimum lease payments	271,686	221,146	492,832
Less imputed interest	(33,476)	(47,070)	(80,546)
Total lease liabilities	238,210	174,076	412,286
Less current portion	(52,015)	(13,573)	(65,588)
Long-term lease liabilities	$ 186,195	$ 160,503	$ 346,698

9. Property and Equipment

Property and equipment at June 30 consisted of the following (in thousands):

	2023	2022
Land	**$ 288,401**	$ 233,908
Land improvements	**99,809**	97,617
Buildings and fixed equipment	**4,043,591**	3,767,820
Major movable equipment	**2,027,941**	1,877,558
Accumulated depreciation	**(3,475,119)**	(3,225,889)
	2,984,623	2,751,014
Construction-in-progress (estimated cost to complete is $608,391 at June 30, 2023)	**625,213**	273,293
Total	**$ 3,609,836**	$ 3,024,307

Depreciation expense for the System for fiscal years 2023 and 2022 totaled $294,113,000 and $265,150,000, respectively.

10. Investments in Unconsolidated Organizations

CHRISTUS owns a 50% noncontrolling interest in U.C. CHRISTUS Salud SpA (CHRISTUS Salud), which owns and operates certain hospital, clinic, and other healthcare facilities in Chile. The investment in CHRISTUS Salud is treated as an equity method investment. As of June 30, 2023 and 2022, CHRISTUS's investment in CHRISTUS Salud was $197,645,000 and $159,827,000, respectively. During fiscal years 2023 and 2022, CHRISTUS made additional capital contributions to CHRISTUS Salud of $10,227,000 and $7,639,000, respectively. The System's share of income from the operations for the fiscal years ended June 30, 2023 and 2022, was $5,631,000 and $7,057,000, respectively. During fiscal years 2023 and 2022, CHRISTUS's investment in CHRISTUS Salud changed by $25,083,000 and $(58,791,000), respectively, due to changes in the exchange rate and the resulting translation adjustment.

In January 2023, CHRISTUS purchased the real estate and land used to operate the San Carlos hospital from, and leased the real estate back to, CHRISTUS Salud. Consideration transferred for the purchase included cash and other assets. This transaction did not impact CHRISTUS' equity method earnings or investment. At the same time, CHRISTUS Salud acquired the operations of a hospital owned by CHRISTUS's joint venture partner and entered into a lease of the related real estate.

10. Investments in Unconsolidated Organizations (continued)

CHRISTUS and its affiliates hold immaterial investments in other unconsolidated subsidiaries. No other single investment balance exceeded 0.5% of total assets at both June 30, 2023 and 2022.

CHRISTUS has management and license fee arrangements with CHRISTUS Salud, and with certain other unconsolidated subsidiaries and joint venture partners, under which CHRISTUS provides management services and licenses its trade name and certain other intellectual property. CHRISTUS recorded other revenue related to management and license fee agreements of $38,555,000 and $13,564,000 during the fiscal years ended June 30, 2023 and 2022, respectively. Approximately, $24,844,000 of the management and license fee revenue recognized in fiscal year 2023 was related to services provided in prior fiscal years.

11. Debt

Debt at June 30 consisted of the following (in thousands):

	2023	2022
Obligations issued under the CHRISTUS Health Master Trust Indenture (CHRISTUS MTI):		
Revenue bonds, in variable-rate demand mode, with weighted average interest rates of 2.56% and 0.24% in fiscal years 2023 and 2022, respectively, due in annual installments through July 1, 2047 (Series 2008C and 2009B)	**$ 223,015**	$ 223,015
Revenue bonds, in auction mode, with weighted average interest rates of 3.00% and 0.33% in fiscal years 2023 and 2022, respectively, due in annual installments through July 1, 2031 (Series 2005A and B)	**104,825**	115,500
Revenue bonds, in fixed-rate mode, bearing interest from 4.00% to 5.00%, due in annual installments through July 1, 2053 (Series 2018A, B, D, and E, Series 2019A, and Series 2022A and B)	**864,790**	555,575
Direct-placement notes due in annual installments through July 1, 2041 (Series 2016A and D)	**73,075**	73,825
Tax-exempt bank note due in annual installments beginning July 1, 2035 through July 1, 2039 (Series 2016E)	**57,105**	57,105
Taxable bonds due as a balloon payment on July 1, 2028 (Series 2018C)	**339,536**	339,536
Term loans	**340,000**	100,000
Other notes	**76,167**	45,812
	2,078,513	1,510,368
Premiums, net, on long-term debt	**49,186**	33,876
Unamortized deferred financing costs	**(9,485)**	(7,548)
	2,118,214	1,536,696
Less current portion and short-term debt	**(275,262)**	(32,016)
Less amounts subject to remarketing agreements	**(63,805)**	–
Total long-term debt	**$ 1,779,147**	$ 1,504,680

11. Debt (continued)

According to the terms of the CHRISTUS Master Trust Indenture (MTI), CHRISTUS and the majority of its wholly owned subsidiaries are members of the CHRISTUS Health Obligated Group (Obligated Group). The obligations of CHRISTUS and the other members of the Obligated Group are secured by a pledge of gross revenues. Additionally, each member of the Obligated Group is obligated, pursuant to the CHRISTUS MTI and certain insurer and credit bank agreements, to comply with certain covenants, including the following: to ensure the payment of debt service; to ensure the payment of taxes and other claims; to deliver compliance statement(s); to preserve corporate existence; to maintain books and records subject to inspection by the Master Trustee; to maintain insurance; to conform to defined lien limitations; to establish adequate service rates; to maintain a sufficient debt service coverage; to adhere to certain defined conditions with respect to consolidation, merger, conveyance, or transfer and admission or withdrawal of Obligated Group members; to adhere to certain limitations on disposition of assets; to adhere to certain limitations on the incurrence of additional debt; to maintain compliance with certain indebtedness ratios; and to maintain certain levels of liquidity. Certain of these covenants are made only for the benefit of the bond and swap insurers and/or credit banks, and are effective only for so long as the related debt or other obligations are outstanding and only unless waived or amended by the bond and swap insurers and/or credit banks.

CHRISTUS has bank letter of credit agreements on its Series 2008C and 2009B variable-rate demand bonds. The Series 2008C-1 bonds have an outstanding amount of $41,435,000 and are supported by a letter of credit provided by Sumitomo Mitsui Banking Corporation, acting through its New York branch, that expires on March 8, 2027. The 2008C-2 bonds have an outstanding amount of $38,305,000 and are supported by a letter of credit provided by The Bank of New York Mellon that expires on July 3, 2025. The 2008C-3 bonds have an outstanding amount of $41,030,000, and the 2008C-4 bonds have an outstanding amount of $38,440,000. The 2008C-3 and 2008C-4 bonds are supported by a letter of credit provided by Bank of Montreal, acting through its Chicago branch, that expires on August 18, 2024. The Series 2009B variable-rate demand bonds have an outstanding amount of $63,805,000 and are supported by a letter of credit provided by The Bank of New York Mellon that expires on January 31, 2024.

On August 25, 2022, CHRISTUS issued Series 2022A-B bonds, consisting of $345,960,000 of tax-exempt revenue and refunding bonds. The Series 2022 bonds are fixed rate obligations, comprised of both serial and term bonds carrying interest rates ranging from 4% to 5% and maturing in various amounts through fiscal year 2054. Proceeds of the Series 2022 bonds were used, in part, to repay $26,475,000 of outstanding Series 2005A-6 bonds.

11. Debt (continued)

In fiscal year 2023, the System entered into a line of credit with Bank of America for $75,000,000 that expires on April 28, 2025. This line of credit carries a variable interest rate equal to the Bloomberg Short-Term Bank Yield (BSBY) Index rate plus 0.65%. In fiscal year 2022, the System entered into a line of credit with Royal Bank of Canada for $75,000,000 that terminates on October 29, 2023. This line of credit carries a variable interest rate with multiple rate options including a daily or one-month LIBOR or its replacement as selected or recommended by the Federal Reserve or its committees plus 0.45%. In fiscal year 2018, the System entered into a line of credit with Sumitomo Mitsui Banking Corporation – New York Operations for $150,000,000 that terminated on October 29, 2021. The line of credit carried a variable interest rate equal to the one-month LIBOR plus 0.625%. In fiscal 2020, the System entered into a line of credit with JPMorgan Chase Bank, National Association for $100,000,000 that terminated on November 1, 2021. The line of credit carried a variable interest rate equal to the one-month LIBOR plus 1.00%. At both June 30, 2023 and 2022, CHRISTUS had $0 drawn against any line of credit.

On June 29, 2023, the System entered into term loan agreements of $120,000,000 with Royal Bank of Canada and $120,000,000 with JPMorgan Chase Bank, National Association. Both of these term loans carry a variable interest rate equal to the Daily Simple Secured Overnight Financing Rate (SOFR) and mature on June 28, 2024. The proceeds from these loans were used to fund the acquisition of Gerald Champion Regional Medical Center (GCRMC) described in Note 18. On July 15, 2020, the System entered into a term loan agreement with JPMorgan Chase Bank, National Association for $100,000,000. The term loan carries an interest rate of 2.13% and matures on July 1, 2027.

Other notes were $76,167,000 and $45,812,000 as of June 30, 2023 and 2022, respectively, and include various notes issued primarily to purchase buildings and equipment.

Principal payments for all long-term debt for the next five years and thereafter are as follows (in thousands):

2024	$ 275,262
2025	36,347
2026	36,498
2027	56,530
2028	133,109
Thereafter	1,540,767
Total long-term debt	$ 2,078,513

12. Derivative Financial Instruments

The System's derivative instruments consist primarily of interest rate swap contracts between the System and third parties (counterparties), which provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate. These swaps expose the System to market risk and credit risk. Credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Counterparty credit risk is managed by requiring high credit standards for the System's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degrees of market risk that may be undertaken. Management also mitigates risk through periodic reviews of its derivative positions in the context of its blended cost of capital. As of June 30, 2023 and 2022, CHRISTUS has interest rate swap agreements to manage interest rate risk exposure, not designated as hedging instruments, with a total notional amount of $462,160,000 and $522,835,000, respectively.

The following table summarizes the fair value at June 30, 2022 and 2023 and the income (loss) recorded related to the System's derivative instruments as of and for the fiscal years ended June 30, 2023 and 2022 (in thousands):

					Fair Value		Change in Fair Value		(Paid) Received	
Counterparty	**Description**	**Termination Date**	**Agreements**	**Notional Amount**	**June 30, 2023**	**June 30, 2022**	**June 30, 2023**	**June 30, 2022**	**June 30, 2023**	**June 30, 2022**
Interest Rate Swaps										
Merrill Lynch	Var. basis	2022–2023	1/2	$70,000/120,000	**$ 200**	$ 156	**$ 44**	$ 307	**$ 462**	$ 43
Wells Fargo	Fixed payor	2031	1	112,900/123,575	**(2,030)**	(6,523)	**4,493**	10,178	**(683)**	(3,685)
Citigroup*	Fixed payor	2047	2	166,100	**(27,158)**	(39,374)	**12,216**	36,474	**(1,583)**	(5,351)
Citigroup*	Fixed payor	2047	1	113,160	**(18,165)**	(26,505)	**8,340**	24,882	**(1,040)**	(3,608)
			5/6	$462,160/522,835	**$ (47,153)**	$ (72,246)	**$ 25,093**	$ 71,841	**$ (2,844)**	$ (12,601)

*Insured by MBIA

CHRISTUS is required to post collateral under certain circumstances for negative valuations on each of its swaps according to the terms of (1) the swap insurance agreements, where applicable, and (2) the agreement with each counterparty. CHRISTUS has complied with this requirement. At June 30, 2023 and 2022, no collateral was posted. The System does not anticipate nonperformance by its counterparties.

12. Derivative Financial Instruments (continued)

The fair value of these derivative instruments was a liability of $47,153,000 and $72,246,000 at June 30, 2023 and 2022, respectively. The change in value of $25,093,000 and $71,841,000 for the fiscal years ended June 30, 2023 and 2022, respectively, is combined with the payments, net of receipts, made under the agreements of $2,844,000 and $12,601,000 for the fiscal years ended June 30, 2023 and 2022, respectively. This total is included in nonoperating investment gain (loss), net, in the consolidated statements of operations and changes in net assets.

13. Employee Benefit Plans

Defined Benefit Plans

Cash Balance Plan

The System has established a noncontributory, defined benefit retirement plan that operates as a cash balance plan and covers substantially all CHRISTUS employees who had met age and service requirements as of December 31, 2012. On October 23, 2012, the CHRISTUS board approved the closing of the plan to new participants, effective January 1, 2013.

The plan benefits are calculated based on a cash balance formula wherein participants earn an annual accrual based on compensation and participation account balances accrue interest at a rate that tracks ten-year treasury notes; the maximum rate is 8%. On January 29, 2019, the CHRISTUS board approved a plan amendment to freeze the Cash Balance Plan effective July 1, 2019.

Mother Frances Hospital Defined Benefit Pension Plan

The System administers the Mother Frances Hospital Defined Benefit Pension Plan (TMF Plan), which covers all employees who meet the eligibility requirements. The plan was frozen as of December 31, 2009.

The measurement date for the Cash Balance Plan and the TMF Plan (collectively, the Defined Benefit Plans) is June 30. For the years ended June 30, 2023 and 2022, the net periodic benefit credit for the Cash Balance Plan was $7,249,000 and $21,160,000, respectively. For the years ended June 30, 2023 and 2022, the net periodic benefit credit for the TMF Plan was $2,431,000 and $5,543,000, respectively. The net periodic benefit credit is recorded in other nonoperating gains, net in the accompanying consolidated statements of operations and changes in net assets. CHRISTUS uses a full yield curve "spot rate" approach that applies the specific spot rates along

13. Employee Benefit Plans (continued)

the yield curve to the plans' projected cash flows in order to estimate the interest cost component of net periodic benefit credit.

The Defined Benefit Plans' net periodic benefit credit consists primarily of amortization of expected returns, offset by interest and other costs. Additionally, during fiscal years 2023 and 2022, the Cash Balance Plan includes a settlement charge of $0 and $4,430,000, respectively, recorded in connection with a remeasurement of plan liabilities.

The following table sets forth the funded status of the Defined Benefit Plans measured as of June 30 (in thousands):

	Cash Balance Plan		TMF Plan	
	2023	**2022**	**2023**	**2022**
Benefit obligation – end of year	**$ 847,430**	$ 868,403	**$ 149,878**	$ 155,651
Fair value of plan assets – end of year	**847,963**	859,325	**164,531**	164,680
(Over) under funded status	**$ (533)**	$ 9,078	**$ (14,653)**	$ (9,029)

As of June 30, 2023 and 2022, the Defined Benefit Plans had accumulated benefit obligations of $997,308,000 and $1,024,054,000, respectively. Assumptions used to determine benefit obligations and net periodic benefit (credit) cost for the fiscal years were as follows:

	Cash Balance Plan		TMF Plan	
	2023	**2022**	**2023**	**2022**
Benefit obligations:				
Discount rate	**4.96%**	4.60%	**4.98%**	4.67%
Interest crediting rate	**3.71**	3.10	**N/A**	N/A
Net periodic benefit credit:				
Discount rate	**4.60**	2.98	**4.67**	2.93
Interest crediting rate	**3.10**	1.73	**N/A**	N/A
Expected long-term return on plan assets	**5.50**	5.50	**5.50**	5.50

13. Employee Benefit Plans (continued)

As of June 30, 2023 and 2022, the total amount recognized in net assets without donor restrictions were $173,488,000 and $177,378,000, respectively. For the fiscal years ended June 30, 2023 and 2022, the change in pension plan obligations recognized in net assets without donor restriction was $(3,889,000) and $(1,428,000), respectively.

Investment Policy and Asset Allocations

The investment objective with regard to the plan assets is one of long-term capital appreciation and generation of a stream of current income. This balanced approach is expected to earn long-term total returns, consisting of capital appreciation and current income, which are commensurate with the expected rate of return used by the plans. The actual returns on the Cash Balance Plan assets for the years ended June 30, 2023 and 2022 were $35,933,000 and $(33,169,000), respectively. The actual returns on the TMF Plan assets for the years ended June 30, 2023 and 2022 were $7,806,000 and $(14,263,000), respectively.

The investment policies and strategies for the assets of the Cash Balance Plan and TMF Plan incorporate a well-diversified approach that is expected to generate long-term returns from capital appreciation and a growing stream of current income. This approach recognizes that assets are exposed to risk and the market value of the plan assets may fluctuate from year to year. Risk tolerance is determined based on the plan’s financial stability and the ability to withstand return volatility. In developing the expected return on plan assets, the System evaluates the historical performance of total plan assets, the relative weighting of plan assets, interest rates, economic indicators, and industry forecasts. In line with the investment return objective and risk parameters, the mix of assets includes a diversified portfolio of equity, fixed-income, and alternative investments. Equity investments include international stocks and a blend of domestic growth and value stocks of various sizes of capitalization. The aggregate asset allocation is rebalanced as needed, but not less than on an annual basis.

13. Employee Benefit Plans (continued)

The asset allocations at June 30, by asset category, are detailed below (in thousands):

	Cash Balance Plan		TMF Plan	
	2023	**2022**	**2023**	**2022**
Cash and cash equivalents	**$ 18,612**	$ 68,270	**$ 8,379**	$ 16,878
Domestic equities	**72,838**	60,942	**18,414**	21,032
International equities	**3,243**	3,529	**470**	1,202
Fixed-income securities	**21,840**	22,026	**2,640**	20,339
Mutual funds and other similar investment funds:				
Domestic equity funds	**–**	1,075	**86,182**	8,775
International equity funds	**38,028**	33,870	**–**	11,169
Fixed-income funds	**68,618**	69,361	**17,305**	28,628
Risk parity, blended, and other funds	**6**	7	**–**	–
Equity investments in managed funds:				
Fixed-income funds	**272,175**	267,550	**6,119**	22,162
Hedge funds	**182,352**	158,564	**24,927**	34,331
Private equity, real estate, and other	**169,735**	173,562	**–**	–
Other	**516**	569	**95**	164
Total	**$ 847,963**	$ 859,325	**$ 164,531**	$ 164,680

The target allocation of plan assets, by asset category, is as follows as of June 30:

	Cash Balance Plan		TMF Plan	
	2023	**2022**	**2023**	**2022**
Allocation of plan assets, by asset category:				
Cash and cash equivalents	**–%**	–%	**2%**	2%
Equity securities and equity funds	**15**	15	**33**	33
Fixed-income securities and fixed-income funds	**30**	30	**35**	35
Equity investments in managed funds *(Note 6)*	**55**	55	**30**	30
Total	**100%**	100%	**100%**	100%

13. Employee Benefit Plans (continued)

The value of the plan assets measured at fair value on a recurring basis was determined using the valuation inputs described in Note 7 and categorized at June 30, as follows (in thousands):

	2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investments:				
Cash and cash equivalents	**$ 26,991**	**$ –**	**$ –**	**$ 26,991**
Domestic equities	**91,252**	–	–	**91,252**
International equities	**3,713**	–	–	**3,713**
Fixed-income securities	**–**	**3,410**	–	**3,410**
U.S. government securities	**–**	**21,070**	–	**21,070**
Mutual funds and other similar investment funds:				
Domestic equity funds	**86,182**	–	–	**86,182**
International equity funds	**38,028**	–	–	**38,028**
Fixed-income funds	**85,923**	–	–	**85,923**
Risk parity, blended, and other funds	**6**	–	–	**6**
Other	**611**	–	–	**611**
	$ 332,706	**$ 24,480**	**$ –**	**357,186**
Investments measured at net asset value or equivalent:				
Fixed-income funds				**278,294**
Hedge funds				**207,279**
Private equity, real estate, and other funds				**169,735**
Total assets at fair value				**$ 1,012,494**

13. Employee Benefit Plans (continued)

	2022			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	$ 85,148	$ –	$ –	$ 85,148
Domestic equities	81,974	–	–	81,974
International equities	4,731	–	–	4,731
Fixed-income securities	–	9,723	–	9,723
U.S. government securities	–	32,642	–	32,642
Mutual funds and other similar investment funds:				
Domestic equity funds	9,850	–	–	9,850
International equity funds	45,039	–	–	45,039
Fixed-income funds	97,989	–	–	97,989
Risk parity, blended, and other funds	7	–	–	7
Other	733	–	–	733
	$ 325,471	$ 42,365	$ –	367,836
Investments measured at net asset value or equivalent:				
Fixed-income funds				289,712
Hedge funds				192,895
Private equity, real estate, and other funds				173,562
Total assets at fair value				$ 1,024,005

The Cash Balance Plan has $66,094,000 of funding commitments to purchase private equity, real estate, and other funds as of June 30, 2023. The TMF Plan has no such funding commitments.

Contributions

In fiscal year 2023, CHRISTUS contributed $1,667,000 to the Defined Benefit Plans. In fiscal year 2024, CHRISTUS expects to contribute $0 to the Defined Benefit Plans based on asset values for the plan year beginning January 1, 2023.

13. Employee Benefit Plans (continued)

Benefit Payments

Benefit payments for the Cash Balance Plan for the years ended June 30, 2023 and 2022 were $48,962,000 and $52,698,000, respectively. Benefit payments for the TMF Plan for the years ended June 30, 2023 and 2022 were $7,955,000 and $7,656,000, respectively. The following benefit payments, which reflect expected future service and expected benefit payments for services previously rendered, are expected to be paid as follows (in thousands):

	Cash Balance Plan	TMF Plan
2024	$ 64,470	$ 8,777
2025	64,247	9,031
2026	63,761	9,258
2027	62,767	9,454
2028	61,645	9,632
Years 2029–33	286,628	49,854

Defined Contribution Plans

The System has a defined contribution plan (the Matched Savings Plan) covering eligible CHRISTUS employees. Annual employee contributions are limited to 50% of compensation, up to Internal Revenue Service dollar limits. The System matches 67% of employee contributions, not to exceed 6% of annual compensation. Employer contributions vest to the employee after three years. For the fiscal years ended June 30, 2023 and 2022, expenses attributable to the Matched Savings Plan amounted to $54,494,000 and $49,030,000, respectively.

Other Defined Benefit and Defined Contribution Plans

In addition to the CHRISTUS Cash Balance Plan and the TMF Plan, CHRISTUS also participates in various defined benefit plans for executives that have been frozen or curtailed. The net benefit credit and net benefit obligation under these plans was not material to the consolidated financial statements for the fiscal years ended June 30, 2023 or 2022. These plans are unfunded. In addition to the Matched Savings Plan, CHRISTUS also participates in other defined contribution plans that are not material to the consolidated financial statements for the fiscal years ended June 30, 2023 or 2022.

14. Self-Funded Liabilities

The System self-funds and self-insures for primary professional and general liability, workers' compensation and Texas occupational injury, directors' and officers' liability, employment practices liability, property, and employee medical benefits. A wholly owned, captive insurance company, Emerald Assurance Cayman Ltd. (Emerald), is used to insure primary lines of professional and general liability, property, directors' and officers' liability, and employment practices liability. Policies written provide coverage for professional liability with primary limits of $10,000,000 per claim, for employment practices liability limits of $3,000,000 per claim, both with no aggregate for the fiscal years 2023 and 2022. For general liability, policies written provide coverage with primary limits in the amount of $2,000,000 per claim for fiscal years 2023 and 2022. Additionally, the System internally sets aside funds for workers' compensation, Texas occupational injury program, and employee medical benefits based on actuarial analyses.

The assets of the captive insurance company, internally designated funds, and the estimated liability for losses are reported in the consolidated balance sheets. Investment income from the assets and the provision for estimated self-funded losses and administrative costs are reported in the accompanying consolidated statements of operations and changes in net assets. The estimated self-funded losses include expected claim payments, including settlement costs for reported claims and an actuarial determination of expected losses related to claims that have been incurred but not reported.

Emerald was incorporated in the Cayman Islands on June 27, 2003, under the Companies Act of the Cayman Islands. Emerald was granted an Unrestricted Class "B" Insurer's license on June 30, 2003 (reclassified to a Class B(i) license on September 21, 2015), which it holds subject to the provisions of the Insurance Act of the Cayman Islands. As a Cayman Islands company, Emerald is exempt from local income, profits, and capital gains taxes until July 29, 2023. No such taxes are currently levied in the Cayman Islands.

15. Commitments and Contingencies

Capital Commitments

In May 2016, related to the acquisition of Trinity Mother Frances Health System, the System committed to fund $700,000,000 in capital expenditures over a period of up to seven years from funds generated by the operations of Trinity Mother Frances Health System and other resources. As of March 31, 2023, the System has met this commitment in full.

15. Commitments and Contingencies (continued)

Other Contingencies

From time to time, the System is subject to litigation in the ordinary course of operations. Management is not aware of any pending or threatened litigation that would have a material effect on the System's consolidated financial statements.

Healthcare is a highly regulated industry. The System has a compliance program and various internal policies and procedures that are designed to ensure compliance with applicable federal, state, and local laws and regulations and reduce potential exposure to fines, penalties, repayment obligations, and other sanctions for violations of such laws and regulations. As a result of the System's compliance, internal audit, and other operational activities, from time to time the System identifies instances in which it has a repayment or self-disclosure obligation. In addition, the System may incur repayment obligations or be subject to penalties as a result of audits and investigations by governmental agencies and contractors or commercial payors.

Because the government's present regulatory and enforcement efforts are widespread across the healthcare industry and may vary from region to region, the impact of such activities on the System is difficult to predict with certainty. The dynamic regulatory environment, political climate, and effectiveness of the System's compliance efforts are all factors that may affect the resolution of regulatory, enforcement, and payor issues involving System entities. The System has implemented, and continually works to enhance, various policies and procedures to ensure compliance with applicable legal requirements. However, there can be no assurance that the System's compliance program or other measures will be able to reduce or eliminate all potential exposure for alleged or actual noncompliance with applicable laws and regulations or commercial payor requirements.

16. Functional Expenses

The System's primary activities involve providing general healthcare services to its patients. Expenses related to providing these services at June 30 are as follows (in thousands):

	2023			
	Healthcare Services	**Physician Services**	**General and Administrative**	**Total**
Employee compensation and benefits	**$ 2,483,890**	**$ 556,274**	**$ 498,118**	**$ 3,538,282**
Services and other	**1,781,024**	**82,561**	**353,837**	**2,217,422**
Supplies	**1,320,153**	**15,356**	**13,518**	**1,349,027**
Depreciation and amortization	**259,220**	**5,053**	**48,985**	**313,258**
Interest	**12,491**	**692**	**58,540**	**71,723**
Total expenses	**$ 5,856,778**	**$ 659,936**	**$ 972,998**	**$ 7,489,712**

	2022			
	Healthcare Services	**Physician Services**	**General and Administrative**	**Total**
Employee compensation and benefits	$ 2,413,530	$ 576,803	$ 484,095	$ 3,474,428
Services and other	1,611,298	102,227	323,882	2,037,407
Supplies	1,206,755	20,879	7,276	1,234,910
Depreciation and amortization	238,607	6,212	36,033	280,852
Interest	7,956	1,100	42,326	51,382
Total expenses	$ 5,478,146	$ 707,221	$ 893,612	$ 7,078,979

17. Liquidity

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

	2023	**2022**
Cash and cash equivalents, net of cash used for subsequent business combinations	**$ 861,756**	$ 838,925
Short-term investments and equity in managed funds	**986,190**	1,005,930
Patient accounts receivable	**776,110**	733,697
Notes and other receivables	**128,305**	159,818
Total	**$ 2,752,361**	$ 2,738,370

17. Liquidity (continued)

CHRISTUS has the ability to structure its financial assets to be available as its general expenditures and other obligations come due. Cash in excess of daily requirements is invested in short-term investments. CHRISTUS also maintains a $75,000,000 line of credit with Bank of America and a $75,000,000 line of credit with Royal Bank of Canada, as discussed in Note 11. As of June 30, 2023, $0 was drawn against any line of credit.

18. Subsequent Events

The System evaluated events and transactions occurring subsequent to June 30, 2023 through October 6, 2023, the date of issuance of the accompanying consolidated financial statements. During this period, the following subsequent events warranted disclosure:

Gerald Champion Regional Medical Center

Effective July 1, 2023, CHRISTUS closed on a transaction in which CHRISTUS paid $240,000,000, subject to working capital and other adjustments, to purchase GCRMC. GCRMC operates a 98-bed acute care hospital and a 36-bed inpatient psychiatric unit in Alamogordo, New Mexico.

CHRISTUS St. Vincent Regional Medical Center

Effective September 1, 2023, CHRISTUS closed on a transaction to purchase the 50% noncontrolling interest in CHRISTUS St. Vincent Regional Medical Center (St. Vincent) from Anchorum St. Vincent for approximately $427,000,000, subject to working capital and other adjustments. CHRISTUS paid $50,000,000 at closing and the remaining consideration will be paid ratably over the next nine years. Subsequent to the transaction, CHRISTUS owns 100% of St. Vincent.

Supplementary Information – Federal and State Awards

CHRISTUS Health

Schedule of Compensation Information

Years Ended June 30, 2023 and 2022

Chief Executive Officer: Ernie Sadau

None of the Chief Executive Officer’s compensation was paid from public funds received by CHRISTUS Health.

CHRISTUS Health

Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2023

Federal Grantor/State Grantor/ Pass-Through Grantor/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number/State Contract Number	Research and Development Cluster	Other Federal/State Expenditures	Total Federal/State Expenditures	Amounts Provided to Subrecipients	Location
Federal Awards							
U.S. Department of Agriculture							
Pass-through from the Texas Department of State Health Services:							
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HHS000801600001	$ –	$ 1,513,430	$ 1,513,430	$ 109,067	CHRISTUS Santa Rosa Health System
Pass-through from the Texas Department of State Health Services:							
Snap Cluster							
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	HHS000801600001	–	4,578	4,578	–	CHRISTUS Santa Rosa Health System
Total U.S. Department of Agriculture			–	1,518,008	1,518,008	109,067	
U.S. Department of Justice							
Pass-through from the New Mexico Crime Victims Reparation Commission:							
Crime Victim Assistance	16.575	2022-VA-122	–	4,497	4,497	–	CHRISTUS St. Vincent Regional Medical Center
Crime Victim Assistance	16.575	2023-VA-269	–	6,908	6,908	–	CHRISTUS St. Vincent Regional Medical Center
Pass-through from the Texas Office of the Governor:							
Crime Victim Assistance	16.575	3785803	–	29,485	29,485	–	CHRISTUS Health Southeast Texas
Crime Victim Assistance	16.575	3785804	–	127,811	127,811	–	CHRISTUS Health Southeast Texas
Crime Victim Assistance	16.575	3282204	–	91,151	91,151	–	CHRISTUS Santa Rosa Health System
Total Crime Victim Assistance			–	259,852	259,852	–	
Total U.S. Department of Justice			–	259,852	259,852	–	
U.S. Department of Treasury							
Pass-through the Texas Office of the Governor:							
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	3282205	–	224,692	224,692	–	CHRISTUS Santa Rosa Health System
Total U.S. Department of Treasury			–	224,692	224,692	–	

CHRISTUS Health

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/ Pass-Through Grantor/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number/State Contract Number	Research and Development Cluster	Other Federal/State Expenditures	Total Federal/State Expenditures	Amounts Provided to Subrecipients	Location
Federal Awards (continued)							
U.S. Department of Health and Human Services							
Pass-through from the New Mexico Department of Health:							
Injury Prevention and Control Research and State and Community Based Programs	93.136	23-665-0300-24816	$ –	$ 50,000	$ 50,000	$ –	CHRISTUS St .Vincent Regional Medical Center
Pass-through from Louisiana Department of Health-Office of Public Health:							
COVID-19 Rural Health Research Centers	93.155	2000629041	–	146,278	146,278	–	CHRISTUS Coushatta Health Care Center
Pass-through from Texas Department of Agriculture:							
Small Rural Hospital Improvement Grant Program	93.301	RSH2022029	–	10,990	10,990	–	CHRISTUS Health Ark-La-Tex
Small Rural Hospital Improvement Grant Program	93.301	RSH2022025	–	10,990	10,990	–	CHRISTUS Mother Frances Hospital - Jacksonville
Total Small Rural Hospital Improvement Grant Program			–	21,980	21,980	–	
Pass-through Fred Hutchinson Cancer Research Center:							
Cancer Cause and Prevention Research	93.393	6U01CA182883-09	18,512	–	18,512	–	CHRISTUS Santa Rosa Health System
Cancer Cause and Prevention Research	93.393	5U01CA182883-10	47,161	–	47,161	–	CHRISTUS Santa Rosa Health System
Total Cancer Cause and Prevention Research			65,673	–	65,673	–	
Pass-through from Oregon Health and Science University:							
Cancer Treatment Research	93.395	5U10CA180888-09	69,440	–	69,440	–	CHRISTUS Santa Rosa Health System
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498		–	125,487,285	125,487,285	–	CHRISTUS Health System
Accountable Health Communities	93.650	1P1CMS331603-05-02	–	393,459	393,459	–	CHRISTUS Santa Rosa Health System
Pass-through from the Texas Health and Hunan Services Commission:							
Social Services Block Grant	93.667	HHS000735100004	–	6,490	6,490	–	CHRISTUS Health Ark-La-Tex
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697		–	900,000	900,000	–	CHRISTUS Health System
Pass-through from the University of Michigan:							
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	SUBK00005107	34,571	–	34,571	–	CHRISTUS Spohn Health System
Pass-through from the Louisiana Hospital Association:							
National Bioterrorism Hospital Preparedness Program	93.889	72-0408984	–	111,417	111,417	–	CHRISTUS Health Central Louisiana
National Bioterrorism Hospital Preparedness Program	93.889	72-0408984 (Round 21)	–	15,139	15,139	–	CHRISTUS Health Central Louisiana
Total National Bioterrorism Hospital Preparedness Program			–	126,556	126,556	–	
Pass-through from LSU Health Science Center New Orleans:							
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	PH-19-111-007-A4	7,565	–	7,565	–	CHRISTUS Health Central Louisiana
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	PH-23-111-002	88,506	–	88,506	–	CHRISTUS Health Central Louisiana
Total Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations			96,071	–	96,071	–	
Total U.S. Department of Health and Human Services			265,755	127,132,048	127,397,803	–	
U.S. Department of Homeland Security							
Pass-through from the Texas Division of Emergency Management:							
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4485DRTXP0000001	–	10,984,104	10,984,104	–	CHRISTUS Health System
Pass-through from the Louisiana Governor's Office of Homeland Security and Emergency Preparedness:							
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4484DR-LA	–	1,643,611	1,643,611	–	CHRISTUS Health System
Total COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)			–	12,627,715	12,627,715	–	
Total U.S. Department of Homeland Security			–	12,627,715	12,627,715	–	
Total Expenditures of Federal Awards			$ 265,755	$ 141,762,315	$ 142,028,070	$ 109,067	

CHRISTUS Health

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/ Pass-Through Grantor/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number/State Contract Number	Research and Development Cluster	Other Federal/State Expenditures	Total Federal/State Expenditures	Amounts Provided to Subrecipients	Location
State Awards							
Graduate Medical Education Program:							
Direct Awards (Texas Higher Education Coordinating Board):							
Family Practice Residency Program:							
Family Practice Residency Program Operational Grant		THECB 28510	$ –	$ 132,620	$ 132,620	$ –	CHRISTUS Santa Rosa Health System
Family Practice Residency Program – Primary Care		THECB 28528	–	61,574	61,574	61,574	CHRISTUS Health Ark-La-Tex
Family Practice Residency Program Operational Grant		THECB 28511	–	189,457	189,457	–	CHRISTUS Spohn Health System
Total Family Practice Residency Program			–	383,651	383,651	61,574	
Graduate Medical Education Expansion Program:							
Graduate Medical Education Expansion Program – Family Medicine		THECB 26200/29635	–	488,836	488,836	–	CHRISTUS Santa Rosa Health System
Graduate Medical Education Expansion Program – Emergency Medicine		THECB 26201	–	450,000	450,000	–	CHRISTUS Spohn Health System
Total Graduate Medical Expansion Education Program			–	938,836	938,836	–	
Total Graduate Medical Education Program			–	1,322,487	1,322,487	61,574	
Direct Award (Texas Department of State Health Services)							
Social Services Block Grant		HHS000735100004	–	686	686	–	CHRISTUS Health Ark-La-Tex
Direct Award (Office of the Governor, Public Safety Office)							
Sexual Assault Forensic Exam (SAFE)-Ready Facilities Program		4176602	–	8,099	8,099	–	CHRISTUS Santa Rosa Health System
Sexual Assault Forensic Exam (SAFE)-Ready Facilities Program		3942803	–	2,655	2,655	–	CHRISTUS Health Southeast Texas
Sexual Assault Forensic Exam (SAFE)-Ready Facilities Program		3942804	–	33,132	33,132	–	CHRISTUS Health Southeast Texas
Total Sexual Assault Forensic Exam (SAFE)-Ready Facilities Program			–	43,886	43,886	–	
Direct Award (Texas Department of Agriculture, State Office of Rural Health)							
Rural Health Facility Capital Improvement Program - 2022		RCP2022033	–	54,720	54,720	–	CHRISTUS Health Ark-La-Tex
Rural Health Facility Capital Improvement Program - 2022		RCP2022025	–	75,000	75,000	–	CHRISTUS Good Shepherd Health System
Rural Health Facility Capital Improvement Program - 2022		RCP2022030	–	75,000	75,000	–	CHRISTUS Spohn Health System - Alice
Rural Health Facility Capital Improvement Program - 2022		RCP2022032	–	75,000	75,000	–	CHRISTUS Spohn Health System - Kleberg
Total Rural Health Facility Capital Improvement Program - 2022			–	279,720	279,720	–	
Indirect Award (Cancer Prevention and Research Institute of Texas)							
Pass-through from the University of Texas Health Science Center at Houston:							
Adolescent Vaccination Program (AVP)		SA0001760	3,452	–	3,452	–	CHRISTUS Santa Rosa Health System
Total Expenditures of State Awards			$ 3,452	$ 1,646,779	$ 1,650,231	$ 61,574	
Total Expenditures of Federal and State Awards			$ 269,207	$ 143,409,094	$ 143,678,301	$ 170,641	

See accompanying notes to schedule of expenditures of federal and state awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal and state award activity of CHRISTUS Health under programs of the federal and state governments for the year ended June 30, 2023. 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) and the *Texas Grant Management Standards* (TxGMS). Because the Schedule presents only a selected portion of the operations of CHRISTUS Health, it is not intended to and does not present the financial position, results of operations, changes in net assets, or cash flows of CHRISTUS Health.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in the Uniform Guidance, 45 CFR, PART 75 APPENDIX IX, *Principles for Determining Costs Applicable to Research and Development Under Grants and Contracts With Hospitals*, and TxGMS, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

CHRISTUS Health has negotiated multiple indirect cost rates for consolidated entities that have been eligible to negotiate a federal indirect cost rate with the Department of Health and Human Services (DHHS). However, not all awards presented in the Schedule include indirect expenses. Allowable indirect costs for each award are determined by the related terms and conditions developed by the awarding agency for each program. CHRISTUS Health has not elected to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

3. Nature of Activities

CHRISTUS Health receives various grants to cover costs of specified programs. Final determination of eligibility of costs will be made by the grantors. Should any costs be found ineligible, CHRISTUS Health will be responsible for reimbursing the grantors for these amounts.

Additionally, expenditures incurred for various programs may exceed the amounts awarded from the respective pass-through entity or agency. The amounts reported on the Schedule are limited to the award amounts. Amounts in excess of this amount are paid out of non-federal and non-state sources.

4. Donated Personal Protective Equipment (unaudited)

CHRISTUS Health did not receive any donated personal protective equipment from federal sources for the year ended June 30, 2023.

5. Provider Relief Fund

The Schedule includes grant activity related to the Department of Health and Human Services (HHS) Coronavirus Aid Relief and Economic Security (CARES) Act Assistance Listing Number 93.498. As required based on guidance in the 2023 OMB Compliance Supplement, the Schedule includes all funds received between July 1, 2021 and June 30, 2022, and expended by June 30, 2023, as reported to the Health Resources and Services Administration (HRSA) via the Provider Relief Fund Reporting Portal.

6. Disaster Grants – Public Assistance (Presidentially Declared Disasters)

In accordance with guidance from the U.S. Department of Homeland Security, the amount presented on the SEFA for Assistance Listing Number 97.036 – COVID-19 – Disaster Grants – Public Assistance (Presidentially Declared Disasters), represents expenditures that were incurred as of the end of the fiscal year, related to project worksheets approved by the Federal Emergency Management Agency (FEMA) during the fiscal year. CHRISTUS Health reported $12,627,715 in COVID-19 related funding from FEMA during the fiscal year ended June 30, 2023. Of this amount, $12,627,715 in expenditures were incurred prior to the beginning of the fiscal year.

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

The Board of Directors and Management
CHRISTUS Health

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the consolidated financial statements of CHRISTUS Health, which comprise the consolidated balance sheet as of June 30, 2023, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"), and have issued our report thereon dated October 6, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CHRISTUS Health'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 CHRISTUS Health's internal control. Accordingly, we do not express an opinion on the effectiveness of CHRISTUS Health'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 CHRISTUS Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Ernst & Young LLP

October 6, 2023

Building a better working world

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Report of Independent Auditors on Compliance for Each Major Federal and State Program and Report on Internal Control Over Compliance Required by the Uniform Guidance and the Texas Grant Management Standards

The Board of Directors and Management
CHRISTUS Health

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

Opinion on Each Major Federal and State Program

We have audited CHRISTUS Health's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of CHRISTUS Health's major federal programs and the types of compliance requirements described in the Texas Grant Management Standards (TxGMS) that could have a direct and material effect on CHRISTUS Health's major state program for the year ended June 30, 2023. CHRISTUS Health's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

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

We are required to be independent of CHRISTUS Health and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for each major federal and state program. Our audit does not provide a legal determination of CHRISTUS Health'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 CHRISTUS Health's federal and state 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 CHRISTUS Health's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance and TxGMS 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 CHRISTUS Health's compliance with the requirements of each major federal and state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance and TxGMS, 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 CHRISTUS Health'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 CHRISTUS Health's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and TxGMS, but not for the purpose of expressing an opinion on the effectiveness of CHRISTUS Health'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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance, and which is described in the accompanying schedule of findings and questioned costs and identified below. Our opinion on this major federal program is not modified with respect to this matter.

Finding Number	Assistance Listing Number	Program Name	Compliance Requirement
2023-001	93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	Activities Allowed or Unallowed

Government Auditing Standards requires the auditor to perform limited procedures on CHRISTUS Health's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. CHRISTUS Health's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a material weakness.

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 or state 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 or state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs and identified below to be a material weakness.

Finding Number	Assistance Listing Number	Program Name	Compliance Requirement
2023-001	93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	Activities Allowed or Unallowed

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 or state 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 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.

Government Auditing Standards requires the auditor to perform limited procedures on CHRISTUS Health's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. CHRISTUS Health's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Ernst & Young LLP

March 28, 2024

Section I – Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major federal programs:				
Material weakness(es) identified?	X	Yes		No
Significant deficiency(ies) identified?		Yes	X	None reported
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)?	X	Yes		No

State Awards

Internal control over major state programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None reported
Type of auditor's report issued on compliance for major state programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with the Texas Grant Management Standards?		Yes	X	No

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

Identification of major federal programs:

Assistance Listing Number(s)	**Name of Federal Program or Cluster**
93.498	COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
97.036	COVID-19 Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B federal programs: $3,000,000

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

Identification of major state program:

Assistance Listing Number(s)	**Name of State Program or Cluster**
N/A	Graduate Medical Education Program

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

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

Section II – Financial Statement Findings

No findings were noted.

Section III – Federal Award Findings and Questioned Costs

Finding 2023-001 – Internal Control Deficiency and Noncompliance over Activities Allowed or Unallowed

Identification of the federal program:

Federal Grantor: United States Department of Health and Human Services, Health Resources and Services Administration (HRSA)

Assistance Listing No.: 93.498 COVID – 19 Provider Relief Funds and American Rescue Plan (ARP) Rural Distribution

Award Period of Performance: January 1, 2020 – June 30, 2023

Criteria or Specific Requirement (including statutory, regulatory or other citation):

Section 200.303 of the Uniform Guidance states the following regarding internal control: "The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The terms and conditions of the award states the recipient certifies that the payment will only be used to prevent, prepare for, and respond to coronavirus, and that the payment shall reimburse the recipient only for health care related expenses and lost revenues that are attributable to coronavirus.

Condition:

CHRISTUS Health did not consistently retain documentation to evidence approval of certain expenses incurred related to COVID-19. Also, certain payroll expenses related to COVID-19 were calculated using current pay rates as opposed to pay rates in effect at the time the payroll expenses were incurred.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2023-001 – Internal Control Deficiency and Noncompliance over Activities Allowed or Unallowed (continued)

Cause:

CHRISTUS Health did not have controls in place to ensure amounts recorded as COVID-19 related expenses were reviewed and approved. CHRISTUS Health did not use appropriate pay rates when calculating labor costs to treat COVID-19 patients in the provider relief fund report (the Portal Submission) submitted to Health Resource Services Administration (HRSA).

Effect or potential effect:

Lack of documentation of controls could lead to noncompliance. Charging expenses to the program using incorrect pay rates could result in overcharging the program.

Questioned Costs:

$237

Context:

CHRISTUS Health reported $65,505,801 of total expenses for the Period 4 and 5 HRSA Portal Submissions relating to Provider Relief Funding (PRF) Phase 4 General Distributions and American Rescue Plan (ARP) Rural Payments. Because a material weakness was issued in the prior year related to lack of documentation of controls surrounding expenses, we did not test and rely on controls for expenses in the current audit as the finding had not been remediated for the entire audit period.

We selected 95 disbursements from the $65,505,801 of total expenses reported. Total program related expenditures that were charged specifically to a COVID related Activity Code within the Payroll IT System were $3,166,654. Of the 95 selected disbursements, 10 disbursements related to the COVID Activity Code. For payroll costs charged to the COVID Activity code, the amount charged to the award was calculated using the actual hours incurred multiplied by the pay rate at the time the portal submission was prepared, instead of the pay rate in effect at the time the hours were incurred. The 10 selections totaled $11,759. We recalculated the amount charged to the program using the pay rates in effect at the time the hours were incurred resulting in four overcharges totaling $237, four undercharges totaling $846, and two correct charges in which the current pay rate happened to match the pay rate at the time the hours were incurred.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2023-001 – Internal Control Deficiency and Noncompliance over Activities Allowed or Unallowed (continued)

Identification as a repeat finding, if applicable:

The finding is a repeat finding of 2021-001 and 2022-001.

Recommendation:

CHRISTUS Health should refine its process to retain documentation evidencing that each expense charged to the program is reviewed and approved. Only actual expenses should be charged to the program.

View of Responsible Officials:

Management agrees with the finding and will implement corrective action.

Section IV – State Award Findings and Questioned Costs

No findings were noted.

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CHRISTUS Health

Corrective Action Plan

Year Ended June 30, 2023

<u>Finding 2023-001</u>
Federal Program Information
Federal Agency: U.S. Department of Health and Human Services, Health Resources and Services Administration (HRSA)

Assistance Listing No.: 93.498 COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
Award Period of Performance: July 1, 2020 to June 30, 2023

Corrective Action Planned:
Management agrees that certain expenses to the COVID department were not reviewed and approved at the order entry level in specific cases. Although evidence of review was not retained for every charge to the COVID department, we believe the appropriateness of the charge was reasonable. Additionally, based on monthly review of departmental expenses and full-time equivalent (FTE) analysis at the facility level, we believe that these expenditures are subject to the appropriate level of review to identify unexpected variances.

As it relates to the COVID Activity Code, this code was created as a means to track certain COVID hours worked, but was not configured to calculate the amounts associated with those hours, resulting in the need to make reasonable estimates. Even using the base pay rate at the time the hours were incurred would not have been accurate since it would omit adjustments for shift differentials, weekend hours, and overtime. We performed internal analyses and reviewed the results of samples selected by the auditors and concluded that the risk of a material overcharge to the program was minimal. Further, we have almost $40 million of unused lost revenues after our final PRF submission for Period 5, such that any questioned costs would easily be covered by other eligible uses of PRF funds.

We have reviewed our processes related to the retention of expense documentation to improve audit evidence should this program ever be awarded in future periods.

Responsible party: Lee Sonne, Vice President of Finance and Controller

Implementation Date: Procedures were reviewed and analysis completed along with the Period 5 portal filing in September 2023.

CHRISTUS Health

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2023

<u>Finding 2021-001</u>– Internal Control Deficiency Over Activities Allowed or Unallowed

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

Summary Finding: The terms and conditions of the award states the recipient certifies that the payment will only be used to prevent, prepare for, and respond to coronavirus, and that the payment shall reimburse the recipient only for health care related expenses and lost revenues that are attributable to coronavirus. CHRISTUS Health (CHRISTUS) did not consistently retain documentation to evidence approval of certain expenses incurred related to COVID-19. Also, certain payroll expenses related to COVID-19 were calculated using current pay rates as opposed to pay rates in effect at the time the payroll expenses were incurred.

Questioned Costs: $1,148

Auditee Status Update: Some payroll charges included in our Health and Human Services (HHS) portal submission were based on actual hours and current pay rates rather than the pay rates in effect at the time the hours were incurred. We accumulated detailed information of all submitted charges using the incorrect rate in our Period 1 report. We have completed a similar review of payroll charges using the incorrect rate submitted in our Period 2 report, as that was submitted prior to the identification of this error. We did not receive any Period 3 funding. We have submitted our Period 4 report and have deducted an over-charge of approximately $5,000 related to Period 2. Our analysis of Period 1 determined that although the audited sample suggested that utilizing current pay rates would translate into an over-statement of cost – in fact, the opposite was found to be true. During the height of the pandemic, many associates received temporary pay rate premiums that resulted in additional payroll costs being eligible COVID-related expenses. Although we determined that additional expense could have been charged in Period 1, we have not adjusted Period 4 or Period 5 for those expenses.

<u>Finding 2022-001</u>– Internal Control Deficiency Over Activities Allowed or Unallowed

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

CHRISTUS Health

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2023

Summary Finding: CHRISTUS Health did not consistently retain documentation to evidence approval of certain expenses incurred related to COVID-19. CHRISTUS did not have controls in place to ensure amounts recorded as COVID-19 related expenses were reviewed and approved. This is a repeat finding of 2021-001.

Questioned Costs: None

Auditee Status Update: Some payroll charges included in our Health and Human Services (HHS) portal submission were not reviewed and approved at the order entry level in specific cases. Although evidence of review was not retained for every charge to the COVID department, we believe the appropriateness of the charge was reasonable. Additionally, based on monthly review of departmental expenses and full-time equivalent (FTE) analysis at the facility level, we believe that these expenditures are subject to the appropriate level of review to identify unexpected variances.

As it relates to pay rates, a COVID Activity Code, this code was created as a means to track certain COVID hours worked, but was not configured to calculate the amounts associated with those hours, resulting in the need to make reasonable estimates. Even using the base pay rate at the time the hours were incurred would not have been accurate since it would omit adjustments for shift differentials, weekend hours, and overtime. We performed internal analyses and reviewed the results of samples selected by the auditors and concluded that the risk of a material overcharge to the program was minimal. Further, we have almost $40 million of unused lost revenues after our final PRF submission for Period 5, such that any questioned costs would easily be covered by other eligible uses of PRF funds.

We have reviewed our processes related to the retention of expense documentation to improve audit evidence should this program ever be awarded in future periods.

<u>Finding 2022-002</u>– Internal Control Deficiency and Noncompliance over Reporting

Assistance Listing No.: 21.027, Coronavirus State and Local Fiscal Recovery Funds

Summary Finding: CHRISTUS Health did not originally prepare a complete and accurate listing of all federal awards in the Schedule of Expenditures of Federal Awards (SEFA). CHRISTUS did not have controls in place to ensure all federal expenditures were captured on the SEFA. The SEFA prepared by CHRISTUS was misstated but was subsequently corrected. The misstatement resulted in the omission of a major federal program under the Uniform Guidance report.

CHRISTUS Health

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2023

Questioned Costs: None

Auditee Status Update: The Department of Treasury awards passed through Smith County and the City of San Marcos were not included in the initial Schedule of Expenditures of Federal Awards. However, grant management identified the oversight and took corrective action to inform external auditors immediately upon the discovery. We have reviewed our processes that led to the initial oversight.

We have instituted a new process to obtain confirmation from each CFO that their Ministry's reported amounts on the Schedule of Expenditures of Federal and State awards is complete and accurate.

<u>Finding 2022-003 -</u> Internal Control Deficiency and Noncompliance over Activities Allowed or Unallowed and Period of Performance

Assistance Listing No.: 21.027, Coronavirus State and Local Fiscal Recovery Funds

Pass-Through Award Numbers:
Good Shepherd, pass-through Gregg County: SKM_C55822012711390
Trinity Mother Frances, Pass-through Smith County: Not available
Santa Rosa, Pass-through the City of San Marcos: Not available

Summary Finding:
CHRISTUS did not have controls in place that operated effectively to ensure that employees receiving retention bonuses were eligible under the requirements of the agreements for Good Shepherd and Trinity Mother Frances, resulting in ineligible employees being charged to the grant. Controls were not in place to ensure the expenditures reported by Santa Rosa were eligible under the agreement. Certain types of expenditures used in the calculation to support the award were not allowed under the agreement.

Questioned Costs: Good Shepherd: $1,000,000, Trinity Mother Frances: $21,480, San Marcos: $139,759

Auditee Status Update: CHRISTUS is in the process of performing a full audit of all expenditures reported to each respective pass-through agency. Upon completion of that review, we will seek guidance from the respective pass-through agency as to the appropriate corrective action. Full audit

CHRISTUS Health

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2023

of reported expenditures has begun in each Ministry. Ultimate resolution is dependent on timing and results of meetings with the respective pass-thru agencies, but we expect to have procedures completed by June 30, 2024 to request the meeting with the pass-thru agencies.

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Louisiana Legislative Auditor
Statewide Agreed-Upon Procedures Report

Report of independent accountants
on applying agreed-upon procedures

To the Audit and Compliance Committee and Management of
CHRISTUS Health and the Louisiana Legislative Auditor

We have performed the procedures enumerated below related to CHRISTUS Health (the System) on the control and compliance areas identified in the Louisiana Legislative Auditor's (LLA's) Statewide Agreed-Upon Procedures (SAUPs) during the period July 1, 2022 through June 30, 2023. CHRISTUS Health's management is responsible for its compliance with those requirements.

CHRISTUS Health has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement, which is to perform specified procedures on the controls and compliance areas identified in LLA's SAUPs for the fiscal period July 1, 2022 through June 30, 2023. Additionally, LLA has agreed to and acknowledged that the procedures performed are appropriate for its purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

Written policies and procedures

SAUP requirement

Obtain and inspect the entity's written policies and procedures and observe whether they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):

a) ***Budgeting,*** including preparing, adopting, monitoring, and amending the budget.

b) ***Purchasing,*** including (1) how purchases are initiated, (2) how vendors are added to the vendor list, (3) the preparation and approval process of purchase requisitions and purchase orders, (4) controls to ensure compliance with the Public Bid Law, and (5) documentation required to be maintained for all bids and price quotes.

c) ***Disbursements,*** including processing, reviewing, and approving.

Louisiana Legislative Auditor
Statewide Agreed-Upon Procedures Report

d) ***Receipts/collections,*** including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

e) ***Payroll/personnel,*** including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked, and (3) approval process for employee rates of pay or approval and maintenance of pay rate schedules.

f) ***Contracting,*** including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.

g) ***Travel and expense reimbursement,*** including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

h) ***Credit cards (and debit cards, fuel cards, purchase cards, if applicable),*** including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).

i) ***Ethics,*** including (1) the prohibitions as defined in Louisiana Revised Statute (R.S.) 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) a requirement that documentation is maintained to demonstrate that all employees and officials were notified of any changes to the entity's ethics policy.

j) ***Debt service,*** including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

k) ***Information technology disaster recovery/business continuity,*** including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

l) ***Prevention of sexual harassment,*** including R.S. 42:342-344 requirements for (1) agency responsibilities and prohibitions, (2) annual employee training, and (3) annual reporting.

Louisiana Legislative Auditor
Statewide Agreed-Upon Procedures Report

Procedures performed

We obtained written policies for the following applicable financial/business functions related to the use of public funds: purchasing (ii.), disbursements (iii.), receipts/collections (iv.), payroll/personnel (v.), contracting (vi.), travel and expense reimbursement (vii.), debt service (x.), and information technology disaster recovery/business continuity (xi.).

We did not obtain written policies over Credit Cards (viii.), Ethics (ix.), and Prevention of Sexual Harassment (xii.) as these steps were not applicable due to the nature of the expenditures made with public funds or the fact that nonprofits are excluded from the procedures.

Finding 001

The System does not have formal written policies and procedures in place over the following:

a) Budgeting process (1-A-i.)

b) Disbursements (1-A-iii)

c) The processing of payroll (1-A-v-(1))

d) Debt(1-A-x)

Management's response

Management agrees with the finding. Procedures are in place related to these processes, but policies are not formally documented.

Board (or finance committee) minutes

Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:

a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

b) For those entities reporting on the governmental accounting model, observe whether the minutes referenced or included monthly budget-to-actual comparisons on the general fund, quarterly budget-to-actual, at a minimum, on all special revenue funds. Alternatively, for those entities reporting on the not-for-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds, if those public funds comprised more than 10% of the entity's collections during the fiscal period.

c) For governmental entities obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund.

d) Observe whether the board/finance committee received written updates of the progress of resolving audit finding(s), according to management's corrective action plan at each meeting until the findings are considered fully resolved.

Procedures performed

- EY obtained and inspected the Audit and Compliance Committee Charter (the Charter).
- EY obtained the Audit and Compliance Committee meeting minutes for the fiscal year, noting they were executed in a frequency in accordance with the Charter and that written updates are provided on the progress of resolving internal audit findings according to management's corrective action plan until the findings are fully resolved.
- EY observed that CHRISTUS Health reports on the not-for-profit accounting model and the public funds do not comprise more than 10% of collections during the fiscal period.

No findings noted.

Bank reconciliations

Obtain a listing of entity bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account:

a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated or electronically logged);

b) Bank reconciliations include written evidence that a member of management or a board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and

c) Management has documentation reflecting it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Procedures performed

- EY obtained a list of the System's bank accounts used to account for public funds for the fiscal period from management. Management's list included two bank accounts that received public funds.
- EY obtained representations from management that the listing was complete.
- EY randomly selected one month from the fiscal period from each account, and obtained and inspected the corresponding bank statement and reconciliation, noting that they satisfied the attributes set forth above in items 3.A.i-iii.

No findings noted.

Collections (excluding electronic funds transfers)

Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e., 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if there are no written policies or procedures, then inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

a) Employees that are responsible for cash collections do not share cash drawers/registers.

b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g., pre-numbered receipts) to the deposit.

c) Each employee responsible for collecting cash is not also responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.

d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

Obtain from management a copy of the bond or insurance policy for theft covering all employees who have access to cash. Observe that the bond or insurance policy for theft was in force during the fiscal period.

Randomly select two deposit dates for each of the 5 bank accounts selected for procedure 3.A. under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). Alternatively, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc. Obtain supporting documentation for each of the 10 deposits and:

a) Observe that receipts are sequentially pre-numbered.

b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

c) Trace the deposit slip total to the actual deposit per the bank statement.

d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than $100 and the cash is stored securely in a locked safe or drawer).

e) Trace the actual deposit per the bank statement to the general ledger.

Procedures performed

- EY obtained a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) were prepared and noted that the list included three deposit sites. We obtained representations from management that the list was complete.

- For each deposit site, EY obtained a listing of collection locations. We obtained representations from management that the listing was complete. We randomly selected one collection location for each deposit site and obtained and inspected written policies and procedures relating to employee job duties at each collection location and observed that job duties were segregated at each collection location based on the elements in procedures 4.B.i-iv above.

- EY obtained from management a copy of the insurance policy for theft covering all employees who have access to cash. We observed that the bond or insurance policy for theft was in force during the fiscal period.

- EY randomly selected two deposit dates from the cash collection log and obtained supporting documentation for each of the two deposits and performed the procedures noted in 4.D.i-v noted above.

No findings noted.

Non-payroll disbursements excluding card purchases, travel reimbursements, and petty cash purchases)

Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

For each location selected above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

b) At least two employees are involved in processing and approving payments to vendors.

c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

e) Only employees/officials authorized to sign checks approve the electronic disbursement (release) of funds, whether through automated clearinghouse (ACH), electronic funds transfer (EFT), wire transfer, or some other electronic means.

For each location selected above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

a) Observe whether the disbursement, whether by paper or electronic means, matched the related original itemized invoice and supporting documentation indicates that deliverables included on the invoice were received by the entity, and

b) Observe whether the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under procedure 5.B. above, as applicable.

Using the entity's main operating account and the month selected in Bank Reconciliations procedure, randomly select 5 non-payroll-related electronic disbursements (or all electronic disbursements if less than 5) and observe that each electronic disbursement was (a) approved by only those persons authorized to disburse funds (e.g., sign checks) per the entity's policy, and (b) approved by the required number of authorized signers per the entity's policy. Note: If no electronic payments were made from the main operating account during the month selected the practitioner should select an alternative month and/or account for testing that does include electronic disbursements.

Procedures performed

- EY obtained a listing of locations that process payments for the fiscal period, noting only two locations.
- EY obtained representations from management that the listing was complete.
- EY selected the two locations for further procedures.
- For each location, EY obtained a listing of those employees involved with non-payroll purchasing and payment functions. EY obtained a listing of system access relating to various employee roles and observed that job duties were segregated in accordance with 5.B.i-v noted above.
- For each location, EY randomly selected 5 cash disbursements.
- For each disbursement selected, EY obtained supporting documentation for each transaction and observed the disbursement, whether by paper or electronic means, matched the related original itemized invoice and supporting documentation indicated that deliverables included on the invoice were received by the System. For each disbursement selected, EY also observed that disbursement documentation included evidence of

segregation of duties as noted in 5.C.ii above. As there were no non-payroll disbursements under the entity's main operating account, EY selected an alternate month and account for the procedure noted in 5.D. above. EY selected two non-payroll-related electronic disbursements as there were only two occurring in the month selected. EY observed that each electronic disbursement met the approval requirements noted in 5.D. above.

No findings noted.

Credit cards/debit cards/fuel cards/purchase cards (cards)

Procedures performed

Procedures were not applicable due to the nature of the expenditures made with public funds or the fact that nonprofits were excluded from the procedures. As such, EY did not perform procedures over Credit Cards.

Travel and travel-related expense reimbursements (excluding card transactions)

Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements and obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected

a) If reimbursed using a per diem, observe that the approved reimbursement rate is no more than those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov);

b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased;

c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by Written Policies and Procedures procedure 1.A.vii; and

d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Procedures performed

- EY obtained from management a listing of all travel and travel-related expense reimbursements during the fiscal period paid with public funds, noting two expense reimbursements.
- EY obtained representations from management that the listing was complete.
- EY selected both reimbursements and obtained the related expense reimbursement forms and supporting documentation. For each selection, we performed procedures as outlined within 7.A.i-iv above.

No findings noted.

Contracts

Procedures performed

- EY obtained representations from management that there are no external contracts with third parties paid with public funds, therefore, this procedure is not applicable.

Payroll and personnel

Obtain a listing of employees and officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees or officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

Randomly select one pay period during the fiscal period. For the 5 employees or officials selected under procedure #9.A. above, obtain attendance records and leave documentation for the pay period, and

a) Observe that all selected employees or officials documented their daily attendance and leave (e.g., vacation, sick, compensatory);
b) Observe whether supervisors approved the attendance and leave of the selected employees or officials;
c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records; and

d) Observe the rate paid to the employees or officials agrees to the authorized salary/pay rate found within the personnel file.

Obtain a listing of those employees or officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees or officials and obtain related documentation of the hours and pay rates used in management's termination payment calculations and the entity's policy on termination payments. Agree the hours to the employee's or official's cumulative leave records, agree the pay rates to the employee's or official's authorized pay rates in the employee's or official's personnel files, and agree the termination payment to entity policy.

Obtain management's representation that employer and employee portions of third-party payroll related amounts (e.g., payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines.

Procedures performed

- EY obtained a listing of employees and officials employed during the fiscal period.
- EY obtained representations from management that the listing was complete.
- EY randomly selected 5 employees, obtained related paid salaries and personnel files, and agreed paid salaries to authorized salaries/pay rates in the personnel files.
- EY randomly selected one pay period during the fiscal period. For the 5 employees selected under procedure 9.A. above, we obtained attendance records and leave documentation for the pay period and performed procedures over them in accordance with 9.B.i – iv above.
- EY also obtained a listing of those employees that received termination payments during the fiscal period.
- EY obtained representations from management that the listing was complete.
- EY randomly selected two employees and obtained related documentation of the hours and pay rates used in management's termination payment calculations and the entity's policy on termination payments. We agreed the hours to the employee's cumulative leave records, agreed the pay rates to the employee's authorized pay rates in the employee's personnel files, and agreed the termination payment to entity policy.
- EY obtained representations from management that employer and employee portions of third-party payroll related amounts (e.g., payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines.

No findings noted.

Ethics

Procedures performed

This procedure was not applicable due to the nature of the expenditures made with public funds or the fact that nonprofits were excluded from the procedures. As such, EY did not perform procedures over Ethics.

Debt service

Obtain a listing of bonds/notes and other debt instruments issued during the fiscal period and management's representation that the listing is complete. Select all debt instruments on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each debt instrument issued as required by Article VII, Section 8 of the Louisiana Constitution.

Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

Procedures performed

- We obtained representations from management that there were no bonds/notes or other debt instruments issued during the fiscal period specific to Louisiana.
- EY obtained a listing of bonds/notes outstanding at the end of the fiscal period specific to Louisiana.
- EY obtained representations from management that the listing is complete.
- EY randomly selected one bond/note. For the selected bond, we inspected debt covenants, obtained supporting documentation for the reserve balance and payments, and agreed the actual reserve balances and payments to those required by the debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

No findings noted.

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Fraud notice

Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled as required by R.S. 24:523.

Observe that the entity has posted, on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

Procedures performed

- We obtained representations from management that there have been no misappropriations of public funds or assets.
- EY observed that the System has posted the notice required by R.S 24:523.1 as stated above on their premises and website.

No findings noted.

Information technology disaster recovery/business continuity

Perform the following procedures, verbally discuss the results with management, and report "We performed the procedure and discussed the results with management."

a) Obtain and inspect the entity's most recent documentation that it has backed up its critical data (if there is no written documentation, then inquire of personnel responsible for backing up critical data) and observe evidence that such backup (a) occurred within the past week, (b) was not stored on the government's local server or network, and (c) was encrypted.

b) Obtain and inspect the entity's most recent documentation that it has tested/verified that its backups can be restored (if there is no written documentation, then inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months.

c) Obtain a listing of the entity's computers currently in use and their related locations, and management's representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have current and active antivirus software and that the operating system and accounting system software in use are currently supported by the vendor.

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Randomly select 5 terminated employees (or all terminated employees if less than 5) using the list of terminated employees obtained above. Observe evidence that the selected terminated employees have been removed or disabled from the network.

Procedures performed

- EY obtained and inspected the System's most recent documentation that it has backed up its critical data and observed evidence that such backup (a) occurred within the past week, (b) was not stored on the local server or network, and (c) was encrypted.
- EY obtained and inspected the entity's most recent documentation that it has tested/verified that its backups can be restored and observed evidence that the test/verification was successfully performed within the past 3 months.
- EY obtained a listing of the entity's computers currently in use for Louisiana-related programs and their related locations. We obtained representations from management that the list was complete. EY randomly selected 5 computers and observed that the selected computers have current and active antivirus software and that the operating system in use is currently supported by the vendor. The System's accounting software is Cloud-based and thus not downloaded on individual computers. EY observed that the accounting software is supported by the vendor.
- EY obtained a listing of terminated employees at locations related to public funds, noting only two employees. We obtained representations from management that the listing was complete. EY selected both employees and observed that the terminated employees have been disabled from the network.

No findings noted and EY discussed the results of these procedures with management.

Prevention of sexual harassment

Procedures performed

- These procedures were not applicable due to the nature of the expenditures made with public funds or the fact that nonprofits were excluded from the procedures. As such, EY did not perform procedures over Prevention of Sexual Harassment.

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We were engaged by CHRISTUS Health's management to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards.* We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on those control and compliance areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of CHRISTUS Health and to meet our ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Louisiana Legislative Auditor to describe the procedures performed on those control and compliance areas identified in the SAUPs, and the result of those procedures performed, and not to provide an opinion on control or compliance. It is not intended to be and should not be used by anyone other than the specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Ernst + Young LLP

Dallas, Texas
April 4, 2024