FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Financial Statements

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

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KPMG LLP
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Baton Rouge, LA 70801

Independent Auditors' Report

The Board of Trustees
Franciscan Missionaries of Our Lady Health System, Inc.:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System), 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 without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated balance sheets of the System as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated 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 consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2023, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

KPMG LLP

Baton Rouge, Louisiana
October 27, 2023

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Balance Sheets

June 30, 2023 and 2022

(In thousands)

Assets		**2023**	**2022**
Current assets:			
Cash and cash equivalents	$	491,188	497,804
Short-term investments		6,232	69,981
Net patient accounts receivables		258,049	313,595
Other current assets		195,936	230,980
Total current assets		951,405	1,112,360
Assets limited as to use, net of current portion		1,665,037	1,591,009
Property and equipment, net		1,681,875	1,697,468
Other assets		382,665	300,664
Total assets	$	4,680,982	4,701,501
Liabilities and Net Assets			
Current liabilities:			
Lines of credit	$	—	47,000
Current installments of long-term debt		6,803	18,644
Current portion of lease obligations		24,720	26,028
Accounts payable		172,508	204,202
Other current liabilities		397,497	445,576
Total current liabilities		601,528	741,450
Professional and general liabilities, excluding current portion		63,670	63,453
Long-term debt, excluding current installments		908,046	914,007
Lease obligations, excluding current portion		77,165	90,028
Accrued pension cost		245,754	250,333
Other long-term liabilities		155,219	178,455
Total liabilities		2,051,382	2,237,726
Net assets:			
Without donor restrictions		2,537,983	2,374,313
With donor restrictions		56,135	56,245
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.		2,594,118	2,430,558
Noncontrolling interests		35,482	33,217
Total net assets		2,629,600	2,463,775
Total liabilities and net assets	$	4,680,982	4,701,501

See accompanying independent auditors' report.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022
Changes in net assets without donor restrictions:			
Operating revenues:			
Net patient service revenue	$	3,151,146	2,983,308
Other revenue		261,916	305,597
Equity in income from equity investees, net		7,574	18,312
Total operating revenues		3,420,636	3,307,217
Net assets released from restrictions used for operations:			
Satisfaction of program restrictions		3,355	5,131
Expiration of time restrictions		221	250
Total net assets released from restrictions used for operations		3,576	5,381
Total operating revenues and other support		3,424,212	3,312,598
Operating expenses:			
Salaries and wages		1,400,086	1,439,755
Employee benefits		248,584	227,880
Total salaries, wages, and employee benefits		1,648,670	1,667,635
Physician fees		153,916	148,175
Professional services		31,198	23,712
Other services		585,663	526,919
Leases, insurance, and utilities		126,051	105,698
Supplies		741,499	686,538
Depreciation and amortization		148,855	145,093
Interest		39,887	37,812
Other		8,746	71,647
Total operating expenses		3,484,485	3,413,229
Operating loss before impairment and gain on sale		(60,273)	(100,631)
Impairment		(534)	—
Gain on sale		7,836	17,901
Operating loss		(52,971)	(82,730)

(Continued)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022
Nonoperating gains (losses):			
Investment return (loss)	$	157,499	(155,176)
Other		8,357	(6,260)
Total nonoperating gains (losses), net		165,856	(161,436)
Revenues, gains, and other support in excess of (less than) expenses and losses before noncontrolling interest		112,885	(244,166)
Noncontrolling interests		52,586	(6,511)
Revenues, gains, and other support in excess of (less than) expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc.		165,471	(250,677)
Pension-related changes other than net periodic pension cost		(5,237)	131,351
Released from restrictions for capital		1,178	2,243
Capital transfers		2,258	2,941
Contributions for capital		—	1,021
Increase (decrease) in net assets without donor restrictions	$	163,670	(113,121)

See accompanying notes to consolidated financial statements.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2023 and 2022

(In thousands)

	2023	2022
Changes in net assets without donor restrictions:		
Revenues, gains, and other support in excess of (less than) expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc.	$ 165,471	(250,677)
Pension-related changes other than net periodic pension cost	(5,237)	131,351
Released from restrictions for capital	1,178	2,243
Capital transfers	2,258	2,941
Contributions for capital	—	1,021
Increase (decrease) in assets without donor restrictions	163,670	(113,121)
Changes in net assets with donor restrictions:		
Contributions	11,054	9,355
Income from long-term investments, net	375	12
Net assets released from restrictions	(11,539)	(7,658)
(Decrease) increase in net assets with donor restrictions	(110)	1,709
Changes in noncontrolling interests:		
Revenues, gains, and other support (less than) in excess of expenses and losses	(52,586)	6,510
Distributions	(17,124)	(3,811)
Change in non-controlling interest	72,207	9,278
Other	(232)	—
Increase in noncontrolling interests	2,265	11,977
Increase (decrease) in net assets	165,825	(99,435)
Net assets, beginning of year	2,463,775	2,563,210
Net assets, end of year	$ 2,629,600	2,463,775

See accompanying notes to consolidated financial statements.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022
Cash flows from operating activities:			
Increase (decrease) in net assets	$	165,825	(99,435)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Depreciation and amortization		148,855	145,093
Impairment		534	—
Gain on sale		(7,836)	(17,901)
Net realized and unrealized (gains) losses on assets limited as to use and investment securities		(160,296)	156,088
Income from equity investees		(7,574)	(18,312)
Amortization included in interest		(1,829)	(1,982)
Pension-related changes other than net periodic pension cost		(5,237)	(131,351)
Acquisition of noncontrolling interest		(72,207)	(9,278)
Distributions to noncontrolling interest		(17,124)	(3,811)
Return of income from equity investees		10,189	12,003
Changes in operating assets and liabilities, net of acquisitions:			
Receivables		78,874	(44,483)
Inventories		(1,907)	(10,549)
Prepaid expenses and other assets		(13,969)	16,095
Accounts payable, accrued expenses, and other liabilities		(56,638)	(264,189)
Professional and general liabilities		217	981
Net cash provided by (used in) by operating activities		59,877	(271,031)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022
Cash flows from investing activities:			
Capital and software expenditures	$	(182,783)	(139,971)
Purchases of assets limited as to use		(398,709)	(773,797)
Sales of assets limited as to use		492,575	494,400
Proceeds from sale of assets		7,836	17,901
Cash paid for acquisitions, net of cash acquired		—	2,449
Net cash used in investing activities		(81,081)	(399,018)
Cash flows from financing activities:			
Repayment of long-term debt		(15,974)	(8,325)
Repayment of finance lease obligations, net		(9,035)	(6,032)
Proceeds from line of credit		—	39,700
Payments on line of credit		(47,000)	—
Distributions to noncontrolling interest		17,124	3,811
Net cash (used in) provided by financing activities		(54,885)	29,154
Decrease in cash and cash equivalents and restricted cash		(76,089)	(640,895)
Cash, cash equivalents, and restricted cash, beginning of year		618,050	1,258,945
Cash, cash equivalents, and restricted cash, end of year	$	541,961	618,050
Supplemental noncash disclosures:			
Accounts payable for capital expenditures projects	$	2,838	(5,138)
Interest paid		32,784	32,562
Assets acquired with a financing lease		—	24,784

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

Franciscan Missionaries of Our Lady Health System, Inc. (FMOLHS or the System) is a not-for-profit, nonstock membership corporation and is a wholly owned subsidiary of Franciscan Missionaries of Our Lady (FMOL) in Baton Rouge, Louisiana. The members of FMOL are the provincial and the members of the Council of the Franciscan Missionaries of Our Lady – North American Province. FMOLHS is the sole member and has sole voting control of six medical centers and their affiliates (the FMOLHS Affiliates). All of these entities are not-for-profit, nonstock membership corporations. The medical centers are as follows:

- Our Lady of the Lake Hospital, Inc. d/b/a Our Lady of the Lake Regional Medical Center (the Lake) – Baton Rouge, Louisiana and Our Lady of the Lake Ascension Community Hospital in Gonzales, Louisiana
- Our Lady of Lourdes Regional Medical Center, Inc. (Lourdes) – Lafayette, Louisiana
- St. Francis Medical Center, Inc. (St. Francis) – Monroe, Louisiana
- Our Lady of the Angels Hospital, Inc. (Angels) – Bogalusa, Louisiana
- St. Dominic Health Services, Inc. (St. Dominic) – Jackson, Mississippi
- The FMOLHS Affiliates participate together in a captive insurance company, Louise Insurance Co., Ltd. (Louise), which is wholly owned by FMOLHS (note 18). FMOLHS also has ownership interest in other entities providing services to meet its mission.

The significant accounting policies used by FMOLHS in preparing and presenting its consolidated financial statements are as follows:

(a) Basis of Presentation

These consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. Certain balances from the 2022 financial statements have been restated to conform to the current year presentation to ensure consistency and comparability with the current year's financial statements.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of FMOLHS, its wholly owned subsidiaries, and the FMOLHS Affiliates. All significant intercompany balances and transactions have been eliminated in consolidation. Third-party equity interest in the consolidated subsidiaries and affiliates are reflected as noncontrolling interest in FMOLHS's consolidated financial statements. For subsidiaries in which FMOLHS does not have a controlling interest, FMOLHS records such investments under the equity method of accounting.

(c) Use of Estimates

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

(In thousands)

Significant items subject to such estimates and assumptions include the determination of the allowances for implicit price concessions and explicit price concessions (contractual adjustments), revenue recognized under the CARES Act, assumptions related to assets acquired and liabilities assumed, reserves for general and professional liability claims, reserves for workers' compensation claims, reserves for employee healthcare claims, estimated third-party payor settlements, certain investments in alternative funds, lease liabilities and the actuarially determined benefit liability related to pension plans and postretirement health plans. In addition, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

(d) Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased, excluding amounts included in assets limited as to use.

FMOLHS maintains bank accounts at various financial institutions covered by Federal Depository Insurance Corporation (FDIC). FMOLHS may maintain bank account balances in excess of the FDIC-insured limit. FMOLHS believes it is not exposed to any significant credit risk related to cash and cash equivalents.

Cash and restricted cash as shown on the consolidated statements of cash flows consist of the following:

		2023	2022
Balance sheet caption:			
Cash	$	491,188	497,804
Short-term investments (see note 2)		100	17,258
Assets limited as to use (see note 2)		50,673	102,988
Total	$	541,961	618,050

(e) Investments and Investment Return

Investments in equity securities with readily determinable fair values and all investments in debt securities, except for investments in the common stock of equity investees accounted for using the equity method, are recorded at fair value. The estimated fair value of these investments is based on quoted market prices.

FMOLHS also invests in alternative investments such as hedge funds, private equity funds, and commingled funds. When FMOLHS's alternative investments represents investments organized as corporations, or trusts with legal structures similar to a corporation, with ownership less than 20%, and transacts frequently (at least quarterly), FMOLHS accounts for these investments at fair value or net asset value (NAV) as a practical expedient to fair value. Net asset value is based on the fair value of the underlying investments. When FMOLHS's alternative investments represents investments organized as limited partnerships or limited liability companies with specific ownership accounts or trusts with legal structures similar to a partnership.

The NAV for alternative investments for which quoted market prices are not available is based on the most recent valuations provided by the external investment managers, adjusted for receipts and disbursements through June 30. FMOLHS reviews and evaluates the values provided by the managers and agrees with the valuation methods and assumptions used to determine those values. Therefore, FMOLHS believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

Dividend, interest and other income, realized and unrealized gains and losses on investments recorded at fair value, alternative investments recorded at NAV, and changes in the carrying value of alternative investments recorded on the equity method, are included as revenues, gains, and other support in excess of (less than) expenses and losses in the consolidated statements of operations and changes in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law. Donated investments are recorded at fair value at the date of receipt.

(f) Inventories and Supplies

Inventories and supplies, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (average-cost method) or net realizable value and are included in other current assets in the accompanying consolidated balance sheets.

(g) Assets Limited as to Use

Assets limited as to use include the following:

- Assets set aside by the board of directors for future capital acquisitions, capital improvements, and debt service, over which the board of directors retains control and may at its discretion subsequently use for other purposes
- Assets held by trustees under indenture agreements, self-insurance trust arrangements, and terms of donor restrictions
- Assets set aside subject to donor-imposed stipulations

Amounts required to satisfy current requirements for the payment of current construction costs and debt service costs are classified as other current assets in the accompanying consolidated balance sheets.

(h) Components of Net Assets

Net assets, revenues, and other support and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of FMOLHS and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that are available for use either by the passage of time or for specific purposes; certain of these net assets are subject to donor-imposed stipulations that they be maintained permanently by FMOLHS. Generally, the donors of these assets permit FMOLHS to use all or part of the income earned on related investment for general or specific purposes.

Revenue is reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions. Donor-restricted contributions, whose restrictions are met in the same reporting period as the contributions are recorded, are reported as increases in net assets without donor restrictions.

(i) Property and Equipment

Property and equipment, including leasehold improvements, are stated at cost upon acquisition or fair value if donated. Depreciation is computed primarily on the straight-line method based upon the shorter of the estimated useful lives of the assets or the lease term.

FMOLHS capitalizes costs associated with the acquisition or development of major software for internal use in other assets in the consolidated balance sheets and amortizes the assets over the expected life of the software, generally between three and seven years. FMOLHS only capitalizes subsequent additions, modifications, or upgrades to internal-use software to the extent that such changes allow the software to perform a task it previously did not perform. FMOLHS expenses software maintenance and training costs as incurred.

FMOLHS evaluates cloud computing arrangements to determine whether the arrangement includes a software license or is a service contract. If determined to be a software license, then FMOLHS capitalizes the arrangement as other assets and amortizes it over the expected life of the software license, generally between three and five years. If determined to be a service contract, then FMOLHS expenses the cost of the arrangement as the services are provided.

(j) Leases

FMOLHS is the lessee with several noncancellable contracts that include (1) operating leases, primarily for office space, and (2) finance leases, for certain equipment and IT equipment.

FMOLHS accounts for leases in accordance with *Leases (Topic 842)* (see note 20). FMOLHS determines if an arrangement is or contains a lease at contract inception. FMOLHS recognizes a right of use (ROU) asset and a lease liability at the lease commencement date.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases and is subsequently measured at amortized cost using the effective-interest method.

FMOLHS uses key estimates and judgements to determine (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term, and (3) lease payments.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For the ROU asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term unless the lease transfers ownership of the underlying asset to FMOLHS or FMOLHS is reasonably certain to exercise an option to purchase the underlying asset.

ROU assets for operating and finance leases are periodically reduced by impairment losses. FMOLHS uses the long-lived assets impairment guidance in ASC Topic 360-10, *Property, Plant, and Equipment – Overall*, to determine whether an ROU asset is impaired, and if so, the amount of the impairment loss to recognize. See note 1(m).

FMOLHS monitors for events or changes in circumstances that require a reassessment of one or its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in operating loss in the consolidated statements of operations and changes in net assets without donor restrictions.

ROU assets are presented in property and equipment, net in the consolidated balance sheets. The current portion of capital lease obligations is presented separately as current portion of lease obligations and the long-term portion is presented separately as lease obligations, excluding current portion on the consolidated balance sheets.

(k) Business Combination

FMOLHS accounts for business combinations using the acquisition method. The assets acquired and liabilities assumed are measured at fair value on the acquisition date using appropriate valuation methods. The residual purchase price is recorded as cost in excess of net assets acquired. An inherent contribution is recognized when the fair value of the assets and liabilities assumed exceeds the purchase price. The operations of the acquisitions are included in the consolidated financial statements from their respective dates of acquisition.

(l) Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired, or goodwill, included in other assets in the consolidated balance sheets, is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Cost in excess of net assets acquired is reviewed for impairment at least annually. FMOLHS applies the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, *Intangibles – Goodwill and Other*, which provides an entity the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test.

FMOLHS performs its annual impairment review of cost in excess of net assets acquired at June 30, and when a triggering event occurs between annual impairment tests. For the fiscal year ending June 30, 2023, FMOLHS performed a qualitative assessment of cost in excess of net assets acquired and determined that it is not likely the fair values of its reporting units are less than the carrying amounts.

(m) Impairment of Long-lived Assets

Long-lived assets, such as property and equipment and equity method investments, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, FMOLHS first compares the undiscounted future cash flows expected to be generated by the assets to its carrying value. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party appraisals, as considered necessary. In 2023 and 2022, the System recorded an impairment of $534 and $0, respectively, in the consolidated statements of operations and changes in net assets without donor restrictions.

(n) Cost of Issuances

Bond issuance costs are presented as a direct deduction from the carrying value of debt in the accompanying consolidated financial statements. Premiums, discounts, costs of letters of credit, and standby purchase agreements are being amortized over the terms of the related bond issues using a method that approximates the effective-interest method. Accumulated amortization was approximately $9,636 and $9,265 at June 30, 2023 and 2022, respectively.

(o) Estimated Workers' Compensation, Professional Liability, and Employee Health Claims

The provisions for estimated workers' compensation, professional liability, and employee health claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported. These estimates incorporate FMOLHS's past experience, as well as other considerations, including the nature of claims, industry data, relevant trends, and/or the use of actuarial information.

(p) Consolidated Statements of Operations and Changes in Net Assets without Donor Restrictions

Transactions deemed to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Investment return, consisting of dividends and interest earned on investments, as well as realized and unrealized gains and losses on the investment portfolio, and the change in value of interest rate swap agreement are reported as nonoperating gains or losses.

The consolidated statements of operations and changes in net assets without donor restrictions include revenues, gains, and other support in excess of (less than) expenses and losses, which is an indicator of financial performance. Changes in net assets without donor restrictions which are excluded from revenues, gains, and other support in excess of (less than) expenses and losses include permanent transfers of assets to and from affiliates for other than goods and services, pension-related changes other than the service cost component, curtailment gains (loss) of pension plans and postretirement, inherent contributions and contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets).

(q) Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlements of audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to audits, review, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in outpatient centers. The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the System's patients and customers in a retail setting as a component of other revenue in the accompanying consolidated statements of operations and changes in net assets without donor restrictions and the System does not believe it is required to provide additional goods or services related to that sale.

The System's performance obligations relate to contracts with a duration of less than one year; therefore, the System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The System is utilizing the portfolio approach practical expedient in ASC 606, *Revenue From Contracts With Customers*, for contracts related to net patient service revenue. The System accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment patterns expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the System has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

The System has agreements with third-party payors that generally provide for payments to the System at amounts different from its established rates. For uninsured patients who do not qualify for charity care, the System recognizes revenue based on established rates, subject to certain discounts and implicit price concessions as determined by the System.

The System determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration the System expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors.

(Continued)

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

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

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended June 30, 2023 and 2022, additional revenue of $25,093 and $21,868, respectively, was recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. The additional revenue primarily represents patient account recoveries that were previously written off as uncollectible. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

The System owns and operates a continuing care retirement community. These contractual arrangements require payment in advance for goods and services to be provided. For the years ended June 30, 2023 and 2022, the associated contract liabilities for such collections in advance were $31,271 and $30,570 are reported in other long-term liabilities on the consolidated balance sheets. Revenue for the continuing care retirement community is recognized over the estimated remaining life expectancy of the residents, which is actuarially determined.

(r) Coronavirus Aid, Relief, and Economic Security CARES Act Provider Relief Funding

On March 13, 2020, COVID-19 was designated a national emergency in the United States. In response to COVID-19, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security ("CARES Act") on March 27, 2020. The following portions of the CARES Act impacted us during the fiscal year ended June 30, 2023:

(i) CARES Act – Provider Relief Funds

During the years ended June 30, 2023 and 2022, the System received approximately $9,293 and $20,105, respectively, in general and targeted distributions from the CARES Act Provider Relief Funds (PRF). Total distributions received for PRF is $254,908 through June 30, 2023. These distributions from the PRF are not subject to repayment, provided the System is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

The System accounts for such payments as conditional contributions. These payments are recognized as other operating revenue once the applicable terms and conditions required to retain the funds have been met and completion of the measurement period. Based on an analysis of the compliance and reporting requirements of the PRF and the effect of the pandemic on the System operating revenues and expenses for the years ended June 30, 2023 and 2022, the System recognized $0 and $21,968, respectively, as other revenue in the consolidated statements of operations and changes in net assets without donor restrictions and a liability of $9,293 and $0, respectively, in other currently liabilities on the consolidated balance sheets.

(ii) Accelerated Medicare Payments

During the year ended June 30, 2020, the System received approximately $204,349 for accelerated Medicare payments. These advanced payments were provided to accelerate cash flows to the impacted healthcare providers. Repayment of the accelerated Medicare payments began in April 2021 and have been fully recouped through June 30, 2023.

(s) Charity Care

The System, excluding St. Dominic's Health Services, provides services to patients who meet the criteria of its charity care policy without charge or at amounts less than its established rates. The criteria for charity care considers household income in relation to the federal poverty guidelines and the equity value of real property assets. The System provides qualifying services without charge for patients with adjusted gross income equal to or less than 250% of the poverty guidelines. If the patient's household income exceeds 250% of the poverty guidelines, the patient may still receive charity care services under the System's catastrophic medical policies.

St. Dominic's Health Services provides services to patients who meet the criteria of its charity care policy without charge or at amounts less than established rates. The criteria for charity care considers household income in relation to the federal poverty guidelines. Patients may be eligible for charity care based on a sliding scale ranging from 20-100%. St. Dominic's Health Services provides 100% charity care for qualifying services for patients with a household income of less than or equal to 350% of the federal poverty guidelines.

The System maintains records to identify and monitor the level of charity care it provides for financial reporting and community benefit reporting requirements. For financial reporting purposes, the allocated charity expense for the years ended June 30, 2023 and 2022 was approximately $15,721 and $23,399, respectively, calculated based on the percentage of total operating expenses to established charges, applied to total charity adjustments recognized in net patient service revenue.

(t) Income Taxes

FMOLHS and the FMOLHS Affiliates are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as organizations described in IRC Section 501(c)(3). Certain of the FMOLHS Affiliates' subsidiaries are subject to federal and state income taxes, provisions for which have been reflected in the accompanying consolidated financial statements. The amounts of such provisions are not material.

FMOLHS recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. No reserves for uncertain tax positions have been recorded.

(u) Fair Value Measurements

FMOLHS applies ASC Topic 820, *Fair Value Measurement*, which defines fair value, establishes an enhanced framework for measuring fair value, and expands disclosures about fair value measurements, including those required for certain investments in funds that do not have readily determinable fair values, including private equity investments, hedge funds, real estate, and other funds. ASC Topic 820 permits, as a practical expedient, the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using NAV per share or its equivalent. NAV, in many instances, may not equal fair value that would be calculated pursuant to other related requirements of ASC Topic 820.

FMOLHS utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. FMOLHS determines fair value based on assumptions that market participants would use in pricing an asset or a liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability

- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

(v) Fair Value Option

ASC Subtopic 825-10, *Financial Instruments – Overall*, gives FMOLHS the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. FMOLHS has not elected to apply the fair value option to any assets or liabilities.

(w) Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined-Benefit Plans* (Topic 715) (ASU 2018-14), which modified the disclosure requirements for employers that sponsor defined-benefit pension or other postretirement benefit plans. The guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. The System adopted ASU 2018-14 in the fiscal year ended June 30, 2023 and ASU 2018-14 did not have a material impact on the consolidated financial statements and related disclosures.

In January 2020, the FASB issued ASU 2020-01, Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying Interactions between Topic 321, Topic 323, and Topic 815. ASU 2020-01 addresses accounting for the transition into and out of the equity method and provides guidance on whether equity method accounting would be applied to certain purchased options and forward contracts upon settlement. The System adopted ASU 2020-01 on a prospective basis in the fiscal year ended June 30, 2023 and ASU 2020-01 did not have a material impact on the consolidated financial statements and related disclosures.

(x) Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life, instead of when incurred. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments–Credit Losses, which amends Subtopic 326-20 (created by ASU 2016-13) to explicitly state that operating lease receivables are not in the scope of Subtopic 326-20. Additionally, in April 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments; in May 2019, the FASB issued ASU 2019-05, Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief; in November 2019, the FASB issued ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates, and ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses; and in March 2020, the FASB issued ASU 2020-03, Codification Improvements to Financial Instruments, to provide further clarifications on certain aspects of ASU

(In thousands)

2016-13 and to extend the nonpublic entity effective date of ASU 2016-13. The changes (as amended) are effective for the System for annual in fiscal years beginning after December 15, 2022. The entity may early adopt ASU 2016-13, as amended, for annual and interim periods in fiscal years beginning after December 15, 2018. While the Company expects its allowance for credit losses to increase upon adoption of ASU 2016-13, the Company does not expect the adoption of ASU 2016-13 to have a material effect on its consolidated financial statements.

(2) Short-Term Investments and Assets Limited as to Use

Short-term investments at June 30, 2023 and 2022 consist of the following:

		2023	2022
Cash	$	100	17,258
Equity securities:			
U.S. companies		—	2,468
Fixed income		6,132	50,255
Total	$	6,232	69,981

The composition of assets limited as to use at June 30, 2023 and 2022 is as follows:

		2023					
		Board-designated for capital	Trusteed bond funds	Self-insurance trust funds	Other	Donor-restricted Other	Total
Asset category:							
Cash	$	29,800	17,653	—	2,605	615	50,673
Equity securities:							
Global equity		264,275	—	—	—	—	264,275
U.S. equity		424,801	—	9,061	—	7,810	441,672
Non-U.S. equity		300,231	—	—	—	—	300,231
Private investments:							
Private equity/venture capital		139,368	—	—	—	—	139,368
Private real assets		1,678	—	—	—	—	1,678
Hedge funds		208,933	—	—	—	129	209,062
Real assets		70,873	—	—	—	—	70,873
Fixed income		124,217	—	80,346	—	2,900	207,463
		1,564,176	17,653	89,407	2,605	11,454	1,685,295
Less amounts classified as current assets, included in other current assets		—	17,653	—	2,605	—	20,258
Noncurrent portion	$	1,564,176	—	89,407	—	11,454	1,665,037

(In thousands)

	2022					
	Board-designated for capital	Trusteed bond funds	Self-insurance trust funds	Other	Donor-restricted Other	Total
Asset category:						
Cash	$ 68,194	17,468	—	16,806	520	102,988
Equity securities:						
Global equity	185,387	—	—	—	—	185,387
U.S. equity	265,179	—	8,145	—	7,396	280,720
Non-U.S. equity	225,866	—	—	—	—	225,866
Private investments:						
Private equity/venture capital	126,688	—	—	—	—	126,688
Private real assets	4,092	—	—	—	—	4,092
Hedge funds	287,911	—	—	—	184	288,095
Real assets	134,754	—	—	—	—	134,754
Fixed income	211,576	—	60,865	—	3,556	275,997
	1,509,647	17,468	69,010	16,806	11,656	1,624,587
Less amounts classified as current assets, included in other current assets	—	17,468	—	16,110	—	33,578
Noncurrent portion	$ 1,509,647	—	69,010	696	11,656	1,591,009

(a) Board-Designated for Capital

In accordance with board of directors' approval, the FMOLHS Affiliates have designated assets to fund future capital acquisitions and capital improvements.

The FMOLHS Affiliates invest their board-designated for capital funds together within FMOLHS in a capital reserve investment fund held in a Northern Trust custodial account. Through usage of unitized accounting, these investments are segregated for each FMOLHS Affiliate. Investments held as board-designated for capital are managed by several money managers, which focus on different investment strategies and provide diversity to the investments.

(In thousands)

(b) Alternative Assets

Alternative assets include limited partnerships and offshore investment funds. These funds invest in certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of risk, may result in loss due to changes in the market (market risk). Alternative assets by strategy type are as follows:

		2023	2022
Alternative assets:			
Global equity	$	264,276	185,387
U.S. equity		223,699	198,338
Non-U.S. equity		222,374	179,472
Private equity/venture capital		139,368	126,688
Private real assets		1,678	4,092
Hedge funds		209,061	288,095
Real assets		29,722	51,572
Fixed income		3,863	3,982
Total alternative assets	$	1,094,041	1,037,626

At June 30, 2023, FMOLHS's remaining outstanding commitments to private equity interests totaled $163,500. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below:

		Projected capital calls
Fiscal year:		
2024	$	16,300
2025		31,100
2026		34,400
2027		34,400
2028		47,300
Thereafter		—
	$	163,500

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2023, the average remaining life of the private equity interests is approximately 4.1 years.

(In thousands)

At June 30, 2023, FMOLHS had investments with restrictions of $359,553 which were restricted from redemption for lock-up periods. Some of the investments with restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually requiring 30 to 180 days' notice after the initial lock-up period.

Based upon the terms and conditions in effect at June 30, 2023, FMOLHS's investments with restrictions can be redeemed or sold as follows:

		Amount
Fiscal years:		
2024	$	332,482
2025		13,848
Thereafter		13,223
	$	359,553

(c) Trusteed Bond Funds

Certain trusteed bond funds have been established in accordance with the requirements of indentures related to various bond obligations. The consolidated trusteed bond funds as of June 30, 2023 and 2022 consist of the following categories:

		2023	2022
Principal and interest funds	$	17,653	17,468
Less amounts classified as other current assets		(17,653)	(17,468)
Noncurrent portion	$	—	—

The above funds were established in accordance with related indentures to secure the payment of principal and interest on the related obligations, and to pay or reimburse the FMOLHS Affiliates for payment of the costs of the acquisition, construction, and installation of certain extensions and improvements to their facilities. Amounts classified as current represent funds deposited to pay-related debt service costs and contribution fund classified as other current liabilities. Information regarding FMOLHS's debt obligations is included in note 9.

(d) Self-Insurance Trust Funds

The self-insurance trust funds represent amounts designated to pay certain self-insured losses (note 18).

(In thousands)

(e) Other

Other assets limited as to use as of June 30, 2023 and 2022 consist of the following:

		2023	2022
Scholarships – by donor	$	1,655	925
Healthcare services – by donor		12,400	13,057
Resident deposits		4	13,784
Escrow, security deposits, and surplus cash		—	181
Capital improvement – by grantor agency		—	515
		14,059	28,462
Less amounts classified as current		(2,605)	(16,110)
	$	11,454	12,352

All investments are considered "trading" for accounting purposes. All unrestricted investment income, including both realized and unrealized gains and losses, is included in the reported total of revenues, gains, and other support in excess of (less than) expenses and losses in the consolidated statements of operations and changes in net assets without donor restrictions.

Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets, statements of operations and changes in net assets without donor restrictions, and statements of changes in net assets.

(3) Other Current Assets

The composition of other current assets at June 30, 2023 and 2022 is as follows:

		2023	2022
Other receivables	$	37,390	60,718
Inventories and supplies		87,772	85,865
Prepaid expenses and other current assets		50,516	50,819
Assets limited as to use required for current liabilities		20,258	33,578
	$	195,936	230,980

(In thousands)

(4) Property and Equipment

A summary of property and equipment as of June 30, 2023 and 2022 is as follows:

		2023	2022	Estimated useful lives
Land	$	212,603	196,781	—
Land improvements		26,097	29,005	2–40 Years
Buildings and building improvements		1,703,057	1,704,424	5–40 Years
Fixed equipment		182,790	193,602	3–40 Years
Movable equipment		826,315	786,945	3–25 Years
Leasehold improvements		16,761	11,979	5–15 Years
ROU assets		71,610	72,223	4–9 Years
Construction in progress		90,144	70,424	—
		3,129,377	3,065,383	
Less accumulated depreciation		1,447,502	1,367,915	
	$	1,681,875	1,697,468	

At June 30, 2023, the FMOLHS Affiliates were obligated under purchase commitments of $34,061 relating to the completion of various construction projects and purchases of equipment. Approximately $4,002 and $2,250 related to such projects are included in accounts payable in the consolidated balance sheets at June 30, 2023 and 2022, respectively.

(5) Other Assets

The composition of other assets at June 30, 2023 and 2022 is as follows:

		2023	2022
Investments in equity investees	$	72,476	74,376
Cost in excess of net assets acquired		210,015	137,808
Software license and build, net of accumulated amortization		76,002	77,910
Other		24,172	10,570
	$	382,665	300,664

The System recorded an increase in cost in excess of net assets acquired of $72,207 during the year ended June 30, 2023 (see note 23).

(In thousands)

(6) Investment in Equity Investees

A summary of the FMOLHS's investment in equity investees at June 30, 2023 and 2022 included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2023 and 2022 are as follows:

	2023		
	Ownership interest	Investment in investees	Equity income (loss) of investees
Convenient Care, LLC	50 %	$ 2,660	(469)
Surgical Specialty Center of Baton Rouge, LLC	49	7,770	4,189
Baton Rouge Physical Therapy – Lake	15	1,910	116
Premier Health Holdings, LLC	20	14,303	(847)
Innovation Institute	20	15,799	66
Park Place Surgery Center	45	8,339	4,015
Others	Various	21,695	504
		$ 72,476	7,574

	2022		
	Ownership interest	Investment in investees	Equity income (loss) of investees
Convenient Care, LLC	50 %	$ 3,881	1,920
Surgical Specialty Center of Baton Rouge, LLC	49	7,935	6,346
Baton Rouge Physical Therapy – Lake	15	1,823	74
Premier Health Holdings, LLC	20	15,149	603
Innovation Institute	20	15,734	450
Park Place Surgery Center	45	8,239	4,817
Others	Various	21,615	4,102
		$ 74,376	18,312

(7) Lines of Credit

The FMOLHS Affiliates had various unsecured working capital lines of credit with banks in aggregate amount of $120,100, bearing interest at variable rates expiring at various dates through June 2024. The amount outstanding was $0 and $47,000 at June 30, 2023 and 2022, respectfully. FMOLHS affiliates expect to renew the lines of credit at expiration under substantially the same terms and conditions.

(In thousands)

(8) Other Current Liabilities

The composition of other current liabilities at June 30, 2023 and 2022 is as follows:

		2023	2022
Accrued salaries and related expenses	$	157,984	172,003
Accrued interest		15,541	15,544
Due to third-party payors		120,544	90,543
Medicare accelerated payments		—	55,240
LSU contract liability		8,200	8,200
Accrued expenses and other current liabilities		95,228	104,046
	$	397,497	445,576

(9) Long-Term Debt

A summary of long-term debt at June 30, 2023 and 2022 is as follows:

		2023	2022
Obligated group bonds:			
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998A, $72,560 tax-exempt bonds; due in varying installments through fiscal year 2026 with interest fixed at rates ranging from 5.50% to 5.75%	$	6,500	8,501
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2012A, $56,530 bonds; due in varying installments through 2033, with interest fixed at 2.92%		56,395	56,395
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2015A, $190,710; due in varying installments through 2040, with interest fixed rates ranging from 3.50% to 5.00%		189,560	189,560

(In thousands)

		2023	2022
Louisiana Public Facilities Authority Hospital Revenue Bond Series 2017A, $150,000 bonds; due in varying installments through fiscal year 2048, with fixed interest rates ranging from 3.75% to 5.00%	$	150,000	150,000
Master Trust Indenture Note (Franciscan Missionaries of Our Lady Heath System Series 2019A) PNC Term Loan Agreement; Maturity date of October 9, 2029, which bears interest at a fixed rate of 2.06%		78,015	78,015
Franciscan Missionaries of Our Lady Health System, Inc. Taxable Revenue Bonds, Series 2019B Bonds due July 1, 2049 with interest at a fixed rate of 3.914%		332,000	332,000
		812,470	814,471
Add unamortized premiums		43,892	45,874
Total obligated group debt		856,362	860,345
Capital improvement financing		35,170	36,565
Other debt due in varying installments through 2037		29,400	41,978
Total long-term debt for FMOLHS		920,932	938,888
Less current installments of long-term debt		6,803	18,644
Less costs of issuance		6,083	6,237
	$	908,046	914,007

FMOLHS and certain FMOLHS Affiliates participate in an Obligated Group Master Trust Indenture whereby the obligated issuers have agreed to be jointly and severally liable for timely payments due and for the performance and observance of all covenants and agreements pursuant to the trust indenture. FMOLHS directs the proceeds of the borrowed funds to the particular affiliate benefiting therefrom and separate escrow funds are maintained by the trustee for each of the affiliates to support each affiliate's allocated portion of the bonds. The total debt subject to the Obligated Group Guarantee and Master Trust Indenture amounted to $856,362 and $860,345 as of June 30, 2023 and 2022, respectively.

The Master Trust Indenture covering the bond issues contains financial and non-financial covenants typical of such agreements. In addition, the Obligated Group members are subject to restrictions on maintenance of revenue, incurrence of additional debt, disposition of assets, maintenance of insurance, and other restrictions. Obligations of the Obligated Group under the Master Trust Indenture are general obligations secured by the full faith and credit of the Obligated Group. None of the bonds are secured by a mortgage on, or security interest in, any real or personal property of FMOLHS or its affiliates.

In 2012, FMOLHS completed a $56,530 issuance of Hospital Revenue Bonds Series 2012 (the 2012A Series). The proceeds for the 2012A Series were used to refund all outstanding Series 2005C bonds and prepayment cost.

On March 1, 2015, FMOLHS completed the issuance of $190,710 of the Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds (FMOLHS Project – Series 2015A). The proceeds of the bonds were issued for the purpose of advance refunding $44,980 of the Series 2005A, advance refunding all $125,000 of the outstanding Series 2009A, and paying the costs of issuance. Series 2015A shall mature on July 1, 2039.

On June 29, 2017, FMOLHS completed the issuance of $150,000 Louisiana Public Facilities Authority Hospital Revenue Bond Series 2017A. The proceeds of the bonds were used for the purpose of (i) financing a portion of the cost of acquiring, constructing, furnishing, and equipping a new freestanding children's hospital in Baton Rouge, Louisiana and (ii) paying costs of issuance of the bonds.

On October 1, 2019, FMOLHS refunded the Series 2005B and Series 2015B bond debt through a term loan agreement with PNC Bank in connection with Series 2019A Taxable Fixed Direct Placement debt. The Series 2019A has a par value of $78,015 with a 2.06% fixed rate.

On October 1, 2019, FMOLHS completed the issuance of $150,000 Taxable Revenue Bonds (Series 2019B) that will be used to finance certain capital projects of the Corporation and to reimburse the Corporation for prior expenditures. The Series 2019B has a 3.91% fixed rate.

On December 10, 2020, FMOLHS issued $182,000 in additional Series 2019B Taxable Revenue Bonds. The bond funds were used to advance refund Series 2012B bonds, Series 2005D bonds, Series 2008A bonds, and to terminate its interest rate swaps.

On July 1, 2022, FMOLHS completed a refinance of the Series 2012A bonds with an original principal amount of $56,395, of which $56,395, were outstanding at June 30, 2023. DNT Asset Trust purchased Series 2012A and amended the interest rate on the bonds to 2.92%.

In December 2017, the Lake and Baton Rouge Hospital Energy Holdings I, LLC (BREHEH) entered into a concession agreement to manage and optimize the Lake's heating and cooling infrastructure, which will provide energy efficiencies and capacity. In association with the concession agreement, the Lake and BRHEH also entered into a thermal services agreement, with payment terms that will fund operating and maintenance costs, thermal services costs, and debt repayments for capital improvement financing. The concession agreement has a term of 20 years and the amount of the borrowing under the agreement at June 30, 2023 and 2022 totaled $35,170 and $36,565, respectively.

As of July 1, 2019, FMOLHS acquired St. Dominic's long-term debt. This consisted of several note payables with financial institutions with rates ranging from 2.75% – 3.35% and maturity dates through year 2026. The System was in compliance with the financial covenants as of June 30, 2023.

(In thousands)

Aggregate maturities of long-term debt at June 30, 2023 are as follows:

Year ending June 30:		
2024	$	6,803
2025		16,027
2026		8,301
2027		17,584
2028		4,882
Thereafter		823,443
	$	877,040

(10) Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2023 and 2022 are available for the following purposes:

		2023	2022
Healthcare services	$	37,807	37,695
Elderly housing		6,302	7,030
Educational services		12,007	11,501
Other		19	19
	$	56,135	56,245

The above donor-restricted net assets at June 30, 2023 and 2022 are included in the following captions on the consolidated balance sheets:

		2023	2022
Cash	$	40,112	37,875
Assets limited as to use		11,454	11,657
Other current assets		4,569	6,713
	$	56,135	56,245

(In thousands)

Net assets released from restrictions for the years ended June 30, 2023 and 2022 are as follows:

		2023	2022
Healthcare services	$	2,172	4,310
Release for long-lived assets		1,178	2,243
Elderly housing		7,023	250
Educational services and other		1,166	855
	$	11,539	7,658

(11) Net Patient Service Revenue

The System has determined that the nature, amount, and uncertainty of revenue and cash flows are affected by the following factors: payors and service lines. The following tables provide details of these factors.

The composition of net patient service revenue by primary payor for the years ended June 30, 2023 and 2022 is as follows:

		2023	2022
Medicare	$	1,146,201	1,113,120
Medicaid		753,152	646,199
Blue Cross		685,946	675,840
Self-pay		133,710	83,465
Managed care/other		432,137	464,684
	$	3,151,146	2,983,308

Revenue from patient's deductibles and coinsurance are included in the preceding categories based on the primary payor.

(In thousands)

The composition of net patient service revenue based on the System's lines of business for the years ended June 30, 2023 and 2022 are as follows:

		2023	2022
Service lines:			
Hospitals (inpatient and outpatient)	$	2,657,015	2,528,372
Physician groups		335,035	307,572
Elderly services		38,057	37,678
Joint ventures and other		121,039	109,686
	$	3,151,146	2,983,308

The FMOLHS Affiliates have agreements with governmental and other third-party payors that provide for reimbursement to the FMOLHS Affiliates at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. Management regularly analyzes the historical contractual adjustments for each payor group to determine if current estimates for contractual adjustment allowances need to be revised. A summary of the basis of reimbursement with major third-party payors is as follows:

(a) Medicare

Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive determination methodologies. The FMOLHS Affiliates are paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicare fiscal intermediary. The FMOLHS Affiliates' Medicare cost reports have been audited by the Medicare fiscal intermediary through varying years ranging from June 30, 2011 to June 30 2017. Periods for which final settlements have not been made are subject to audit by program representatives. In the opinion of management, adequate provision has been made in the accompanying consolidated financial statements for the effects of estimated final settlements.

(b) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are partially paid at prospectively determined per diem rates. These rates vary according to a hospital classification system that is based on bed size, teaching status, and other factors. Additional outlier payments are made for neonatal intensive care patients with extended lengths of stay. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost-reimbursement methodology. The FMOLHS Affiliates are paid at a tentative rate with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicaid fiscal intermediary. The FMOLHS Affiliates'

Medicaid cost reports have been audited by the Medicaid fiscal intermediary through varying years ranging from June 30, 2005 to June 30, 2014. Periods for which final settlements have not been made are subject to audit by program representatives. In the opinion of management, adequate provision has been made in the accompanying consolidated financial statements for the effects of estimated final settlements.

FMOLHS Affiliates also participate in the voluntary disproportionate share (DSH) program, Mississippi Hospital Access Program (MHAP) and Uncompensated Care Costs (UCC) available to certain qualifying hospitals in Louisiana and Mississippi Medicaid programs. For the years ending June 30, 2023 and 2022, the System recorded net patient service revenue of $87,707 and $98,346 under these programs.

Beginning in fiscal year 2023, qualifying hospitals in Louisiana also participate in a direct payment arrangement as defined by the Louisiana's Medicaid State Plan. Each qualifying hospital receives interim quarterly payments based on a tiered hospital methodology for inpatient and outpatient Medicaid services. Upon final reconciliation of Medicaid utilization, the Louisiana Department of Health calculates the final direct payment for each hospital. For the year of June 30, 2023, the System received funding and recorded net patient service revenue of $234,322, in the consolidated statements of operations and changes in net assets without donor restrictions.

(c) Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined Diagnosis-Related Group (DRG) rates. Outpatient services are paid based on a fee schedule.

(d) Other Payors – Certain Commercial Insurance Carriers, Health Maintenance Organizations, and Preferred Provider Organizations

Payment methodologies under these agreements include prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates, and fee schedules.

Revenue from the Medicare and Medicaid programs accounted for approximately 37% and 25%, respectively, of the System's net patient service revenue for the year ended June 30, 2023. Revenue from the Medicare and Medicaid programs accounted for approximately 38% and 22%, respectively, of the System's net patient service revenue for the year ended June 30, 2022. Net patient service revenue from Medicare and Medicaid programs increased by approximately $33,779 and $10,031 in 2023 and 2022, respectively, due to final settlements and revised estimated settlements in excess of amounts previously recorded, removal of allowances previously estimated that are no longer necessary as a result of final settlements, and years that are no longer subject to audits, reviews, and investigations.

(In thousands)

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross System receivables from patients and third-party payors at June 30, 2023 and 2022 was as follows:

	2023	2022
Medicare	37 %	38 %
Medicaid	25	22
Blue Cross	22	23
Self-pay	2	1
Managed care/other	14	16
	100 %	100 %

(12) Related-Party Transactions

The FMOL Sisters formed the Franciscan Fund (the Fund) to support community programs in the operating areas of the FMOLHS hospitals. Each FMOLHS hospital makes contributions to the Fund based on a percentage of earnings determined by the Fund, then can submit grant applications to the Fund to receive moneys back for supporting its community programs. Grant-making decisions are made by the FMOL Sisters and no guarantee is provided that each hospital will receive back its specific contribution amounts in the form of a formal grant from the Fund. During fiscal year 2023 and 2022, no contributions were made to the Fund. This fund is included in Health System's investment portfolio and recognized on the consolidated balance sheets in both assets limited as to use and other long-term liabilities.

(13) Pension and Other Postretirement Benefits

(a) Defined-Benefit Plans

Prior to July 1, 2021, FMOLHS sponsored the benefit plans for the Retirement Plan of Our Lady of the Lake Hospital and Affiliated Organizations (Lake Pension), Pension Plan for Employees of Our Lady of Lourdes Regional Medical Center, Inc. (Lourdes Pension), Retirement Plan for Employees of St. Francis Medical Center, Inc. (St. Francis Pension). Effective July 1, 2021, the Lake Pension, Lourdes Pension, and St. Francis Pension were merged into the FMOLHS Pension Plan for Franciscan Missionaries of Our Lady Health System, Inc (FMOLHS Pension Plan).

The Retirement Plan of St. Dominic Health Services, Inc. (St. Dominic Pension) was acquired on July 1, 2019 through the acquisition of St. Dominic Health Services, Inc. As of July 1, 2021, FMOLHS sponsors the FMOLHS Pension Plan and the St. Dominic Pension (collectively, the Plans).

In September of 2020, the System's Board of Directors approved the freezing of the Lake Pension, Lourdes Pension, and St. Francis Pension effective January 1, 2021, the defined-benefit plan participants were transitioned to a defined-contribution plan and their defined-benefit plan assets were frozen.

(In thousands)

The following table sets forth the Plans' benefit obligation, fair value of plan assets, and funded status at June 30, 2023 and 2022:

		2023	2022
Benefit obligation	$	(1,360,562)	(1,390,100)
Fair value of plan assets		1,114,808	1,139,767
Funded status	$	(245,754)	(250,333)

Amounts recognized in the consolidated balance sheets consist of Accrued Pension Costs of $245,754 and $250,333 in June 30, 2023 and 2022, respectively.

Change in Benefit obligation of the plan includes the following:

Interest costs	$	59,496	39,666
Actural (gain) losses		(26,748)	(340,047)
Benefits paid		(62,286)	(58,991)
	$	(29,538)	(359,372)

At June 30, 2023 and 2022, the net actuarial gain of $(26,748) and $(340,047), respectively, on projected benefit obligations for the FMOLHS and St. Dominic plans was a result of gains attributable to increasing discount rates due to changes in the corporate bond markets.

The System expects to contribute $0 to the FMOLHS Plan and $11,000 to the St. Dominic Plan during the fiscal year beginning July 1, 2023.

The following table summarizes contributions made and benefits paid.

Contribution made	$	—	129,135
Benefits paid		(62,286)	(58,991)

(In thousands)

Weighted average assumptions used to determine the projected benefit obligations at June 30, 2023 and 2022 were as follows:

	2023	2022
Interest crediting rate:		
St. Dominic Pension	3.75 %	3.14 %
Weighted average discount rate:		
FMOLHS Pension	5.08 %	4.75 %
St. Dominic Pension	5.07 %	4.73 %
Rate of compensation increase	N/A	N/A

Net periodic pension cost for the years ended June 30, 2023 and 2022 includes the following components:

	2023	2022
Interest cost on projected benefit obligation	$ 59,498	39,666
Expected return on plan assets	(71,325)	(65,239)
Amortization of actuarial losses	2,014	5,851
Net periodic pension (income) cost	(9,813)	(19,722)
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions:		
Net actuarial gain	7,251	(125,500)
Actuarial (gain) loss	(2,014)	(5,851)
	5,237	(131,351)
Total recognized in net periodic benefit costs and net assets without donor restrictions	$ (4,576)	(151,073)

(In thousands)

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2023 and 2022 were as follows:

	2023	2022
Weighted average discount rate:		
FMOLHS Pension	4.42 %	3.02 %
St. Dominic Pension	4.37	2.96
Expected return on plan assets:		
FMOLHS Pension	6.80 %	6.00 %
St. Dominic Pension	5.60	4.25
Rate of compensation increase:		
FMOLHS Pension	N/A	N/A
St. Dominic Pension	N/A	N/A
Interest crediting rate:		
St. Dominic Pension	3.14 %	0.71 %

The defined-benefit pension plan asset allocation of the FMOLHS Pension, excluding St Dominic, as of the measurement date (June 30, 2023 and 2022) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2023	2022	Target allocation
Growth	49 %	55 %	45%–60%
Diversifiers	19	19	10%–30%
Liability hedge	31	24	15%–35%
Cash	1	2	0%–5%

The defined-benefit pension plan asset allocation of the St. Dominic Pension as of the measurement date (June 30, 2023 and 2022) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2023	2022	Target allocation
Growth	31 %	25 %	15%–35%
Diversifiers	5	7	0%–10%
Liability hedge	61	66	54%–84%
Cash	3	2	0%–10%

The allocation percentages above reflect investments recognized by investee funds within one day of year-end.

The asset allocation policy provides for a range of minimum and maximum investments in each asset class to allow flexibility in achieving expected long term rate of return. Historical return patterns and correlations, consensus return forecast, and other relevant financial factors are analyzed to check for reasonableness and appropriateness of the asset allocation to ensure that the probability of meeting actuarial assumptions is reasonable. The Investment Committee monitors manager performance, rate of return, and risk factors on a quarterly basis and makes required adjustments to achieve expected returns.

FMOLHS's overall expected long-term rate of return on assets is 7.30% for the FMOL Pension and 5.6% for the St. Dominic Pension. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based on historical returns, without adjustments.

Asset allocations and investment performance are formally reviewed quarterly by the FMOLHS Investment Committee (Investment Committee). FMOLHS utilizes an investment adviser, multiple managers for different asset classes, and a separate custodian in managing the pooled funds.

The asset allocation is designed to provide a diversified mix of asset classes, including U.S. and foreign equity securities, fixed-income securities, hedge funds, real estate investment trusts, and cash. The investment goals for the pooled funds are to achieve returns in the top half of a representative universe of professionally managed funds with a percentage of equity, fixed income, and alternate investments to be indicative of the asset mix policy of the fund; to exceed the return of a balanced market index weighted to replicate the asset allocation policy of the plan; to exceed the rate of inflation as measured by the consumer price index by at least 500 basis points on an annualized basis; to achieve a positive risk-adjusted return; and to achieve a rate of return above the current actuarial assumption. Risk management practices include various criteria for each asset class, including measurement against various benchmarks, achievement of a positive risk-adjusted return, and investment guidelines for each class of assets that enumerate types of investments allowed in each category.

FMOLHS's retirement plan assets are reported at fair value. Level 1 assets include investments in publicly traded equity securities and mutual funds. These securities (or the underlying investments of the funds) are actively traded and valued using quoted prices for identical securities from the market exchanges. Level 2 assets consist of investments that are not actively traded or whose underlying investments are valued using observable marketplace inputs. The fair value of plan assets invested in fixed-income securities is generally determined using valuation models that use observable inputs, such as interest rates, bond yields, low-volume market quotes, and quoted prices for similar assets. Level 3 assets include investments in private equities and hedge funds valued using significant unobservable inputs. Plan assets that are invested in commingled, hedge, and private equity funds are valued using a unit price or NAV that is based on the underlying investments of the fund.

(In thousands)

The following is a summary of the levels within the fair value hierarchy of plan assets as of June 30, 2023 and 2022:

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Asset category:				
Cash	$ 15,066	—	—	15,066
Equity:				
U.S. equity	26,994	—	—	26,994
Non-U.S. equity	14,641	—	—	14,641
Fixed Income	3,244	—	—	3,244
Fixed income	280,823	—	—	280,823
Assets measured at NAV(1)	—	—	—	774,040
Total	$ 340,768	—	—	1,114,808

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Asset category:				
Cash	$ 23,443	—	—	23,443
Equity:				
U.S. equity	34,710	—	—	34,710
Non-U.S. equity	18,737	—	—	18,737
Fixed Income	7,646	—	—	7,646
Fixed income	290,797	—	—	290,797
Assets measured at NAV(1)	—	—	—	764,434
Total	$ 375,333	—	—	1,139,767

(1) Investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table for these investments are included to permit reconciliation of the fair value hierarchy to the total plan assets.

There were no transfers into or out of Level 1, Level 2, or Level 3 investments during fiscal year 2023 or 2022.

(In thousands)

The fair values of the following plan assets have been estimated using the NAV per share as of June 30, 2023 and 2022:

	2023	2022	Redemption terms**	Notice period (Days)	Remaining life**
Asset category:					
U.S. equity funds (a)	$ 93,896	103,361	Monthly–Quarterly	30–60	—
International equity funds (b)	147,258	181,508	Monthly	5–15	—
International emerging markets (c)	42,535	24,451	Semi-Monthly–Monthly	5–30	—
Fixed-income funds (d)	168,305	125,636	Daily–illiquid	2-illiquid	—
Hedge fund of funds (e)	171,968	180,754	Monthly–Illiquid	5-Illiquid	—
U.S. venture capital funds (f)	11,464	11,444	—	—	1–3 Years
U.S. private equity (f)	74,089	65,714	—	—	1–7 Years
International private equity (f)	44,617	51,701	—	—	1–10 Years
Natural resources (f)	8,047	9,111	—	—	1–8 Years
Real estate funds (f)	11,861	10,754	—	—	0–6 Years
Total	$ 774,040	764,434			

** Information reflects a range of various terms from multiple investments.

(a) Objective is to drive overall portfolio growth while also outperforming the Russell 3000 Index with similar levels of risk.

(b) Objective is to drive overall portfolio growth while also outperforming MSCI EAFE Index (Net) with similar levels of risk.

(c) Objective is to drive overall portfolio growth while also outperforming the MSCI Emerging Markets Index (Net) with similar levels of risk.

(d) Objective is to ensure a liquid source of capital for spending and/or rebalancing during a period of economic contraction by investing primarily in high-quality bonds of sufficient duration.

(e) Objective is to reduce the volatility inherent in a portfolio with an equity bias while providing: 1) a return between that of equities and bonds, 2) lower volatility than equity markets, and 3) low correlation to other portfolio assets.

(f) Objective is to drive growth while capturing an "illiquidity premium" above that of public equity markets for locking up capital for an extended period of time.

(In thousands)

At June 30, 2023, FMOLHS's remaining outstanding commitments to private equity interests within the plan assets totaled $85,870. The projected capital calls for the next four fiscal years and thereafter are summarized in the table below:

		Projected capital calls
Fiscal year:		
2024	$	19,300
2025		18,300
2026		17,800
2027		14,300
Thereafter		16,170
	$	85,870

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2023, the average remaining life of the private equity interests in the plan assets is approximately 3.8 years.

At June 30, 2023, FMOLHS had plan assets of $240,792, which were restricted from redemption for lock-up periods. Some of the investments with redemption restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually requiring 30 to 180 days' notice after the initial lock-up period.

Based upon the terms and conditions in effect at June 30, 2023, FMOLHS's plan assets investments with restrictions can be redeemed or sold as follows:

		Amount
Fiscal year:		
2024	$	223,041
2025		8,722
2026		8,309
Thereafter		—
	$	240,072

As of June 30, 2023 and 2022, the Plans had accumulated benefit obligations (ABO) of $1,360,562 and $1,390,100, respectively. At June 30, 2023 and 2022, the fair value of plan assets falls short of the ABO by $245,754 and $250,333, respectively.

The estimated net loss and prior service cost that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year is $0 and $(10,792), respectively.

(Continued)

(In thousands)

Future benefit payments expected to be paid in each of the next five fiscal years and five years thereafter as of June 30, 2023 are as follows:

2024	$	87,910
2025		76,591
2026		79,455
2027		82,002
2028		84,409
2029–2033		445,037

(b) Defined-Contribution Plans

Effective January 1, 2021, all employees of the FMOLHS and affiliates, meeting eligibility requirements, can participate in an enhanced 403(b) plan. Participants will qualify for annual employer contributions if they work at least 1,000 hours in the calendar year and are actively employed as of the last day of the calendar year in which their contribution applies. The 403(b) plan includes two types of employer contributions: an annual 2% of pay core contribution and an annual employer match of 50 cents for every dollar a team member contributes up to 6% of their pay.

Contribution expense of $49,790 and $48,314 was recorded for the years ended June 30, 2023 and 2022, respectively.

(14) Other Long-Term Liabilities

The composition of other long-term liabilities at June 30, 2023 and 2022 is as follows:

		2023	2022
Purchase price obligation	$	12,342	24,981
Contract liability		31,332	30,714
LSU contract liability		43,762	58,274
Due to Franciscan Fund		58,831	54,113
Other		8,952	10,373
	$	155,219	178,455

(In thousands)

(15) Functional Expenses

The FMOLHS Affiliates provide healthcare and other services to residents within its service area. Expenses related to providing these services for the years ended June 30, 2023 and 2022 are as follows:

2023		Educational	Fundraising	General and administrative	Healthcare services	HUD Program services	Total
Salaries and wages	$	12,539	1,310	257,436	1,128,666	135	1,400,086
Employee benefits		3,184	349	48,275	196,730	46	248,584
Physician fees		—	—	7,187	146,729	—	153,916
Professional services		—	3	13,510	17,685	—	31,198
Other services		3,635	1,390	333,525	246,459	654	585,663
Leases, insurance, and utility		2,026	1	46,701	77,126	197	126,051
Supplies		876	415	50,016	690,180	12	741,499
Depreciation and amortization		729	3	41,996	105,791	336	148,855
Interest		—	—	39,853	34	—	39,887
Other		33	2,257	2,992	3,464	—	8,746
	$	23,022	5,728	841,491	2,612,864	1,380	3,484,485

2022		Educational	Fundraising	General and administrative	Healthcare services	HUD Program services	Total
Salaries and wages	$	12,254	1,299	301,285	1,124,697	220	1,439,755
Employee benefits		3,457	246	55,311	168,769	97	227,880
Physician fees		—	—	6,745	141,430	—	148,175
Professional services		—	20	7,252	16,440	—	23,712
Other services		2,650	1,848	275,999	245,985	437	526,919
Leases, insurance, and utility		92	10	45,901	59,528	167	105,698
Supplies		729	435	22,056	663,288	30	686,538
Depreciation and amortization		320	10	51,276	93,070	417	145,093
Interest		—	—	37,789	23	—	37,812
Other		14	2,348	67,468	1,817	—	71,647
	$	19,516	6,216	871,082	2,515,047	1,368	3,413,229

(16) Availability of Resources and Liquidity

The System has $755,469 of financial assets available to meet cash needs for general expenditures within one year of the consolidated balance sheet date. Available financial assets consist of cash and cash equivalents of $491,188, short-term investments of $6,232, and patient accounts receivable, collectible within one year, of $258,049. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for expenditure within one year of the balance sheet date. The System has a goal to maintain cash and investments sufficient to cover operating expenses at levels that meet or exceed standards established by rating agencies for similar organizations. That goal is currently 200 days. With average daily operating expenses of approximately $9,000, the System's financial asset coverage is approximately 219 days. The System has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

(In thousands)

(17) Fair Value of Financial Instruments

The carrying amounts of all applicable asset and liability financial instruments reported in the consolidated balance sheets approximate their estimated fair values, in all significant respects, at June 30, 2023 and 2022.

(a) Fair Value Hierarchy

The following tables present the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2023 and 2022:

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Assets category:				
Equity securities:				
U.S equity	$ 217,975	—	—	217,975
Non-U.S equity	77,857	—	—	77,857
Real assets	10,909	—	—	10,909
Fixed income	95,350	140,259	—	235,609
Total – categorized	$ 402,091	140,259	—	542,350
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				1,149,178
				$ 1,691,528

(In thousands)

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets category:				
Equity securities:				
U.S. equity	$ 84,852	—	—	84,852
Non-U.S. equity	46,394	—	—	46,394
Real assets	83,182	—	—	83,182
Fixed income	206,444	179,147	—	385,591
Total – categorized	$ 420,872	179,147	—	600,019
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				1,094,549
				$ 1,694,568

** Information reflects a range of various terms from multiple investments.

(a) Objective is to drive overall portfolio growth while also outperforming MSCI EAFE Index (Net) with similar levels of risk.

FMOLHS's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no significant transfers into or out of Level 1, Level 2, or Level 3 for the years ended June 30, 2023 or 2022.

The investments classified as Level 2 are as follows:

- Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of FMOLHS's interest therein, its classification in Level 2 is based on FMOLHS's ability to redeem its interest at or near the date of the consolidated balance sheets. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.
- Bonds whose fair values are determined by independent vendors. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued.

(b) *Limitations*

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(18) Insurance Programs

The FMOLHS Affiliates, excluding St. Dominic, are qualified under the State of Louisiana medical malpractice program and are self-insured for the first $100 of professional liability per occurrence; additional coverage is provided by the Louisiana Patients' Compensation Fund for the next $400 of professional liability up to the present statutory maximum of $500 per claim (exclusive of additional amounts for future medical expenses provided by law). FMOLHS's professional and general liability insurance program is managed through Louise, its wholly owned captive insurer. As of June 30, 2023, FMOLHS has excess insurance coverage in place for general and professional liability risks, with a $2,000 self-insured retention for professional liability and a $1,000 layer of self-insurance for general liability. A $6,000 aggregate sits above these limits, covering general and professional liability. Incurred losses identified under FMOLHS's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate FMOLHS's past experience, as well as other considerations, such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries.

FMOLHS has established a self-insurance trust fund for payment of liability claims and makes deposits to the fund in amounts determined by consulting actuaries. FMOLHS also has substantial excess liability coverage available under the provisions of certain claims-made policies, currently expiring on June 30, 2023. To the extent that any claims-made coverage is not renewed or replaced with equivalent value insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through the incident reporting process that any such claims would not have a material effect on FMOLHS's results of operations or financial position. In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires.

St. Dominic Health Services is self-insured with respect to professional and general liability risks for the first $5,000 per occurrence and $11,000 in aggregate of medical malpractice risks. St. Dominic Health Services purchases commercial excess liability coverage through claims-made policies above the self-insurance limits. Professional liability reserves estimates represent the estimated ultimate cost of all reported and unreported losses incurred through the respective consolidated balance sheet date. The reserves for unpaid losses and loss expense are estimated using individual case basis valuations and actuarial analyses. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed, and adjustments are recorded as experience develops or new information becomes known. Although considerable variability is inherent in professional liability reserve estimates, St. Dominic Health Services believes the reserves for losses and loss expense are adequate based on information currently known.

(In thousands)

The reserve for long-term estimated professional and general liability, and workers' compensation costs is approximately $63,670 and $63,453 as of June 30, 2023 and 2022, respectively.

FMOLHS is also self-insured with respect to employee health coverage (up to $500 limit per claim) and workers' compensation (up to a limit of $500 per individual claim). Substantial coverage with a third-party carrier is maintained for potential excess losses under the workers' compensation program. The employee health self-insured reserves are approximately $8,265 and $11,180 as of June 30, 2023 and 2022, respectively, and are included in other current liabilities in the consolidated balance sheets. The workers' compensation reserves are approximately $19,562 and $19,700 as of June 30, 2023 and 2022, respectively, and are included in other current liabilities in the consolidated balance sheets.

(19) Leases – Lessor

FMOLHS Affiliates lease office space and clinical facilities under operating leases. The terms of these leases range from month to month to 20 years. Assets held for lease at June 30, 2023 and 2022 consist of buildings and improvements with an original cost of $388,657 and $406,824, respectively, and fixed equipment with an original cost of $20,999 and $20,609, respectively. Total accumulated depreciation is $184,842 and $187,898 at June 30, 2023 and 2022, respectively. Future minimum lease payments to be received at June 30, 2023 are as follows:

Year ending June 30:		
2024	$	15,011
2025		9,453
2026		7,368
2027		6,515
2028		6,199
Thereafter		22,162
	$	66,708

(In thousands)

(20) Leases – Lessee

The components of lease cost for the year ended June 30, 2023 and 2022 were as follows:

		2023	2022
Operating lease cost	$	23,731	24,692
Finance lease cost:			
Amortization of ROU assets		6,413	2,727
Interest on lease liabilities		2,622	3,305
Total finance lease cost		9,035	6,032
Variable lease cost		1,875	1,305
Short-term lease cost		6,232	8,293
Total lease cost	$	40,873	40,322

Amounts reported in the consolidated balance sheets for our operating and finance leases as of June 30, 2023 and 2022 were as follows:

		2023	2022
Operating leases:			
Operating lease ROU assets, net	$	51,817	64,630
Current portion of operating lease liabilities	$	19,367	20,084
Operating lease liabilities, less current portion		30,739	36,246
Total operating lease liabilities	$	50,106	56,330
Finance leases:			
Machinery and equipment	$	63,865	65,540
Accumulated depreciation		(18,631)	(5,862)
Property and equipment, net	$	45,234	59,678
Current portion of finance lease liabilities	$	5,353	5,944
Finance lease liabilities, less current portion		46,426	53,783
Total finance lease liabilities	$	51,779	59,727

(In thousands)

Other information related to leases as of June 30, 2023 and 2022 was as follows:

		2023	2022
Supplemental cash flow information:			
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flow from operating leases	$	25,606	24,692
Operating cash flow from finance leases		9,035	6,032
ROU assets obtained in exchange for lease obligations:			
Operating leases	$	7,120	25,806
Finance leases		—	24,784
Reductions to ROU assets resulting from reductions to lease obligations:			
Operating leases	$	(6,135)	(7,593)
Finance leases		(6,618)	(5,026)
Weighted average remaining lease term:			
Operating leases		12 years	11 years
Finance leases		9 years	9 years
Weighted average discount rate:			
Operating leases		3.66 %	3.66 %
Finance leases		3.66	3.66

Maturities of lease liabilities under noncancellable leases as of June 30, 2023 are as follows:

		Operating leases	Finance leases
Year ending June 30:			
2024	$	22,324	8,019
2025		9,795	7,817
2026		6,283	7,073
2027		3,826	4,465
2028		3,134	4,374
Thereafter		12,394	44,251
Total undiscounted lease payments		57,756	75,999
Less imputed interest		(7,650)	(24,220)
Total lease liabilities	$	50,106	51,779

(21) Commitments and Contingencies

(a) Investments

FMOLHS is obligated under certain limited partnership agreements to provide advance funding up to specific levels upon the request of the general partner. See note 2(b).

(b) Contingent Liabilities

FMOLHS and the FMOLHS Affiliates have certain pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed the self-insurance reserves or insurance coverage, and will not materially affect the financial position or the results of operations.

(c) Regulatory Compliance

Grant monies received and disbursed by the System are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the System does not believe that such disallowances, if any, would have a material effect on the financial position of the System.

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers. The FMOLHS Affiliates are subject to these regulatory efforts and have corporate compliance committees that monitor and respond to regulatory changes and any issues that may arise.

In consultation with legal counsel, management is not aware of any issues that could have a material adverse effect on the FMOLHS Affiliates' financial position or results of operations.

(d) Our Lady of the Lake and Louisiana State University Partnership

In June 2022, the System entered into an affiliation agreement with Louisiana State University (LSU). This agreement includes funding for research, student health services and a student health center, continuation and expansion of residency and fellowship programs, construction of new science building, recognition as exclusive championship healthcare partner and programmatic support fund for LSU athletics, and commitment to develop efficiencies in the cost of health and wellness for athletic programs. In 2022, these commitments were recognized as expenses of $66,474 in other operating expenses in the consolidated statements of operations and changes in net assets without donor restrictions, $8,200 is recorded in other current liabilities and $58,274 in other long-term liabilities in the consolidated balance sheets. Payments are due in varying installments through 2032. As of June 30, 2023, the remaining commitments were $8,200 recorded in other current liabilities and $43,762 in other long-term liabilities in the consolidated balance sheets.

(22) Cooperative Endeavor Agreements

(a) Our Lady of the Lake Cooperative Endeavor Agreement

As part of its mission to ensure an appropriate supply of medical professionals in its service area and improve graduate medical education in the region, the Lake entered into an agreement with the State of Louisiana Department of Health and Hospitals (DHH) and Louisiana State University Health Sciences (LSU Health) in February 2010. The parties received associated governmental approval of the agreement from the CMS on July 13, 2010. Major components of the agreement are as follows:

- The Lake constructed a medical education building (MEB) to house LSU Health training programs (which was donated by the Lake to LSU Health at completion of construction), expanded its clinical capacity by 60 licensed beds, and implemented a Trauma Center.

In addition to Medicaid claims payments, DHH provided payments under a reimbursement structure to the Lake, which are intended to compensate the Lake for incremental costs associated with higher Medicaid and uninsured patient volumes that have occurred with the Lake's increased role in LSU Health's graduate medical education program. Starting July 1, 2022, DHH implemented a new Medicaid supplemental payment system. For the period July 1, 2022 through June 30, 2024 DHH and the Lake agreed to eliminate the Cooperative Endeavor Agreement (CEA) Cost Analysis Worksheets. DHH and the Lake agreed that the payments received under the new payment model will not be subject to the CEA reconciliation and there will be no separate settlement for the CEA for fiscal years ending June 30, 2023 and 2024.

The Cooperative Endeavor Agreement was amended on April 10, 2013 to ensure viability of existing LSU Health outpatient facilities and patient care services and programs. The major components of the Lake's amended agreement include:

- The Lake manages and operates the operations of LSU Health outpatient facilities. The reimbursement structure of the agreement was revised to include payment to the Lake for the operations of these facilities. Lease agreements were implemented for LSU Health outpatient facilities and equipment.
- Graduate Medical Education (GME) program amendments were implemented for assignment of GME reimbursement caps.
- Clinical service agreements were implemented with LSU School of Medicine to provide professional services at the LSU Health clinics.
- For the years ended June 30, 2023 and 2022, the amount paid to LSU Health for leased building and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was $56,394 and $54,587, respectively.

(23) Acquisitions

On January 28, 2022, FMOLHS acquired 35% interest in Spine Hospital of Louisiana (Spine) for a total consideration of $43,750. The System holds a majority of variable interests in Spine. During the year ended June 30, 2023, measurement-period adjustments of $72,207 were recorded to increase the fair values assigned to the noncontrolling interest and to increase the value assigned to cost in excess of net assets. There were no other measurement-period adjustments in the current year ended June 30, 2023. The System's final valuation analysis of identifiable assets and liabilities assumed for the acquisition is in accordance with the requirements of ASC Topic 805, *Business Combinations*, and are presented in the table below (amounts in thousands).

Fair value of total consideration transferred:

Cash	$	46,201
Current assets		8,135
Cost in excess of net assets		111,088
Property and equipment		4,084
Other assets		5,920
Current liabilities		(47,920)
Long term debt		(2,509)
Noncontrolling interest		(81,249)

(24) Subsequent Events

FMOLHS has evaluated subsequent events from the balance sheet date through October 27, 2023 the date at which the consolidated financial statements were available to be issued, and determined that there were no additional items to disclose.

Schedule 1

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Balance Sheet Information

June 31, 2023
(with comparative totals as of June 30, 2022)

(In thousands)

Assets	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Franciscan Missionaries of Our Lady University, Inc.	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	St Dominic	Eliminations	Total 2023	Total 2022
Current assets:										
Cash and cash equivalents	$ 328,559	22,923	68,302	3,642	99,219	231	54,472	(86,160)	491,188	497,804
Short-term investments	6,232	—	—	—	—	—	—	—	6,232	69,981
Net patient accounts receivables	(8,036)	—	123,608	29,091	51,039	(427)	62,774	—	258,049	313,595
Other current assets	(181,003)	(6,967)	391,041	(39,357)	111,505	14,625	(92,001)	(1,907)	195,936	230,980
Total current assets	145,752	15,956	582,951	(6,624)	261,763	14,429	25,245	(88,067)	951,405	1,112,360
Assets limited as to use, net of current portion	1,622,100	—	1,191,161	100,501	31,424	24,737	196,436	(1,501,322)	1,665,037	1,591,009
Property and equipment, net	43,262	31,361	865,142	126,839	278,170	11,022	326,079	—	1,681,875	1,697,468
Other assets	426,504	11,839	224,309	10,308	39,548	1,792	29,384	(361,019)	382,665	300,664
Total assets	$ 2,237,618	59,156	2,863,563	231,024	610,905	51,980	577,144	(1,950,408)	4,680,982	4,701,501
Liabilities and Net Assets										
Current liabilities:										
Lines of credit	$ —	—	—	—	—	—	—	—	—	47,000
Current installments of long-term debt	—	—	3,351	744	1,097	—	1,611	—	6,803	18,644
Current portion of capital lease obligations	1,730	42	11,074	288	5,151	3,129	3,306	—	24,720	26,028
Accounts payable	30,287	2,911	81,699	11,951	18,937	2,643	24,878	(798)	172,508	204,202
Other current liabilities	112,151	2,415	172,119	21,175	50,365	9,171	31,209	(1,108)	397,497	445,576
Total current liabilities	144,168	5,368	268,243	34,158	75,550	14,943	61,004	(1,906)	601,528	741,450
Professional and general liabilities, excluding current portion	40,995	—	19,928	5,538	8,575	234	26,197	(37,797)	63,670	63,453
Long-term debt, excluding current installments	16,995	19,277	513,930	113,149	222,307	—	22,388	—	908,046	914,007
Lease obligations, excluding current portion	1,921	—	50,795	61	14,251	251	9,886	—	77,165	90,028
Accrued pension cost	—	—	95,552	21,088	28,797	—	100,317	—	245,754	250,333
Other long-term liabilities	1,659,388	—	43,988	105	7,950	—	31,271	(1,587,483)	155,219	178,455
Total liabilities	1,863,467	24,645	992,436	174,099	357,430	15,428	251,063	(1,627,186)	2,051,382	2,237,726
Net assets:										
Without donor restrictions	374,127	22,504	1,825,740	55,119	238,987	36,552	308,172	(323,218)	2,537,983	2,374,313
With donor restrictions	24	12,007	18,346	1,806	8,028	—	15,928	(4)	56,135	56,245
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.	374,151	34,511	1,844,086	56,925	247,015	36,552	324,100	(323,222)	2,594,118	2,430,558
Noncontrolling interests	—	—	27,041	—	6,460	—	1,981	—	35,482	33,217
Total net assets	374,151	34,511	1,871,127	56,925	253,475	36,552	326,081	(323,222)	2,629,600	2,463,775
Total liabilities and net assets	$ 2,237,618	59,156	2,863,563	231,024	610,905	51,980	577,144	(1,950,408)	4,680,982	4,701,501

See accompanying independent auditors' report.

Schedule 2

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Statement of Operations Information

June 31, 2023
(with comparative totals as of June 30, 2022)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Franciscan Missionaries of Our Lady University, Inc.	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Francis Medical Center, Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	St Dominic	Eliminations	Total 2023	Total 2022
Changes in net assets without donor restrictions:										
Operating revenues:										
Net patient service revenue	$ —	—	1,661,400	333,006	551,069	71,846	537,086	(3,261)	3,151,146	2,983,308
Other revenue	481,655	23,647	117,301	6,835	12,046	3,041	26,994	(409,603)	261,916	305,597
Equity in income from equity investees, net	(129,833)	—	4,157	170	4,027	—	14	129,039	7,574	18,312
Total operating revenues	351,822	23,647	1,782,858	340,011	567,142	74,887	564,094	(283,825)	3,420,636	3,307,217
Net assets released from restrictions used for operations:										
Satisfaction of program restrictions	—	1,083	2,020	1	4	—	247	—	3,355	5,131
Expiration of time restrictions	—	—	221	—	—	—	—	—	221	250
Total net assets released from restrictions used for operations	—	1,083	2,241	1	4	—	247	—	3,576	5,381
Total operating revenues and other support	351,822	24,730	1,785,099	340,012	567,146	74,887	564,341	(283,825)	3,424,212	3,312,598
Operating expenses:										
Salaries and wages	151,509	13,908	632,947	132,419	190,867	30,692	247,744	—	1,400,086	1,439,755
Employee benefits	34,953	3,531	103,004	25,186	34,412	6,790	40,709	(1)	248,584	227,880
Total salaries, wages, and benefits	186,462	17,439	735,951	157,605	225,279	37,482	288,453	(1)	1,648,670	1,667,635
Physician fees	1,157	—	82,701	7,061	17,811	6,393	39,697	(904)	153,916	148,175
Professional services	6,561	129	12,656	5,169	904	67	5,712	—	31,198	23,712
Other services	173,940	5,517	399,705	73,914	111,363	21,277	105,301	(305,354)	585,663	526,919
Leases, insurance, and utilities	25,940	2,140	51,380	10,197	20,823	7,462	22,231	(14,122)	126,051	105,698
Supplies	133,523	984	349,630	76,291	127,168	5,558	140,828	(92,483)	741,499	686,538
Depreciation and amortization	27,572	794	67,939	11,085	15,508	1,270	24,687	—	148,855	145,093
Interest	4,058	67	21,690	4,245	8,452	—	1,375	—	39,887	37,812
Other	962	38	3,238	1,194	957	384	1,973	—	8,746	71,647
Total operating expenses	560,175	27,108	1,724,890	346,761	528,265	79,893	630,257	(412,864)	3,484,485	3,413,229
Operating (loss) income before impairment and gain on sale	(208,353)	(2,378)	60,209	(6,749)	38,881	(5,006)	(65,916)	129,039	(60,273)	(100,631)
Impairment	—	—	—	(534)	—	—	—	—	(534)	—
Gain on sale	—	—	7,836	—	—	—	—	—	7,836	17,901
Operating (loss) income	(208,353)	(2,378)	68,045	(7,283)	38,881	(5,006)	(65,916)	129,039	(52,971)	(82,730)

Schedule 2

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Statement of Operations Information

June 31, 2023
(with comparative totals as of June 30, 2022)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Franciscan Missionaries of Our Lady University, Inc.	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Francis Medical Center, Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	St Dominic	Eliminations	Total 2023	Total 2022
Nonoperating gains:										
Investment return	$ 2,138	743	119,542	9,850	5,740	2,416	17,070	—	157,499	(155,176)
Other	—	—	3,144	—	4,402	—	811	—	8,357	(6,260)
Total nonoperating gains, net	2,138	743	122,686	9,850	10,142	2,416	17,881	—	165,856	(161,436)
Revenues, gains, and other support in excess of expenses and losses	(206,215)	(1,635)	190,731	2,567	49,023	(2,590)	(48,035)	129,039	112,885	(244,166)
Noncontrolling interests	—	—	53,260	—	(108)	—	(566)	—	52,586	(6,511)
Revenues, gains, and other support in excess of (less than) expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc.	(206,215)	(1,635)	243,991	2,567	48,915	(2,590)	(48,601)	129,039	165,471	(250,677)
Pension-related changes other than net periodic pension cost	—	—	15,946	3,513	4,797	—	(29,493)	—	(5,237)	131,351
Released from restrictions for capital	—	101	229	—	—	—	848	—	1,178	2,243
Capital transfers	46,012	1,800	9,849	(26,165)	(7,579)	(384)	(21,275)	—	2,258	2,941
Contributions for capital	—	—	—	—	—	—	—	—	—	1,021
(Decrease) Increase in net assets without donor restrictions	$ (160,203)	266	270,015	(20,085)	46,133	(2,974)	(98,521)	129,039	163,670	(113,121)

See accompanying independent auditors' report.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Statement of Changes in Net Assets Information

June 31, 2023
(with comparative totals as of June 30, 2022)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Franciscan Missionaries of Our Lady University, Inc.	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Francis Medical Center, Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	St Dominic	Eliminations	Total 2023	Total 2022
Changes in net assets without donor restrictions:										
Revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System	$ (206,215)	(1,635)	243,991	2,567	48,915	(2,590)	(48,601)	129,039	165,471	(250,677)
Pension-related changes other than the service cost component	—	—	15,946	3,513	4,797	—	(29,493)	—	(5,237)	131,351
Released from restrictions for Capital	—	101	229	—	—	—	848	—	1,178	2,243
Capital Transfers	46,012	1,800	9,849	(26,165)	(7,579)	(384)	(21,275)	—	2,258	2,941
Contributions for capital	—	—	—	—	—	—	—	—	—	1,021
(Decrease) Increase in assets without donor restrictions	(160,203)	266	270,015	(20,085)	46,133	(2,974)	(98,521)	129,039	163,670	(113,121)
Changes in net assets with donor restrictions restricted net assets:										
Contributions	—	1,671	5,260	644	1,616	—	1,863	—	11,054	9,355
Income from long-term investments, net	—	—	201	—	—	—	174	—	375	12
Net assets released from restrictions	—	(1,165)	(9,274)	(1)	(4)	—	(1,095)	—	(11,539)	(7,658)
Increase (decrease) in net assets with donor restrictions	—	506	(3,813)	643	1,612	—	942	—	(110)	1,709
Changes in noncontrolling interest:										
Revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System	—	—	(53,260)	—	108	—	566	—	(52,586)	6,510
Distributions	—	—	(17,079)	—	(159)	—	114	—	(17,124)	(3,811)
Acquired controlling interest	—	—	—	—	—	—	—	—	—	—
Acquired non-controlling interest	—	—	72,207	—	—	—	—	—	72,207	9,278
Other	—	—	(232)	—	—	—	—	—	(232)	—
Increase (decrease) in noncontrolling interests	—	—	1,636	—	(51)	—	680	—	2,265	11,977
(Decrease) increase in net assets	(160,203)	772	267,838	(19,442)	47,694	(2,974)	(96,899)	129,039	165,825	(99,435)
Net assets, beginning of year	534,354	33,739	1,603,290	76,368	205,779	39,526	422,980	(452,261)	2,463,775	2,563,210
Net assets, end of year	$ 374,151	34,511	1,871,128	56,926	253,473	36,552	326,081	(323,222)	2,629,600	2,463,775

See accompanying independent auditors' report.

Schedule of Compensation Information

Franciscan Missionaries of Our Lady Health System, Inc.

Schedule of Compensation Information

Year Ended June 30, 2023

Chief Executive Officer: Dr. Richard Vath

None of the Chief Executive Officer's compensation is paid from public funds received by Franciscan Missionaries of Our Lady Health System and its affiliates.

Report under Uniform Guidance

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Report on Federal Awards in Accordance with the Uniform Guidance

Year Ended June 30, 2023

(With Independent Auditors' Report Thereon)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC.
AND AFFILIATED ORGANIZATIONS

Table of Contents

KPMG LLP
Suite 2150
301 Main Street
Baton Rouge, LA 70801

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

The Board of Trustees
Franciscan Missionaries of Our Lady Health System, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System), which comprise the System’s consolidated balance sheets as of June 30, 2023, and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 27, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

KPMG

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.

KPMG LLP

Baton Rouge, Louisiana
October 27, 2023

KPMG LLP
Suite 2150
301 Main Street
Baton Rouge, LA 70801

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

The Board of Trustees
Franciscan Missionaries of Our Lady Health System, Inc.:

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations' (the System) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the System's major federal program for the year ended June 30, 2023. The System's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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

Basis for Opinion on the Major Federal Program

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

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

Other Matter – Federal Expenditures Not Included in the Compliance Audit

The System's consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. from July 1, 2022 to April 17, 2023, which collectively expended $9,377,722 in federal awards, which is not included in the System's schedule of expenditures of federal awards during the year ended June 30, 2023. Our compliance audit, described in the Opinion on the Major Federal Program section of our report does not include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. because those U.S. Housing and Urban Development (HUD) Projects listed above arranged to have separate audits performed in accordance with the Uniform Guidance.

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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 certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that

KPMG

material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002 to be material weaknesses.

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 the System's responses to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The System is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The System's responses and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses or the corrective action plan.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the System as of and for the year ended June 30, 2023, and have issued our report thereon dated October 27, 2023 which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

KPMG LLP

Baton Rouge, Louisiana
December 20, 2023

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC.
AND AFFILIATED ORGANIZATIONS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2023

Federal sponsor/program title	Federal assistance listing number	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Student Financial Aid Cluster						
U.S. Department of Education						
Federal Work Study Program (FWS)	84.033			$ 65,505	—	65,505
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007			93,501	—	93,501
Federal Pell Grant Program	84.063			1,299,129	—	1,299,129
Federal Direct Student Loans (Direct Loan)	84.268			15,937,764	—	15,937,764
Total Student Financial Aid Cluster				17,395,719	—	17,395,719
Fund for the Improvement of Postsecondary Education	84.116	P116T20031	Board of Regents of the State of Louisiana	2,000	—	2,000
Child Care Access Mean Parents in School	84.335			30,149	—	30,149
COVID – 19 – Education Stabilization Fund – Governor's Emergency Education Relief Fund	84.425C	S425C200003	Board of Regents of the State of Louisiana	1,251	—	1,251
COVID-19 – Education Stabilization Fund – Higher Education Emergency Relief Fund (HEERF) – Institutional Portion	84.425F			499,700	—	499,700
Total ALN				500,951	—	500,951
Total U.S. Department of Education				17,928,819	—	17,928,819
U.S. Department of Housing and Urban Development						
COVID-19 – Community Development Block Grants/Entitlement Grants (CDBG) – Entitlement Grants Cluster	14.218	B-20-MW-22-0002	City of Baton Rouge	300,000	—	300,000
Housing Opportunities for Persons with AIDS	14.241	HOPWA 12 0003	City of Baton Rouge	337,981	—	337,981
Total U.S. Department of Housing and Urban Development				637,981	—	637,981
U.S. Department of Health and Human Services						
Nurse Anesthetist Traineeships	93.124			36,712	—	36,712
Emergency Medical Services for Children	93.127			16,032	—	16,032
Coordinated Services and Access to Research for Women, Infants, Children, and Youth – Ryan White Part D	93.153			45,700	—	45,700
Coordinated Services and Access to Research for Women, Infants, Children, and Youth – Ryan White Part D Affected Family Members AIDS Healthcare	93.153	H12HA24808	Louisiana State University Health System	226,247	—	226,247
Total ALN				271,947	—	271,947
Trans NIH Research Support	93.310	2020-054-OLOL-001	LSU Pennington Biomedical Research	13,694	—	13,694
COVID-19 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498			20,425,484	—	20,425,484
Child Care and Development Block Grant – CCDF Cluster	93.575			220,000	—	220,000
Ending the HIV Epidemic: A Plan for America – Ryan White HIV/AIDS Program Parts A and B	93.686	6 UT8HA33920-02-02	City of Baton Rouge	17,881	—	17,881
Aging Research	93.866	TUL-HSC-559549-21/22	Tulane University	2,349	—	2,349
National Bioterrorism Hospital Preparedness Program	93.889	059563	Louisiana Hospital Association	132,576	—	132,576
HIV Emergency Relief Project Grants – Ryan White Part A	93.914	H89HA11432	City of Baton Rouge	305,405	—	305,405
HIV Emergency Relief Project Grants – Aids United/The Fenway Institute	93.914	6 U90HA42153 0101	Aids United	121,546	—	121,546
Total ALN				426,951	—	426,951
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease – Ryan White Part C	93.918			245,677		245,677
Total U.S. Department of Health and Human Services				21,809,297	—	21,809,297
Corporation for National and Community Service						
Foster Grandparent/Senior Companion Cluster	94.016			64,658	—	64,658
U.S. Department of Homeland Security						
COVID-19 – Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	not available	State of Louisiana	2,248,245	—	2,248,245
Total federal expenditures				$ 42,669,000	—	42,669,000

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System) under programs of the federal government for the year ended June 30, 2023. The System's consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. from July 1, 2022 to April 17, 2023, which collectively expended $9,377,722 in federal awards, which is not included in the Schedule, because those U.S. Housing and Urban Development (HUD) Projects listed above arranged to have separate audits performed in accordance with the Uniform Guidance. On April 18, 2023, the System and Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. sold the property assets of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. to a third party. The amounts reported as federal expenditures were obtained from the System's general ledger. Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, results of operations, changes in net assets, and cash flows of the System.

For purposes of the Schedule, federal expenditures include all grants, contracts, and similar agreements entered into directly between the System, the agencies and departments of the federal government, and all subawards to the System by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The information in the Schedule is presented in accordance with 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)*.

(2) Summary of Significant Accounting Policies

For purposes of the Schedule, expenditures of federal award programs are recognized on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The System has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

(3) Provider Relief Funds (ALN 93.498)

As required by the granting agency, the Provider Relief Fund (PRF) amounts presented in the Schedule represent lost revenues and expenses as reported to the U.S. Department of Health and Human Services for the PRF Portal Reporting time periods of January 1, 2023 to March 31, 2023 and July 1, 2023 to September 30, 2023.

(4) Federal Direct Student Loans (ALN 84.268)

The System's Federal Direct Student Loans (Direct Loans) included in the Schedule represent loans received by students during fiscal year 2023, which were not made by the System. The System is responsible only for the performance of certain administrative duties with respect to its Direct Loans Program, and accordingly, these loans are not included in its consolidated financial statements. The System is not required to maintain the balance of the loans outstanding to students and former students of the System under these programs. Such balances are maintained and administered by the lenders and guarantors of these loans.

During the year ended June 30, 2023, the System advanced the following amounts of new loans under the Direct Loan Program:

	Assistance listing number		Amount expended
Unsubsidized direct loans	84.268	$	7,712,019
Subsidized direct loans	84.268		1,545,928
Parents' loans for undergraduate students	84.268		655,296
Parents' loans for graduate students	84.268		6,024,541
Total		$	15,937,784

(5) Relationship to Consolidated Financial Statements

Federal expenditures are reported in the System's 2023 consolidated financial statements as follows:

Total expenditures under federal grants and contracts included in other revenue in the consolidated financial statements of the System	$	4,831,085
COVID-19 Provider Relief Fund and American Rescue Plan(ARP) Rural Distribution recognized in prior years		20,425,484
Federal Supplemental Education Opportunity Grant – agency transactions		93,501
Federal Pell Grant Program – agency transactions		1,299,129
Federal Direct Student Loans (Direct Loan) – agency transactions		15,937,784
Federal Work Study		65,305
Nurse Anesthetists Traineeships-agency transactions		36,712
Federal expenditures per the schedule	$	42,689,000

(6) Expenditures of Federal Awards to Subrecipients

The System did not pass through any expenditures of federal awards to subrecipients during 2023.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC.
AND AFFILIATED ORGANIZATIONS

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

(1) Summary of Auditor's Results

(a) Type of report issued on whether the consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weaknesses: **No**
- Significant deficiencies: **None Reported**

(c) Noncompliance material to the financial statements: **No**

(d) Internal control deficiencies over major programs disclosed by the audit:

- Material weaknesses: **Yes findings 2023-001 and 2023-002**
- Significant deficiencies: **None reported**

(e) Type of report issued on compliance for major program: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**

(g) Major programs:

- COVID-19 – Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution – ALN 93.498

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$1,280,670**

(i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No: 2023-001 Activities allowed/unallowed and allowable costs

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entities: N/A

Assistance Listing Number: 93.498

Program: COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Award Year: January 1 to March 31, 2023 (Period 4) and July 1 to September 30, 2023 (Period 5)

Criteria or Requirement

Per 2 CFR 200.303, the non-Federal entity must 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.

Condition Found, Including Perspective

Bonuses, that were claimed to be COVID-related as reported via the PRF portal, were paid out to St. Dominic employees for which there was no supporting documentation to validate they were allowable COVID-related bonuses in accordance with the System's policies.

Possible Cause

Change in control owners at St. Dominic resulting in management's failure to retain sufficient documentation to support the bonus payments.

Questioned Cost

$3,000 for all St. Dominic employees

Effect

Federal funds were possibly expended for unallowable purposes as management could not provide documentation to support the bonuses were COVID-19 related.

Statistical Validity

The sample was not intended to be, and was not, a statistically valid sample.

Repeat Finding in the Prior Year

Not a repeat finding.

Recommendation

The System should strengthen controls over the retention of documentation to ensure that management can provide the necessary documentation to support grant expenditures.

View of Responsible Officials

Management concurs with this finding. Effective January 2022, the System has transitioned the St. Dominic payroll to be processed centrally at the System in accordance with all System's processes and procedures.

Finding No: 2023-002 Reporting

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entities: N/A

Assistance Listing Number: 93.498

Program: COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Award Year: January 1 to March 31, 2023 (Period 4) and July 1 to September 30, 2023 (Period 5)

Criteria or Requirement

Per 2 CFR 200.303, the non-Federal entity must 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.

Condition Found, Including Perspective

The review of lost revenue and related personnel expenses was not at a sufficient level of detail to demonstrate the supporting expenditures agreed to the portal reports. Although management reviewed and reconciled the expenditures to the portal reports, it was not evident how the 2022 adjustments to lost revenue made by HRSA and identified during the 2022 single audit impacted the current year portal reporting. Only a portion of the adjustments were reflected in the Period 4 and Period 5 reporting and management was not tracking which HRSA adjustments had been made, what was left to be made, and to which entities the adjustments were related to.

Possible Cause

Management did not have a single owner of the portal reports reconciliation process whom could identify that the HRSA adjustments were not being tracked.

Questioned Cost

None

Effect

During the audit, the System updated the reconciliation to agree to the portal reports for lost revenue amounts that had been adjusted and determined the remaining portion of the 2022 adjustments that needed to be included in Period 6 reporting.

Statistical Validity

The sample was not intended to be, and was not, a statistically valid sample.

Repeat Finding in the Prior Year

Not a repeat finding.

Recommendation

The System should strengthen controls over the management review process to ensure the amounts reported the HRSA portal are supported.

View of Responsible Officials

Management concurs with the finding. This did not result in an overstatement of qualifying expenditures and no repayment of funding was required. The reconciliation review process will be enhanced for funding that applies to multiple funding periods.

Agreed-Upon Procedures

KPMG LLP
Suite 2150
301 Main Street
Baton Rouge, LA 70801

Independent Accountants' Agreed-Upon Procedures Report

The Board of Trustees of Franciscan Missionaries of Our Lady Health System, Inc. and
the Louisiana Legislator Auditor:

We have performed the procedures enumerated below on Franciscan Missionaries of Our Lady Health System, Inc. (the System)'s compliance with procedures described in the Louisiana Legislative Auditors (LLA) Statewide Agreed Upon Procedures for the year ended June 30, 2023. The System is responsible for the controls and compliance areas identified by the Louisiana Legislative Auditors (LLA) Statewide Agreed-Upon Procedures.

The System has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assessing the compliance with the controls and compliance areas identified by the LLA Statewide Agreed-Upon Procedures of the System for the year ended June 30, 2023. This report may not be suitable for any other purpose. Additionally, the Louisiana Legislative Auditor has agreed to and acknowledged that the procedures performed are appropriate for its purposes.

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. We make no representation regarding the appropriateness of the procedures either for the intended purpose or for any other purpose.

The procedures and the associated findings are as follows:

1. Written Policies and Procedures

A. Obtain and inspect the entity's written policies and procedures and observe whether they include a section on each of the following categories and subcategories if applicable to public funds and the entity's operations:

i. Budgeting, including preparing, adopting, monitoring, and amending the budget.

No exceptions were found as a result of this procedure.

ii. 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 identified with the objective of compliance with the Public Bid Law; and (5) documentation required to be maintained for all bids and price quotes.

No exceptions were found as a result of this procedure.

iii. Disbursements, including processing, reviewing, and approving.

No exceptions were found as a result of this procedure.

iv. 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).

No exceptions were found as a result of this procedure.

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

No exceptions were found as a result of this procedure.

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

No exceptions were found as a result of this procedure.

vii. 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).

No exceptions were found as a result of this procedure.

viii. Travel and Expense Reimbursement, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

No exceptions were found as a result of this procedure.

ix. 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.

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, this procedure does not apply to the entity.

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

No exceptions were found as a result of this procedure.

xi. 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.

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, we performed the procedure and discussed the results with management.

xii. 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.

No exceptions were found as a result of this procedure.

2. Board or Finance Committee

A. 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:

i. 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.

Per the System Bylaws Board of Trustees meetings must be held at least quarterly. No exceptions were found as a result of this procedure.

ii. 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 proprietary funds, and semi-annual budget- to-actual, at a minimum, on all special revenue funds. *Alternately, for those entities reporting on the nonprofit 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.*

This procedure does not apply to the entity, as the System reports on the nonprofit accounting model and public funds did not exceed 10% of the entity's collections.

iii. 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.

This procedure does not apply to the entity.

iv. 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.

Per KPMG's observation, at the meeting held on May 19, 2023, the board's audit committee received written updates of the progress of resolving audit findings according to management's fiscal year 2022 Single Audit corrective action plan.

3. Bank Reconciliations

A. 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 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, and observe that:

i. 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);

No exceptions were found as a result of this procedure. All bank reconciliation samples appropriately included the preparer's name and preparation date, which was within 2 months of the related bank statement closing date per the bank statement.

ii. Bank reconciliations include evidence that a member of management/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

No exceptions were found as a result of this procedure. All bank reconciliation samples appropriately had an electronic stamp noting the date and individual who reviewed and approved the reconciliation and that each reviewer was an individual other than the preparer

iii. 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.

No exceptions were found as a result of this procedure.

4. Collections (excluding electronic funds transfers)

A. 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. Select 5 deposit sites (or all deposit sites if less than 5).

Per KPMG's inquiry with LLA, this procedure does not apply to the entity.

B. 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 no written policies or procedures, 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:

i. Employees responsible for cash collections do not share cash drawers/registers.

Per KPMG's inquiry with LLA, this procedure does not apply to the entity.

ii. 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.

Per KPMG's inquiry with LLA, this procedure does not apply to the entity.

iii. Each employee responsible for collecting cash is not 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.

Per KPMG's inquiry with LLA, this procedure does not apply to the entity.

iv. 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/official verifies the reconciliation.

Per KPMG's inquiry with LLA, this procedure does not apply to the entity.

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

Per KPMG's inquiry with LLA, this procedure does not apply to the entity.

D. Randomly select two deposit dates for each of the 5 bank accounts selected for "Bank Reconciliations" procedure #3A above (select the next deposit date chronologically if no deposits were made on the dates selected and select a deposit if multiple deposits are made on the same day). Alternately, 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:

i. Observe that receipts are sequentially pre-numbered.

Per KPMG's inquiry with LLA, this procedure does not apply to the entity.

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

Per KPMG's inquiry with LLA, this procedure does not apply to the entity.

iii. Trace the deposit slip total to the actual deposit per the bank statement.

Per KPMG's inquiry with LLA, this procedure does not apply to the entity.

iv. Observe 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)

Per KPMG's inquiry with LLA, this procedure does not apply to the entity.

v. Trace the actual deposit per the bank statement to the general ledger.

Per KPMG's inquiry with LLA, this procedure does not apply to the entity.

5. Non-Payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

A. 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).

No exceptions were found as a result of this procedure.

B. For each location selected under #5A 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 segregated such that:

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

No exceptions were found as a result of this procedure.

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

No exceptions were found as a result of this procedure.

iii. 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.

No exceptions were found as a result of this procedure.

iv. 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.

No exceptions were found as a result of this procedure.

v. 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.

No exceptions were found as a result of this procedure.

C. For each location selected under #5A 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:

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

No exceptions were found as a result of this procedure.

ii. Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #5B, as applicable.

No exceptions were found as a result of this procedure.

D. Using the entity's main operating account and the month selected in Bank Reconciliations procedure #3A, 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.

No exceptions were found as a result of this procedure.

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6. **Credit Cards/Debit Cards/Fuel Cards/Purchase Cards (Cards)**

   A. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

      No exceptions were found as a result of this procedure.

   B. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, select one monthly bank statement), obtain supporting documentation, and:

      i. Observe whether there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) were reviewed and approved, in writing (or electronically approved), by someone other than the authorized card holder. Those instances requiring such approval may constrain the legal authority of certain public officials, such as the mayor of a Lawrason Act municipality; these instances should not be reported.

         No exceptions were found as a result of this procedure.

      ii. Observe that finance charges and late fees were not assessed on the selected statements.

         No exceptions were found as a result of this procedure.

   C. Using the monthly statements or combined statements selected under #6B above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e., each card should have 10 transactions subject to inspection). For each transaction, observe it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only). For missing receipts, the practitioner should describe the nature of the transaction and note whether management had a compensating control to address missing receipts, such as a "missing receipt statement" that is subject to increased scrutiny.

      No exceptions were found as a result of this procedure.

7. **Travel and Travel-Related Expense Reimbursements**

   A. 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:

      i. If reimbursed using a per diem, observe 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).

         No exceptions were found as a result of this procedure.

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

No exceptions were found as a result of this procedure.

iii. Observe 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 #1a(viii).

KPMG observed that the reimbursement documentation included a business/public purpose, the names of participating individuals and other requirements from the written policies and procedures inspected in procedure #1a(viii). No exceptions were found as a result of this procedure.

iv. Observe each reimbursement was signed off by someone other than the person receiving reimbursement.

No exceptions were found as a result of this procedure – each reimbursement was signed off by someone other than the person receiving reimbursement.

8. Contracts

A. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

i. Observe whether the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

No exceptions were found as a result of this procedure.

ii. Observe whether the contract was approved by the governing body/board, if required by policy or law (e.g., Lawrason Act, Home Rule Charter).

No exceptions were found as a result of this procedure.

iii. If the contract was amended (e.g., change order), observe the original contract terms provided for such an amendment and that amendments were made in compliance with the contract terms (e.g., if approval is required for any amendment, was approval documented).

No exceptions were found as a result of this procedure.

iv. Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe the invoice and related payment agreed to the terms and conditions of the contract.

No exceptions were found as a result of this procedure.

9. Payroll and Personnel

A. 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.

No exceptions were found as a result of this procedure.

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

   i. Observe that all selected employees or officials documented their daily attendance and leave (e.g., vacation, sick, compensatory).

      No exceptions were found as a result of this procedure.

   ii. Observe whether supervisors approved the attendance and leave of the selected employees or officials.

      No exceptions were found as a result of this procedure.

   iii. Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

      No exceptions were found as a result of this procedure.

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

      No exceptions were found as a result of this procedure.

C. 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, 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 or officials' cumulative leave records, agree the pay rates to the employee or official's authorized pay rates in the employee or officials' personnel files, and agree the termination payment to entity policy.

   No exceptions were found as a result of this procedure.

D. 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.

   No exceptions were found as a result of this procedure.

10. Ethics

A. Using the 5 selected employees/officials from "Payroll and Personnel" above, obtain ethics documentation from management, and:

   i. Observe whether the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.

      As instructed in the LLA Statewide Agreed-Upon Procedures instructions, this procedure is not applicable to the entity.

ii. Observe whether the entity maintains documentation which demonstrates that each employee and official were notified of any changes to the entity's ethics policy during the fiscal period, as applicable.

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, this procedure is not applicable to the entity.

B. Inquire and/or observe whether the agency has appointed an ethics designee as required by R.S. 42:1170

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, this procedure is not applicable to the entity.

11. Debt Service

A. 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 State Bond Commission approval was obtained for each debt instrument issued as required by Article VII, Section 8 of the Louisiana Constitution.

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, this procedure is not applicable to the entity.

B. 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).

No *exceptions were found as a result of this procedure.*

12. Fraud Notice

A. 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.

No exceptions were found as a result of this procedure.

B. Observe 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.

No exceptions were found as a result of this procedure.

13. Information Technology Disaster Recovery/Business Continuity

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

i. Obtain and inspect the entity's most recent documentation that it has backed up its critical data (if there is no written documentation, inquire of personnel responsible for backing up critical data) and observe that such backup (a) occurred within the past week, (b) was not stored on the government's local server or network, and (c) the data has been converted into an unreadable format using an encryption algorithm and a key.

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, we performed the procedure and discussed the results with management.

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

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, we performed the procedure and discussed the results with management.

iii. 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 the most up to date version as indicated by the Company.

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, we performed the procedure and discussed the results with management.

B. Randomly select 5 terminated employees (or all terminated employees if less than 5) using the list of terminated employees obtained in procedure #9C. Observe evidence that the selected terminated employees have been removed or disabled from the network.

No exceptions were found as a result of this procedure.

14. Prevention of Sexual Harassment

A. Using the 5 randomly selected employees/officials from "Payroll and Personnel" above, obtain sexual harassment training documentation from management, and observe that the documentation demonstrates each employee/official completed at least one hour of sexual harassment training during the calendar year.

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, this procedure is not applicable to the entity.

B. Observe the entity has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the entity's premises if the entity does not have a website).

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, this procedure is not applicable to the entity.

C. Obtain the entity's annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1, and observe that the report includes the applicable requirements of R.S. 42:344:

i. Number and percentage of public servants in the agency who have completed the training requirements;

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, this procedure is not applicable to the entity.

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ii. Number of sexual harassment complaints received by the agency;

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, this procedure is not applicable to the entity.

iii. Number of complaints which resulted in a finding that sexual harassment occurred;

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, this procedure is not applicable to the entity.

iv. Number of complaints in which the finding of sexual harassment resulted in discipline or corrective action; and

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, this procedure is not applicable to the entity.

v. Amount of time it took to resolve each complaint.

As instructed in the LLA Statewide Agreed-Upon Procedures instructions, this procedure is not applicable to the entity.

We were engaged by the System to perform this agreed-upon procedures engagement. We conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States which involves us performing the specific procedures agreed to and acknowledged above and reporting on findings based on performing those procedures. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Franciscan Missionaries of Our Lady Health System, Inc. (the System)'s compliance with procedures described in the Louisiana Legislative Auditors (LLA) Statewide Agreed Upon Procedures for the year ended June 30, 2023. 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 the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

KPMG LLP

Baton Rouge, Louisiana
December 20, 2023