KPMG

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

Consolidated Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

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

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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, 2022 and 2021, 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, 2022 and 2021, 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 consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. 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 28, 2022 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 28, 2022

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

Consolidated Balance Sheets

June 30, 2022 and 2021

(In thousands)

Assets		**2022**	**2021**
Current assets:			
Cash and cash equivalents	$	497,804	1,105,141
Short-term investments		69,981	22,480
Net patient accounts receivables		313,595	270,784
Other current assets		230,980	220,135
Total current assets		1,112,360	1,618,540
Assets limited as to use, net of current portion		1,591,009	1,545,942
Property and equipment, net		1,697,468	1,713,973
Other assets		300,664	218,773
Total assets	$	4,701,501	5,097,228
Liabilities and Net Assets			
Current liabilities:			
Lines of credit	$	47,000	7,300
Current installments of long-term debt		18,644	8,333
Current portion of lease obligations		26,028	18,042
Accounts payable		204,202	189,225
Other current liabilities		445,576	504,452
Total current liabilities		741,450	727,352
Professional and general liabilities, excluding current portion		63,453	62,471
Long-term debt, excluding current installments		914,007	934,625
Lease obligations, excluding current portion		90,028	74,645
Accrued pension cost		250,333	530,541
Other long-term liabilities		178,455	204,384
Total liabilities		2,237,726	2,534,018
Net assets:			
Without donor restrictions		2,374,313	2,487,434
With donor restrictions		56,245	54,536
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.		2,430,558	2,541,970
Noncontrolling interests		33,217	21,240
Total net assets		2,463,775	2,563,210
Total liabilities and net assets	$	4,701,501	5,097,228

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, 2022 and 2021

(In thousands)

		2022	2021
Changes in net assets without donor restrictions:			
Operating revenues:			
Net patient service revenue	$	2,983,308	2,921,623
Other revenue		305,597	405,868
Equity in income from equity investees, net		18,312	15,038
Total operating revenues		3,307,217	3,342,529
Net assets released from restrictions used for operations:			
Satisfaction of program restrictions		5,131	5,088
Expiration of time restrictions		250	235
Total net assets released from restrictions used for operations		5,381	5,323
Total operating revenues and other support		3,312,598	3,347,852
Operating expenses:			
Salaries and wages		1,439,755	1,258,543
Employee benefits		227,880	211,088
Total salaries, wages, and employee benefits		1,667,635	1,469,631
Physician fees		148,175	159,350
Professional services		23,712	21,652
Other services		526,919	479,814
Leases, insurance, and utilities		105,698	103,494
Supplies		686,538	664,031
Depreciation and amortization		145,093	151,942
Interest		37,812	35,579
Other		71,647	3,786
Total operating expenses		3,413,229	3,089,279
Operating (loss) income before impairment and gain on sale		(100,631)	258,573
Impairment		—	(6,012)
Gain on sale		17,901	71,242
Operating (loss) income		(82,730)	323,803

(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, 2022 and 2021

(In thousands)

		2022	2021
Nonoperating (losses) gains:			
Investment (loss) return	$	(155,176)	339,213
Other		(6,260)	(4,785)
Total nonoperating (losses) gains, net		(161,436)	334,428
Revenues, gains, and other support in excess of (less than) expenses and losses before noncontrolling interest		(244,166)	658,231
Noncontrolling interests		(6,511)	(2,296)
Revenues, gains, and other support in excess of (less than) expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc.		(250,677)	655,935
Pension-related changes other than net periodic pension cost		131,351	151,329
Released from restrictions for capital		3,264	13,295
Capital transfers		2,941	(5,541)
Contributions for capital		—	18,757
(Decrease) increase in net assets without donor restrictions	$	(113,121)	833,775

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, 2022 and 2021

(In thousands)

		2022	2021
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.	$	(250,677)	655,935
Pension-related changes other than net periodic pension cost		131,351	151,329
Released from restrictions for capital		2,243	13,295
Capital transfers		2,941	(5,541)
Contributions for capital		1,021	18,757
(Decrease) Increase in assets without donor restrictions		(113,121)	833,775
Changes in net assets with donor restrictions:			
Contributions		9,355	16,654
Income from long-term investments, net		12	2
Net assets released from restrictions		(7,658)	(18,618)
Increase (decrease) in net assets with donor restrictions		1,709	(1,962)
Changes in noncontrolling interests:			
Revenues, gains, and other support in excess of expenses and losses		6,510	2,297
Distributions		(3,811)	(2,389)
Change in non-controlling interest		9,278	(9,683)
Other		—	10
Increase (decrease) in noncontrolling interests		11,977	(9,765)
(Decrease) increase in net assets		(99,435)	822,048
Net assets, beginning of year		2,563,210	1,741,162
Net assets, end of year	$	2,463,775	2,563,210

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, 2022 and 2021

(In thousands)

		2022	2021
Cash flows from operating activities:			
(Decrease) increase in net assets	$	(99,435)	822,048
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		145,093	151,942
Impairment		—	6,012
Loss on sale or disposal of assets, net		—	376
Gain on sale		(17,901)	(71,242)
Net realized and unrealized losses (gains) on assets limited as to use and investment securities		156,088	(346,914)
Income from equity investees		(18,312)	(15,038)
Change in value of interest rate swap agreements		—	(1,774)
Restricted contributions for capital projects		—	(3,166)
Amortization included in interest		(1,982)	(3,458)
Pension-related changes other than net periodic pension cost		(131,351)	(151,329)
Acquisition of noncontrolling interest		(9,278)	9,683
Distributions to noncontrolling interest		(3,811)	(2,389)
Return of income from equity investees		12,003	16,238
Contributions for capital		—	(18,757)
Changes in operating assets and liabilities, net of acquisitions:			
Receivables		(44,483)	(22,450)
Inventories		(10,549)	80
Prepaid expenses and other assets		16,095	(18,270)
Accounts payable, accrued expenses, and other liabilities		(264,189)	(36,461)
Professional and general liabilities		981	3,648
Net cash (used in) provided by operating activities		(271,031)	318,779

(Continued)

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

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

		2022	2021
Cash flows from investing activities:			
Capital and software expenditures	$	(139,971)	(135,687)
Purchases of assets limited as to use		(773,797)	(362,805)
Sales of assets limited as to use		494,400	410,884
Sale of equity method investment		—	753
Proceeds from sale of assets		17,901	71,998
Cash paid for acquisitions, net of cash acquired		2,449	—
Net cash used in investing activities		(399,018)	(14,857)
Cash flows from financing activities:			
Repayment of long-term debt		(8,325)	(194,545)
Repayment of finance lease obligations, net		(6,032)	(4,425)
Proceeds from issuance of long-term debt		—	211,955
Proceeds from line of credit		39,700	7,300
Payments for termination of interest rate swap		—	(7,570)
Change in controlling interest		—	(9,683)
Bond issuance costs		—	(1,699)
Restricted contributions for capital projects		—	3,166
Distributions to noncontrolling interest		3,811	2,389
Net cash provided by financing activities		29,154	6,888
(Decrease) increase in cash and cash equivalents and restricted cash		(640,895)	310,810
Cash, cash equivalents, and restricted cash, beginning of year		1,258,945	948,135
Cash, cash equivalents, and restricted cash, end of year	$	618,050	1,258,945
Supplemental noncash disclosures:			
Accounts payable for capital expenditures projects	$	(5,138)	(2,174)
Interest paid		32,562	37,163
Assets acquired with a financing lease		24,784	32,079

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

(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.

(Continued)

(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:

		2022	2021
Balance sheet caption:			
Cash	$	497,804	1,105,141
Short-term investments (see note 2)		17,257	16,345
Assets limited as to use (see note 2)		102,988	137,459
Total	$	618,049	1,258,945

(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, FMOLHS accounts for these investments using the equity method, which generally approximates NAV.

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 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 right of use (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(n).

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) income.

(Continued)

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 liabilities and the long-term portion is presented separately as capital 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. In 2022, the System did not have an impairment. In 2021, the System recorded an impairment of $600, related to one of its Lake subsidiaries, due to the carrying amount of cost in excess of net assets acquired exceeding its estimated fair value, based on market value.

(m) Capitalization of Interest

FMOLHS capitalizes the interest costs of borrowings, net of related investment income on the unexpended funds, during the construction period of major projects as a component of the asset. Net interest expense capitalized was $160 and $443 for the years ended June 30, 2022 and 2021, respectively.

(n) 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. The System had no impairment in 2022 and recorded an impairment of $5,412 due to the sale of a building held by St. Francis Medical Center, Inc. and subsidiaries in 2021.

(o) 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 $9,265 and $8,914 at June 30, 2022 and 2021, respectively.

(p) 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.

(q) 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).

(r) 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.

(Continued)

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.

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, 2022 and 2021, additional revenue of $21,868 and $22,383, 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, 2022 and 2021, the associated contract liabilities for such collections in advance were $30,570 and $28,522 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.

(s) 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. The System activated the COVID-19 Task Force on March 4, 2020 to provide system wide coordination for the pandemic and was represented by physician leadership, nursing leadership, human resources, and supply chain. The first case of COVID-19 in Louisiana was confirmed on March 9, 2020, with the state of Mississippi seeing its first case on March 11, 2020, and FMOLHS admitted its first confirmed COVID-19 positive patient on March 18, 2020. As the number of hospitalized COVID-19 patients improved, the Louisiana and Mississippi Departments of Health revised its order to allow some surgical procedures to be performed to allow treatment of time-sensitive conditions and to avoid harm from underlying conditions. Physician leadership developed an algorithm for safe management of patient requiring surgery to assure best practice throughout the System. On May 15, 2020, the Governor of Louisiana removed the Stay-at-Home order that had been issued on March 22, 2020 and implemented plans to reopen the state moving to Phase 1. Mississippi also removed its Shelter-in-Place order on May 11, 2020, after its postponement of nonessential procedures order issued on March 19, 2020. FMOLHS has resumed all surgical services, even with the surge of COVID-19 patients in June 2020, and has adequate surge capacity and Personal Protective Equipment (PPE) to meet governmental requirements and the healthcare demand of our communities.

(i) CARES Act – Provider Relief Funds

During the years ended June 30, 2022 and 2021, the System received approximately $20,105 and $105,159, respectively, in general and targeted distributions from the CARES Act Provider Relief Funds (PRF). Total distributions received for PRF is $249,240 through June 30, 2022. 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, 2022 and 2021, the System recognized $21,968 and $149,725, respectively, as other operating revenue. No contract liability was recorded on the consolidated balance sheets as of June 30, 2022 and 2021.

(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. Accelerated Medicare payment amounts totaling $152,956 have been recouped through June 30, 2022. As of June 30, 2022, the System had a total of $55,240 accelerated Medicare payments remaining in other current liabilities.

(t) 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, 2022 and 2021 was approximately $23,399 and $34,233, respectively, calculated based on the percentage of total operating expenses to established charges, applied to total charity adjustments recognized in net patient service revenue.

(u) 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.

(v) 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

(w) 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.

(x) Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-15,0 *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"), to clarify the guidance on the costs of implementing a cloud computing hosting arrangement that is a service contract.
Under ASU 2018-15, the entity is required to follow the guidance in Subtopic 350-40, *Internal-Use Software*, to determine which implementation costs under the service contract to be capitalized as an asset and which costs to expense. We adopted ASU 2018-15 on a prospective basis in the fiscal year ended June 30, 2022 and ASU 2018-15 did not have a material impact on the consolidated financial statements and related disclosures.

(In thousands)

(y) Recently Issued 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 new guidance is effective for annual periods in fiscal years ending after December 15, 2021, and early adoption is permitted. FMOLHS is currently evaluating this guidance and the impact on its consolidated financial statements.

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. ASU 2020-01 is effective for the System's annual periods beginning after December 15, 2021. ASU 2020-01 will be applied prospectively. Early adoption is permitted. The System is currently evaluating the effect the adoption of ASU 2020-01 will have on its consolidated financial statements.

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

Short-term investments at June 30, 2022 and 2021 consist of the following:

		2022	2021
Cash	$	17,257	16,345
Equity securities:			
U.S. companies		2,469	2,745
Fixed income		50,255	3,390
Total	$	69,981	22,480

(In thousands)

The composition of assets limited as to use at June 30, 2022 and 2021 is as follows:

	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

(In thousands)

	2021					
	Board-designated for capital	Trusteed bond funds	Self-insurance trust funds	Other	Donor-restricted Other	Total
Asset category:						
Cash	$ 100,067	17,392	—	19,649	351	137,459
Equity securities:						
Global equity	174,887	—	—	—	—	174,887
U.S. equity	325,129	—	8,093	—	9,429	342,651
Non-U.S. equity	185,806	—	—	—	—	185,806
Private investments:						
Private equity/venture capital	86,447	—	—	—	—	86,447
Private real assets	4,198	—	—	—	—	4,198
Hedge funds	276,085	—	—	—	198	276,283
Real assets	108,588	—	—	—	—	108,588
Fixed income	202,868	—	59,354	—	3,796	266,018
	1,464,075	17,392	67,447	19,649	13,774	1,582,337
Less amounts classified as current assets, included in other current assets	—	17,392	—	19,003	—	36,395
Noncurrent portion	$ 1,464,075	—	67,447	646	13,774	1,545,942

(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:

		2022	2021
Alternative assets:			
Global equity	$	185,387	174,887
U.S. equity		198,338	213,558
Non-U.S. equity		179,472	126,710
Private equity/venture capital		126,688	86,447
Private real assets		4,092	4,198
Hedge funds		288,095	276,283
Real assets		51,572	48,257
Fixed income		3,982	5,779
Total alternative assets	$	1,037,626	936,119

At June 30, 2022, FMOLHS’s remaining outstanding commitments to private equity interests totaled $266,448. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below:

		Projected capital calls
Fiscal year:		
2023	$	18,000
2024		42,000
2025		48,000
2026		48,000
2027		35,000
Thereafter		75,448
	$	266,448

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2022, the average remaining life of the private equity interests is approximately 4.4 years.

(In thousands)

At June 30, 2022, FMOLHS had investments with restrictions of $408,389 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, 2022, FMOLHS's investments with restrictions can be redeemed or sold as follows:

	Amount
Fiscal years:	
2023	$ 368,721
2024	29,424
Thereafter	10,244
	$ 408,389

(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, 2022 and 2021 consist of the following categories:

	2022	2021
Principal and interest funds	$ 17,468	17,392
Less amounts classified as other current assets	(17,468)	(17,392)
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, 2022 and 2021 consist of the following:

		2022	2021
Scholarships – by donor	$	926	1,075
Healthcare services – by donor		13,057	15,440
Resident deposits		13,784	16,263
Escrow, security deposits, and surplus cash		181	177
Capital improvement – by grantor agency		515	468
		28,463	33,423
Less amounts classified as current		(16,110)	(19,003)
	$	12,353	14,420

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, 2022 and 2021 is as follows:

		2022	2021
Other receivables	$	60,718	51,894
Inventories and supplies		85,865	74,779
Prepaid expenses and other current assets		50,819	57,067
Assets limited as to use required for current liabilities		33,578	36,395
	$	230,980	220,135

(In thousands)

(4) Property and Equipment

A summary of property and equipment as of June 30, 2022 and 2021 is as follows:

		2022	2021	Estimated useful lives
Land	$	196,781	187,921	—
Land improvements		29,005	25,883	2–40 Years
Buildings and building improvements		1,704,424	1,676,574	5–40 Years
Fixed equipment		193,602	158,757	3–40 Years
Movable equipment		786,945	812,685	3–25 Years
Leasehold improvements		11,979	16,545	5–15 Years
ROU assets		72,223	61,660	4–9 Years
Construction in progress		70,424	43,084	—
		3,065,383	2,983,109	
Less accumulated depreciation		1,367,915	1,269,136	
	$	1,697,468	1,713,973	

At June 30, 2022, the FMOLHS Affiliates were obligated under purchase commitments of $42,190 relating to the completion of various construction projects and purchases of equipment. Approximately $2,250 and $1,409 related to such projects are included in accounts payable in the consolidated balance sheets at June 30, 2022 and 2021, respectively.

(5) Other Assets

The composition of other assets at June 30, 2022 and 2021 is as follows:

		2022	2021
Investments in equity investees	$	74,376	68,774
Cost in excess of net assets acquired		137,808	94,527
Software license and build, net of accumulated amortization		77,910	40,325
Other		10,570	15,147
	$	300,664	218,773

The System recorded an increase in cost in excess of net assets acquired of $38,881 during the year ended June 30, 2022 (see note 23).

(In thousands)

(6) Investment in Equity Investees

A summary of the FMOLHS's investment in equity investees at June 30, 2022 and 2021 included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2022 and 2021 are as follows:

	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

	2021		
	Ownership interest	Investment in investees	Equity income (loss) of investees
Convenient Care, LLC	50 %	$ 1,961	122
Surgical Specialty Center of Baton Rouge, LLC	49	9,121	8,227
Baton Rouge Physical Therapy – Lake	15	1,806	81
Premier Health Holdings, LLC	20	14,618	(142)
Innovation Institute	19	15,284	390
Park Place Surgery Center	45	6,347	3,633
Others	Various	19,637	2,727
		$ 68,774	15,038

(7) Lines of Credit

At June 30, 2022, the FMOLHS Affiliates had various unsecured working capital lines of credit with banks in aggregate amount of $130,000, bearing interest at variable rates expiring at various dates through June 2022. The amount outstanding at June 30, 2022 was $47,000. The outstanding balance at June 30, 2021 was $7,300. 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, 2022 and 2021 is as follows:

		2022	2021
Accrued salaries and related expenses	$	172,003	161,328
Accrued interest		15,544	16,388
Due to third-party payors		90,543	98,790
Medicare accelerated payments		55,240	135,220
LSU contract liability		8,200	—
Accrued expenses and other current liabilities		104,046	92,726
	$	445,576	504,452

(9) Long-Term Debt

A summary of long-term debt at June 30, 2022 and 2021 is as follows:

		2022	2021
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%	$	8,501	10,370
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2012A, $56,530 bonds; due in varying installments through 2033, with interest fixed at 2.47%		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)

		2022	2021
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
		814,471	816,340
Add unamortized premiums		45,874	47,856
Total obligated group debt		860,345	864,196
Capital improvement financing		36,565	37,933
Other debt due in varying installments through 2037		41,978	47,416
Total long-term debt for FMOLHS		938,888	949,545
Less current installments of long-term debt		18,644	8,333
Less costs of issuance		6,237	6,587
	$	914,007	934,625

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 $860,345 and $864,196 as of June 30, 2022 and 2021, respectively.

The Master Trust Indenture covering the bond issues contains numerous covenants typical of such agreements, including a liquidity ratio, debt service coverage ratio, and leverage ratio. 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.

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, 2022 and 2021 totaled $36,565 and $37,933, 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 not in compliance with the financial covenants of one of the St. Dominic notes payable in the amount of $12,558 as of June 30, 2022. As of June 30, 2022, $12,558 was included in current installments of long term debt in the consolidated balance sheets. The other debt of the System is not affected by this non-compliance.

(In thousands)

Aggregate maturities of long-term debt at June 30, 2022 are as follows:

Year ending June 30:		
2023	$	8,587
2024		8,270
2025		17,518
2026		9,821
2027		19,330
Thereafter		829,488
	$	893,014

(10) Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2022 and 2021 are available for the following purposes:

		2022	2021
Healthcare services	$	37,695	34,519
Elderly housing		7,030	7,280
Educational services		11,501	12,718
Other		19	19
	$	56,245	54,536

The above donor-restricted net assets are included in the following balance sheets captions:

		2022	2021
Cash	$	37,875	32,591
Assets limited as to use		11,657	13,774
Other current assets		6,713	8,171
	$	56,245	54,536

(In thousands)

Net assets released from restrictions for the years ended June 30, 2022 and 2021 are as follows:

		2022	2021
Healthcare services	$	4,310	3,636
Release for long-lived assets		2,243	13,295
Elderly housing		250	235
Educational services and other		855	1,452
	$	7,658	18,618

(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, 2022 and 2021 is as follows:

		2022	2021
Medicare	$	1,113,120	1,156,390
Medicaid		646,199	617,290
Blue Cross		675,840	707,158
Self-pay		83,465	95,807
Managed care/other		464,684	344,978
	$	2,983,308	2,921,623

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

(Continued)

(In thousands)

The composition of net patient service revenue based on the System's lines of business for the years ended June 30, 2022 and 2021 are as follows:

		2022	2021
Service lines:			
Hospitals (inpatient and outpatient)	$	2,528,372	2,525,698
Physician groups		307,572	290,067
Elderly services		37,678	37,036
Joint ventures and other		109,686	68,822
	$	2,983,308	2,921,623

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, 2016. 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 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, 2013. 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.

The Mississippi Hospital Access Program (MHAP) is administered by the Division of Medicaid (DOM) through the Mississippi CAN coordinated care organization (CCO). The CCO's subcontract with the hospitals throughout the state for distribution of MHAP funding for the purpose of protecting patient access to hospital care.

FMOLHS Affiliates also participate in the voluntary disproportionate share (DSH) program available to certain qualifying hospitals in the states Medicaid program. For the years of June 30, 2022 and 2021, under these programs, St. Dominic Hospital paid assessments of $13,124 and $13,238 in state provider taxes and received funding of $31,274 and $34,959. There can be no assurance that the hospital will continue to qualify for future participation in these programs or that the programs will not ultimately be discontinued or materially modified.

(c) Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined per diem 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 38% and 22%, respectively, of the System's net patient service revenue for the year ended June 30, 2022. Revenue from the Medicare and Medicaid programs accounted for approximately 40% and 21%, respectively, of the System's net patient service revenue for the year ended June 30, 2021. Net patient service revenue increased by approximately $10,031 and $149 in 2022 and 2021, 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, 2022 and 2021 was as follows:

	2022	2021
Medicare	38 %	40 %
Medicaid	22	21
Blue Cross	23	24
Self-pay	1	3
Managed care/other	16	12
	100 %	100 %

A reconciliation of the amount of services provided to patients at established rates to patient service revenue, as presented in the accompanying consolidated statements of operations and changes in net assets without donor restrictions, is as follows for the years ended June 30, 2022 and 2021:

	2022	2021
Gross patient service revenue	$ 9,782,095	9,514,843
Less:		
Contractual adjustments, implicit price concessions, and other discounts	6,798,787	6,593,220
Net patient service revenue	$ 2,983,308	2,921,623

(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 2022 and 2021, 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.

During 2013, FMOLHS entered into Management Services agreements with Mary Bird Perkins Cancer Center to manage the business operations of medical oncology services. The services provided by Mary Bird Perkins Cancer Center included management of operations, scheduling and registration of patients, management of billing and collections services, and staffing support for clinical and nonclinical personnel. During 2018, FMOLHS entered into additional Management Services agreement with Mary Bird Perkins Cancer Center to manage business operations of new Gamma Knife Center treatment services. The management services and staffing expenses for both agreements incurred for the years ended June 30, 2022 and 2021 were $1,125 and $11,197, respectively. The Mary Bird Perkins management and affiliation agreements concluded in December 31, 2021. The Lake will internally manage its cancer center going forward and has established the Our Lady of the Lake Cancer Institute.

FMOLHS held a 20.5% ownership interest in Premier Health Holdings LLC, which was formed on December 31, 2014. On March 1, 2021, the System transferred its ownership interest in Premier Health Holdings LLC for $1,629 and recorded a gain of $13,349 on the transaction. The System held a note receivable totaling $9,106, which was paid off as part of the transaction. Premier Health Holdings, LLC owns, leases, and provides management services for urgent care centers. Management and consulting services are provided to urgent care centers owned or partially owned by the Lake and Lourdes. The Lake also owns 50% of Convenient Care LLC, and some members with ownership in the remaining 50% of Convenient Care LLC also have an ownership interest in Premier Health Holdings, LLC.

(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 tables at June 30, 2022 and 2021 sets forth, in the aggregate, the Plans' changes in benefit obligations, changes in plan assets, and the funded status of the Plans:

		2022	2021
Change in benefit obligation:			
Projected benefit obligation, beginning of year	$	1,749,472	1,755,655
Service cost		—	12,671
Interest cost		39,666	39,771
Actuarial (gains) losses		(340,047)	(3,051)
Benefits paid		(58,991)	(55,574)
Projected benefit obligation, end of year		1,390,100	1,749,472
Change in plan assets:			
Fair value of plan assets, beginning of year		1,218,931	1,037,545
Acquired fair value of plan assets		—	7,012
Actual return on plan assets		(149,308)	191,857
Contributions made		129,135	38,094
Benefits paid		(58,991)	(55,577)
Fair value of plan assets, end of year		1,139,767	1,218,931
Funded status	$	(250,333)	(530,541)
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension cost	$	(250,333)	(530,541)
Amounts recognized in net assets without donor restrictions:			
Net actuarial loss	$	197,035	328,386
	$	197,035	328,386

(In thousands)

Weighted average assumptions used to determine the projected benefit obligations at June 30, 2022 and 2021 were as follows:

	2022	2021
Weighted average discount rate:		
FMOLHS Pension	4.75 %	—
Lake Pension	—	3.05 %
Lourdes Pension	—	2.98
St. Francis Pension	—	2.94
St. Dominic Pension	—	2.96
Rate of compensation increase	N/A	N/A

Net periodic pension cost for the years ended June 30, 2022 and 2021 includes the following components:

	2022	2021
Service cost, benefits earned during the year	$ —	12,671
Interest cost on projected benefit obligation	39,666	39,771
Expected return on plan assets	(65,239)	(61,185)
Amortization of actuarial losses	5,851	10,783
Net periodic pension (income) cost	(19,722)	2,040
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions:		
Net actuarial gain	(125,500)	(133,723)
Prior service credit	—	189
Actuarial (gain) loss	(5,851)	(10,783)
Other	—	(7,012)
	(131,351)	(151,329)
Total recognized in net periodic benefit costs and net assets without donor restrictions	$ (151,073)	(149,289)

(In thousands)

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2022 and 2021 were as follows:

	2022	2021
Weighted average discount rate:		
FMOLHS Pension	3.02 %	— %
Lake Pension	—	2.99
Lourdes Pension	—	2.92
St. Francis Pension	—	2.89
St. Dominic Pension	2.96	2.91
Expected return on plan assets:		
FMOLHS Pension	6.00 %	— %
Lake Pension	—	6.50
Lourdes Pension	—	6.50
St. Francis Pension	—	6.50
St. Dominic Pension	4.25	5.00
Rate of compensation increase:		
FMOLHS Pension	N/A	—
Lake Pension	—	3.0%–4.0%
Lourdes Pension	—	3.0%–4.0%
St. Francis Pension	—	3.0%–4.0%
St. Dominic Pension	N/A	3.0%–4.0%

The defined-benefit pension plan asset allocation of the FMOLHS Pension as of the measurement date (June 30, 2022) and of the Lake Pension, Lourdes Pension, and St. Francis Pension as of June 30, 2021 and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2022	2021	Target allocation
Growth	55 %	50 %	45%–60%
Diversifiers	19	19	10%–30%
Liability hedge	24	25	15%–35%
Cash	2	6	0%–5%

(In thousands)

The defined-benefit pension plan asset allocation of the St. Dominic Pension as of the measurement date (June 30, 2022 and 2021) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2022	2021	Target allocation
Growth	25 %	24 %	15%–35%
Diversifiers	7	6	0%–10%
Liability hedge	66	68	54%–84%
Cash	2	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 6.8% 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.

(In thousands)

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.

The following is a summary of the levels within the fair value hierarchy of plan assets as of June 30, 2022 and 2021:

	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

(In thousands)

	June 30, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Asset category:				
Cash	$ 54,256	—	—	54,256
Equity:				
U.S. equity	47,954	—	—	47,954
Non-U.S. equity	29,859	—	—	29,859
Fixed Income	8,703	—	—	8,703
Fixed income	355,149	—	—	355,149
Assets measured at NAV(1)	—	—	—	723,010
Total	$ 495,921	—	—	1,218,931

(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 2022 or 2021.

The fair values of the following plan assets have been estimated using the NAV per share as of June 30, 2022 and 2021:

	2022	**2021**	**Redemption terms****	**Notice period (Days)**	**Remaining life****
Asset category:					
U.S. equity funds (a)	$ 103,361	124,655	Monthly–Quarterly	30–60	—
International equity funds (b)	181,508	142,293	Monthly	5–15	—
International emerging markets (c)	24,451	25,383	Semi-Monthly–Monthly	5–30	—
Fixed-income funds (d)	125,636	136,819	Daily–illiquid	2-illiquid	—
Hedge fund of funds (e)	180,754	179,770	Monthly–Illiquid	5-Illiquid	—
U.S. venture capital funds (f)	11,444	8,263	—	—	1–3 Years
U.S. private equity (f)	65,714	48,842	—	—	1–7 Years
International private equity (f)	51,701	42,265	—	—	1–10 Years
Natural resources (f)	9,111	6,082	—	—	1–8 Years
Real estate funds (f)	10,754	8,638	—	—	0–6 Years
Total	$ 764,434	723,010			

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

(In thousands)

(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.

At June 30, 2022, FMOLHS's remaining outstanding commitments to private equity interests within the plan assets totaled $115,481. The projected capital calls for the next five fiscal years and thereafter are summarized in the table below:

	Projected capital calls
Fiscal year:	
2023	$ 24,000
2024	21,000
2025	20,000
2026	20,000
2027	20,000
Thereafter	10,481
	$ 115,481

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2022, the average remaining life of the private equity interests in the plan assets is approximately 4.3 years.

At June 30, 2022, FMOLHS had plan assets of $264,508, 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.

(In thousands)

Based upon the terms and conditions in effect at June 30, 2022, FMOLHS's plan assets investments with restrictions can be redeemed or sold as follows:

		Amount
Fiscal year:		
2023	$	224,499
2024		10,890
2025		5,403
Thereafter		23,716
	$	264,508

As of June 30, 2022 and 2021, the Plans had accumulated benefit obligations (ABO) of $1,390,100 and $1,749,472, respectively. At June 30, 2022 and 2021, the fair value of plan assets falls short of the ABO by $250,333 and $530,541, 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.

Future benefit payments expected to be paid in each of the next five fiscal years and five years thereafter as of June 30, 2022 are as follows:

2023	$	78,674
2024		72,774
2025		75,884
2026		78,565
2027		81,018
2028–2032		431,110

(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 $48,314 and $36,154 was recorded for the years ended June 30, 2022 and 2021, respectively.

(In thousands)

(14) Other Long-Term Liabilities

The composition of other long-term liabilities at June 30, 2022 and 2021 is as follows:

	2022	2021
Purchase price obligation	$ 24,981	31,981
Contract liability	30,714	28,522
LSU contract liability	58,274	—
Due to Franciscan Fund	54,113	61,006
Other	10,373	30,754
Medicare accelerated payments	—	52,121
	$ 178,455	204,384

(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, 2022 and 2021 are as follows:

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

(In thousands)

2021	Educational	Fundraising	General and administrative	Healthcare services	HUD Program services	Total
Salaries and wages	$ 10,813	753	219,099	1,027,647	231	1,258,543
Employee benefits	2,706	110	43,043	165,162	67	211,088
Physician fees	—	—	9,042	150,308	—	159,350
Professional services	1	—	6,831	14,820	—	21,652
Other services	3,171	1,381	209,836	264,864	562	479,814
Leases, insurance, and utility	26	13	43,789	59,506	160	103,494
Supplies	589	295	4,880	658,208	59	664,031
Depreciation and amortization	476	2	50,071	100,972	421	151,942
Interest	—	—	33,444	2,135	—	35,579
Other	—	2,065	1,305	416	—	3,786
	$ 17,782	4,619	621,340	2,444,038	1,500	3,089,279

(16) Availability of Resources and Liquidity

The System has $881,380 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 $497,804, short-term investments of $69,981, and patient accounts receivable, collectible within one year, of $313,595. 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 226 days. The System has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The System has sufficient cash and cash equivalents to cover the scheduled CMS withholdings for the accelerated payments and the deferred payroll taxes due on December 31, 2022.

(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, 2022 and 2021.

(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, 2022 and 2021:

		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

(In thousands)

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets category:				
Equity securities:				
U.S. equity	$ 131,840	—	—	131,840
Non-U.S. equity	59,097	—	—	59,097
Real assets	60,331	—	—	60,331
Fixed income	191,446	166,969	—	358,415
Total – categorized	$ 442,714	166,969	—	609,683
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				995,134
				$ 1,604,817

** 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, 2022 or 2021.

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, 2022, 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, 2022. 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 $63,453 and $62,471 as of June 30, 2022 and 2021, 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 $11,180 and $10,228 as of June 30, 2022 and 2021, respectively, and are included in other current liabilities in the consolidated balance sheets. The workers' compensation reserves are approximately $19,700 and $18,796 as of June 30, 2022 and 2021, 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, 2022 and 2021 consist of buildings and improvements with an original cost of $406,824 and $412,627, respectively, and fixed equipment with an original cost of $20,609 and $20,259, respectively. Total accumulated depreciation is $187,898 and $168,157 at June 30, 2022 and 2021, respectively. Future minimum lease payments to be received at June 30, 2022 are as follows:

Year ending June 30:		
2023	$	16,702
2024		11,912
2025		8,766
2026		7,541
2027		6,448
Thereafter		27,745
	$	79,114

(In thousands)

(20) Leases – Lessee

The components of lease cost for the year ended June 30, 2022 and 2021 were as follows:

		2022	2021
Operating lease cost	$	24,692	23,275
Finance lease cost:			
Amortization of ROU assets		2,727	3,281
Interest on lease liabilities		3,305	1,144
Total finance lease cost		6,032	4,425
Variable lease cost		1,305	552
Short-term lease cost		8,293	10,012
Total lease cost	$	40,322	38,264

Amounts reported in the consolidated balance sheets for our operating and finance leases as of June 30, 2022 and 2021 were as follows:

		2022	2021
Operating leases:			
Operating lease ROU assets, net	$	64,630	54,732
Current portion of operating lease liabilities	$	20,084	15,899
Operating lease liabilities, less current portion		36,246	38,322
Total operating lease liabilities	$	56,330	54,221
Finance leases:			
Machinery and equipment	$	65,540	49,972
Accumulated depreciation		(5,862)	(4,056)
Property and equipment, net	$	59,678	45,916
Current portion of finance lease liabilities	$	5,944	2,143
Finance lease liabilities, less current portion		53,783	36,323
Total finance lease liabilities	$	59,727	38,466

(In thousands)

Other information related to leases as of June 30, 2022 and 2021 was as follows:

		2022	2021
Supplemental cash flow information:			
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flow from operating leases	$	24,692	23,275
Operating cash flow from finance leases		6,032	4,425
ROU assets obtained in exchange for lease obligations:			
Operating leases	$	25,806	67,210
Finance leases		24,784	32,079
Reductions to ROU assets resulting from reductions to lease obligations:			
Operating leases	$	(7,593)	(6,928)
Finance leases		(5,026)	(1,186)
Weighted average remaining lease term:			
Operating leases		11 years	4.5 years
Finance leases		9 years	9.3 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, 2022 are as follows:

		Operating leases	Finance leases
Year ending June 30:			
2023	$	23,242	9,279
2024		15,204	9,929
2025		8,119	7,283
2026		4,315	9,352
2027		2,364	4,933
Thereafter		14,370	48,049
Total undiscounted lease payments		67,614	88,825
Less imputed interest		(11,284)	(29,098)
Total lease liabilities	$	56,330	59,727

(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. These commitments are 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.

(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. The Lake recorded $1,610 and $1,651 in other current liabilities in the consolidated balance sheets as of June 30, 2022 and 2021, respectively, to reflect its promise to give in accordance with relevant accounting literature, related to the MEB.

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. The supplemental hospital payments received through June 30, 2022 were based on estimated costs for uninsured patients and other reimbursable cost provided under the agreement. For the years ended June 30, 2022 and 2021, the Lake recorded additional uninsured net patient service revenues less the estimate amounts for retroactive adjustments under the agreement of $80,185 and $84,258, respectively.

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, 2022 and 2021, 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 $54,587 and $59,600, respectively.

(Continued)

(b) Our Lady of Angels Cooperative Endeavor Agreement

Angels entered into an agreement with the DHH and LSU in January 2014. Angels receives disproportionate share payments and other supplemental payments from DHH to cover costs associated with higher Medicaid and uninsured patient volumes for this service area. The commencement date for patient care services for Angels was March 7, 2014. For the years ended June 30, 2022 and 2021, Angels recorded additional net patient service revenue of $32,149 and $36,069, respectively.

The major components of the Angels' agreement include:

- Angels leases facilities and equipment and manages the operations of the hospital and outpatient facilities.
- Angels agrees to continue the graduate medical education and training programs in Bogalusa, Louisiana.
- Angels established clinical services agreements, including the LSU School of Medicine, to provide professional services at the hospital and outpatient facilities.
- For the years ended June 30, 2022 and 2021, the amount paid to LSU for leased buildings and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was $8,434 and $10,819, 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. The System's preliminary 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). The System is further assessing the valuation of certain tangible, intangible assets and noncontrolling interest acquired pending final valuations. The System may use all of the measurement period to adequately analyze and assess the fair value of assets acquired and liabilities assumed.

Preliminary fair value of total consideration transferred:

Cash	$	46,201
Current assets		8,135
Cost in excess of net assets		38,881
Property and equipment		4,084
Other assets		5,920
Current liabilities		(47,920)
Long term debt		(2,509)
Noncontrolling interest		(9,042)

(24) Subsequent Events

On July 1, 2022, FMOLHS completed a refinance of the Series 2012A bonds with an original principal amount of $56,530, of which $56,395, were outstanding at June 30, 2022. DNA Asset Trust purchased Series 2012A and amended the interest rate on the bonds to 2.92%.

FMOLHS has evaluated subsequent events from the balance sheet date through October 28, 2022 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, 2022
(with comparative totals as of June 30, 2021)

(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 2022	Total 2021
Current assets:										
Cash and cash equivalents	$ 298,843	18,905	106,760	23,280	124,830	2,803	104,464	(182,081)	497,804	1,105,141
Short-term investments	61,010	8,970	52,526	—	—	—	—	(52,525)	69,981	22,480
Net patient accounts receivables	614	—	178,913	25,816	50,179	2,167	55,906	—	313,595	270,784
Other current assets	46,287	(14,435)	121,784	23,627	72,087	13,632	(29,724)	(2,278)	230,980	220,135
Total current assets	406,754	13,440	459,983	72,723	247,096	18,602	130,646	(236,884)	1,112,360	1,618,540
Assets limited as to use, net of current portion	1,548,418	—	1,172,335	90,709	29,065	22,322	178,720	(1,450,560)	1,591,009	1,545,942
Property and equipment, net	55,107	12,877	914,920	99,520	261,985	17,114	335,945	—	1,697,468	1,713,973
Other assets	554,985	11,175	137,780	9,610	40,623	4,595	31,258	(489,362)	300,664	218,773
Total assets	$ 2,565,264	37,492	2,685,018	272,562	578,769	62,633	676,569	(2,176,806)	4,701,501	5,097,228
Liabilities and Net Assets										
Current liabilities:										
Lines of credit	$ 47,000	—	—	—	—	—	—	—	47,000	7,300
Current installments of long-term debt	—	—	2,793	704	1,002	—	14,145	—	18,644	8,333
Current portion of capital lease obligations	1,305	224	11,951	318	4,398	5,385	2,447	—	26,028	18,042
Accounts payable	51,005	285	74,460	14,055	20,814	4,480	39,903	(800)	204,202	189,225
Other current liabilities	104,584	2,750	201,013	36,237	59,002	9,704	33,765	(1,479)	445,576	504,452
Total current liabilities	203,894	3,258	290,216	51,314	85,216	19,570	90,259	(2,277)	741,450	727,352
Professional and general liabilities, excluding current portion	40,319	—	20,612	4,564	9,519	230	25,310	(37,101)	63,453	62,471
Long-term debt, excluding current installments	17,074	—	537,240	114,098	221,525	—	24,070	—	914,007	934,625
Lease obligations, excluding current portion	1,916	495	58,675	216	12,811	3,389	12,526	—	90,028	74,645
Accrued pension cost	27	—	118,020	26,014	35,407	—	70,865	—	250,333	530,541
Other long-term liabilities	1,767,680	—	56,965	(12)	8,512	(82)	30,559	(1,685,167)	178,455	204,384
Total liabilities	2,030,910	3,753	1,081,728	196,194	372,990	23,107	253,589	(1,724,545)	2,237,726	2,534,018
Net assets:										
Without donor restrictions	534,331	22,238	1,555,727	75,205	192,852	39,526	406,691	(452,257)	2,374,313	2,487,434
With donor restrictions	23	11,501	22,159	1,163	6,416	—	14,987	(4)	56,245	54,536
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.	534,354	33,739	1,577,886	76,368	199,268	39,526	421,678	(452,261)	2,430,558	2,541,970
Noncontrolling interests	—	—	25,404	—	6,511	—	1,302	—	33,217	21,240
Total net assets	534,354	33,739	1,603,290	76,368	205,779	39,526	422,980	(452,261)	2,463,775	2,563,210
Total liabilities and net assets	$ 2,565,264	37,492	2,685,018	272,562	578,769	62,633	676,569	(2,176,806)	4,701,501	5,097,228

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, 2022
(with comparative totals as of June 30, 2021)

(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 2022	Total 2021
Changes in net assets without donor restrictions:										
Operating revenues:										
Net patient service revenue	$ —	—	1,590,633	294,302	492,699	82,004	523,670	—	2,983,308	2,921,623
Other revenue	449,470	25,048	88,772	43,317	32,950	5,722	34,213	(373,895)	305,597	405,868
Equity in income from equity investees, net	1,438	—	9,585	959	6,235	—	95	—	18,312	15,038
Total operating revenues	450,908	25,048	1,688,990	338,578	531,884	87,726	557,978	(373,895)	3,307,217	3,342,529
Net assets released from restrictions used for operations:										
Satisfaction of program restrictions	—	1,154	3,747	4	7	—	219	—	5,131	5,088
Expiration of time restrictions	—	—	250	—	—	—	—	—	250	235
Total net assets released from restrictions used for operations	—	1,154	3,997	4	7	—	219	—	5,381	5,323
Total operating revenues and other support	450,908	26,202	1,692,987	338,582	531,891	87,726	558,197	(373,895)	3,312,598	3,347,852
Operating expenses:										
Salaries and wages	126,082	13,582	649,639	155,740	201,548	30,331	262,833	—	1,439,755	1,258,543
Employee benefits	33,656	3,833	94,110	22,894	31,560	6,052	35,775	—	227,880	211,088
Total salaries, wages, and benefits	159,738	17,415	743,749	178,634	233,108	36,383	298,608	—	1,667,635	1,469,631
Physician fees	814	—	78,274	5,189	18,083	6,775	39,040	—	148,175	159,350
Professional services	3,234	26	7,048	11,213	612	25	1,554	—	23,712	21,652
Other services	162,274	5,516	371,210	72,090	90,228	18,574	78,949	(271,922)	526,919	479,814
Leases, insurance, and utilities	20,446	2,092	40,013	9,610	18,791	7,231	19,761	(12,246)	105,698	103,494
Supplies	120,471	909	335,806	62,977	114,573	6,167	135,362	(89,727)	686,538	664,031
Depreciation and amortization	28,709	385	65,579	12,368	14,211	1,054	22,787	—	145,093	151,942
Interest	1,235	2	21,980	4,216	8,413	—	1,966	—	37,812	35,579
Other	(65)	18	68,737	200	226	99	2,432	—	71,647	3,786
Total operating expenses	496,856	26,363	1,732,396	356,497	498,245	76,308	600,459	(373,895)	3,413,229	3,089,279
Operating (loss) income before impairment and gain on sale	(45,948)	(161)	(39,409)	(17,915)	33,646	11,418	(42,262)	—	(100,631)	258,573
Impairment	—	—	—	—	—	—	—	—	—	(6,012)
Gain on sale	—	—	5,023	1,666	1,024	288	9,900	—	17,901	71,242
Operating (loss) income	(45,948)	(161)	(34,386)	(16,249)	34,670	11,706	(32,362)	—	(82,730)	323,803

Schedule 2

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

Consolidating Schedule – Statement of Operations Information

June 31, 2022
(with comparative totals as of June 30, 2021)

(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 2022	Total 2021
Nonoperating gains:										
Investment return	$ (50,531)	(32)	(119,239)	(9,060)	(2,549)	(2,670)	(17,667)	46,572	(155,176)	339,213
Other	—	—	(140)	—	—	—	(6,120)	—	(6,260)	(4,785)
Total nonoperating gains, net	(50,531)	(32)	(119,379)	(9,060)	(2,549)	(2,670)	(23,787)	46,572	(161,436)	334,428
Revenues, gains, and other support in excess of expenses and losses	(96,479)	(193)	(153,765)	(25,309)	32,121	9,036	(56,149)	46,572	(244,166)	658,231
Noncontrolling interests	—	—	(5,609)	—	(812)	—	(90)	—	(6,511)	(2,296)
Revenues, gains, and other support in excess of (less than) expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc.	(96,479)	(193)	(159,374)	(25,309)	31,309	9,036	(56,239)	46,572	(250,677)	655,935
Pension-related changes other than net periodic pension cost	—	—	101,840	19,323	26,300	—	(16,112)	—	131,351	151,329
Released from restrictions for capital	—	596	857	—	—	—	1,811	—	3,264	13,295
Capital transfers	49,556	352	(32,245)	(3,131)	(5,220)	(1,008)	(5,362)	(1)	2,941	(5,541)
Contributions for capital	—	—	—	—	—	—	—	—	—	18,757
(Decrease) Increase in net assets without donor restrictions	$ (46,923)	755	(88,922)	(9,117)	52,389	8,028	(75,902)	46,571	(113,121)	833,775

See accompanying independent auditors' report.

Schedule 3

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

Consolidating Schedule – Statement of Changes in Net Assets Information

June 31, 2022
(with comparative totals as of June 30, 2021)

(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 2022	Total 2021
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	$ (96,479)	(193)	(159,374)	(25,309)	31,309	9,036	(56,239)	46,572	(250,677)	655,935
Pension-related changes other than the service cost component	—	—	101,840	19,323	26,300	—	(16,112)	—	131,351	151,329
Released from restrictions for Capital	—	596	857	—	—	—	790	—	2,243	13,295
Capital Transfers	35,400	352	(18,244)	(3,131)	(5,220)	(1,008)	(5,362)	(2)	2,785	(5,541)
Contributions for capital	—	—	—	—	—	—	1,021	—	1,021	18,757
(Decrease) Increase in assets without donor restrictions	(61,079)	755	(74,921)	(9,117)	52,389	8,028	(75,902)	46,570	(113,277)	833,775
Changes in net assets with donor restrictions restricted net assets:										
Contributions	—	(706)	7,660	736	188	—	1,477	—	9,355	16,654
Income from long-term investments, net	—	—	12	—	—	—	—	—	12	2
Net assets released from restrictions	—	(511)	(5,246)	(4)	(7)	—	(1,890)	—	(7,658)	(18,618)
Increase (decrease) in net assets with donor restrictions	—	(1,217)	2,426	732	181	—	(413)	—	1,709	(1,962)
Changes in noncontrolling interest:										
Revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System	—	—	5,608	—	812	—	90	—	6,510	2,297
Distributions	—	—	(2,974)	—	(832)	—	(5)	—	(3,811)	(2,389)
Acquired controlling interest	—	—	—	—	—	—	—	—	—	—
Acquired non-controlling interest	—	—	9,278	—	—	—	—	—	9,278	(9,683)
Other	—	—	—	—	—	—	—	—	—	10
Increase (decrease) in noncontrolling interests	—	—	11,912	—	(20)	—	85	—	11,977	(9,765)
(Decrease) increase in net assets	(61,079)	(462)	(60,583)	(8,385)	52,550	8,028	(76,230)	46,570	(99,591)	822,048
Net assets, beginning of year	595,433	34,201	1,663,717	84,753	153,229	31,498	499,210	(498,831)	2,563,210	1,741,162
Net assets, end of year	$ 534,354	33,739	1,603,134	76,368	205,779	39,526	422,980	(452,261)	2,463,619	2,563,210

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, 2022

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

KPMG

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, 2022

(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, 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 year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 28, 2022.

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 opinions 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*.

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 28, 2022

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

Independent Auditors' Report on Compliance for Each 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 Each Major Federal Program

Qualified and Unmodified Opinions

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 each of the System's major federal programs for the year ended June 30, 2022. The System's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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., which collectively expended $9,669,904 in federal awards, which is not included in the System's accompanying schedule of expenditures of federal awards during the year ended June 30, 2022. Our compliance audit, described in the Qualified and Unmodified Opinions section of our report does not include the operations of Villa St. Francis, 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.

Qualified Opinion on COVID-19 – Education Stabilization Fund (AL Number 84.425F)

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on COVID-19 – Education Stabilization Fund (AL Number 84.425F) for the year ended June 30, 2022.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2022.

Basis for Qualified and Unmodified Opinions

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 qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of the System's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on COVID-19 – Education Stabilization Fund (AL Number 84.425F)

As described in the accompanying schedule of findings and questioned costs, the System did not comply with requirements regarding procurement for the COVID-19 – Education Stabilization Fund (AL Number 84.425F) program as described in finding number 2022-003. Compliance with such requirements is necessary, in our opinion, for the System to comply with the requirements applicable to that program.

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 each major federal program as a whole.

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

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

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

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the System's responses to the noncompliance findings identified in our compliance 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.

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 and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-002 and 2022-003 to be material weaknesses.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a significant deficiency.

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 response 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.

KPMG

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, 2022, and have issued our report thereon dated October 28, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted 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 with 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
January 3, 2023

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2022

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 (FWS)	84 033			$ 48,399	—	48,399
Federal Supplemental Education Opportunity Grant (FSEOG)	84 007			78,434	—	78,434
Federal Pell Grant Program (PELL)	84 063			1,258,557	—	1,258,557
Federal Direct Student Loans (Direct Loan)	84 268			17,014,034	—	17,014,034
Total Student Financial Aid Cluster				18,399,424	—	18,399,424
Other Financial Assistance:						
U S. Department of Education:						
Office of Postsecondary Education – Open Textbooks Pilot Program	84 116T	P116T20031	Board of Regents of the State of Louisiana	—	4,000	4,000
Child Care Access Mean Parents in School – Purposeful Parent Support	84.335A			28,560	—	28,560
Governor's Emergency Education Relief Fund	84.425C	S425C200003	Board of Regents of the State of Louisiana	—	1,200	1,200
COVID-19 Emergency Financial Aid Grants to Students Under the Coronavirus Aid. Relief. and Economic Security (CARES)*	84.425E			1,234,315	—	1,234,315
COVID-19 Higher Education Emergency Relief Fund (HEERF) – Institutional Portion*	84 425F			423,264	—	423,264
Total U S. Department of Education				1,686,139	5,200	1,691,339
U S. Department of Housing and Urban Development:						
Housing Opportunities for Persons with AIDS	14 241	HOPWA-12-0003	City of Baton Rouge	—	216,444	216,444
Total U S Department of Housing and Urban Development				—	216,444	216,444
U S. Department of Health and Human Services:						
DRA Air Handler Grant- St Francis for AHU Project	90 201			89,241	—	89,241
Nurse Anesthetist Traineeships	93 124			35,993	—	35,993
Coordinated Services and Access to Research for Women. Infants, Children, and Youth (Ryan White Part D)	93 153			291,459	—	291,459
Ryan White Part D Affected Family Members AIDS Healthcare	93 153	H12HA24808	Louisiana State University Health System	138,935	—	138,935
COVID-19 Ryan White – Part D	93 153			8,278	—	8,278
Total ALN				438,672	—	438,672
Small Hospital Improvement Program (SHIP) Rural Grant	93 301			510,392	—	510,392
Ryan White Ending the HIV Epidemic	93 686	6 UT8HA33920-02-02	City of Baton Rouge	—	18,754	18,754
Impact Minds	93 866	TUL-HSC-559549-21/22	Tulane University	—	33,826	33,826
ECHO	93 310	2020-054-OLOL-001	LSU Pennington Biomedical Research	—	16,605	16,605
COVID-19 HRSA Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund *	93 461			5,916,056	—	5,916,056
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution*	93 498			103,507,817	—	103,507,817
National Bioterrorism Hospital Preparedness Program	93 889	059583	Louisiana Hospital Association	—	127,722	127,722
Total ALN				—	127,722	127,722
HIV Emergency Relief (Ryan White Part A)	93 914	H89HA11432	City of Baton Rouge	—	379,327	379,327
COVID-19 Ryan White – Part A	93 914	H9AHA36952	City of Baton Rouge	—	29,340	29,340
Total ALN				—	408 667	408,667
Our Lady of the Lake – Early Intervention (Ryan White Part C)	93 918			340,819	—	340,819
COVID-19 Ryan White – Part C	93 918			39,387	—	39,387
Total ALN				380,206	—	380,206
Total U S. Department of Health and Human Services				110,878,377	605,574	111,483,951
Corporation for National and Community Service						
Senior Companion Program (SCP)	94 016			134,050	—	134,050
U S. Department of Homeland Security:						
COVID-19 – Public Assistance COVID-19 Care Policy	97 036	not available	State of Mississippi	—	1,439,106	1,439,106
COVID-19 Disaster Grants-Public Assistance	97 036	not available	State of Louisiana	—	220,206	220,206
Total ALN				—	1,659,312	1,659,312
Total federal expenditures				$ 131,097,990	2.486.530	133,584,520

* Denotes a major program.

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, 2022. The System's consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., which collectively expended $9,669,904 in federal awards, which is not included in the Schedule. 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, 2022 to March 31, 2022 and July 1, 2022 to September 30, 2022.

(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 2022, 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.

(Continued)

During the year ended June 30, 2022, the System advanced the following amounts of new loans under the Direct Loan Program:

	Assistance listing number		Amount expended
Unsubsidized direct loans	84.268	$	8,308,330
Subsidized direct loans	84.268		1,758,423
Parents' loans for undergraduate students	84.268		665,545
Parents' loans for graduate students	84.268		6,281,736
Total		$	17,014,034

(5) Relationship to Consolidated Financial Statements

Federal expenditures are reported in the System's 2022 consolidated financial statements as follows:

Total expenditures under federal grants and contracts included in other revenue in the consolidated financial statements of the System	$	27,567,776
Total expenditures under federal grants and contracts included in net patient revenue in the consolidated financial statements of the System		5,916,056
COVID-19 Provider Relief Fund and American Rescue Plan(ARP) Rural Distribution recognized in prior years		81,665,271
Federal Supplemental Education Opportunity Grant – agency transactions		78,434
Federal Pell Grant Program – agency transactions		1,258,557
Federal Direct Student Loans (Direct Loan) – agency transactions		17,014,034
Federal Work Study		48,399
Nurse Anesthetists Traineeships – agency transactions		35,993
Federal expenditures per the schedule	$	133,584,520

(6) Expenditures of Federal Awards to Subrecipients

The System did not pass through any expenditures of federal awards to subrecipients during 2022.

(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 2022-002 and 2022-003**
- Significant deficiencies: **Yes finding 2022-001**

(e) Type of report issued on compliance for major program: **Qualified** for COVID-19 – Education Stabilization Fund – ALN 84.425F and **Unmodified** for each of the other major programs

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

(g) Major programs:

- COVID-19 Health Resources Services Administration (HRSA) Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund – ALN 93.461
- COVID-19 – Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution – ALN 93.498
- COVID-19 – Education Stabilization Fund – ALN 84.425C, 84.425E and 84.425F

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$3,000,000**

(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: 2022-001 Activities Allowed or Unallowed/Allowable Costs

Federal Agency:

U.S. Department of Health and Human Services

Pass-Through Entities:

N/A

Assistance Listing Number:

93.461

Program:

HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund

Award Year:

February 4, 2020 through April 5, 2022

(a) Criteria or Requirement

The HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund reimburses health care related expenses attributable to COVID-19 testing for the uninsured and treatment of uninsured individuals with COVID-19. Reimbursement includes COVID-19 testing and testing related items, COVID-19 treatment and COVID-19 vaccine administration fees. The HRSA FAQ document dated May 2020 specified that for inpatients COVID-19 must be the primary reason for treatment or for vaccine administration.

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.

(b) Condition Found, Including Perspective

During our test work, we selected a sample of 50 reimbursements received from HRSA for COVID-19 uninsured claims during the fiscal year. We noted one outpatient instance in which the reimbursement received may have covered the entire patient visit not only the COVID-19 test.

(c) Possible Cause

When identifying patient activities under the program for the audit period of July 1, 2021 to April 5, 2022 (end of program), total charges for uninsured patients with a COVID-19 diagnosis code, were included in the outpatient submissions for reimbursement. Additionally, HRSA's reimbursement formulary was never published.

(d) Questioned Cost

Known questioned costs $5,601 and likely questioned costs $258,764, which represents total outpatient reimbursements for claims without COVID-19 as a primary diagnosis for which reimbursement exceeded $416.78.

(e) Effect

Federal funds were possibly expended for unallowable purposes as the expenditures were for a diagnosis other than COVID-19 as a primary diagnosis.

(f) Statistical Validity

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

(g) Repeat Finding in the Prior Year

Not a repeat finding.

(h) Recommendation

We recommend that the System enhance the processes in place to document its review of potential overpayments.

(i) View of Responsible Officials

FMOL took every precaution to ensure the correct process was implemented for HRSA billing and payment. We followed the program guidelines for screening self-pay patients that received COVID services. Once the patient was approved by HRSA, they supplied a patient ID through their provision portal. Those qualifying visits were further modified to bill claims for the approved patients with COVID services and diagnoses.

There were instances in which we questioned HRSA to supply further specific details regarding billing and payment, but we were told the information was proprietary.

In addition, we questioned SSI (the selected clearinghouse) to query HRSA for additional billing criteria details to be proactive. However, the same response was provided. Therefore, we continued to follow the original program guidelines of identifying, screening and claims submissions for patients receiving COVID services and diagnosis. HRSA would determine the eligible charges upon submission for consideration.

In accordance with HRSA guidelines, any overpayment identified by the System is refunded to the program. Any other overpayments identified by HRSA are also refunded accordingly.

Additional communication will be provided to team members regarding account documentation with special attention to the HRSA program. We will have the trainer and department managers remind staff members to notate all accounts with any communication and actions taken including those accounts identified for review and repayments as applicable.

Finding No: 2022-002 Activities Allowed or Unallowed/Allowable Costs

Federal Agency:

U.S. Department of Health and Human Services

Pass Through Entity:

N/A

Assistance Listing Number:

93.498

Program:

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

Award Year:

January 1, 2022 to March 31, 2022 (Period 2)

July 1, 2022 to September 30, 2022 (Period 3)

(a) 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.

(b) Condition Found, Including Perspective

During our test work, we performed procedures to recalculate the lost revenue reported in the portal for period 2 and found that the lost revenue calculated by the System was understated by $16,007,000.

(c) Possible Cause

The System controls to ensure the accuracy of the lost revenue reported for portal period ended September 30, 2022, did not operate effectively.

(d) Questioned Cost

None

(e) Effect

The System was in compliance with the program requirement that Federal funds were not expended for unallowable purposes and however, evidence of the effective operation of management review controls was not maintained in accordance with Federal requirements.

(f) Statistical Validity

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

(g) Repeat Finding in the Prior Year

Not a repeat finding.

(h) Recommendation

We recommend that the System strengthen controls over the management review process to ensure the accuracy of calculations reported the HRSA portal.

(i) 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. While appropriate controls exist, but did not always operate as designed, relative to management review and recalculation of expenditures, opportunity exists to retrain staff and further enhance controls.

Finding No: 2022-003 Procurement

Federal Agency:

U.S. Department of Education

Pass Through Entity:

N/A

Assistance Listing Number:

84.425F

Program:

COVID-19 – Educational Stabilization Fund

Award Year:

May 14, 2020 through June 30, 2023

(a) 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.

(b) Condition Found, Including Perspective

Procurement disbursements were related to two vendors. For one of the two vendors tested, open and competitive bidding was not performed and therefore, the System was not in compliance with Federal guidelines.

(c) Possible Cause

The System has a management review process in place to review and approve procurement transactions in accordance with their procurement policies. The System management review control that was in place did not operate effectively to ensure open and competitive bidding occurred.

(d) Questioned Cost

$255,415

(e) Effect

Without performing the open and competitive bidding process, the System could have charged costs to the grant that were unallowable.

(f) Statistical Validity

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

(g) Repeat Finding in the Prior Year

Not a repeat finding.

(h) Recommendation

We recommend that the System strengthen controls over the management review process to ensure that the open and competitive bidding process is being performed on all applicable procurement transactions.

(i) View of Responsible Officials

Management concurs with the finding. While appropriate controls exist, but did not always operate as designed, relative to management review of expenditures, opportunity exists to retrain staff and further enhance controls. The system acknowledges that all acquisitions of property or services that exceed the simplified acquisition threshold (SAT) of $10,000 under a Federal award or sub-award must use formal procurement methods to include documented procurement procedures and methods of procurement. This would include sealed bids, vendor quotes, or noncompetitive procurement where certain conditions apply.

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, 2022. 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, 2022. 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:

Written Policies and Procedures

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

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

      No exceptions were found as a result of this procedure.

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

      No exceptions were found as a result of this procedure.

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

      No exceptions were found as a result of this procedure.

d) Receipts/Collections, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmations 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.

e) 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.

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

No exceptions were found as a result of this procedure.

g) Credit Cards (and debit cards, P-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.

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

Findings: We obtained and inspected the entity's written policies and procedures over travel and expense reimbursement, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers; noting the entity addressed each of the categories and subcategories except the entity's policies and procedures did not address (2) dollar thresholds by category of expense.

Management's Response: FMOLHS' travel and expense reimbursement policy does not include dollar thresholds for each expense category. Instead, employees are reimbursed for reasonable and necessary expenses approved by their department leader. The policy provides guidelines on what are reasonable and necessary travel expenses but does not define a specific dollar amount. For example, meals are limited to three meals in one day, airfare should be coach level, and baggage expenses allows for one piece of baggage per trip. Team members receive approval from their department leaders prior to booking travel events.

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

This procedure does not apply to the entity.

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

   As instructed in the LLA Statewide Agreed-Upon Procedures instructions, no exceptions were found as a result of this procedure.

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

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

l) 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.

Board or Finance Committee

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

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

      No exceptions were found as a result of this procedure.

   b) For those entities reporting on the governmental accounting model, observe whether the minutes referenced or included monthly budget-to-actual comparisons on the general fund, quarterly budget-to-actual, at a minimum, on 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 8 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.

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

      This procedure does not apply to the entity.

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Bank Reconciliations

3. 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). Select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:

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

      No exceptions were found as a result of this procedure.

   b) 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.

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

      No exceptions were found as a result of this procedure.

Collections (excluding electronic funds transfers)

4. 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).

   This procedure does not apply to the entity.

5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. 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:

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

      This procedure does not apply to the entity.

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

      This procedure does not apply to the entity.

   c) 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.

      This procedure does not apply to the entity.

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

   This procedure does not apply to the entity.

6. 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.

   This procedure does not apply to the entity.

7. Select two deposit dates for each of the 5 bank accounts selected for procedure #3under “Bank Reconciliations” 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 the10 deposits and:

   a) Observe that receipts are sequentially pre-numbered.

      This procedure does not apply to the entity.

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

      This procedure does not apply to the entity.

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

      This procedure does not apply to the entity.

   d) 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)

      This procedure does not apply to the entity.

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

      This procedure does not apply to the entity.

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

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

   No exceptions were found as a result of this procedure.

9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties

(if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

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

   No exceptions were found as a result of this procedure.

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

   No exceptions were found as a result of this procedure.

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

   No exceptions were found as a result of this procedure.

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

   No exceptions were found as a result of this procedure.

10. For each location selected under #8 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. Select 5 disbursements for each location, obtain supporting documentation for each transaction, and:

    a) Observe whether the disbursement 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.

    b) Observe whether the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

       No exceptions were found as a result of this procedure.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

11. 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.

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

    a) 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. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]

No exceptions were found as a result of this procedure.

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

No exceptions were found as a result of this procedure.

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, 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 testing). 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.

Travel and Travel-Related Expense Reimbursements

14. 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. Select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

a) If reimbursed using a per diem, observe 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.

b) 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.

c) 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 policy (procedure #1h).

No exceptions were found as a result of this procedure.

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

No exceptions were found as a result of this procedure.

Contracts

15. 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. Select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

a) 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.

b) 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.

c) 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.

d) 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.

Payroll and Personnel

16. Obtain a listing of employees and officials employed during the fiscal period and management's representation that the listing is complete. 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.

17. Select one pay period during the fiscal period. For the 5 employees or officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

a) Observe all selected employees or officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, officials are not eligible to earn leave and do not document their attendance and leave. However, if the official is earning leave according to a policy and/or contract, the official should document his/her daily attendance and leave.)

No exceptions were found as a result of this procedure.

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

No exceptions were found as a result of this procedure.

c) Observe 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.

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

No exceptions were found as a result of this procedure.

18. 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. 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 officials' 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.

19. 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.

Ethics

20. Using the 5 selected employees/officials from procedure #16 under "Payroll and Personnel" above, obtain ethics documentation from management, and:

    a) 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.

    b) Observe whether the entity maintains documentation which demonstrates 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.

Debt Service

21. 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.

    This procedure is not applicable to the entity.

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. 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.*

Fraud Notice

23. 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.

    This procedure is not applicable to the entity.

24. 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.

    This procedure is not applicable to the entity.

Information Technology Disaster Recovery/Business Continuity

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

    a) Obtain and inspect the entity's most recent documentation that it has backed up its critical data (if no written documentation, inquire of personnel responsible for backing up critical data) and observe that such backup occurred within the past week. If backups are stored on a physical medium (e.g., tapes, CDs), observe evidence that backups are encrypted before being transported.

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

    b) 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.

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

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

Sexual Harassment

26. Using the 5 selected employees/officials from procedure #16 under "Payroll and Personnel" above, obtain sexual harassment training documentation from management, and observe 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.

27. 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.

28. 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 it includes the applicable requirements of R.S. 42:344:

    a) 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.

    b) 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.

    c) 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.

    d) 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.

    e) 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.

Our agreed-upon procedures engagement was conducted 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, 2022. 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
January 3, 2023