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

Consolidated Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying 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, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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Emphasis of Matter

As discussed in note 1(w) to the consolidated financial statements, in fiscal year 2020, the System adopted new accounting guidance in connection with its implementation of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-18, *Restricted Cash*. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was 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. The accompanying supplementary schedule of financial responsibility data as of and for the year ended June 30, 2020 is presented for purposes of additional analysis, as required by the US Department of Education, 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information included in schedules 1 through 3 and the supplementary schedule of financial responsibility data 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 23, 2020, except as to note 25, which is as of January 19, 2021, on our consideration of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organization'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 Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organization'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 Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organization's internal control over financial reporting and compliance.

KPMG LLP

Baton Rouge, Louisiana
October 23, 2020, except as to note 25 and our report on the supplementary schedule of financial responsibility data, which are as of January 19, 2021

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

Consolidated Balance Sheets

June 30, 2020 and 2019

(In thousands)

Assets		**2020**	**2019**
Current assets:			
Cash and cash equivalents	$	839,694	263,100
Short-term investments		22,407	19,945
Net patient accounts receivable		248,065	208,663
Other current assets		192,234	167,658
Total current assets		1,302,400	659,366
Assets limited as to use, net of current portion		1,189,420	1,033,965
Property and equipment, net		1,647,286	1,286,716
Other assets		216,895	236,444
Total assets	$	4,356,001	3,216,491
Liabilities and Net Assets			
Current liabilities:			
Lines of credit	$	—	10,000
Current installments of long-term debt		21,164	18,187
Current portion of capital lease obligations		3,120	2,405
Accounts payable		168,371	106,515
Other current liabilities		592,729	238,066
Total current liabilities		785,384	375,173
Professional and general liabilities, excluding current portion		58,823	28,553
Long-term debt, excluding current installments		912,686	732,394
Capital lease obligations, excluding current portion		10,564	12,323
Accrued pension cost		718,110	552,203
Other long-term liabilities		129,272	64,575
Total liabilities		2,614,839	1,765,221
Net assets:			
Without donor restrictions		1,653,659	1,336,051
With donor restrictions		56,498	76,935
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.		1,710,157	1,412,986
Noncontrolling interests		31,005	38,284
Commitment and contingencies			
Total net assets		1,741,162	1,451,270
Total liabilities and net assets	$	4,356,001	3,216,491

See accompanying notes to consolidated financial statements.

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, 2020 and 2019

(In thousands)

		2020	2019
Changes in net assets without donor restrictions:			
Operating revenues:			
Net patient service revenue	$	2,740,213	2,141,683
Other revenue		239,261	127,974
Equity in income from equity investees, net		16,364	18,354
Total operating revenues		2,995,838	2,288,011
Net assets released from restrictions used for operations:			
Satisfaction of program restrictions		11,321	8,316
Expiration of time restrictions		220	207
Total net assets released from restrictions used for operations		11,541	8,523
Total operating revenues and other support		3,007,379	2,296,534
Operating expenses:			
Salaries and wages		1,144,883	850,660
Employee benefits		240,511	177,401
Total salaries, wages, and employee benefits		1,385,394	1,028,061
Physician fees		151,145	90,859
Professional services		26,176	35,695
Other services		484,175	351,549
Leases, insurance, and utilities		103,179	76,992
Supplies		604,389	441,916
Depreciation and amortization		153,025	122,655
Interest		37,544	28,918
Other		3,747	12,881
Total operating expenses		2,948,774	2,189,526
Operating income before impairment		58,605	107,008
Impairment		(14,473)	(11,560)
Operating income		44,132	95,448

(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, 2020 and 2019

(In thousands)

		2020	2019
Nonoperating gains:			
Investment return	$	17,486	30,899
Inherent contribution		353,239	—
Other loss		(328)	—
Change in fair value of interest rate swap agreements		(853)	(788)
Total nonoperating gains, net		369,544	30,111
Revenues, gains, and other support in excess of expenses and losses before noncontrolling interest		413,676	125,559
Noncontrolling interests		4,505	(4,335)
Revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc.		418,181	121,224
Pension-related changes other than the service cost component		(125,608)	(102,103)
Released from restrictions for capital		38,939	—
Capital transfers		(13,904)	—
Other		—	269
Increase in net assets without donor restrictions	$	317,608	19,390

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, 2020 and 2019

(In thousands)

		2020	2019
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, Inc.	$	418,181	121,224
Pension-related changes other than the service cost component		(125,608)	(102,103)
Released from restrictions for capital		38,939	—
Capital transfers		(13,904)	—
Other		—	269
Increase in net assets without donor restrictions		317,608	19,390
Changes in net assets with donor restrictions:			
Contributions		13,772	13,235
Income from long-term investments, net		110	1,197
Acquired net assets		16,161	—
Net assets released from restrictions		(50,480)	(8,523)
(Decrease) increase in net assets with donor restrictions		(20,437)	5,909
Changes in noncontrolling interests:			
Revenues, gains, and other support in excess of expenses and losses		(4,505)	4,335
Distributions		(3,731)	(6,116)
Acquired controlling interest		—	5,322
Acquired non-controlling interest		1,048	—
Other		(91)	(914)
(Decrease) Increase in noncontrolling interests		(7,279)	2,627
Increase in net assets		289,892	27,926
Net assets, beginning of year		1,451,270	1,423,344
Net assets, end of year	$	1,741,162	1,451,270

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, 2020 and 2019

(In thousands)

	2020	2019
Cash flows from operating activities:		
Increase in net assets	$ 289,892	27,926
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	153,025	122,655
Inherent contribution	(353,239)	—
Acquired assets with donor restrictions	(16,161)	—
Impairment	14,473	11,560
Loss on sale or disposal of assets, net	707	5,664
Net realized and unrealized losses (gains) on assets limited as to use and investment securities	4,763	(20,782)
Income from equity investees	(16,364)	(18,354)
Change in value of interest rate swap agreements	853	788
Restricted contributions for capital projects	(5,393)	(11,853)
Amortization included in interest expense	289	(1,165)
Pension-related changes other than the service cost component	125,608	102,103
Acquired (sale) of noncontrolling interest	11,952	(591)
Distributions to noncontrolling interest	3,731	6,116
Return of income from equity investees	14,033	13,985
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	11,530	(64,919)
Inventories	(17,930)	(2,406)
Prepaid expenses and other assets	3,947	(34,259)
Accounts payable, accrued expenses, and other liabilities	341,834	56,467
Professional and general liabilities	10,947	1,435
Net cash provided by operating activities	578,497	194,370

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

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

		2020	2019
Cash flows from investing activities:			
Capital expenditures	$	(185,410)	(154,663)
Purchases of assets limited as to use		(271,839)	(345,697)
Sales of assets limited as to use		280,784	295,624
Sale of equity method investment		6,847	—
Cash paid for acquisitions, net of cash acquired		33,455	(33,165)
Net cash used in investing activities		(136,163)	(237,901)
Cash flows from financing activities:			
Repayment of long-term debt		(101,631)	(16,313)
Repayment of capital lease obligations, net		(1,062)	(2,455)
Proceeds from issuance of long-term debt		256,136	—
Proceeds from line of credit		20,000	5,000
Payments on line of credit		(30,562)	—
Acquired non-controlling interest		(13,000)	(4,409)
Bond issuance cost		(1,675)	—
Restricted contributions for capital projects		5,393	11,853
Distributions to noncontrolling interest		(3,731)	(6,116)
Net cash provided by (used in) financing activities		129,868	(12,440)
Increase (decrease) in cash, cash equivalents and restricted cash		572,202	(55,971)
Cash, cash equivalents and restricted cash, beginning of year		375,933	431,904
Cash, cash equivalents and restricted cash, end of year	$	948,135	375,933
Supplemental noncash disclosures:			
Accounts payable for capital expenditures	$	(3,195)	544
Long-term debt for property and equipment		7,405	8,635
Interest paid		36,966	27,436

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 (acquired July 1, 2019, see note 2)

The FMOLHS Affiliates participate together in a captive insurance company, Louise Insurance Co., Ltd. (Louise), which is wholly owned by FMOLHS (note 20). 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 follow:

(a) 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 non-controlling 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.

(b) 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.

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

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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, valuation of derivatives, and the actuarially determined benefit liability related to FMOLHS Affiliates' 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.

(c) 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.

(d) 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.

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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 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.

(e) Inventories and Supplies

Inventories, 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.

(f) 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.

(g) 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.

(h) 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. Equipment under capital lease is amortized using the straight-line method over the shorter of the lease term of the equipment or its useful life. Such amortization is included in depreciation and amortization expense in the accompanying consolidated financial statements.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as contributions without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as contributions with donor restrictions. Absent explicit donor time stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Contributions restricted for the purchase of property and equipment for which restrictions are met within the same year as the contributions are received are reported as increases in net assets without donor restrictions in the accompanying consolidated financial statements.

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 another asset 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.

(i) 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.

(j) Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired, or goodwill, included in other assets, 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 2020, the System recorded an impairment of $14,473, 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. In 2019, FMOLHS performed a qualitative assessment of cost in excess of net assets acquired and determined no impairment exists.

(k) 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 $808 and $4,449 for the years ended June 30, 2020 and 2019, respectively.

(l) 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. There were no indicators of impairment in 2020. During 2019, the System recorded $11,560 in impairments based on a third-party appraisal for one of its properties.

Assets to be disposed of are separately presented in the accompanying consolidated balance sheets and reported at the lower of carrying amount or fair value less costs to sell, and are no longer depreciated. Assets to be disposed of were immaterial at June 30, 2020 and 2019.

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(m) 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 $8,513 and $8,074 at June 30, 2020 and 2019, respectively.

(n) 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.

(o) 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, medical office building rental income, the change in value of interest rate swap agreement, gains and losses on asset disposals, and inherent contribution from business combinations 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 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 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, 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).

(p) 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, 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 No. 606, *Revenue From Contracts With Customers*, for contracts related to net patient service revenue. The System accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment patterns expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the System has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

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

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

(Continued)

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

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

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

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended June 30, 2020 and 2019, additional revenue of $12,667 and $5,343, 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.

Through the acquisition of St. Dominic during 2020, the System acquired St. Catherine's Village, Inc. (SCV) that owns and operates a continuing care retirement community. These contractual arrangements require payment in advance for goods and services to be provided. As of June 30, 2020, the associated contract liabilities for such collections in advance were $29,195 and are reported in other long-term liabilities on the consolidated balance sheet. Revenue for SCV is recognized over the estimated remaining life expectancy of the residents, which is actuarially determined.

(q) 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 4th 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, 2029, 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 and implemented plans to re-open the state moving to Phase 1. Mississippi also removed its Shelter in Place order on May 11, 2020, after its postponement of non-essential procedures order issued on March 19, 2020. FMOLHS has resumed all surgical services, even with the surge of COVID-19 patients in June, and has adequate surge capacity and Personal Protective Equipment (PPE) to meet governmental requirements and the healthcare demand of our communities.

During the fourth quarter of fiscal year 2020, the System received $120,030 in general and targeted CARES Act Provider Relief Fund distributions. Approximately $44,566 is recorded as a contract liability within other current liabilities on the consolidated balance sheet as of June 30, 2020, for amounts received pertaining to the CARES Act Provider Relief Fund that have not yet been recognized to other revenue. The System also received $204,349 for accelerated Medicare payments during 2020. The full amount of Medicare advance payments is recorded as a contract liability within other current liabilities on the consolidated balance sheet as of June 30, 2020. This advanced payment was to accelerate cash flow to the impacted health care providers and CMS will recover these payments at a later date through offsetting of monies owed to the System by Medicare for future performance obligations.

Based on reporting guidelines available at June 30, 2020, the System recognized $75,464 as grant income and the remaining cash is recognized as a contract liability in other current liabilities. The System anticipates incurring additional COVID-19 expenses and losses in future periods. Management will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic of the System’s revenues and expenses. If management is unable to attest to or comply with current or future terms and conditions the System’s ability to retain some or all of the distributions received may be impacted.

(r) 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, 2020 and 2019 was approximately $35,094 and $18,570, respectively, calculated based on the percentage of total operating expenses to established charges, applied to total charity adjustments recognized in net patient service revenue.

(s) 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.

(t) Asset Retirement Obligation

FMOLHS recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, FMOLHS capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations. The liability is included in other long-term liabilities in the accompanying consolidated balance sheets.

(u) Fair Value Measurements

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

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

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date

(v) Fair Value Option

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

(w) Recently Adopted Accounting Pronouncements

In January 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)*, which makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The new standard also affects financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The provisions of ASU 2016-01 are effective for annual periods in fiscal years beginning after December 15, 2018. In addition, in February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities*, to clarify certain aspects of ASU 2016-01. The System adopted ASU 2016-01 and ASU 2018-03, using the cumulative effect method as of July 1, 2019. Adoption of this standard did not have a material impact on the System’s consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, which requires companies to present amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents on the statement of cash flows. ASU 2016-18 is effective for the System for annual periods in fiscal years beginning after December 15, 2018 and required retrospective application. The

(In thousands)

System implemented the provision of ASU 2016-18 as of July 1, 2019. Cash and restricted cash as shown on the consolidated statement of cash flows consist of the following:

		2020	2019
Balance sheet caption:			
Cash	$	839,694	263,100
Short-term investments (see note 3)		19,707	17,412
Assets limited as to use (see note 3)		88,734	95,421
Total	$	948,135	375,933

The retrospective application of the System's adoption of ASU 2016-18 impacted the System's previously reported results on the consolidated statements of cash flows for the year ended June 30, 2019, as follows:

		As previously reported	Adjustment for the adoption of ASU 2016-18	As adjusted
Cash flows from investing activities:				
Purchases of assets limited as to use	$	(363,098)	17,401	(345,697)
Sales of assets limited as to use		396,973	(101,349)	295,624
Net cash used in investing activities	$	33,875	(83,948)	(50,073)
Increase (decrease) in cash, cash equivalents, and restricted cash	$	27,977	(83,948)	(55,971)
Cash, cash equivalents and restricted cash, beginning of year		235,123	196,781	431,904
Cash, cash equivalents and restricted cash, end of year	$	263,100	112,833	375,933

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07), which requires companies to present the service cost component of net benefit cost in the income statement line items where they report compensation cost, and all other components of net benefit cost in the income statement separately from the service cost component and outside of operating income, if this subtotal is presented. Additionally, the service cost component will be the only component that can be capitalized. ASU 2017-07 is effective for FMOLHS in annual periods in fiscal years beginning after December 15, 2018. The standard required retrospective application for the amendments related to the presentation of the service cost component and other components of net benefit cost, and prospective application for the amendments related to the capitalization requirements for the service cost components of the net benefit cost. The System implemented the provision of ASU 2017-07 as of July 1, 2019. Adoption of this standard did not have a material impact of the System's consolidated financial statements.

(Continued)

(x) Recently Issued Accounting Pronouncements

The FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02), which introduces a right-of-use model that requires lessees to recognize all leases, other than short-term leases with a maximum possible term of one year or less, on their balance sheet. Also, the amortization of these leases will be dependent of the portion of the underlying asset being utilized during the lease term. In January and July 2018, the FASB issued ASUs 2018-01, *Land Easement Practical Expedient for Transition to Topic 842,* 2018-10, *Codification Improvements to Topic 842, Leases*, and 2018-11, *Leases (Topic 842): Targeted Improvements*. ASU 2018-01 clarified the applicability of ASC 842 to land easements and provided an optional transition practical expedient for existing land easements. ASU 2018-10 made certain technical corrections to ASC 842. ASU 2018-11 allows companies to adopt ASC 842 without revising comparative period reporting or disclosures and provides an optional practical expedient to lessors to not separate lease and non-lease components of a contract if certain criteria are met. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which deferred the effective date for the adoption of Leases (Topic 842) to fiscal years beginning after December 15, 2019. FMOLHS has implemented lease management technology and estimates the right of use asset (ROU) and liability is approximately $60,000.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment* (ASU 2017-04), which eliminates step 2 of the goodwill impairment test and replaces the qualitative assessment. Under the standard, an entity will perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount, and recognize an impairment loss for the amount by which the carrying amount exceeds the reporting unit's fair value, with the loss not exceeding the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for FMOLHS for the annual period beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests with measurement dates after January 1, 2017. FMOLHS is currently evaluating the effect that ASU 2017-04 will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement* (Topic 820) (ASU 2018-13), which modifies the disclosure requirements on fair value measurements. This ASU modifies the disclosure requirements on fair value measurements. The ASU removes the requirement to disclose: the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements. The ASU requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The new guidance is effective for annual periods in fiscal years beginning after December 15, 2019, and early adoption is permitted. FMOLHS is currently evaluating this guidance and the impact on its consolidated financial statements.

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 beginning after December 15, 2021, and early adoption is permitted. FMOLHS is currently evaluating this guidance and the impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* (ASU 2018-15). This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for FMOLHS for annual reporting periods beginning after December 15, 2020, with early adoption permitted. FMOLHS is currently assessing the impact that ASU 2018-15 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

(y) Reclassifications

The System reclassified certain amounts relating to its prior period to conform to its current period presentation. The reclassifications have not changed the results of operations of prior period.

(2) Acquisitions

On December 27, 2019, Lourdes acquired the remaining 40% interest in Heart Hospital for a total purchase price of $13,000. The purchase price was paid with cash on hand.

On July 1, 2019, the System entered into a Shared Mission Agreement with St. Dominic Health Services, Inc. (St. Dominic) to integrate two catholic ministries. In recognition of Dominican Sister's charitable mission, the System, as consideration for the acquisition, will contribute support payments over seven years for their on-gong ministries totaling $62,000. Consideration paid upon acquisition on July 1, 2019 was $20,667 and the remaining purchase price obligation will be paid in annual amounts of $7,000 during fiscal years 2021 through 2025 with the final payment of $6,333 in fiscal year 2026. Included in the consolidated balance sheet as of June 30, 2020 are other current liabilities and other long-term liabilities of $7,000 and $41,333, respectively. The System imputed its interest rate to estimate the present value of the obligation, which resulted in a discount of the transaction was $2,578.

The System utilized the market approach, specifically the guideline public company and guideline transaction methods, in estimating the business enterprise value, and the cost approach in estimating the acquired property and equipment. The System engaged third-party valuation and actuarial specialists to assist in the determination of the fair value of acquired assets and liabilities assumed. As shown in the purchase price allocation below an inherent contribution was recognized for the excess of the fair value of the assets acquired and liabilities assumed in excess of the total consideration.

(In thousands)

The following table summarizes the total consideration and the estimated fair value of the assets acquired and liabilities assumed, including cash of $54,122, at the acquisition date:

Current assets	$	106,689
Assets limited to use		179,393
Property and equipment		319,993
Other assets		9,036
Current liabilities		(54,204)
Current portion of long-term debt		(5,775)
Long-term debt, non-current		(41,885)
Accrued pension costs		(33,650)
Other long-term liabilities		(49,727)
Non-controlling interest		(1,048)
Assets with restrictions		(16,161)
Net assets assumed		412,661
Total considerations at net present value		(59,422)
Inherent contribution	$	353,239

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

Short-term investments at June 30, 2020 and 2019 consist of the following:

		2020	2019
Cash	$	19,707	17,412
Equity securities:			
U.S. companies		2,700	2,533
Total	$	22,407	19,945

(In thousands)

The composition of assets limited as to use at June 30, 2020 and 2019 is as follows:

	2020						
	Board-designated for capital	Donor-restricted for capital	Trusteed bond funds	Self-insurance trust funds	Other	Donor-restricted Other	Total
Asset category:							
Cash	$ 38,694	—	28,401	—	20,984	655	88,734
Equity securities:							
Global equity	126,359	—	—	—	—	—	126,359
U.S. equity	246,394	—	—	5,305	—	7,420	259,119
Non-U.S. equity	203,884	—	—	—	—	—	203,884
Private investments:							
Private equity/venture capital	48,347	—	—	—	—	—	48,347
Private real assets	3,847	—	—	—	—	—	3,847
Hedge funds	234,454	—	—	—	—	158	234,612
Real assets	87,369	—	—	—	—	—	87,369
Fixed income	132,413	—	—	50,311	—	3,217	185,941
	1,121,761	—	28,401	55,616	20,984	11,450	1,238,212
Less amounts classified as current assets, included in other current assets	—	—	28,401	—	20,391	—	48,792
Noncurrent portion	$ 1,121,761	—	—	55,616	593	11,450	1,189,420

	2019						
	Board-designated for capital	Donor-restricted for capital	Trusteed bond funds	Self-insurance trust funds	Other	Donor-restricted Other	Total
Asset category:							
Cash	$ 18,930	459	73,220	—	888	1,924	95,421
Equity securities:							
Global equity	99,013	2,401	—	—	—	—	101,414
U.S. equity	196,195	4,758	—	4,630	—	8,170	213,753
Non-U.S. equity	193,577	4,694	—	—	—	—	198,271
Private investments:							
Private equity/venture capital	43,219	1,048	—	—	—	—	44,267
Private real assets	6,520	158	—	—	—	—	6,678
Hedge funds	199,151	4,830	—	—	—	150	204,131
Real assets	75,578	1,833	—	—	—	—	77,411
Fixed income	134,900	3,271	—	25,675	—	3,615	167,461
	967,083	23,452	73,220	30,305	888	13,859	1,108,807
Less amounts classified as current assets, included in other current assets	—	—	73,220	—	—	1,622	74,842
Noncurrent portion	$ 967,083	23,452	—	30,305	888	12,237	1,033,965

(In thousands)

(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.

(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:

	2020	2019
Alternative assets:		
Global equity	$ 126,359	101,414
U.S. equity	153,511	137,439
Non-U.S. equity	152,217	134,577
Private equity/venture capital	48,347	44,267
Private real assets	3,847	6,678
Hedge funds	234,612	204,131
Real assets	47,357	59,152
Fixed income	7,383	9,279
Total alternative assets	$ 773,633	696,937

(In thousands)

At June 30, 2020, FMOLHS's remaining outstanding commitments to private equity interests totaled $47,731. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below:

		Projected capital calls
Fiscal year:		
2021	$	20,292
2022		20,292
2023		7,147
	$	47,731

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2020, the average remaining life of the private equity interests is approximately 3.7 years.

At June 30, 2020 and 2019, FMOLHS had investments with restrictions of $330,946 and $292,635, respectively, 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, 2020, FMOLHS's investments with restrictions can be redeemed or sold as follows:

		Amount
Fiscal years:		
2021	$	309,251
2022		20,305
2023		1,390
Total	$	330,946

(In thousands)

(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, 2020 and 2019 consist of the following categories:

	2020	2019
Principal and interest funds	$ 28,401	27,027
Construction fund	—	46,193
Less amounts classified as other current assets	(28,401)	(73,220)
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 10.

(d) Self-Insurance Trust Funds

The self-insurance trust funds represent amounts designated to pay certain self-insured losses (note 20).

(e) Other

Other assets limited as to use as of June 30, 2020 and 2019 consist of the following:

	2020	2019
Scholarships – by donor	$ 351	179
Healthcare services – by donor	12,907	13,680
Resident deposits	18,581	81
Escrow, security deposits, and surplus cash	174	172
Capital improvement – by grantor agency	421	635
	32,434	14,747
Less amounts classified as current	(20,391)	(1,622)
	$ 12,043	13,125

(In thousands)

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 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.

(4) Other Current Assets

The composition of other current assets at June 30, 2020 and 2019 is as follows:

	2020	2019
Other receivables	$ 33,405	18,926
Inventories and supplies	74,859	44,889
Prepaid expenses and other current assets	35,177	29,001
Assets limited as to use required for current liabilities	48,793	74,842
	$ 192,234	167,658

(5) Property and Equipment

A summary of property and equipment as of June 30, 2020 and 2019 is as follows:

	2020	2019	Estimated useful lives
Land	$ 186,694	143,166	—
Land improvements	26,829	25,494	2–40 Years
Buildings and building improvements	1,625,697	1,222,681	5–40 Years
Fixed equipment	147,588	119,111	3–40 Years
Movable equipment	780,550	709,097	3–25 Years
Leasehold improvements	16,633	19,374	5–15 Years
Construction in progress	69,650	201,009	—
	2,853,641	2,439,932	
Less accumulated depreciation	1,206,355	1,153,216	
	$ 1,647,286	1,286,716	

(In thousands)

At June 30, 2020, the FMOLHS Affiliates were obligated under purchase commitments of $15,336 relating to the completion of various construction projects and purchases of equipment. Approximately $4,051 and $8,120 related to such projects are included in accounts payable at June 30, 2020 and 2019, respectively.

(6) Other Assets

The composition of other assets at June 30, 2020 and 2019 is as follows:

		2020	2019
Investments in equity investees	$	57,162	56,274
Cost in excess of net assets acquired		97,550	114,667
Software license and build, net of accumulated amortization		43,553	48,540
Other		18,630	16,963
	$	216,895	236,444

(7) Investment in Equity Investees

A summary of the FMOLHS's investment in equity investees at June 30, 2020 and 2019 included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2020 and 2019 are as follows:

	Ownership interest		Investment in investees	Equity income (loss) of investees
2020:				
Convenient Care, LLC	50 %	$	2,584	681
Surgical Specialty Center of Baton Rouge, LLC	49		8,315	8,434
Baton Rouge Physical Therapy – Lake	15		1,772	690
Premier Health Holdings, LLC	50		2,660	(561)
Innovation Institute	21		14,894	(279)
Park Place Surgery Center	45		6,539	3,129
Others	Various		20,398	4,270
		$	57,162	16,364

(In thousands)

	Ownership interest	Investment in investees	Equity income (loss) of investees
2019:			
Convenient Care, LLC	50 %	$ 2,804	1,240
Surgical Specialty Center of Baton Rouge, LLC	49	7,331	6,855
Baton Rouge Physical Therapy – Lake	15	1,203	1,003
Premier Health Holdings, LLC	50	3,220	79
Innovation Institute	14	15,173	499
Park Place Surgery Center	45	6,042	3,691
Others	Various	20,501	4,987
		$ 56,274	18,354

(8) Lines of Credit

At June 30, 2020, the FMOLHS Affiliates had various unsecured working capital lines of credit with banks in aggregate amount of $131,000, bearing interest at variable rates expiring at various dates through June 2021. The amount outstanding at June 30, 2020 and 2019 was $0 and $10,000, respectively. FMOLHS affiliates expect to renew the lines of credit at expiration under substantially the same terms and conditions.

(9) Other Current Liabilities

The composition of other current liabilities at June 30, 2020 and 2019 is as follows:

	2020	2019
Accrued salaries and related expenses	$ 116,423	94,944
Accrued interest	14,670	11,988
Due to third-party payors	97,352	70,586
Medicare accelerated payments	204,349	—
Paycheck Protection Program (PPP) loan	25,101	—
CARES Act Provider Relief Funding	44,566	—
Accrued expenses and other current liabilities	90,268	60,548
	$ 592,729	238,066

(In thousands)

(10) Long-term Debt

A summary of long-term debt at June 30, 2020 and 2019 is as follows:

		2020	2019
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%	$	12,130	12,130
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005B, $50,000 tax-exempt bonds refinanced October 9, 2019 with 2019A Master Trust Indenture Note		—	44,700
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005D, $89,350 bonds due in varying installments through fiscal year 2029, which bear interest at a variable rate (0.97% at June 30, 2020)		52,225	57,600
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2008A, $47,185 bonds; due in varying installments through fiscal year 2026, which bear interest at a variable rate (0.97% at June 30, 2020)		33,545	41,295
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 Bonds Series 2012B, $100,000 bonds; due in varying installments through 2043, with interest at fixed rates ranging from 4.00% to 5.00%		100,000	100,000
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
Master Trust Indenture Note (Franciscan Missionaries of our Lady Health System Project) Series 2015B, Northern Trust Company Note		—	35,160
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

(In thousands)

		2020	2019
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	—
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%		150,000	—
		821,870	686,840
Add unamortized premiums		26,802	28,663
Total obligated group debt		848,672	715,503
Capital improvement financing		39,283	32,859
Other debt due in varying installments through 2037		53,081	9,174
Total long-term debt for FMOLHS		941,036	757,536
Less current installments of long-term debt		21,164	18,187
Less costs of issuance		7,186	6,955
	$	912,686	732,394

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, 2020 and 2019 totaled $39,283 and $32,859.

As of July 1, 2019, FMOLHS acquired St. Dominic's long-term debt. This consisted of several note payables with Trustmark Bank and Bancorp South with rates ranging from 2.75%-3.35% and maturity dates through year 2026. Total debt of St. Dominic as of June 30, 2020 is $46,604.

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 (note 3). The total debt subject to the Obligated Group Guarantee and Master Trust Indenture amounted to $848,672 and $715,503 as of June 30, 2020 and 2019, 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 2005, FMOLHS completed a system-wide refinancing for the purposes of advance refunding certain Series 1998A and Series 1998C bonds and providing additional capital by issuing four series of revenue bonds. The following bond series were issued by the Louisiana Public Facilities Authority (the Authority): $80,000 fixed rate Revenue Bonds (Series 2005A), $100,000 variable rate Revenue Bonds (Series 2005B and 2005C in the amounts of $50,000 each), and $89,325 in variable rate Revenue and Refunding bonds (Series 2005D). The four bond issues totaled $269,325, of which approximately $83,000 represented refunding of existing bonds and the remainder of approximately $186,000 was designated for capital improvements, including facility modifications and additions and new equipment acquisitions.

In August 2008, the Series 2008A bonds were issued by FMOLHS. These bonds, issued in the amount of $47,185, bear interest at a variable rate based upon a weekly index rate and are due in 2025. These bonds refunded $42,735 of the Series 1998A bonds and $3,225 of the Series 1998C bonds.

In 2012, FMOLHS completed an issuance of $100,000 of Hospital Revenue Bonds Series 2012 (the 2012B Series). The proceeds for the 2012B Series were used for (i) acquiring, constructing, and equipping a patient tower and other capital improvements at the campus of the Lake and (ii) paying the costs of issuance of the bonds. FMOLHS also 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 August 7, 2014, FMOLHS completed a refinancing of the Series 2008A through the purchase of the Bonds by Capital One Municipal Funding. The interest rate on the Series 2008A Bonds is computed as a percentage of London Interbank Offered Rate (LIBOR) plus a spread and matures in varying installments through 2025.

On August 25, 2014, FMOLHS completed a refinancing of the Series 2005B and Series 2005D through the purchase of the notes by MUFG Union Bank, N.A. f/k/a Union Bank, N.A. The interest rates on the Series 2005B and Series 2005D Revenue Notes are computed as a percentage of LIBOR plus a spread and mature in varying installments through 2028.

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 August 1, 2015, FMOLHS entered into a taxable loan agreement with The Northern Trust Company (2015B). The loan proceeds were used to refund the remaining portion of the 2005A Series and the related issuance costs. The principal amount of the loan agreement is $35,160 and was due to mature on August 17, 2025.

(In thousands)

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.

Aggregate maturities of long-term debt at June 30, 2020 follow:

Year ending June 30:		
2021	$	21,164
2022		21,519
2023		21,323
2024		23,308
2025		25,298
Thereafter		801,622
	$	914,234

(11) Interest Rate Swaps

FMOLHS uses interest rate-related derivative instruments to manage its exposure related to changes in interest rates on its variable rate debt instruments. FMOLHS does not enter into derivative instruments for any purpose other than cash flow hedging. FMOLHS does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, FMOLHS exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes FMOLHS, which creates credit risk for FMOLHS. When the fair value of a derivative contract is negative, FMOLHS owes the counterparty, and therefore, FMOLHS is not exposed to the counterparty's credit risk in those circumstances. FMOLHS minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates. Such risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

(In thousands)

FMOLHS entered into an interest rate swap agreement with Merrill Lynch Capital Services with respect to the 2005D refunding series. Such agreement is intended to reduce the impact of changes in interest rates on the variable rate debt. The swap agreement effectively changes FMOLHS’s interest rate exposure on the 2005D variable rate debt to a fixed rate of 3.53%.

In 2005, FMOLHS also obtained preapproval from the Louisiana Public Facilities Authority for the issuance of revenue refunding bonds in 2008 to advance refund the approximately $48,000 of 1998A and 1998C bonds. In 2005, FMOLHS entered into a forward starting interest rate swap agreement with Goldman Sachs Capital Markets to effectively change FMOLHS’s interest rate exposure on the 2008 bonds once issued from a variable rate to a fixed rate of 3.66%.

In June 2007, FMOLHS entered into two Constant Maturity Swaps with Merrill Lynch. Under these swap agreements, FMOLHS receives variable rate payments based on the ten-year International Swaps and Derivatives Association Inc. swap rate and makes variable-rate payments based on one-month LIBOR. The total notional amount of the first swap is $88,325, with an effective date of July 1, 2008, and the total notional amount of the second swap is $49,075, with an effective date of May 29, 2008.

The interest rate swap agreements are not afforded hedge accounting treatment in the consolidated financial statements and are marked to fair value through the consolidated statements of operations and changes in net assets without donor restrictions. The net unrealized (loss) gain on the interest rate swaps for the years ended June 30, 2020 and 2019 was $(853) and ($788), respectively, and is included in nonoperating gains in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

The following is a summary of the contracts outstanding at June 30, 2020 and 2019 and are recorded, as applicable, in either other assets or other long-term liabilities:

	June 30, 2020					
Related bond issuance	**Notional amount**	**Maturity date**	**Average rate paid**	**Average rate received**	**Increase (decrease) in interest expense**	**Swap fair value**
2005D	$ 52,250	7/1/2028	3.53 %	1.02 %	1,301	(6,894)
2005D	52,250	7/1/2028	1.02	0.60	226	196
2008A	37,100	7/1/2025	3.66	1.02	978	(2,715)
2008A	37,100	7/1/2025	1.02	0.60	161	69

	June 30, 2019					
Related bond issuance	**Notional amount**	**Maturity date**	**Average rate paid**	**Average rate received**	**Increase (decrease) in interest expense**	**Swap fair value**
2005D	$ 57,600	7/1/2028	3.53 %	1.65 %	1,070	(5,737)
2005D	57,600	7/1/2028	1.65	1.58	51	(54)
2008A	43,325	7/1/2025	3.66	1.65	868	(2,634)
2008A	43,325	7/1/2025	1.65	1.58	38	(66)

(Continued)

(In thousands)

(12) Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2020 and 2019 are available for the following purposes:

		2020	2019
Healthcare services	$	38,219	58,111
Elderly housing		7,515	7,735
Educational services		10,744	10,893
Other		20	195
	$	56,498	76,934

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

		2020	2019
Cash	$	35,813	34,502
Assets limited as to use		11,450	35,689
Other current assets		9,235	6,744
	$	56,498	76,935

Net assets released from restrictions for the years ended June 30, 2020 and 2019 are as follows:

		2020	2019
Healthcare services	$	10,176	5,364
Long-lived assets		38,848	—
Elderly housing		219	212
Educational services and other		1,237	2,947
	$	50,480	8,523

(13) 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.

(In thousands)

The composition of net patient service revenue by primary payor for the years ended June 30, 2020 and 2019 is as follows:

		2020	2019
Medicare	$	959,074	716,362
Medicaid		548,042	467,206
Blue Cross		602,847	509,063
Self-pay		137,012	66,295
Managed care/other		493,238	382,757
	$	2,740,213	2,141,683

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

The composition of net patient service revenue based on the System's lines of business for the years ended June 30, 2020 and 2019 are as follows:

		2020	2019
Service lines:			
Hospitals (inpatient and outpatient)	$	2,339,391	1,826,283
Physician groups		264,590	219,985
Elderly services		61,258	43,365
Joint ventures and other		74,974	52,050
	$	2,740,213	2,141,683

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, 2015. 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, 2012. 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. Under these programs St. Dominic Hospital paid assessments of $15,280 in state provider taxes and received funding of $35,372. 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.

(In thousands)

Revenue from the Medicare and Medicaid programs accounted for approximately 35% and 20%, respectively, of the System's net patient service revenue for the year ended June 30, 2020. Revenue from the Medicare and Medicaid programs accounted for approximately 33% and 22%, respectively, of the System's net patient service revenue for the year ended June 30, 2019. Net patient service revenue increased by approximately $10,031 and decreased by approximately $14,578 in 2020 and 2019, 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.

With the reduction of prepayment reviews, including recovery audit contractor (RAC) reviews by the CMS, the FMOLHS Affiliates continue to experience changes to net patient service revenue for prior years of service. Due to completed, pending, and projected RAC reviews, the FMOLHS Affiliates' net patient revenue decreased by $651 and decreased by $233 for the years ended June 30, 2020 and 2019, respectively.

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, 2020 and 2019 was as follows:

	2020	2019
Medicare	35 %	33 %
Medicaid	20	21
Blue Cross	22	16
Self-pay	5	12
Managed care/other	18	18
	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, 2020 and 2019:

	2020	2019
Gross patient service revenue	$ 8,848,639	6,963,139
Less:		
Contractual adjustments, implicit price concessions, and other discounts	6,108,426	4,821,456
Net patient service revenue	$ 2,740,213	2,141,683

(Continued)

(14) 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 2020 and 2019, no contributions were made to the Fund. This fund is included in Health System's investment portfolio and recognized on the consolidated balance sheet in both assets limited as to use and other long-term liabilities.

The affiliation agreement between FMOLHS and Mary Bird Perkins Cancer Center was effective July 1, 2012 to further enhance the cancer program operations, including clinical research, and to provide the community with comprehensive cancer care services. The cost of this program is shared by both entities, and the operating expense for FMOLHS for the years ended June 30, 2020 and 2019 was $670 and $901, respectively.

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, 2020 and 2019 were $4,820 and $4,392, respectively.

The Lake contributed $3,800 for a 50% ownership interest in Premier Health Holdings, LLC in 2015, which was formed on December 31, 2014. 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. In December 2016, Premier Health Holdings signed a $5,400 line of credit note with the Lake. This note was revised on April 1, 2019 to increase it by $5,000. The balance drawn, and due to the Lake, is $8,817 as of June 30, 2020.

(15) Retirement Plans

(a) Defined Benefit Plans

FMOLHS sponsors 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), and the Retirement Plan for Employees of St. Dominic Health Services, Inc. (St. Dominic Pension) (collectively, the Plans). The St. Dominic Pension was acquired on July 1, 2019 through the acquisition of St. Dominic Health Services, Inc. (see note 2).

(In thousands)

In September of 2020, the System's Board of Directors approved the freezing of the Lake, Lourdes and St. Francis Plans effective January 1, 2021, the defined benefit plan participants will transition to a defined contribution plan and their defined benefit plan assets will be frozen. This change resulted in a curtailment which is recorded as of June 30, 2020 as a decrease in projected benefit obligation and a decrease in pension related changes other than service cost. The following tables at June 30, 2020 and 2019 sets forth, in the aggregate, the Plans' changes in benefit obligations, changes in plan assets, and the funded status of the Plans:

		2020	2019
Change in benefit obligation:			
Projected benefit obligation, beginning of year	$	1,183,555	1,042,709
Acquired projected benefit obligation		434,433	—
Service cost		26,093	19,729
Interest cost		52,526	41,556
Actuarial (gains) losses		204,914	110,597
Liability (gain)/loss due to curtailment		(86,820)	—
Benefits paid		(59,046)	(31,036)
Projected benefit obligation, end of year		1,755,655	1,183,555
Change in plan assets:			
Fair value of plan assets, beginning of year		631,352	596,341
Acquired fair value of plan assets		400,783	—
Actual return on plan assets		24,045	30,484
Contributions made		40,411	35,563
Benefits paid		(59,046)	(31,036)
Fair value of plan assets, end of year		1,037,545	631,352
Funded status	$	(718,110)	(552,203)
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension cost	$	(718,110)	(552,203)
Amounts recognized in net assets without donor restrictions:			
Prior service cost	$	—	471
Net actuarial loss		479,904	353,825
	$	479,904	354,296

(In thousands)

Weighted average assumptions used to determine the projected benefit obligations at June 30, 2020 and 2019 were as follows:

	2020	2019
Weighted average discount rate:		
The Lake (including FMOLHS)	2.99 %	3.75 %
Lourdes	2.92	3.69
St. Francis	2.89	3.66
St. Dominic	2.91	—
Rate of compensation increase	3.00–4.00	3.00–4.00

Net periodic pension cost for the years ended June 30, 2020 and 2019 includes the following components:

	2020	2019
Service cost, benefits earned during the year	$ 26,093	19,729
Interest cost on projected benefit obligation	52,526	41,556
Expected return on plan assets	(66,795)	(44,823)
Amortization of actuarial losses	34,766	22,859
Curtailment expense	387	—
Amortization of prior service cost	84	(25)
Net periodic pension cost	47,061	39,296
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions:		
Net actuarial loss	247,665	124,937
Prior service credit	(387)	—
Actuarial gain/(loss)	(86,820)	—
Amortization of net actuarial losses	(34,766)	(22,859)
Amortization of prior service cost	(84)	25
	125,608	102,103
Total recognized in net periodic benefit costs and net assets without donor restrictions	$ 172,669	141,399

(Continued)

(In thousands)

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2020 and 2019 were as follows:

	2020	2019
Weighted average discount rate:		
The Lake (including FMOLHS)	3.75 %	4.34 %
Lourdes	3.69	4.31
St. Francis	3.66	4.30
St. Dominic	3.67	—
Expected return on plan assets:		
The Lake (including FMOLHS)	7.50 %	7.50 %
Lourdes	7.50	7.50
St. Francis	7.50	7.50
St. Dominic	5.00	—
Rate of compensation increase:		
The Lake (including FMOLHS)	3.0%–4.0%	3.0%–4.0%
Lourdes	3.0%–4.0%	3.0%–4.0%
St. Francis	3.0%–4.0%	3.0%–4.0%
St. Dominic	3.0%–4.0%	—

The defined-benefit pension plan asset allocation of the Lake Pension, Lourdes Pension and St. Francis Pension as of the measurement date (June 30, 2020 and 2019) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2020	2019	Target allocation
Growth	55 %	51 %	45%–60%
Diversifiers	22	24	15–33
Inflation sensitive	—	8	0–10
Liability hedge	22	16	10–25
Cash	1	1	0–5

(In thousands)

The defined-benefit pension plan asset allocation of the St. Dominic Pension as of the measurement date (June 30, 2020) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2020	Target allocation
Growth	26 %	15%–35%
Diversifiers	4	0–10
Inflation sensitive	—	—
Liability hedge	68	54–84
Cash	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 6.50%. 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.

FMOLHS will continue to provide investment oversight for all of the FMOLHS Affiliates' defined-benefit plans. 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

(Continued)

(In thousands)

investment guidelines for each class of assets that enumerate types of investments allowed in each category.

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

The following is a summary of the levels within the fair value hierarchy of plan assets as of June 30, 2020 and 2019:

	June 30, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Asset category:				
Cash	$ 16,819	—	—	16,819
Equity:				
U.S. equity	61,503	—	—	61,503
Non-U.S. equity	31,217	—	—	31,217
Fixed Income	8,291	—	—	8,291
Fixed income	341,742	—	—	341,742
Assets measured at NAV(1)	—	—	—	577,973
Total	$ 459,572	—	—	1,037,545

(In thousands)

	June 30, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Asset category:				
Cash	$ 8,490	—	—	8,490
Equity:				
U.S. equity	34,071	—	—	34,071
Non-U.S. equity	35,061	—	—	35,061
Real assets	10,793	—	—	10,793
Fixed income	63,635	—	—	63,635
Assets measured at NAV(1)	—	—	—	479,302
Total	$ 152,050	—	—	631,352

(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 2020 or 2019.

The fair values of the following plan assets have been estimated using the NAV per share as of June 30, 2020 and 2019:

	2020	2019	Redemption terms**	Notice period (Days)	Remaining life**
Asset category:					
U.S. equity funds (a)	$ 106,339	83,163	Monthly–Quarterly	30–60	—
International equity funds (b)	152,270	98,218	Monthly	5–15	—
International emerging markets (c)	16,479	17,035	Semi-Monthly–Monthly	5–30	—
Fixed-income funds (d)	75,152	38,717	Daily–illiquid	2-illiquid	—
Hedge fund of funds (e)	159,166	154,152	Monthly–Illiquid	5-Illiquid	
Real asset funds (f)	192	30,963	Monthly	30	—
U.S. venture capital funds (g)	6,189	4,692	—	—	1–3 Years
U.S. private equity (g)	22,724	17,006	—	—	1–7 Years
International private equity (g)	26,895	22,747	—	—	1–10 Years
Natural resources (g)	4,668	5,869	—	—	1–8 Years
Real estate funds (g)	7,899	6,740	—	—	0–6 Years
Total	$ 577,973	479,302			

** 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 ensure a liquid source of capital for spending during periods of high, unanticipated inflation by investing in assets that tend to respond favorably in such an environment.

(g) 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, 2020, FMOLHS’s remaining outstanding commitments to private equity interests within the plan assets totaled $47,138. The projected capital calls for the next five fiscal years and thereafter are summarized in the table below:

	Projected capital calls
Fiscal year:	
2021	$ 24,020
2022	17,195
2023	5,923
	$ 47,138

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2020, the average remaining life of the private equity interests in the plan assets is approximately 4.6 years.

At June 30, 2020, FMOLHS had plan assets of $221,510, 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, 2020, FMOLHS's plan assets investments with restrictions can be redeemed or sold as follows:

		Amount
Fiscal year:		
2021	$	199,699
2022		20,402
2023		1,409
	$	221,510

As of June 30, 2020 and 2019, the Plans had accumulated benefit obligations (ABO) of $1,743,289 and $1,103,060, respectively. At June 30, 2020 and 2019, the fair value of plan assets falls short of the ABO by $705,744 and $471,708, 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 $(10,792) and $(34,850), respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and five years thereafter as of June 30, 2020 are as follows:

2021	$	65,252
2022		66,680
2023		70,516
2024		74,007
2025		76,637
2026–2029		411,736

(b) Defined Contribution Plans

In September of 2020, the System's Board of Directors approved the freezing of the plan, effective January 1, 2021, to include 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. All employees of the FMOLHS affiliates meeting eligibility requirements may participate in this enhanced 403(b) plan and will qualify for the annual employer contribution 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 the employer contribution applies.

Contribution expense, excluding St. Dominic of $16,388 and $13,658 was recorded for the years ended June 30, 2020 and 2019, respectively. St. Dominic contributed $3,854 for the period ending June 30, 2020.

(In thousands)

(c) Retiree Medical Plan

Lourdes offers partially subsidized healthcare benefits to employees who retired before June 30, 2006. Costs are accrued for this plan during the service lives of covered employees. Retirees contribute a portion of the self-funded cost of healthcare benefits and Lourdes contributes the remainder. The healthcare plan is funded on a pay-as-you-go basis. Lourdes retains the right to modify or terminate the benefits and/or cost-sharing provisions. The accrued liability for such benefits was approximately $255 and $258 at June 30, 2020 and 2019, respectively, and is included in other long-term liabilities.

(16) Other Long-term Liabilities

The composition of other long-term liabilities at June 30, 2020 and 2019 is as follows:

		2020	2019
Purchase price obligation	$	38,755	—
Derivative liability		9,344	8,491
Contract liability		29,195	—
Due to Franciscan Fund		46,215	49,342
Other		5,763	6,742
	$	129,272	64,575

(17) 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, 2020 and 2019 are as follows:

2020		Educational	Fundraising	General and administrative	Healthcare services	Total
Salaries and wages	$	9,904	1,847	200,894	932,238	1,144,883
Employee benefits		1,331	46	52,217	186,917	240,511
Physician fees		—	—	9,164	141,981	151,145
Professional services		—	1	7,929	18,246	26,176
Other services		2,170	947	206,045	275,013	484,175
Leases, insurance, and utility		28	12	54,806	48,333	103,179
Supplies		533	297	24,192	579,367	604,389
Depreciation and amortization		457	1	50,331	102,236	153,025
Interest		—	—	36,312	1,232	37,544
Other		—	1,125	2,075	547	3,747
	$	14,423	4,276	643,965	2,286,110	2,948,774

(In thousands)

2019		Educational	Fundraising	General and administrative	Healthcare services	Total
Salaries and wages	$	12,054	1,275	153,643	683,688	850,660
Employee benefits		2,920	337	54,349	119,795	177,401
Physician fees		—	—	5,134	85,725	90,859
Professional services		225	—	9,440	26,030	35,695
Other services		3,856	1,171	128,992	217,530	351,549
Leases, insurance, and utility		2,006	111	36,798	38,077	76,992
Supplies		1,060	312	5,073	435,471	441,916
Depreciation and amortization		611	13	33,045	88,986	122,655
Interest		—	—	27,651	1,267	28,918
Other		—	3,175	9,407	299	12,881
	$	22,732	6,394	463,532	1,696,868	2,189,526

(18) Availability of Resources and Liquidity

The System has $1,110,166 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 $839,694, short-term investments of $22,407, and patient accounts receivable, collectible within one year, of $248,065. 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 $3,000, the System's financial asset coverage is approximately 249 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 received sufficient cash in the fourth quarter to cover the expenses incurred during the public health emergency through June 30, 2020. The System anticipates incurring additional COVID-19 expenses and losses for the fiscal year ending June 30, 2021. The funding resources available to the System from the CARES Act include grant funds from general and targeted Provider Relief Funds, loans from Paycheck Protection Program for qualifying non-profit subsidiary companies that have potential for full forgiveness, and accelerated payments authorized by CMS and the Medicare Administrative Contractor (MAC).

(In thousands)

(19) 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, 2020 and 2019.

(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, 2020 and 2019:

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets category:				
Equity securities:				
U.S. equity	$ 108,308	—	—	108,308
Non-U.S. equity	51,665	—	—	51,665
Real assets	40,012	—	—	40,012
Fixed income	66,542	123,421	—	189,963
Assets measured at NAV	—	—	—	73,162
Total – categorized	$ 266,527	123,421	—	463,110
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				797,509
				$ 1,260,619
Liabilities:				
Interest rate swaps	$ —	—	—	9,344

(In thousands)

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets category:				
Equity securities:				
U.S. equity	$ 78,848	—	—	78,848
Non-U.S. equity	63,693	—	—	63,693
Real assets	18,258	—	—	18,258
Fixed income	74,602	83,579	—	158,181
Assets measured at NAV	—	—	—	71,965
Total – categorized	$ 235,401	83,579	—	390,945
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				737,806
				$ 1,128,751
Liabilities:				
Interest rate swaps	$ —	—	—	8,491

The fair values of the following investments have been estimated using the NAV per share as of June 30, 2020 and 2019:

	2020	2019	Redemption terms**	Notice period (days)	Remaining life**
Asset category:					
International equity (a)	$ 73,162	71,965	Monthly	5–15	—
Total	$ 73,162	71,965			

** 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, 2020 or 2019.

(Continued)

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.

(20) 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, 2020, 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, 2021. 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

(Continued)

(In thousands)

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.

The reserve for long-term estimated professional and general liability, and worker’s compensation costs is approximately $58,823 and $28,553 as of June 30, 2020 and 2019, 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 $450 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 $16,768 and $10,351 as of June 30, 2020 and 2019, respectively, and are included in other current liabilities in the consolidated balance sheets. The workers’ compensation reserves are approximately $16,996 and $10,387 as of June 30, 2020 and 2019, respectively, and are included in other current liabilities in the consolidated balance sheets.

(21) 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, 2020 and 2019 consist of buildings and improvements with an original cost of $402,318 and $212,196, respectively, and fixed equipment with an original cost of $10,003 and $10,003, respectively. Total accumulated depreciation is $136,619 and $120,822 at June 30, 2020 and 2019, respectively. Future minimum lease payments to be received at June 30, 2020 are as follows:

Year ending June 30:		
2021	$	14,959
2022		12,603
2023		11,529
2024		9,064
2025		6,830
Thereafter		35,198
	$	90,183

(In thousands)

(22) 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 3(b).

(b) Capital Leases

As of June 30, 2020, FMOLHS Affiliates were obligated under various capital leases, each with noncancelable terms in excess of one year. Future minimum lease payments as of June 30, 2020 are as follows:

Year ending June 30:		
2021	$	4,425
2022		3,356
2023		3,061
2024		2,758
2025		3,647
Thereafter		—
Total minimum lease payments		17,247
Less amounts representing interest		3,563
Present value of future minimum lease payments		13,684
Less current portion of capital lease obligations		3,120
Capital lease obligations excluding current portion	$	10,564

The net book value of assets under capital lease as of June 30, 2020 and 2019 was $13,146 and $13,981, respectively.

For the years ended June 30, 2020 and 2019, FMOLHS entered into new capital leases for equipment in the amounts of $915 and $802, respectively.

(In thousands)

(c) Operating Leases – Lessee

Rental expense for all operating leases totaled $35,910 and $28,339 for the years ended June 30, 2020 and 2019, respectively. Future minimum rental payments under operating leases that have initial or remaining noncancelable terms in excess of one year as of June 30, 2020 are as follows:

Year ending June 30:		
2021	$	19,878
2022		16,558
2023		12,529
2024		6,799
2025		5,043
Thereafter		9,998
	$	70,805

(d) 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.

(e) Regulatory Compliance

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.

(23) 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) 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 training programs (which was donated by the Lake to LSU at completion of construction), expanded its clinical capacity by 60 licensed beds, and implemented a Trauma Center. The Lake recorded $1,712 in other current liabilities in the consolidated balance sheets as of June 30, 2020 and 2019, 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's graduate medical education program. The supplemental hospital payments received through June 30, 2020 were based on estimated costs for uninsured patients and other reimbursable cost provided under the agreement. For the years ended June 30, 2020 and 2019, the Lake recorded additional uninsured net patient service revenues less the estimate amounts for retroactive adjustments under the agreement of $76,493 and $119,023, 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.
- 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, 2020 and 2019, the amount paid to LSU for leased building and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was $56,444 and $56,754, respectively.

For the State fiscal years prior to and including June 30, 2019, Louisiana Department of Health/Office of Administration and Lake agreed to a $22,000 CEA settlement on any outstanding liabilities due to/from either party. This settlement was related to obligations associated with Medicaid, uninsured and other programs and services included in the Cooperative Endeavor Agreement, but it excludes cost report settlements with private Medicaid MCOs.

(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, 2020 and 2019, Angels recorded additional net patient service revenue of $32,082 and $32,099, 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, 2020 and 2019, 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 $11,663 and $6,130, respectively.

(24) Subsequent Events

FMOLHS has evaluated subsequent events from the balance sheet date through October 23, 2020, the date at which the consolidated financial statements were available to be issued, and determined that there were no other items to disclose, except the following:

In July 2020, FMOLHS completed an agreement with Laboratory Corporation of America Holdings (LabCorp) to sell its community-based outreach reference lab operations across its ministries in Louisiana to LabCorp for $80 million, which is greater than its carrying value.

In September 2020, the System approved a new strategy for the retirement programs and will transition all employees to an enhanced defined contribution pension plan effective January 1, 2021. The defined benefit plan participants will retain the value of their pension assets as of December 31, 2020. The projected benefit obligation disclosure (see note 15) includes an adjustment of ($86,820) for the pension curtailment. The operating income impact of this plan revision as of June 30, 2020 was $387 related to a prior year service credit.

FMOLHS expects to consummate the issuance of approximately $182 million of 30-year taxable fixed rate bonds ("Series 2020 Taxable") in November 2020. These bond funds will be used to advance refund the Series 2019B bonds, refund the 2005D bonds, refund the 2008A bonds and potentially borrow funds to terminate its current interest rate swaps.

Due to the recent enactment of the CARES Act and the PPPHCE Act, there is still a high degree of uncertainty surrounding their implementation, and the public health emergency continues to evolve. In September 2020, HHS issued reporting requirements that provided information on how the System should report it used the funds received under these programs. The requirements changed the calculations to be based on unreimbursed healthcare-related expenses attributable to the coronavirus and the year over year change in net patient care operating income as defined. In October 2020, HHS issued updated reporting requirements, which changed the calculations to be based on unreimbursed healthcare-related expenses attributable to coronavirus and the calendar year over year change in net patient care lost revenues, as defined. The System believes that such new guidance is a non-recognized subsequent event as of June 30, 2020 and any changes will be accounted for during the year ended June 30, 2021. The System

(Continued)

(In thousands)

continues to assess the potential impact of the CARES Act, the PPPHCE Act, the potential impact of future stimulus measures, if any, and the impact of other laws, regulations, and guidance related to COVID-19 on our business, results of operations, financial condition and cash flows.

(25) U.S. Department of Education Financial Responsibility Standards Information

The System participates in federal Title IV student financial assistance programs, which require it to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR 668.171. The criteria include the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR 668.172, using audited financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve, Equity, and Net Income. These ratios utilize the following financial data of the System, which are not otherwise presented in the consolidated financial statements or other notes to the consolidated financial statements, as of and for the year ended June 30, 2020:

Required input per standards	Ratio(s) uses	Input amount	Related financial statement amount not used as input on supplementary schedule
Prepaid expenses and other current assets – Unsecured related party payable – reconciling item from Note (4)	Primary reserve and equity	$ (629)	$ 35,177
Other current liabilities – post-employment and pension liabilities – reconciling item from Consolidating Schedule – Balance Sheet Information	Primary reserve	121	6,628
Net assets with donor restrictions – permanently restricted – reconciling item from Consolidating Schedule – Balance Sheet Information	Primary reserve	5,651	10,744
Inputs directly from Consolidating Schedule – Statement of Operations Information:			
Total operating expenses			23,142
Less: Other net assets without donor restrictions			(302)
Total expenses and loses without restrictions	Equity	$ 23,444	$ 23,444

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

Consolidating Schedule – Balance Sheet Information

June 30, 2020
(with comparative totals as of June 30, 2019)

(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 Hospital Inc. and subsidiaries	Eliminations	Total 2020	Total 2019
Current assets:										
Cash and cash equivalents	$ 572,568	10,545	383,676	64,460	128,739	41,074	138,171	(499,539)	839,694	263,100
Short-term investments	22,407	—	15,614	—	—	—	—	(15,614)	22,407	19,945
Net patient accounts receivables	(4,687)	—	122,982	29,479	43,159	(3,334)	60,466	—	248,065	208,663
Other current assets	23,639	1,394	125,920	12,254	20,466	(1,445)	20,522	(10,516)	192,234	167,658
Total current assets	613,927	11,939	648,192	106,193	192,364	36,295	219,159	(525,669)	1,302,400	659,366
Assets limited as to use, net of current portion	1,125,753	6,124	851,615	76,351	24,682	—	151,676	(1,046,781)	1,189,420	1,033,965
Property and equipment, net	79,794	2,093	886,858	102,908	255,643	5,613	314,377	—	1,647,286	1,286,716
Other assets	452,401	11,614	105,787	11,775	35,719	5,186	20,820	(426,407)	216,895	236,444
Total assets	$ 2,271,875	31,770	2,492,452	297,227	508,408	47,094	706,032	(1,998,857)	4,356,001	3,216,491
Liabilities and Net Assets										
Current liabilities:										
Lines of credit	$ —	—	—	—	—	—	—	—	—	10,000
Current installments of long-term debt	—	—	6,207	5,429	5,192	—	4,336	—	21,164	18,187
Current portion of capital lease obligations	—	—	2,337	272	159	—	352	—	3,120	2,405
Accounts payable	56,999	279	66,949	11,532	14,348	3,494	24,592	(9,822)	168,371	106,515
Other current liabilities	53,912	6,628	258,266	62,677	83,409	24,056	104,474	(693)	592,729	238,066
Total current liabilities	110,911	6,907	333,759	79,910	103,108	27,550	133,754	(10,515)	785,384	375,173
Professional and general liabilities, excluding current portion	30,449	—	18,789	4,297	7,318	236	26,700	(28,966)	58,823	28,553
Long-term debt, excluding current installments	—	—	536,962	112,286	221,170	—	42,268	—	912,686	732,394
Capital lease obligations, excluding current portion	—	—	9,979	—	410	—	175	—	10,564	12,323
Accrued pension cost	27	5,452	427,309	91,512	117,689	—	76,121	—	718,110	552,203
Other long-term liabilities	1,661,410	—	240	263	97	—	29,197	(1,561,935)	129,272	64,575
Total liabilities	1,802,797	12,359	1,327,038	288,268	449,792	27,786	308,215	(1,601,416)	2,614,839	1,765,221
Net assets:										
Without donor restrictions	469,055	8,667	1,125,200	8,682	41,205	19,308	378,979	(397,437)	1,653,659	1,336,051
With donor restrictions	23	10,744	17,035	277	10,670	—	17,753	(4)	56,498	76,935
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.	469,078	19,411	1,142,235	8,959	51,875	19,308	396,732	(397,441)	1,710,157	1,412,986
Noncontrolling interests	—	—	23,179	—	6,741	—	1,085	—	31,005	38,284
Total net assets	469,078	19,411	1,165,414	8,959	58,616	19,308	397,817	(397,441)	1,741,162	1,451,270
Total liabilities and net assets	$ 2,271,875	31,770	2,492,452	297,227	508,408	47,094	706,032	(1,998,857)	4,356,001	3,216,491

See accompanying independent auditors' report.

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

Consolidating Schedule – Statement of Operations Information

Year ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

(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 Hospital Inc. and subsidiaries	Eliminations	Total 2020	Total 2019
Changes in net assets without donor restrictions:										
Operating revenues:										
Net patient service revenue	$ 24,841	—	1,393,969	294,022	428,347	69,990	529,044	—	2,740,213	2,141,683
Other revenue	346,851	21,458	112,065	12,488	17,894	1,527	31,322	(304,344)	239,261	127,974
Equity in income from equity investees, net	(31,060)	—	10,507	851	4,157	—	168	31,741	16,364	18,354
Total operating revenues	340,632	21,458	1,516,541	307,361	450,398	71,517	560,534	(272,603)	2,995,838	2,288,011
Net assets released from restrictions used for operations:										
Satisfaction of program restrictions	92	1,144	9,438	260	387	—	—	—	11,321	8,316
Expiration of time restrictions	—	—	220	—	—	—	—	—	220	207
Total net assets released from restrictions used for operations	92	1,144	9,658	260	387	—	—	—	11,541	8,523
Total operating revenues and other support	340,724	22,602	1,526,199	307,621	450,785	71,517	560,534	(272,603)	3,007,379	2,296,534
Operating expenses:										
Salaries and wages	99,830	12,463	523,221	113,057	150,219	26,127	219,966	—	1,144,883	850,660
Employee benefits	26,876	3,332	107,303	23,083	33,455	5,579	40,883	—	240,511	177,401
Total salaries, wages, and employee benefits	126,706	15,795	630,524	136,140	183,674	31,706	260,849	—	1,385,394	1,028,061
Physician fees	513	—	72,985	4,332	15,667	6,926	50,734	(12)	151,145	90,859
Professional services	4,470	146	10,954	10,121	338	147	—	—	26,176	35,695
Other services	132,456	4,072	333,080	70,967	83,142	17,640	75,193	(232,375)	484,175	351,549
Leases, insurance, and utilities	26,226	1,968	35,728	9,077	17,424	6,919	17,872	(12,035)	103,179	76,992
Supplies	86,434	655	291,737	55,738	100,610	5,115	124,021	(59,921)	604,389	441,916
Depreciation and amortization	45,732	501	59,125	11,696	15,504	412	20,055	—	153,025	122,655
Interest	894	5	21,767	4,927	8,703	4	1,727	(483)	37,544	28,918
Other	604	—	1,587	(36)	1,591	1	—	—	3,747	12,881
Total operating expenses	424,035	23,142	1,457,487	302,962	426,653	68,870	550,451	(304,826)	2,948,774	2,189,526
Operating income before impairment	(83,311)	(540)	68,712	4,659	24,132	2,647	10,083	32,223	58,605	107,008
Impairment	—	—	(14,473)	—	—	—	—	—	(14,473)	(11,560)
Operating income	(83,311)	(540)	54,239	4,659	24,132	2,647	10,083	32,223	44,132	95,448

(Continued)

Schedule 2

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

Consolidating Schedule – Statement of Operations Information

Year ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

(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 Hospital Inc. and subsidiaries	Eliminations	Total 2020	Total 2019
Nonoperating gains:										
Investment return	$ 4,822	149	7,760	589	740	138	3,771	(483)	17,486	30,899
Inherent contribution	353,239	—	—	—	—	—	—	—	353,239	—
Other loss	—	—	(328)	—	—	—	—	—	(328)	—
Change in fair value of interest rate swap agreements	(853)	—	—	—	—	—	—	—	(853)	(788)
Total nonoperating gains, net	357,208	149	7,432	589	740	138	3,771	(483)	369,544	30,111
Revenues, gains, and other support in excess of expenses and losses before noncontrolling interest	273,897	(391)	61,671	5,248	24,872	2,785	13,854	31,740	413,676	125,559
Noncontrolling interests	—	—	5,724	—	(1,089)	—	(130)	—	4,505	(4,335)
Revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc.	273,897	(391)	67,395	5,248	23,783	2,785	13,724	31,740	418,181	121,224
Pension-related changes other than the service cost component	—	—	(48,053)	(12,136)	(18,012)	—	(47,407)	—	(125,608)	(102,103)
Released from restrictions for capital	—	—	38,846	—	—	—	93	—	38,939	—
Capital transfers	49,615	—	(27,046)	—	(35,841)	(632)	—	—	(13,904)	—
Other	—	(302)	302	(4,379)	3,441	(1)	413,825	(412,886)	—	269
Increase in net assets without donor restrictions	$ 323,512	(693)	31,444	(11,267)	(26,629)	2,152	380,235	(381,146)	317,608	19,390

See accompanying independent auditors' report.

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

Consolidating Schedule – Statement of Changes in Net Assets Information

Year ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

(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 Hospital Inc. and subsidiaries	Eliminations	Total 2020	Total 2019
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, Inc.	$ 273,897	(391)	67,395	5,248	23,783	2,785	13,724	31,740	418,181	121,224
Pension-related changes other than the service cost component	—	—	(48,053)	(12,136)	(18,012)	—	(47,407)	—	(125,608)	(102,103)
Released from restrictions for capital	—	—	38,846	—	—	—	93	—	38,939	—
Other	—	—	—	—	—	—	—	—	—	269
Capital transfers	49,615	(302)	(26,744)	(4,379)	(32,400)	(633)	413,825	(412,886)	(13,904)	—
Increase (decrease) in net assets without donor restrictions	323,512	(693)	31,444	(11,267)	(26,629)	2,152	380,235	(381,146)	317,608	19,390
Changes in net assets with donor restrictions:										
Contributions	(43)	995	7,039	353	3,793	(8)	1,592	51	13,772	13,235
Income from long-term investments, net	—	—	110	—	—	—	—	—	110	1,197
Acquired net assets	16,161	—	—	—	—	—	16,161	(16,161)	16,161	—
Net assets released from restrictions	(92)	(1,144)	(48,505)	(352)	(387)	—	—	—	(50,480)	(8,523)
(Decrease) Increase in net assets with donor restrictions	16,026	(149)	(41,356)	1	3,406	(8)	17,753	(16,110)	(20,437)	5,909
Changes in noncontrolling interest:										
Revenues, gains, and other support in excess of expenses and losses	—	—	(5,723)	—	1,089	—	129	—	(4,505)	4,335
Distributions	—	—	(2,501)	—	(1,230)	—	—	—	(3,731)	(6,116)
Acquired controlling interest	—	—	—	—	—	—	—	—	—	5,322
Acquired non-controlling interest	—	—	—	—	—	—	1,048	—	1,048	—
Other	—	—	(1)	93	1,165	—	(1,348)	—	(91)	(914)
(Decrease) increase in noncontrolling interest	—	—	(8,225)	93	1,024	—	(171)	—	(7,279)	2,627
Increase in net assets	339,538	(842)	(18,137)	(11,173)	(22,199)	2,144	397,817	(397,256)	289,892	27,926
Net assets, beginning of year	129,540	20,253	1,183,551	20,132	80,815	17,164	—	(185)	1,451,270	1,423,344
Net assets, end of year	$ 469,078	19,411	1,165,414	8,959	58,616	19,308	397,817	(397,441)	1,741,162	1,451,270

See accompanying independent auditors' report.

Schedule 4

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

Supplementary Schedule of Financial Responsibility Data

As of and for the year ended June 30, 2020

(In thousands)

Primary reserve ratio:			
Expendable net assets:			
Consolidating Schedule – Balance Sheet Information – Schedule 1	Net assets without donor restrictions	$	8,667
Consolidating Schedule – Balance Sheet Information – Schedule 1	Net assets with donor restrictions		10,744
Notes to consolidated financial statements - Note (25) – Financial Responsibility Standards – prepaid expenses and other current assets	Unsecured related party payable		(629)
Consolidating Schedule – Balance Sheet Information – Schedule 1	Property and equipment, net		2,093
Notes to consolidated financial statements – Note (25) – Financial Responsibility Standards – other current liabilities	Post-employment and pension liabilities		121
Consolidating Schedule – Balance Sheet Information – Schedule 1 – accrued pension cost	Post-employment and pension liabilities		5,452
Consolidating Schedule – Balance Sheet Information – Note (25) – Financial Responsibility Standards – Net assets with donor restrictions	Net assets with donor restrictions: restricted in perpetuity		5,651
Total expenses and losses:			
Consolidating Schedule – Statement of Operations Information – Schedule 2	Total expenses and losses without donor restrictions		23,444
Equity ratio:			
Modified net assets:			
Consolidating Schedule – Balance Sheet Information – Schedule 1	Net assets without donor restrictions	$	8,667
Consolidating Schedule – Balance Sheet Information – Schedule 1	Net assets with donor restrictions		10,744
Notes to consolidated financial statements – Note (25) – Financial Responsibility Standards prepaid expenses and other current assets	Unsecured related party payable		(629)
Modified assets:			
Consolidating Schedule – Balance Sheet Information – Schedule 1	Total assets		31,770
Notes to consolidated financial statements – Note (25) – Financial Responsibility Standards prepaid expenses and other current assets	Unsecured related party payable		(629)
Net income ratio:			
Change in net assets without donor restrictions:			
Consolidating Schedule – Statement of Operations Information – Schedule 2	Change in net assets without donor restrictions	$	(693)
Total revenue without donor restrictions and gains without donor restrictions:			
Consolidating Schedule – Statement of Operations Information – Schedule 2	Total operating revenues and other support		22,602
Consolidating Schedule – Statement of Operations Information – Schedule 2	Investment return		149

See accompanying independent auditors' report.