Consolidated Financial Statements and Supplementary Information

CHRISTUS Health
Fiscal Years Ended June 30, 2021 and 2020
With Reports of Independent Auditors

Ernst & Young LLP

CHRISTUS Health

Consolidated Financial Statements
and Supplementary Information

Fiscal Years Ended June 30, 2021 and 2020

Contents

Building a better working world

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Report of Independent Auditors

The Board of Directors
CHRISTUS Health

We have audited the accompanying consolidated financial statements of CHRISTUS Health, which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity 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 financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of CHRISTUS Health as of June 30, 2021 and 2020, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

October 26, 2021

CHRISTUS Health

Consolidated Balance Sheets

	June 30 2021	June 30 2020
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,317,597**	$ 1,271,062
Short-term investments and equity in managed funds	**1,195,143**	882,313
Assets whose use is limited or restricted, required for current liabilities	**39,082**	52,685
Patient accounts receivable	**593,390**	500,091
Notes and other receivables	**232,838**	220,554
Inventories	**133,692**	126,453
Other current assets	**120,709**	122,150
Total current assets	**3,632,451**	3,175,308
Assets whose use is limited or restricted, less current portion	**781,469**	783,062
Property and equipment, net of accumulated depreciation	**2,866,892**	2,806,200
Other assets:		
Investments in unconsolidated organizations	**269,573**	238,682
Goodwill and intangible assets, net	**161,839**	163,816
Finance lease right-of-use assets	**65,947**	74,411
Operating lease right-of-use assets	**201,915**	222,509
Beneficial interest in supporting organizations	**130,488**	94,858
Other assets, including notes receivable from related party	**247,566**	216,731
Total other assets	**1,077,328**	1,011,007
Total assets	**$ 8,358,140**	$ 7,775,577

CHRISTUS Health

Consolidated Balance Sheets (continued)

	June 30 2021	June 30 2020
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 688,184**	$ 631,815
Accrued employee compensation and benefits	**332,379**	270,907
Deferred revenue	**483,904**	762,136
Current portion of long-term debt	**36,789**	49,559
Current portion of finance lease liabilities	**10,625**	7,179
Current portion of operating lease liabilities	**49,091**	48,849
Long-term obligations subject to remarketing agreements	**63,805**	38,305
Total current liabilities	**1,664,777**	1,808,750
Long-term debt, less current portion	**1,483,512**	1,488,906
Accrued pension benefits	**47,939**	182,290
Derivative financial instruments	**144,087**	187,339
Long-term finance lease liabilities	**88,591**	109,957
Long-term operating lease liabilities	**178,741**	190,654
Other long-term obligations – including self-funded liabilities, less current portion	**435,821**	216,517
Total liabilities	**4,043,468**	4,184,413
Net assets:		
Net assets without donor restrictions:		
Attributable to CHRISTUS Health	**3,649,957**	3,019,768
Attributable to noncontrolling interest	**432,762**	366,027
Total net assets without donor restriction	**4,082,719**	3,385,795
Net assets with donor restrictions	**231,953**	205,369
Total net assets	**4,314,672**	3,591,164
Total liabilities and net assets	**$ 8,358,140**	$ 7,775,577

See accompanying notes.

CHRISTUS Health

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended June 30	
	2021	**2020**
	(In Thousands)	
Revenues:		
Net patient service revenue	**$ 5,786,436**	$ 5,072,538
Premium revenue	**321,108**	300,207
Other revenue, including provider relief funds *(Note 5)*	**564,334**	355,599
Total revenues	**6,671,878**	5,728,344
Expenses:		
Employee compensation and benefits	**2,940,586**	2,597,911
Services and other	**1,919,892**	1,742,965
Supplies	**1,144,327**	953,555
Depreciation and amortization, including impairment	**288,808**	245,173
Interest	**57,861**	59,579
Total expenses	**6,351,474**	5,599,183
Operating income	**320,404**	129,161
Nonoperating investment gain (loss), net	**222,625**	(14,888)
Other nonoperating gains, net	**18,725**	14,425
Revenues in excess of expenses	**561,754**	128,698
Less revenues in excess of expenses attributable to noncontrolling interests	**82,403**	36,055
Revenues in excess of expenses attributable to CHRISTUS Health	**479,351**	92,643

CHRISTUS Health

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

	Year Ended June 30	
	2021	**2020**
	(In Thousands)	
Net assets without donor restrictions:		
Revenues in excess of expenses attributable to CHRISTUS Health	**$ 479,351**	$ 92,643
Unrealized gain on investments	**21,134**	219
Change in pension liabilities	**95,314**	(54,717)
Cumulative adjustment related to ASC 842 implementation	**–**	7,129
Net assets released from restrictions for capital and other	**34,390**	(32,598)
Changes attributable to CHRISTUS Health	**630,189**	12,676
Revenues in excess of expenses attributable to noncontrolling interests	**82,403**	36,055
Distributions	**(9,490)**	(8,040)
Net assets acquired from acquisition and sale of noncontrolling interests, net	**(9,610)**	2,642
Other activities	**3,432**	2,566
Changes attributable to noncontrolling interests	**66,735**	33,223
Net assets with donor restrictions:		
Net change in beneficial interests in supporting organizations	**35,630**	(11,080)
Contributions	**11,494**	19,151
Unrealized gain on investments	**4,856**	197
Net assets released from restrictions and other	**(25,396)**	(9,265)
Changes in net assets with donor restrictions	**26,584**	(997)
Change in net assets	**723,508**	44,902
Net assets – beginning of fiscal year	**3,591,164**	3,546,262
Net assets – end of fiscal year	**$ 4,314,672**	$ 3,591,164

See accompanying notes.

CHRISTUS Health

Consolidated Statements of Cash Flows

	Year Ended June 30 2021	2020
	(In Thousands)	
Operating activities		
Change in net assets	**$ 723,508**	$ 44,902
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in beneficial interests	**(35,630)**	(18,402)
Change in pension liabilities recognized in net assets	**(95,314)**	54,717
Contributions of net assets with donor restrictions	**(11,494)**	(19,151)
Distributions to, acquisitions, and sale of noncontrolling interest, net	**19,100**	5,858
Distributions from investments in unconsolidated organizations	**19,914**	10,938
Equity in earnings of unconsolidated organizations	**(27,147)**	(4,171)
Unrealized investment gain	**(227,304)**	(13,005)
Depreciation and amortization	**261,349**	245,173
Amortization of premiums, discounts, and deferred financing costs	**(2,411)**	1,015
Goodwill impairment charge	**27,459**	–
Change in derivative fair value	**(43,252)**	60,567
Gain on disposal of property and equipment	**582**	(2,314)
Foreign currency translation adjustment	**(26,007)**	30,013
Changes in operating assets and liabilities, net of acquisitions:		
(Increase) decrease in net patient accounts receivable	**(86,181)**	34,099
Increase in investments and assets whose use is limited or restricted	**(41,961)**	(172,570)
Increase in notes and other receivables	**(12,484)**	(11,654)
Increase in other current assets and inventories	**(3,458)**	(31,300)
Increase in accounts payable, accrued expenses, and accrued employee compensation and benefits	**116,724**	45,566
(Decrease) increase in deferred revenue	**(125,885)**	730,895
Increase in other long-term liabilities	**27,672**	8,183
Net cash provided by operating activities	**457,780**	999,359
Investing activities		
Purchases of property and equipment	**(280,666)**	(452,510)
Proceeds from sale or disposal of property and equipment	**1,161**	2,739
Purchases of or contributions to investments in unconsolidated organizations	**(23,658)**	(10,777)
(Increase) decrease in other-than-trading investments and assets limited as to use	**(25,342)**	49,085
(Increase) decrease in other assets	**(33,480)**	48,706
Acquisitions of healthcare entities, net of cash acquired	**(18,128)**	(33,349)
Net cash used in investing activities	**(380,113)**	(396,106)

CHRISTUS Health

Consolidated Statements of Cash Flows (continued)

	Year Ended June 30	
	2021	**2020**
	(In Thousands)	
Financing activities		
Contributions of net assets with donor restrictions	**$ 11,494**	$ 19,151
Purchases and sales of noncontrolling interests, net	**(31,409)**	2,182
Proceeds from issuance of new debt	**100,000**	92,129
Payments on long-term debt, including deposits into escrow for defeasance	**(90,269)**	(47,011)
Payments on financing leases	**(8,431)**	(6,349)
Distributions to noncontrolling interest holders	**(9,490)**	(8,040)
Net cash (used in) provided by financing activities	**(28,105)**	52,062
Net increase in cash, cash equivalents, and restricted cash	**49,562**	655,315
Cash, cash equivalents, and restricted cash – beginning of fiscal year	**1,446,300**	790,985
Cash, cash equivalents, and restricted cash – end of fiscal year	**$ 1,495,862**	$ 1,446,300
Reconciliation of cash, cash equivalents, and restricted cash		
Cash and cash equivalents at beginning of fiscal year	**$ 1,271,062**	$ 578,621
Restricted cash included in assets whose use is limited or restricted at beginning of fiscal year	**175,238**	212,364
Cash, cash equivalents, and restricted cash at beginning of fiscal year	**$ 1,446,300**	$ 790,985
Cash and cash equivalents at end of fiscal year	**$ 1,317,597**	$ 1,271,062
Restricted cash included in assets whose use is limited or restricted at end of fiscal year	**178,265**	175,238
Cash, cash equivalents, and restricted cash at end of fiscal year	**$ 1,495,862**	$ 1,446,300
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (net of amount capitalized)	**$ 58,087**	$ 55,737

See accompanying notes.

1. Mission, Vision, and Organization of CHRISTUS Health

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

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

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

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

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

1. Mission, Vision, and Organization of CHRISTUS Health (continued)

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

2. Community Health

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

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

Programs and Services for the Poor and Underserved

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

Charity Care – In accordance with the Catholic Health Association (CHA) guidelines, charity care represents the unpaid costs of free or discounted health services provided to persons who cannot afford to pay and who meet the organization's criteria for financial assistance. Traditional charity care is defined by the state of Texas as the unreimbursed costs of providing, funding, or otherwise financially supporting the healthcare services provided to a person with income at or below 200% of the federal poverty level. Charity care services provided to these patients are not reported as revenue in the consolidated statements of operations and changes in net assets, as there is no expectation of payment. The amount of traditional charity care provided, determined on the basis of cost, estimated using the applicable cost to charge ratios of the hospital participants was $309,385,000 and $276,137,000 for the fiscal years ended June 30, 2021 and 2020, respectively.

2. Community Health (continued)

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

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

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

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

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

3. Summary of Significant Accounting Policies

Basis of Consolidation

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

3. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with United States generally accepted accounting principles (U.S. GAAP) requires management of the System to make assumptions, estimates, and judgments that affect the amounts of assets, liabilities, revenues, and expenses reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any at the date of the consolidated financial statements. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ materially from these estimates.

Cash Equivalents and Investments

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

The System's investment portfolio is classified as trading, with unrealized gains and losses included in revenues in excess of expenses and cash flows included in operating activities. Certain investments held by the System's foundations are classified as other than trading, with unrealized gains and losses included in changes in net assets and cash flows included in investing activities. Investments in equity securities and funds with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments also include equity investments in managed funds structured as limited liability corporations or partnerships. Equity investments in managed funds are accounted for under the fair value method if held within the System's foundations or captive insurer, or under the equity method of accounting if held by another System entity. Investment income or loss (including equity investment earnings (losses) on equity investments in managed funds; realized and unrealized gains and losses, computed on the average-cost basis of the security at the time of sale; and interest and dividends) is included in revenues in excess of expenses, unless the income or loss is restricted by donor or law.

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

3. Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments

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

Inventories

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

Property and Equipment

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

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

Internal-Use Software

Costs to develop internal-use software and internal-use software obtained through a hosting arrangement are capitalized during the application development phase in accordance with Accounting Standards Codification (ASC) 350, *Intangibles – Goodwill and Other*. At June 30, 2021 and 2020, the System had capitalized costs related to internal-use software obtained through a hosting arrangement, net of amortization, of $31,494,000 and $33,019,000, respectively, included in other assets in the consolidated balance sheets. The capitalized costs are amortized

3. Summary of Significant Accounting Policies (continued)

over a 10-year life. During the fiscal years ended June 30, 2021 and 2020, the System recognized amortization expense of $2,976,000 and $1,500,000, respectively, included in depreciation and amortization expense on the consolidated statements of operations and changes in net assets.

Asset Impairment

The System periodically evaluates the carrying value of its operating long-lived assets for impairment when indicators of impairment are identified. These evaluations are primarily based on the estimated recoverability of the assets' carrying value. Impairment write-downs are recognized as a reduction in operating income for the operating long-lived assets and as a reduction in nonoperating gain for the assets held for sale at the time the impairment is identified. There were no material impairments of operating long-lived assets recognized in fiscal years 2021 or 2020.

Investments in Unconsolidated Organizations

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

The System has investments in unconsolidated organizations of $269,573,000 and $238,682,000 at June 30, 2021 and 2020, respectively. Differences between the carrying amounts of the System's investments and the underlying equity in the net assets of the investees total $80,845,000 and $71,206,000 at June 30, 2021 and 2020, respectively. These differences are attributed to the excess fair value over book value of intangible assets at the investee level, and are being reduced as an adjustment to equity earnings over the life of the related contracts. The intangible is reviewed for impairment on an annual basis.

Equity income of $27,147,000 and $3,701,000 for the fiscal years ended June 30, 2021 and 2020, respectively, are reflected in other revenue in the consolidated statements of operations.

3. Summary of Significant Accounting Policies (continued)

Noncontrolling Interests in Consolidated Subsidiaries

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

Goodwill and Intangible Assets

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

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

	Goodwill	Indefinite-Lived Asset	Finite-Lived Assets
Balance at July 1, 2019	$ 108,411	$ 46,000	$ 8,822
Assets acquired	–	–	7,327
Amortization	–	–	(5,316)
Currency translation and other adjustments	(747)	–	(681)
Balance at June 30, 2020	107,664	46,000	10,152
Assets acquired	**24,372**	**–**	**5,962**
Impairment charges	**(27,549)**	**–**	**–**
Amortization	**–**	**–**	**(4,254)**
Currency translation and other adjustments	**468**	**–**	**(976)**
Balance at June 30, 2021	**$ 104,955**	**$ 46,000**	**$ 10,884**

3. Summary of Significant Accounting Policies (continued)

Goodwill is tested at least annually for impairment at the reporting unit level on April 1 of each year. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Additional impairment assessments may be performed on an interim basis if the System encounters events or changes in circumstances that would indicate that it is more likely than not that the carrying value has been impaired. The System has determined that its reporting units are the various geographically located affiliates.

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

If a quantitative assessment is required, the System follows a two-step, fair-value-based process using a discounted cash flow income method, a guideline public company method, and a mergers and acquisitions method to determine whether an impairment of goodwill exists. This analysis requires judgments and estimates about the weighted average cost of capital, risk factors, and forecasted operating margins. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities of the reporting unit to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and a charge to impairment expense. Judgments and assumptions are inherent in the System's estimates used to determine the fair value of its reporting units and are consistent with what the System believes would be utilized by a primary market participant. The use of alternative judgments and assumptions could result in the recognition of different impairment charges in the System's consolidated financial statements.

During fiscal year 2021, an impairment loss of $27,459,000 was recognized related to goodwill in the Southwest Louisiana reporting unit. The fair value of the reporting unit was estimated using a combination of a discounted cash flow income method and a market approach considering prices of comparable business and recent transactions. No impairment loss was recognized in fiscal year 2020.

Indefinite-lived intangible assets are also tested annually for impairment on April 1 of each year, by comparing the fair value of the asset with its carrying amount. The System also considers facts and circumstances surrounding the asset on an annual basis to determine whether an indefinite life

3. Summary of Significant Accounting Policies (continued)

continues to be appropriate. For indefinite-lived intangible asset impairment tests, the System also may elect to perform a qualitative assessment to determine whether facts and circumstances support a conclusion that it is more likely than not that the asset is not impaired. If the qualitative analysis is not conclusive, or if the System elects to proceed directly with quantitative testing, the fair values of the intangible assets are determined and compared with their carrying amounts. As a result of the qualitative assessments for both fiscal years ended June 30, 2021 and 2020, no impairment losses on indefinite-lived intangible assets were recorded.

Finite-lived intangible assets are tested for impairment whenever indicators of impairment are identified. An impairment loss is recognized if the intangible asset is not recoverable and its carrying amount exceeds its fair value. No impairment losses on finite-lived intangible assets were recognized in fiscal years 2021 or 2020.

Leases

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

Deferred Financing Costs

Deferred financing costs, net of accumulated amortization, included as a reduction of long-term debt at June 30, 2021 and 2020, are \$8,326,000 and \$9,194,000, respectively, which are being amortized using the effective interest method over the terms of the indebtedness to which they relate. Amortization expense recognized for fiscal years 2021 and 2020 was \$867,000 and \$1,015,000, respectively.

3. Summary of Significant Accounting Policies (continued)

Net Assets With Donor Restrictions

Net assets with donor restrictions reflect the portion of the System's net assets whose use is subject to donor imposed restrictions. Donor imposed restrictions may be temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. These include the System's beneficial interest in the net assets of affiliated and financially interrelated organizations, whose use has been limited by grant agreements and donors to a specific time period or purpose. Other donor imposed restrictions are perpetual in nature, where the assets have been restricted by donors to be maintained by the System in perpetuity. Net assets with donor restrictions are primarily restricted for healthcare services, capital projects, community outreach and other.

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

Net Patient Service Revenue and Patient Accounts Receivable

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

3. Summary of Significant Accounting Policies (continued)

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

	2021	**2020**
Medicare	**34%**	32%
Medicaid	**10**	10
Managed care organizations	**37**	35
Self-pay	**4**	5
Others	**15**	18
	100%	100%

Charity Care

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

Premium Revenue and Associated Costs

Premium revenue largely represents revenues derived under capitated arrangements with third parties. In return for these premiums, CHRISTUS is responsible for providing essentially all healthcare services to enrolled participants. The System contracts with the Department of Defense (DOD) to treat TRICARE patients through a US Family Health Plan, whereby CHRISTUS earns a negotiated fee per member per month. In return for these premiums, CHRISTUS is responsible for administering covered benefits. Premium revenue recognized under the contract with the DOD was 39.8% and 42.3% of total premium revenue during the years ended June 30, 2021 and 2020, respectively. Revenue under this contract is recognized on a monthly basis, subject to provisions for retrospective adjustments based primarily on the results of membership audits.

Premium revenues are also generated by the System's health maintenance organization, CHIP and STAR programs, Medicare Advantage plans, and for individual coverage on federal and state-based health exchanges. Premium revenue for individual coverage on the federal and state-based

3. Summary of Significant Accounting Policies (continued)

exchanges, Medicare Advantage, and the CHIP and STAR programs was 60.2% and 57.7% of total premium revenue for the fiscal years ended June 30, 2021 and 2020, respectively. A significant portion of these premiums is subsidized through the federal government's advance premium tax credit provisions. Revenues from the exchanges are also subject to risk-sharing provisions as outlined in federal regulations. The purpose of the risk-sharing provisions is to transfer funds from health plans with lower risk to health plans with higher risk within the same state. Risk adjustment assessments and distributions are computed based on a health plan's risk score vs. the overall market risk score. Included in net premium revenues for individual coverage on federal and state-based health exchanges are adjustments, decreasing the System's premium revenues for estimated risk-sharing assessments of $19,686,000 and $16,593,000 as of June 30, 2021 and 2020, respectively. Ultimate settlement could differ significantly from these estimates.

Costs for providing services through these contracts were $268,171,000 and $224,058,000 for the fiscal years ended June 30, 2021 and 2020, respectively, and are included as operating expenses in the accompanying consolidated financial statements. At June 30, 2021 and 2020, the System has accrued expenses for incurred but not reported claims based upon actuarial evaluations of claims experience. These estimates are continually reviewed and adjusted as necessary as experience develops or as new information becomes known; such adjustments are included in current operations. The System maintains stop-loss insurance coverage to limit exposure for certain catastrophic claims.

Other Revenue

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

Management and license fee contracts include variable consideration, as the fees are not fixed but are based on a percentage of revenue. CHRISTUS recognizes revenue when the uncertainty is resolved, which is generally on a monthly basis as actual revenues are known or can be reasonably

3. Summary of Significant Accounting Policies (continued)

estimated. CHRISTUS also evaluates the collectability of each of its management and license fee contracts and applies a constraint, if necessary, to avoid future reversals of revenue. Membership revenues relate primarily to fitness centers operated by various hospitals throughout the System, and are recognized ratably over the membership period. Revenues from point of sale transactions are recognized as incurred.

For the years ended June 30, 2021 and 2020, other revenue included amounts received under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The System recognizes grant payments under the CARES Act as revenues when there is reasonable assurance that the grant conditions are met. These estimates could change materially based on evolving grant compliance provisions and guidance provided by the U.S. Department of the Treasury. The System will continue to monitor the evolving guidelines and may record adjustments as additional information is released (see Note 5).

Income Taxes

The authoritative guidance in ASC 740, *Income Taxes*, creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under the requirements of this guidance, tax-exempt organizations could be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. CHRISTUS has interests in various taxable entities, including investments in Mexico, Chile and Colombia. These interests may give rise to U.S. and international tax exposures. CHRISTUS intends to utilize foreign earnings in foreign operations for an indefinite period of time in order to continue investing all earnings into the continued maintenance and expansion of these operations abroad as part of the System's mission. If these amounts were distributed to the United States, in the form of dividends or otherwise, the System could be subject to additional U.S. income taxes. Determination of the amount of unrecognized deferred income tax liabilities on these earnings is not practicable because such liability, if any, depends on circumstances existing if and when remittance occurs. There are no material unrecorded tax liabilities as of June 30, 2021 or 2020.

At June 30, 2021 and 2020, CHRISTUS has operating loss carryforwards in its domestic operations of $253,726,000 and $342,806,000, which result in deferred tax assets of $53,282,000 and $71,989,000, respectively. CHRISTUS has provided a valuation allowance of the same

3. Summary of Significant Accounting Policies (continued)

amount, as it is more likely than not that the deferred tax assets will not be realized. CHRISTUS also has net deferred tax assets of approximately $22,087,000 and $15,037,000 as of June 30, 2021 and 2020, respectively, in its international operations, which relate primarily to certain pension liabilities and other provisions, and which is recorded in other assets on the consolidated balance sheets. CHRISTUS has not provided a valuation allowance for this amount, as it is believed the amount will be fully realized.

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

Business Combinations

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

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

Performance Indicator

The performance indicator is revenues in excess of expenses, which includes all changes in net assets without donor restrictions other than changes in the pension liability funded status, changes in noncontrolling interests, net assets released from restrictions for property acquisitions,

3. Summary of Significant Accounting Policies (continued)

unrealized gains and losses on certain investments held by the System's foundations and insurance captive, cumulative effect of changes in accounting principles, discontinued operations, contributions of property and equipment, and other changes not required to be included within the performance indicator under U.S. GAAP.

Operating and Nonoperating Activities

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. In the current year, the System has presented additional detail of changes in net assets without donor restrictions attributable to noncontrolling interests on the consolidated statements of operations and changes in net assets. The System reclassified changes in net assets without donor restrictions attributable to noncontrolling interests for the year ended June 30, 2020 to conform to the current year presentation. There was no change to total net assets without donor restrictions. Additionally, the System reclassified $30,787,000 from beneficial interest in supporting organizations to other assets, including notes receivable from related party on the June 30, 2020 consolidated balance sheet to conform to the current year presentation.

Pending Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-04, *Simplifying the Test for Goodwill Impairment*, as an update to ASC 350. This update eliminates step 2 of the goodwill impairment test, which required an entity to determine the fair value of individual assets and liabilities of the reporting unit. Under this updated

3. Summary of Significant Accounting Policies (continued)

guidance, the impairment amount will be determined using the step 1 comparison of fair value with carrying value. The updated guidance will be effective for the annual and any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. CHRISTUS is currently evaluating the impact of this pronouncement on its consolidated financial statements.

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

4. Revenue Recognition

Patient Service Revenue

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

Patient service revenue is reported at amounts that reflect the consideration to which CHRISTUS expects to be entitled for providing patient care. The System's patients include those covered under Medicare, Medicaid, managed care health plans, and commercial insurance companies, as well as

4. Revenue Recognition (continued)

uninsured patients. The System has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and negotiated daily rates. Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient diagnosis-related group classification system that is based on clinical, diagnostic, and other factors. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid under cost reimbursement methodologies, prospectively determined rates per discharge, and prospectively determined or negotiated rates.

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

Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated and recorded in the period the related services are rendered and adjusted in future periods as final settlements are determined. At June 30, 2021 and 2020, the System has estimated third-party settlements, net, of $22,974,000 and $32,195,000, respectively, recorded in accounts payable and accrued expenses in the consolidated financial statements. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Patient service revenue includes variable consideration for these retroactive revenue adjustments resulting from the settlement of audits, reviews, and investigations using the most likely outcome method. For fiscal years 2021 and 2020, revenue increased $10,064,000 and $14,824,000, respectively, related to changes in estimates for cost report reopenings, appeals, and tentative and final cost report settlements on filed cost reports, of which some are still subject to audit, additional reopening, and/or appeal.

The transaction price for patient services provided depends greatly upon the System’s payor mix, as collections on gross charges can vary significantly, depending on a patient’s insurance coverage, or lack thereof, and the extent of amounts due from patients for co-pays, coinsurance, and deductibles. Various factors affect collection trends within each major class of payors. These

4. Revenue Recognition (continued)

include general economic conditions, including unemployment rates, which may influence the number of uninsured and underinsured patients; regulatory changes that affect reimbursement rates from governmental programs such as Medicare and Medicaid; and ongoing contract negotiations with managed care health plans and commercial insurance providers. In addition, estimates of implicit price concessions offered to uninsured patients or related to co-pays, coinsurance, and deductibles of patients with insurance are subject to change as historical collection and write-off experience is analyzed on a monthly basis. These changes are recorded as adjustments to the transaction price in the period in which the estimates are revised. Subsequent adjustments that are determined to be the result of an adverse change in the patient's or the payor's ability to pay are recognized as bad debt expense, which is recorded as a component of other operating expenses in the accompanying consolidated statements of operations and changes in net assets.

The following table summarizes the amount of net patient service revenue recognized by payor during the years ended June 30 (in thousands):

	2021	Percentage of Total	2020	Percentage of Total
Domestic operations:				
Medicare	**$ 2,040,599**	**35%**	$ 1,749,199	34%
Medicaid	**786,783**	**14**	708,504	14
Managed care	**1,989,184**	**34**	1,775,063	35
Self-pay	**356,480**	**6**	337,316	7
Other	**236,570**	**4**	238,191	5
Subtotal domestic operations	**5,409,616**	**93**	4,808,273	95
International operations:				
Mexico payors (private insurance and government payors)	**376,820**	**7**	264,265	5
Net patient service revenue	**$ 5,786,436**	**100%**	$ 5,072,538	100%

The System also receives payments through state supplemental payment programs, which includes Disproportional Share (DSH) payments in multiple states, and 1115 (b) Waiver Program Payments (Waiver Program) payments in the state of Texas.

4. Revenue Recognition (continued)

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

The System recorded $144,755,000 and $149,482,000 in net patient service revenue during fiscal years 2021 and 2020, respectively, related to the DSH program.

In December 2011, the Centers for Medicare & Medicaid Services (CMS) approved the Waiver Program submitted by the Texas Health and Human Services Commission (HHSC). The Waiver Program provides supplemental payments to hospitals through two pools: Uncompensated Care (UC) and Delivery System Reform Incentive Payments (DSRIP). Both pools replace the former Upper Payment Limit program in Texas. Payments under the Waiver Program are determined in each demonstration year, which aligns with the federal fiscal year. On December 21, 2017, CMS approved a five-year renewal of the Waiver Program that expires on September 30, 2022. On July 14, 2021, Texas submitted to CMS its request to extend and to amend the waiver program beyond September 30, 2022. At this time, discussions of potential extensions or changes to the programs' structure are in process between HHSC and CMS.

Revenue under the Waiver Program is recognized as a component of net patient service revenue over the applicable demonstration year. CHRISTUS believes that its performance obligations for UC payments are generally satisfied ratably over the applicable period and recognizes revenue on a monthly basis. Performance obligations for DSRIP payments are satisfied based on the status of the selected projects, and revenue is recognized ratably for projects that are on track to achieve the required metrics. The System recorded $283,041,000 and $289,387,000 in net patient service revenue during fiscal years 2021 and 2020, respectively, related to the Waiver Program. Given the complexity of the ultimate determination of payment due to the System under the Waiver Program, amounts recorded are based on estimates made by management with the assistance of various consultants. As a result, it is possible that recorded amounts may change by a material amount at the completion of each demonstration year.

4. Revenue Recognition (continued)

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

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

5. COVID-19 Pandemic and CARES Act

The outbreak of COVID-19, a respiratory disease caused by a novel strain coronavirus, has and will continue to have significant adverse impacts on the operations and financial condition of healthcare providers generally. The treatment of this contagious disease at healthcare facilities has resulted in a temporary shutdown or diversion of patients from those facilities and in staffing and supply shortages. Elective procedures and other patient care appointments are being deferred and individuals may otherwise avoid medical treatment unrelated to COVID-19, resulting in reduced patient volumes and operating revenues at outpatient facilities.

A variety of federal, state, and local efforts have been initiated in response to the COVID-19 crisis, the largest of which is the CARES Act that was enacted on March 27, 2020. The CARES Act is a federal stimulus package designed to provide emergency assistance to individuals and businesses, including hospitals and other healthcare providers. CHRISTUS has received approximately $282,000,000 in stimulus funding under the Provider Relief Program to cover unreimbursed healthcare-related expenses attributable to the public health emergency and lost revenues resulting

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

from COVID-19. CHRISTUS follows grant accounting to recognize the stimulus funding as other operating revenue, based on guidance from the U.S. Department of Health & Human Services (HHS). Approximately $70,000,000 and $129,000,000 of these funds have been recognized as other revenue for the fiscal years ended June 30, 2021 and 2020, respectively. Regulations governing the receipt, usage, and reporting of CARES Act funds are complex and subject to interpretation. Revenue under the CARES Act is also subject to audit and potential recoupment if CHRISTUS has not demonstrated that CARES Act funds were properly used for unreimbursed expenses attributable to coronavirus or lost revenue, as defined in the regulations. In addition, the effect of COVID-19 is ongoing and CHRISTUS continues to evaluate expenses and lost revenues in light of evolving guidance provided by HHS. As a result, there is a possibility that estimates of revenue recognized could change by a material amount in the near term. At June 30, 2021 and 2020, the System has deferred $83,000,000 and $93,000,000, respectively, of CARES Act funds received that are anticipated to be recognized as revenue in future periods, which is included in deferred revenue on the consolidated balance sheets.

In response to the COVID-19 pandemic, CMS authorized the Medicare Advance Payment Program. Under the Medicare Advance Payment Program, eligible providers may request an advance on up to six months' worth of Medicare reimbursement. Beginning in April 2020, CHRISTUS requested and received approximately $578,000,000 in Medicare Advance Payments during the year ended June 30, 2020. These payments represent an advance on future reimbursements, and the program requires CMS to recoup the payments by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped. Such accelerated payments are interest free for inpatient acute care hospitals for 29 months and any outstanding balances remaining after 29 months must be repaid or be subject to a 4.00% annual interest rate. CMS began recoupment of these payments in April 2021. As of June 30, 2021 and 2020, CHRISTUS has approximately $517,000,000 and $578,000,000, respectively, in contract liabilities related to Medicare Advance Payments included in deferred revenue and other long-term obligations on the consolidated balance sheets.

Regional Advisory Councils (RACs) throughout the state of Texas provided traveling nurses and other medical professionals at no cost to CHRISTUS as part of the RACs' responsibility to develop, implement and monitor regional emergency medical service trauma system plans and coordinate hospital preparedness programs. The value of these services approximated $161,188,000 and is recognized as other revenue and compensation and benefits expense in the accompanying consolidated statements of operations and changes in net assets.

6. Cash and Investments

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

	2021	2020
Cash and cash equivalents	**$ 1,495,862**	$ 1,446,300
Certificates of deposit	**23,202**	27,533
Domestic equities	**192,376**	151,400
International equities	**8,832**	24,865
Fixed-income securities	**293,182**	313,002
U.S. government securities	**348,898**	224,667
Mutual funds and other similar investment funds:		
Domestic equity funds	**95,731**	114,648
International equity funds	**143,371**	135,738
Fixed-income funds	**266,128**	185,158
Risk parity, blended, and other funds	**37,812**	53,025
Equity investments in managed funds:		
Fixed-income funds	**113,964**	96,722
Hedge funds	**263,301**	183,371
Private equity, real estate, and other	**50,632**	32,693
	$ 3,333,291	$ 2,989,122

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

Fixed Income

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

6. Cash and Investments (continued)

Equities

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

Mutual Funds and Other Similar Investment Funds

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

Equity Investments in Managed Funds

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

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

6. Cash and Investments (continued)

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

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

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

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

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

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

At June 30, 2021, the System had commitments to fund equity investments in private equity funds totaling $16,735,000, excluding commitments to fund equity investments in private equity funds held by the CHRISTUS Health Cash Balance Plan (the Cash Balance Plan – see Note 13).

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

	2021	**2020**
Assets whose use is limited or restricted, required for current bond indenture and self-insurance liabilities	**$ 39,082**	$ 52,685
Other investments, internally designated for capital expansion and other purposes	**524,899**	532,132
Under bond indenture agreement – held by trustee	**59,553**	71,089
Under liability retention and self-insurance funding arrangement – held by trustee	**21,538**	19,894
Under Emerald Assurance funding arrangements	**118,917**	103,011
Restricted cash and investments	**56,562**	56,936
Total assets whose use is limited or restricted	**$ 820,551**	$ 835,747

6. Cash and Investments (continued)

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

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

	2021	2020
Operating interest and dividend income	**$ 13,658**	$ 14,706
Operating gain, realized and unrealized	**6,757**	904
Equity investment gain on managed funds	**18,183**	736
Total operating investment income	**38,598**	16,346
Nonoperating interest and dividend income	**18,886**	18,747
Nonoperating gain, realized and unrealized	**125,159**	40,040
Equity investment gain (loss) on managed funds	**48,666**	(3,206)
Net swap agreement activity	**29,914**	(70,469)
Total nonoperating investment gain (loss), net	**222,625**	(14,888)
Total investment gain, net	**$ 261,223**	$ 1,458

7. Fair Value Measurements

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

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

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

7. Fair Value Measurements (continued)

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

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. There were no significant transfers between levels during the fiscal years ended June 30, 2021 or 2020.

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

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	**$ 1,495,862**	**$ –**	**$ –**	**$ 1,495,862**
Investments:				
Certificates of deposit	**–**	**23,202**	**–**	**23,202**
Domestic equities	**192,376**	**–**	**–**	**192,376**
International equities	**8,832**	**–**	**–**	**8,832**
Fixed-income securities	**–**	**293,182**	**–**	**293,182**
U.S. government securities	**–**	**348,898**	**–**	**348,898**
Mutual funds and other similar investment funds:				
Domestic equity funds	**18,078**	**–**	**–**	**18,078**
International equity funds	**112,727**	**–**	**–**	**112,727**
Fixed-income funds	**158,580**	**–**	**–**	**158,580**
Risk parity, blended, and other funds	**37,812**	**–**	**–**	**37,812**
	$ 2,024,267	**$ 665,282**	**$ –**	**2,689,549**
Investments measured at net asset value or equivalent:				
Equity funds				**108,296**
Fixed-income funds				**113,670**
Hedge funds				**57,121**
Private equity, real estate, and other funds				**1,497**
Total assets at fair value				**$ 2,970,133**
Liabilities				
Interest rate swap agreements	**$ –**	**$ 144,087**	**$ –**	**$ 144,087**
Total liabilities at fair value	**$ –**	**$ 144,087**	**$ –**	**$ 144,087**

7. Fair Value Measurements (continued)

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 1,446,300	$ –	$ –	$ 1,446,300
Investments:				
Certificates of deposit	–	27,533	–	27,533
Domestic equities	151,400	–	–	151,400
International equities	24,865	–	–	24,865
Fixed-income securities	–	313,002	–	313,002
U.S. government securities	–	224,667	–	224,667
Mutual funds and other similar investment funds:				
Domestic equity funds	32,078	–	–	32,078
International equity funds	114,745	–	–	114,745
Fixed-income funds	96,334	–	–	96,334
Risk parity, blended, and other funds	53,025	–	–	53,025
	$ 1,918,747	$ 565,202	$ –	2,483,949
Investments measured at net asset value or equivalent:				
Equity funds				103,564
Fixed-income funds				111,963
Hedge funds				52,521
Private equity, real estate, and other funds				1,615
Total assets at fair value				$ 2,753,612
Liabilities				
Interest rate swap agreements	$ –	$ 187,339	$ –	$ 187,339
Total liabilities at fair value	$ –	$ 187,339	$ –	$ 187,339

The tables above include equity investments in managed funds held within the System's foundations and captive insurer. Remaining equity investments in managed funds held by other System entities of $363,158,000 and $235,510,000 at June 30, 2021 and 2020, respectively, are not included in this table, since they are accounted for using the equity method of accounting.

7. Fair Value Measurements (continued)

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

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

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

At June 30, 2021 and 2020, the System's financial instruments included cash and cash equivalents, accounts receivable, assets limited as to use, accounts payable and accrued expenses, lease right-of-use assets and obligations, and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments, except for long-term debt, approximate their fair values.

8. Leases

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

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

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

	2021	2020
Operating lease cost	**$ 60,543**	$ 55,963
Finance lease cost:		
Amortization of right-of-use assets	**8,140**	6,898
Interest on lease liabilities	**10,387**	11,667
Total finance lease cost	**18,527**	18,565
Short-term and variable lease cost	**58,036**	46,784
Total lease cost	**$ 137,106**	$ 121,312

8. Leases (continued)

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

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 61,083**	$ 55,916
Operating cash flows from finance leases	**10,385**	11,667
Financing cash flows from finance leases	**8,431**	6,349
Right-of-use assets obtained in exchange for new operating leases	**17,846**	38,555
Right-of-use assets obtained in exchange for new financing leases	**31,290**	965
Weighted average remaining lease term:		
Operating leases	**6.1 years**	6.6 years
Finance leases	**11.4 years**	14.1 years
Weighted average discount rate:		
Operating leases	**6.43%**	2.57%
Finance leases	**6.68%**	10.47%

8. Leases (continued)

Future undiscounted cash flows and maturities of lease liabilities at June 30, 2021 are presented in the following table (in thousands):

	Operating Leases	Finance Leases	Total
2022	$ 55,868	$ 13,294	$ 69,162
2023	49,161	12,967	62,128
2024	40,444	12,741	53,185
2025	25,396	12,904	38,300
2026	17,676	13,018	30,694
Thereafter	58,004	50,983	108,987
Total minimum lease payments	246,549	115,907	362,456
Less imputed interest	(18,717)	(16,691)	(35,408)
Total lease liabilities	227,832	99,216	327,048
Less current portion	(49,091)	(10,625)	(59,716)
Long-term lease liabilities	$ 178,741	$ 88,591	$ 267,332

9. Property and Equipment

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

	2021	**2020**
Land	**$ 243,292**	$ 229,286
Land improvements	**93,918**	89,936
Buildings and fixed equipment	**3,615,063**	3,531,831
Major movable equipment	**1,707,933**	1,599,653
Accumulated depreciation	**(2,977,081)**	(2,831,868)
	2,683,125	2,618,838
Construction-in-progress (estimated cost to complete is $619,074 and $112,525 at June 30, 2021 and 2020, respectively)	**183,767**	187,362
Total	**$ 2,866,892**	$ 2,806,200

9. Property and Equipment (continued)

Depreciation expense for the System for fiscal years 2021 and 2020 totaled $250,364,000 and $243,969,000, respectively.

10. Investments in Unconsolidated Organizations

CHRISTUS owns a 50% noncontrolling interest in U.C. CHRISTUS Salud SpA (CHRISTUS Salud), which owns and operates certain hospital, clinic, and other healthcare facilities in Chile. CHRISTUS also manages the healthcare operations of Pontifica Universidad Catolica de Chile (PUC), which owns the other 50% ownership interest. CHRISTUS is committed to make additional capital contributions to CHRISTUS Salud of no less than $28,000,000. The investment in CHRISTUS Salud is treated as an equity method investment. As of June 30, 2021 and 2020, CHRISTUS's investment in CHRISTUS Salud was $205,288,000 and $174,934,000, respectively. During 2021 and 2020, CHRISTUS made additional capital contributions to CHRISTUS Salud of $22,702,000 and $10,585,000, respectively. The System's share of income (losses) from the operations for the fiscal years ended June 30, 2021 and 2020, was $7,651,000 and $(8,453,000), respectively.

CHRISTUS and its affiliates hold immaterial investments in other unconsolidated subsidiaries. No other single investment balance exceeded 0.5% of total assets at both June 30, 2021 and 2020.

CHRISTUS has management and license fee arrangements with certain unconsolidated subsidiaries and joint venture partners, under which CHRISTUS provides management services and licenses its trade name and certain other intellectual property. CHRISTUS recorded other revenue related to management and license fee agreements of $13,720,000 and $27,212,000 during the fiscal years ended June 30, 2021 and 2020, respectively.

11. Long-Term Debt

Long-term debt at June 30 consisted of the following (in thousands):

	2021	2020
Obligations issued under the CHRISTUS Health Master Trust Indenture (CHRISTUS MTI):		
Revenue bonds, in variable-rate demand mode, with weighted average interest rates of 0.09% and 1.16% in fiscal years 2021 and 2020, respectively, due in annual installments through July 1, 2047 (Series 2008C and 2009B)	**$ 223,015**	$ 223,015
Revenue bonds, in auction mode, with weighted average interest rates of 0.25% and 1.57% in fiscal years 2021 and 2020, respectively, due in annual installments through July 1, 2031	**117,825**	127,900
Revenue bonds, in fixed-rate mode, bearing interest from 5.25% to 4.50%, due in annual installments through July 1, 2048	**566,670**	578,155
Direct-placement notes due in annual installments through July 1, 2041	**82,224**	94,050
Tax-exempt bank note due in annual installments through July 1, 2039	**57,105**	57,105
Taxable bonds due as a balloon payment on July 1, 2028	**339,536**	339,536
Term loan	**100,000**	–
Bank line of credit	**–**	33,000
Other notes	**69,250**	92,941
	1,555,625	1,545,702
Premiums, net, on long-term debt	**36,807**	40,262
Unamortized deferred financing costs	**(8,326)**	(9,194)
	1,584,106	1,576,770
Less current portion, including amounts subject to remarketing agreements	**(100,594)**	(87,864)
Total long-term debt	**$ 1,483,512**	$ 1,488,906

11. Long-Term Debt (continued)

According to the terms of the CHRISTUS MTI, CHRISTUS and the majority of its wholly owned subsidiaries are members of the CHRISTUS Health Obligated Group (Obligated Group). The obligations of CHRISTUS and the other members of the Obligated Group are secured by a pledge of gross revenues. Additionally, each member of the Obligated Group has undertaken certain covenants, including the following: to ensure the payment of debt service; to ensure the payment of taxes and other claims; to deliver compliance statement(s); to preserve corporate existence; to maintain books and records subject to inspection by the Master Trustee; to maintain insurance; to conform to defined lien limitations; to establish adequate service rates; to maintain a sufficient debt service coverage and indebtedness ratio; to maintain a required aggregate amount of unrestricted cash and investments; and to adhere to certain defined conditions with respect to consolidation, merger, conveyance, or transfer and admission or withdrawal of Obligated Group members pursuant to the CHRISTUS MTI, insurer, and letter of credit bank agreements.

CHRISTUS has letter of credit bank agreements on Series 2008C and 2009B variable-rate demand bonds. The Series 2008C-1 bonds have an outstanding amount of $41,435,000 and are supported by a letter of credit provided by Sumitomo Mitsui Banking Corporation, acting through its New York branch, that expires on September 20, 2022. The 2008C-2 bonds have an outstanding amount of $38,305,000 and are supported by a letter of credit provided by The Bank of New York Mellon that expires on July 3, 2023. The 2008C-3 bonds have an outstanding amount of $41,030,000, and the 2008C-4 bonds have an outstanding amount of $38,440,000. The 2008C-3 and 2008C-4 bonds are supported by a letter of credit provided by Bank of Montreal, acting through its Chicago branch, that expires on April 25, 2022. The Series 2009B variable-rate demand bonds have an outstanding amount of $63,805,000 and are supported by a letter of credit provided by The Bank of New York Mellon that expires on January 31, 2022.

On August 18, 2021, CHRISTUS extended the expirations of its letters of credit with Bank of Montreal for the 2008C-3 and 2008C-4 bonds until August 18, 2024.

In fiscal 2018, the System entered into a line of credit with Sumitomo Mitsui Banking Corporation – New York Operations for $150,000,000. The line of credit carries a variable interest rate equal to the one-month London Interbank Offered Rate (LIBOR) plus 0.625%, and terminates on October 29, 2021. At June 30, 2021 and 2020, CHRISTUS had $0 and $33,000,000, respectively, drawn against the line of credit. In fiscal 2020, the System entered into a line of credit with JPMorgan Chase Bank, National Association for $100,000,000. The line of credit carries a variable interest rate equal to the one-month LIBOR plus 1.00%, and terminates on November 1, 2021. At June 30, 2021, CHRISTUS had $0 drawn against the line of credit.

11. Long-Term Debt (continued)

On July 15, 2020, the System entered into a term loan agreement with JPMorgan Chase Bank, National Association for $100,000,000. The term loan carries an interest rate of 2.13% and matures on July 1, 2027. The funds related to this term loan were received on August 14, 2020. These funds were used, in part, to repay the $33,000,000 outstanding balance on the System's $150,000,000 line of credit facility with Sumitomo Mitsui Banking Corporation on September 3, 2020.

Other notes were $69,250,000 and $92,941,000 as of June 30, 2021 and 2020, respectively, and include various notes issued primarily to purchase buildings and equipment.

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

2022	$ 36,789
2023	34,636
2024	29,913
2025	36,361
2026	31,585
Thereafter	1,386,341
Total long-term debt	$ 1,555,625

12. Derivative Financial Instruments

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

12. Derivative Financial Instruments (continued)

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degrees of market risk that may be undertaken. Management also mitigates risk through periodic reviews of its derivative positions in the context of its blended cost of capital. As of June 30, 2021 and 2020, CHRISTUS has interest rate swap agreements to manage interest rate risk exposure, not designated as hedging instruments, with a total notional amount of $883,035,000 and $893,035,000, respectively.

The following tables summarize the fair value at June 30, 2021 and 2020 and the income (loss) recorded related to the System's derivative instruments as of and for the fiscal years ended June 30, 2021 and 2020 (in thousands):

					Fair Value		Change in Fair Value		(Paid) Received	
Counterparty	**Description**	**Termination Date**	**Agreements**	**Notional Amount**	**June 30, 2021**	**June 30, 2020**	**June 30, 2021**	**June 30, 2020**	**June 30, 2021**	**June 30, 2020**
Interest Rate Swaps										
Merrill Lynch	Var. basis	2021–2023	6	$ 470,000	**$ (151)**	$ (482)	**$ 331**	$ (2,185)	**$ 116**	$ 269
Wells Fargo	Fixed payor	2031	1	133,775/143,775	**(16,701)**	(23,509)	**6,808**	(5,222)	**(4,160)**	(3,214)
Citigroup*	Fixed payor	2047	2	166,100	**(75,848)**	(97,280)	**21,432**	(31,565)	**(5,551)**	(4,160)
Citigroup*	Fixed payor	2047	1	113,160	**(51,387)**	(66,068)	**14,681**	(21,595)	**(3,743)**	(2,797)
			10	$ 883,035/893,035	**$ (144,087)**	$(187,339)	**$ 43,252**	$ (60,567)	**$ (13,338)**	$ (9,902)

*Insured by MBIA

CHRISTUS is required to post collateral for negative valuations on each of its swaps according to the terms of (1) the swap insurance agreements, where applicable, and (2) the agreement with each counterparty. CHRISTUS has complied with this requirement. At June 30, 2021 and 2020, no collateral was posted. The System does not anticipate nonperformance by its counterparties.

The fair value of these derivative instruments was a liability of $144,087,000 and $187,339,000 at June 30, 2021 and 2020, respectively. The change in value of $43,252,000 and $(60,567,000) for the fiscal years ended June 30, 2021 and 2020, respectively, is combined with the payments, net of receipts, made under the agreements of $13,338,000 and $9,902,000 for the fiscal years ended June 30, 2021 and 2020, respectively. This total is included in nonoperating investment gain (loss), net, in the consolidated statements of operations and changes in net assets.

13. Employee Benefit Plans

Defined Benefit Plans

Cash Balance Plan

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

The plan benefits are calculated based on a cash balance formula wherein participants earn an annual accrual based on compensation and participation account balances accrue interest at a rate that tracks ten-year treasury notes; the maximum rate is 8%. On January 29, 2019, the CHRISTUS board approved a plan amendment to freeze the Cash Balance Plan effective July 1, 2019. As a result of this amendment, the projected benefit obligation increased by approximately $37,849,000, which will be amortized as a component of net periodic benefit cost over its actuarially determined life.

Mother Frances Hospital Defined Benefit Pension Plan

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

The measurement date for the Cash Balance Plan and the TMF Plan (collectively, the Defined Benefit Plans) is June 30. For the years ended June 30, 2021 and 2020, the net periodic benefit credit for the Cash Balance Plan was $16,572,000 and $13,794,000, respectively. For the years ended June 30, 2021 and 2020, the net periodic benefit credit for the TMF Plan was $4,038,000 and $2,466,000, respectively. The net periodic benefit credit is recorded in other nonoperating gains, net in the accompanying consolidated statements of operations and changes in net assets. CHRISTUS uses a full yield curve "spot rate" approach that applies the specific spot rates along the yield curve to the plans' projected cash flows in order to estimate the service and interest cost components of net periodic benefit credit.

The Defined Benefit Plans, net periodic credit consists primarily of amortization of expected returns, offset by interest and other costs. Additionally, during fiscal year 2021, the Cash Balance Plan includes a settlement charge of $5,000,000 recorded in connection with a remeasurement of plan liabilities. There were no such settlement charges in fiscal year 2020.

13. Employee Benefit Plans (continued)

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

	Cash Balance Plan		TMF Plan	
	2021	**2020**	**2021**	**2020**
Benefit obligation – end of year	**$ 965,459**	$ 947,603	**$ 194,513**	$ 201,501
Fair value of plan assets – end of year	**935,192**	816,572	**177,599**	151,177
Funded status	**$ (30,267)**	$ (131,031)	**$ (16,914)**	$ (50,324)

As of June 30, 2021 and 2020, the Defined Benefit Plans had accumulated benefit obligations of $1,159,972,000 and $1,149,104,000, respectively. Assumptions used to determine benefit obligations and net periodic benefit (credit) cost for the fiscal years were as follows:

	Cash Balance Plan		TMF Plan	
	2021	**2020**	**2021**	**2020**
Benefit obligations:				
Discount rate	**2.78%**	2.66%	**2.93%**	2.84%
Net periodic benefit credit cost:				
Discount rate	**2.77**	3.45	**2.84**	3.62
Expected long-term return on plan assets	**5.50**	5.50	**5.50**	5.50

As of June 30, 2021 and 2020, the total amount recognized in net assets without donor restrictions were $178,806,000 and $274,119,000, respectively. For the fiscal years ended June 30, 2021 and 2020, the change in pension plan obligations recognized in net assets without donor restriction was $(95,314,000) and $54,764,000. Amounts recognized in net assets without donor restrictions expected to be recognized in net periodic benefit (credit) cost for the Defined Benefit Plans during fiscal 2022 are $2,849,000.

Investment Policy and Asset Allocations

The investment objective with regard to the plan assets is one of long-term capital appreciation and generation of a stream of current income. This balanced approach is expected to earn long-term total returns, consisting of capital appreciation and current income, which are commensurate with the expected rate of return used by the plans. The actual returns on the Cash Balance Plan assets

13. Employee Benefit Plans (continued)

for the years ended June 30, 2021 and 2020 were $165,014,000 and $5,889,000, respectively. The actual returns on the TMF Plan assets for the years ended June 30, 2021 and 2020 were $25,374,000 and $4,317,000, respectively.

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

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

	Cash Balance Plan		TMF Plan	
	2021	**2020**	**2021**	**2020**
Cash and cash equivalents	**$ 159,838**	$ 83,527	**$ 12,079**	$ 20,966
Domestic equities	**23,306**	35,640	**6,398**	4,460
International equities	**2,184**	20,508	**589**	551
Fixed-income securities	**23,960**	23,724	**21,105**	21,561
Mutual funds and other similar investment funds:				
Domestic equity funds	**–**	31,225	**29,817**	21,177
International equity funds	**52,494**	58,352	**13,523**	10,183
Fixed-income funds	**76,658**	74,266	**32,300**	32,367
Risk parity, blended, and other funds	**20,308**	31,083	**4,244**	3,921
Equity investments in managed funds:				
Fixed-income funds	**280,612**	242,327	**22,214**	18,180
Hedge funds	**150,806**	89,692	**35,330**	17,811
Private equity, real estate, and other	**144,872**	125,908	**–**	–
Other	**154**	320	**–**	–
Total	**$ 935,192**	$ 816,572	**$ 177,599**	$ 151,177

13. Employee Benefit Plans (continued)

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

	Cash Balance Plan		TMF Plan	
	2021	**2020**	**2021**	**2020**
Allocation of plan assets, by asset category:				
Cash and cash equivalents	**–%**	–%	**33%**	33%
Equity securities and equity funds	**15**	15	**30**	30
Fixed-income securities and fixed-income funds	**30**	30	**35**	35
Equity investments in managed funds *(Note 6)*	**55**	55	**2**	2
Total	**100%**	100%	**100%**	100%

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

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investments:				
Cash and cash equivalents	**$ 171,917**	**$ –**	**$ –**	**$ 171,917**
Domestic equities	**29,704**	**–**	**–**	**29,704**
International equities	**2,773**	**–**	**–**	**2,773**
Fixed-income securities	**–**	**9,524**	**–**	**9,524**
U.S. government securities	**–**	**35,541**	**–**	**35,541**
Mutual funds and other similar investment funds:				
Domestic equity funds	**29,817**	**–**	**–**	**29,817**
International equity funds	**66,017**	**–**	**–**	**66,017**
Fixed-income funds	**108,958**	**–**	**–**	**108,958**
Risk parity, blended, and other funds	**24,552**	**–**	**–**	**24,552**
Other	**154**	**–**	**–**	**154**
	$ 433,892	**$ 45,065**	**$ –**	**478,957**
Investments measured at net asset value or equivalent:				
Fixed-income funds				**302,826**
Hedge funds				**186,136**
Private equity, real estate, and other funds				**144,872**
Total assets at fair value				**$ 1,112,791**

13. Employee Benefit Plans (continued)

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investments:				
Cash and cash equivalents	$ 104,493	$ –	$ –	$ 104,493
Domestic equities	40,100	–	–	40,100
International equities	21,059	–	–	21,059
Fixed-income securities	–	28,086	–	28,086
U.S. government securities	–	17,199	–	17,199
Mutual funds and other similar investment funds:				
Domestic equity funds	52,402	–	–	52,402
International equity funds	68,535	–	–	68,535
Fixed-income funds	106,633	–	–	106,633
Risk parity, blended, and other funds	35,004	–	–	35,004
Other	320	–	–	320
	$ 428,546	$ 45,285	$ –	473,831
Investments measured at net asset value or equivalent:				
Fixed-income funds				260,507
Hedge funds				107,503
Private equity, real estate, and other funds				125,908
Total assets at fair value				$ 967,749

The Cash Balance Plan has $96,400,000 of funding commitments to purchase private equity, real estate, and other funds as of June 30, 2021. The TMF Plan has no such funding commitments.

Contributions

In fiscal year 2021, CHRISTUS contributed $18,250,000 to the Defined Benefit Plans. In fiscal year 2022, CHRISTUS expects to contribute $19,000,000 to the Defined Benefit Plans based on asset values for the plan year beginning January 1, 2021.

13. Employee Benefit Plans (continued)

Benefit Payments

Benefit payments for the Cash Balance Plan for the years ended June 30, 2021 and 2020 were $56,394,000 and $50,951,000, respectively. Benefit payments for the TMF Plan for the years ended June 30, 2021 and 2020 were $7,202,000 and $6,787,000, respectively. The following benefit payments, which reflect expected future service and expected benefit payments for services previously rendered, are expected to be paid as follows (in thousands):

	Cash Balance Plan	TMF Plan
2022	$ 57,404	$ 8,053
2023	56,215	8,353
2024	55,824	8,647
2025	55,671	8,896
2026	54,965	9,094
Years 2027–30	257,948	48,001

Defined Contribution Plans

The System has a defined contribution plan (the Matched Savings Plan) covering eligible CHRISTUS employees. Annual employee contributions are limited to 50% of compensation, up to Internal Revenue Service dollar limits. The System matches 67% of employee contributions, not to exceed 6% of annual compensation. Employer contributions vest to the employee after three years. For the fiscal years ended June 30, 2021 and 2020, expenses attributable to the Matched Savings Plan amounted to $40,302,000 and $30,475,000, respectively.

Other Defined Benefit and Defined Contribution Plans

In addition to the CHRISTUS Cash Balance Plan and the TMF Plan, CHRISTUS also participates in various defined benefit plans for executives that have been frozen or curtailed. The net benefit credit and net benefit obligation under these plans was not material to the consolidated financial statements for the fiscal years ended June 30, 2021 or 2020. These plans are unfunded. In addition to the Matched Savings Plan, CHRISTUS also participates in other defined contribution plans that are not material to the consolidated financial statements for the fiscal years ended June 30, 2021 or 2020.

14. Self-Funded Liabilities

The System self-funds and self-insures for primary professional and general liability, workers' compensation and Texas occupational injury, directors' and officers' liability, employment practices liability, property, and employee medical benefits. A wholly owned, captive insurance company, Emerald Assurance Cayman Ltd. (Emerald), is used to fund primary professional and general liability, property, directors' and officers' liability, and employment practices liability. Policies written provide coverage for professional liability with primary limits of $10,000,000 per claim, for employment practices liability limits of $3,000,000 per claim, both with no aggregate for the fiscal years 2021 and 2020. For general liability, policies written provide coverage with primary limits in the amount of $2,000,000 per claim for fiscal years 2021 and 2020. Additionally, the System internally sets aside funds for workers' compensation, Texas occupational injury program, and employee medical benefits based on actuarial analyses.

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

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

15. Commitments and Contingencies

Capital Commitments

The System has committed to fund $700,000,000 in capital expenditures related to the acquisition of Trinity Mother Frances Health System in May 2016. The commitment is to be funded over a period of up to seven years from funds generated by the operations of Trinity Mother Frances Health System and other resources. The System reports the expenditures as of April 30 of each year to Covenant Corporation, an external organization established at the time of the purchase. As of April 30, 2021, the System had expended $529,380,000 toward the commitment.

Other Contingencies

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

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

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

16. Functional Expenses

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

	2021			
	Healthcare Services	Physician Services	General and Administrative	Total
Employee compensation and benefits	**$ 1,906,186**	**$ 493,025**	**$ 541,375**	**$ 2,940,586**
Services and other	**1,536,506**	**111,460**	**271,926**	**1,919,892**
Supplies	**1,098,863**	**23,113**	**22,351**	**1,144,327**
Depreciation and amortization	**228,761**	**5,877**	**54,170**	**288,808**
Interest	**12,688**	**1,175**	**43,998**	**57,861**
Total expenses	**$ 4,783,004**	**$ 634,650**	**$ 933,820**	**$ 6,351,474**

	2020			
	Healthcare Services	Physician Services	General and Administrative	Total
Employee compensation and benefits	$ 1,885,891	$ 490,063	$ 221,957	$ 2,597,911
Services and other	1,511,726	63,160	168,079	1,742,965
Supplies	920,409	19,224	13,922	953,555
Depreciation and amortization	217,913	7,550	19,710	245,173
Interest	10,369	1,118	48,092	59,579
Total expenses	$ 4,546,308	$ 581,115	$ 471,760	$ 5,599,183

17. Liquidity

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

	2021	2020
Cash and cash equivalents	**$ 1,317,597**	$ 1,271,062
Short-term investments and equity in managed funds	**1,195,143**	882,313
Patient accounts receivable	**593,390**	500,091
Total	**$ 3,106,130**	$ 2,653,466

17. Liquidity (continued)

CHRISTUS has the ability to structure its financial assets to be available as its general expenditures and other obligations come due. Cash in excess of daily requirements is invested in short-term investments. CHRISTUS also maintains a $150,000,000 line of credit with Sumitomo Mitsui Banking Corporation – New York Operations and a $100,000,000 line of credit with JPMorgan Chase Bank, National Association as discussed in Note 11. As of June 30, 2021, $250,000,000 remained available under those lines of credit.

18. Significant Events

Business Combinations

CHRISTUS Hopkins Health Alliance

Effective May 1, 2021, CHRISTUS closed on a transaction to purchase the remaining 49% non-controlling interest in CHRISTUS Hopkins Health Alliance (CHHA) from Hopkins County Hospital District for $24,000,000. Subsequent to the transaction, CHRISTUS owns 100% of CHHA.

Central Louisiana Surgical Hospital

Effective April 1, 2021, CHRISTUS closed on a transaction in which CHRISTUS paid $21,049,000, inclusive of working capital and other adjustments, to purchase a 51% majority ownership in Central Louisiana Surgical Hospital (CLSH). Acquisition costs related to this transaction, which were recorded as other expenses, were immaterial. The fair value of the noncontrolling interest acquired was $20,223,000.

The purchase price was allocated to the fair values of the assets acquired and liabilities assumed as of the acquisition date, with the remaining amount recorded as goodwill. The fair values assigned are preliminary and subject to change as valuation activities are finalized and are primarily allocated to working capital, property and equipment, and goodwill. CHRISTUS recognized goodwill of $24,371,000 related to the transaction.

For the period from April 1, 2021 through June 30, 2021, total operating revenue and revenues in excess (deficit) of expenses attributable to CLSH were $12,613,000 and $1,253,000, respectively.

18. Significant Events (continued)

Central Texas Medical Center

Effective April 1, 2020, CHRISTUS closed on a transaction with Advent Health, in which CHRISTUS paid approximately $32,500,000, plus working capital, and other adjustments to acquire Central Texas Medical Center (CTMC), together with certain related businesses, including physician clinic operations. CTMC is a full-service acute care hospital located in San Marcos, Texas. The transaction was accounted for using the acquisition method of accounting.

The purchase price allocation to the fair values of the assets acquired and liabilities assumed as of the acquisition date was finalized in fiscal year 2021, with minimal adjustments, and primarily consisted of working capital and property and equipment.

19. Subsequent Events

The System evaluated events and transactions occurring subsequent to June 30, 2021 through October 26, 2021, the date of issuance of the accompanying consolidated financial statements. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.

Supplementary Information

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Report of Independent Auditors on Supplementary Information

The Board of Directors
CHRISTUS Health

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying community benefit information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management. The information has not been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, accordingly, we express no opinion on it.

Ernst & Young LLP

October 26, 2021

CHRISTUS Health

Community Benefit (Unaudited)

CHRISTUS Health (CHRISTUS or the System) complies with the Catholic Health Association's (CHA) *A Guide for Planning and Reporting Community Benefits* (2008) and the state of Texas reporting requirements. CHA guidelines have adopted the instructions for IRS Form 990, Schedule H, *Hospitals*.

Following is a summary of the System's quantifiable costs of community benefits provided for the fiscal years ended June 30 (in thousands):

	2021	2020
	(Unaudited)	
Programs and services for the poor and underserved:		
Charity care at unpaid cost	**$ 309,385**	$ 276,137
Unpaid cost of Medicaid and other public programs	**65,663**	64,477
Community services for the poor and underserved	**62,331**	54,324
Total programs and services for the poor and underserved	**437,379**	394,938
Community services for the broader community:		
Education and research	**9,395**	9,081
Other community services	**10,643**	19,967
Total community services for the broader community	**20,038**	29,048
Total community benefits	**$ 457,417**	$ 423,986

The totals are calculated following CHA guidelines and adhere to the IRS Form 990, Schedule H methodology. CHRISTUS has multiple reporting requirements of charity care and community benefit, which vary based on the definitional and timing requirements of each requesting organization. For comparability, the unpaid cost of Medicaid and other public programs total for fiscal year 2020 has been updated to reflect the change in methodology effective for fiscal year 2021 reporting.

In addition to the community benefits reported above, the state of Texas requires that the unpaid costs of Medicare and other government-sponsored programs be reported. For the fiscal years ended June 30, 2021 and 2020, the unpaid costs of these programs were $330,322,000 and $349,134,000, respectively. The unpaid costs of the Medicare program represent the cost of providing services to primarily elderly beneficiaries of the Medicare program, in excess of governmental and managed care contract payments. The unpaid costs of other government-sponsored programs represent the cost for providing healthcare services to the beneficiaries of the Department of Defense civilian care, included as per the state of Texas guidelines.

CHRISTUS provides community benefits in Mexico to the poor and underserved, as well as for the broader community. For the fiscal year ended June 30, 2021, the quantifiable costs of community benefits provided in Mexico were $7,759,000.

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