

CONSOLIDATED FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION, AND REPORTS ON  
FEDERAL AND STATE AWARD PROGRAMS

CHRISTUS Health  
Years Ended June 30, 2022 and 2021  
With Reports of Independent Auditors

Ernst & Young LLP



# CHRISTUS Health

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

Years Ended June 30, 2022 and 2021

### Contents

#### Part I – Financial

Report of Independent Auditors .....	1
Consolidated Financial Statements	
Consolidated Balance Sheets .....	4
Consolidated Statements of Operations and Changes in Net Assets .....	6
Consolidated Statements of Cash Flows .....	8
Notes to Consolidated Financial Statements .....	10
Supplementary Information – Federal and State Awards	
Schedule of Compensation Information.....	60
Schedule of Expenditures of Federal and State Awards .....	61
Notes to Schedule of Expenditures of Federal and State Awards .....	64

#### Part II – Internal Control and Compliance Reports

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	66
Report of Independent Auditors on Compliance for Each Major Federal and State Program and Report on Internal Control Over Compliance Required by the Uniform Guidance and the Texas Grant Management Standards (TxGMS) .....	68

#### Schedule of Findings and Questioned Costs

Section I – Summary of Auditor’s Results.....	72
Section II – Financial Statement Findings .....	73
Section III – Federal Award Findings and Questioned Costs .....	74
Section IV – State Award Findings and Questioned Costs .....	75



Ernst & Young LLP  
One Victory Park  
Suite 2000  
2323 Victory Avenue  
Dallas, TX 75219

Tel: +1 214 969 8000  
Fax: +1 214 969 8587  
ey.com

## Report of Independent Auditors

The Board of Directors and Management  
CHRISTUS Health

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the consolidated financial statements of CHRISTUS Health, which comprise the consolidated balance sheets as of June 30, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CHRISTUS Health at June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

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

#### *Responsibilities of Management for the Financial Statements*

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

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

#### *Auditor’s Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes

our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CHRISTUS Health's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CHRISTUS Health's ability to continue as a going concern for a reasonable period of time.

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

### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to October 6, 2022. The accompanying schedule of compensation information as required by the Louisiana Revised Statute 24: 513A(1)(a)(3) and schedule of expenditures of federal and state awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *Texas Grant Management Standards* are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and

reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of compensation information and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated October 6, 2022, on our consideration of CHRISTUS Health’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CHRISTUS Health’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CHRISTUS Health’s internal control over financial reporting and compliance.

*Ernst + Young LLP*

October 6, 2022, except for our report on the Schedule of Expenditures of Federal and State Awards, for which the date is March 31, 2023.

# CHRISTUS Health

## Consolidated Balance Sheets

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 838,925	\$ 1,317,597
Short-term investments and equity in managed funds	1,005,930	1,195,143
Assets whose use is limited or restricted, required for current liabilities	51,237	39,082
Patient accounts receivable	733,697	593,390
Notes and other receivables	159,818	232,838
Inventories	143,438	133,692
Other current assets	204,921	120,709
Total current assets	3,137,966	3,632,451
Assets whose use is limited or restricted, less current portion	843,250	781,469
Property and equipment, net of accumulated depreciation	3,024,307	2,866,892
Other assets:		
Investments in unconsolidated organizations	221,338	269,573
Goodwill and intangible assets, net	163,087	161,839
Finance lease right-of-use assets	91,699	65,947
Operating lease right-of-use assets	174,508	201,915
Beneficial interest in supporting organizations	118,961	130,488
Other assets	227,468	247,566
Total other assets	997,061	1,077,328
Total assets	\$ 8,002,584	\$ 8,358,140

# CHRISTUS Health

## Consolidated Balance Sheets (continued)

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
	<i>(In Thousands)</i>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 684,253	\$ 688,184
Accrued employee compensation and benefits	328,464	332,379
Deferred revenue	389,305	483,904
Current portion of long-term debt	32,016	36,789
Current portion of finance lease liabilities	12,069	10,625
Current portion of operating lease liabilities	48,505	49,091
Long-term obligations subject to remarketing agreements	-	63,805
Total current liabilities	<u>1,494,612</u>	<u>1,664,777</u>
Long-term debt, less current portion	1,504,680	1,483,512
Accrued pension benefits	751	47,939
Derivative financial instruments	72,246	144,087
Long-term finance lease liabilities	111,099	88,591
Long-term operating lease liabilities	149,958	178,741
Other long-term obligations – including self-funded liabilities, less current portion	<u>212,555</u>	<u>435,821</u>
Total liabilities	<u>3,545,901</u>	<u>4,043,468</u>
Net assets:		
Net assets without donor restrictions:		
Attributable to CHRISTUS Health	3,792,223	3,649,957
Attributable to noncontrolling interest	447,227	432,762
Total net assets without donor restriction	<u>4,239,450</u>	<u>4,082,719</u>
Net assets with donor restrictions	217,233	231,953
Total net assets	<u>4,456,683</u>	<u>4,314,672</u>
Total liabilities and net assets	<u>\$ 8,002,584</u>	<u>\$ 8,358,140</u>

*See accompanying notes.*

## CHRISTUS Health

### Consolidated Statements of Operations and Changes in Net Assets

	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
	<i>(In Thousands)</i>	
<b>Revenues:</b>		
Net patient service revenue	<b>\$ 6,454,657</b>	\$ 5,786,436
Premium revenue	<b>381,485</b>	321,108
Other revenue, including provider relief funds <i>(Note 5)</i>	<b>529,222</b>	564,334
<b>Total revenues</b>	<b>7,365,364</b>	6,671,878
<b>Expenses:</b>		
Employee compensation and benefits	<b>3,474,428</b>	2,940,586
Services and other	<b>2,037,407</b>	1,919,892
Supplies	<b>1,234,910</b>	1,144,327
Depreciation and amortization, including impairment	<b>280,852</b>	288,808
Interest	<b>51,382</b>	57,861
<b>Total expenses</b>	<b>7,078,979</b>	6,351,474
Operating income	<b>286,385</b>	320,404
Nonoperating investment (loss) gain, net	<b>(40,210)</b>	222,625
Other nonoperating (losses) gains, net	<b>(8,355)</b>	18,725
<b>Revenues in excess of expenses</b>	<b>237,820</b>	561,754
Less revenues in excess of expenses attributable to noncontrolling interests	<b>27,869</b>	82,403
<b>Revenues in excess of expenses attributable to CHRISTUS Health</b>	<b>209,951</b>	479,351



## CHRISTUS Health

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

	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
	<i>(In Thousands)</i>	
Net assets without donor restrictions:		
Revenues in excess of expenses attributable to CHRISTUS Health	\$ 209,951	\$ 479,351
Unrealized (loss) gain on other-than-trading investments	(37,608)	21,134
Change in pension liabilities	1,449	95,314
Foreign currency translation adjustment	(59,039)	26,007
Net assets released from restrictions for capital and other	27,513	8,383
Changes attributable to CHRISTUS Health	142,266	630,189
Revenues in excess of expenses attributable to noncontrolling interests		
Distributions	27,869	82,403
Net assets acquired from acquisition and sale of noncontrolling interests, net	(12,826)	(9,490)
Other activities	(3,217)	(9,610)
Changes attributable to noncontrolling interests	2,639	3,432
Net assets with donor restrictions:		
Net change in beneficial interests in supporting organizations	14,465	66,735
Contributions	(11,527)	35,630
Unrealized (loss) gain on investments	13,801	11,494
Net assets released from restrictions and other	(5,387)	4,856
Changes in net assets with donor restrictions	(11,607)	(25,396)
Change in net assets	142,011	723,508
Net assets – beginning of fiscal year	4,314,672	3,591,164
Net assets – end of fiscal year	\$ 4,456,683	\$ 4,314,672

*See accompanying notes.*

# CHRISTUS Health

## Consolidated Statements of Cash Flows

	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Change in net assets	\$ 142,011	\$ 723,508
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Change in beneficial interests	11,527	(35,630)
Change in pension liabilities recognized in net assets	(1,449)	(95,314)
Contributions of net assets with donor restrictions	(13,801)	(11,494)
Distributions to, acquisitions, and sale of noncontrolling interest, net	16,043	19,100
Distributions from investments in unconsolidated organizations	22,060	19,914
Equity in earnings of unconsolidated organizations	(24,945)	(27,147)
Unrealized investment loss (gain)	156,716	(227,304)
Depreciation and amortization	280,852	261,349
Amortization of premiums, discounts, and deferred financing costs	(2,330)	(2,411)
Goodwill impairment charge	–	27,459
Change in derivative fair value	(71,841)	(43,252)
(Gain) loss on disposal of property and equipment	(786)	582
Foreign currency translation adjustment, net of cash impact	59,039	(26,007)
Changes in operating assets and liabilities, net of acquisitions:		
Increase in net patient accounts receivable	(140,307)	(86,181)
Increase in investments and assets whose use is limited or restricted	(156,290)	(41,961)
Decrease (increase) in notes and other receivables	71,682	(12,484)
Increase in other current assets and inventories	(94,469)	(3,458)
(Decrease) increase in accounts payable, accrued expenses, and accrued employee compensation and benefits	(7,871)	116,724
Decrease in deferred revenue	(246,946)	(125,885)
(Decrease) increase in other long-term liabilities	(115,436)	27,672
Net cash (used in) provided by operating activities	(116,541)	457,780
<b>Investing activities</b>		
Purchases of property and equipment	(437,569)	(280,666)
Proceeds from sale or disposal of property and equipment	16,580	1,161
Purchases of or contributions to investments in unconsolidated organizations	(7,671)	(23,658)
Decrease (increase) in other-than-trading investments and assets limited as to use	64,646	(25,342)
Decrease (increase) in other assets	14,090	(33,480)
Acquisitions of healthcare entities, net of cash acquired	–	(18,128)
Net cash used in investing activities	(349,924)	(380,113)

# CHRISTUS Health

## Consolidated Statements of Cash Flows (continued)

	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
	<i>(In Thousands)</i>	
<b>Financing activities</b>		
Contributions of net assets with donor restrictions	\$ 13,801	\$ 11,494
Purchases and sales of noncontrolling interests, net	(3,217)	(31,409)
Proceeds from issuance of new debt	–	100,000
Payments on long-term debt, including deposits into escrow for defeasance	(45,080)	(90,269)
Payments on financing leases	(15,090)	(8,431)
Distributions to noncontrolling interest holders	(12,826)	(9,490)
Net cash used in financing activities	(62,412)	(28,105)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(528,877)	49,562
Cash, cash equivalents, and restricted cash – beginning of fiscal year	1,495,862	1,446,300
Cash, cash equivalents, and restricted cash – end of fiscal year	\$ 966,985	\$ 1,495,862
<b>Reconciliation of cash, cash equivalents, and restricted cash</b>		
Cash and cash equivalents at beginning of fiscal year	\$ 1,317,597	\$ 1,271,062
Restricted cash included in assets whose use is limited or restricted at beginning of fiscal year	178,265	175,238
Cash, cash equivalents, and restricted cash at beginning of fiscal year	\$ 1,495,862	\$ 1,446,300
Cash and cash equivalents at end of fiscal year	\$ 838,925	\$ 1,317,597
Restricted cash included in assets whose use is limited or restricted at end of fiscal year	128,060	178,265
Cash, cash equivalents, and restricted cash at end of fiscal year	\$ 966,985	\$ 1,495,862
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest (net of amount capitalized)	\$ 57,829	\$ 58,087

*See accompanying notes.*

# CHRISTUS Health

## Notes to Consolidated Financial Statements

June 30, 2022

### **1. Mission, Vision, and Organization of CHRISTUS Health**

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

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

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

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

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

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

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### **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 \$332,895,000 and \$309,385,000 for the fiscal years ended June 30, 2022 and 2021, respectively.

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

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 2. Community Health (continued)

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

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

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

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

### 3. Summary of Significant Accounting Policies

#### Basis of Consolidation

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

#### Foreign Currency

Functional currency is determined for each entity within the System based on the primary currency in which the entity generates and expends cash. Each entity denominated in a functional currency other than the U.S. Dollar (USD) is subjected to a remeasurement and translation process. First,

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### **3. Summary of Significant Accounting Policies (continued)**

transactions at these entities that are in a currency other than the functional currency are remeasured into the functional currency. After all balances are appropriately measured in the functional currency, the balances are then translated to USD and consolidated.

#### **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.

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 3. Summary of Significant Accounting Policies (continued)

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.

#### 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.



# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 3. Summary of Significant Accounting Policies (continued)

#### 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, 2022 and 2021, the System had capitalized costs related to internal-use software obtained through a hosting arrangement, net of amortization, of \$27,927,000 and \$31,494,000, respectively, included in other assets in the consolidated balance sheets. The capitalized costs are amortized over a 10-year life. During the fiscal years ended June 30, 2022 and 2021, the System recognized amortization expense of \$3,567,000 and \$2,976,000, 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 impairments of operating long-lived assets recognized in fiscal years 2022 or 2021.

#### 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.

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### **3. Summary of Significant Accounting Policies (continued)**

The System has investments in unconsolidated organizations of \$221,338,000 and \$269,573,000 at June 30, 2022 and 2021, respectively. Differences between the carrying amounts of the System's investments and the underlying equity in the net assets of the investees total \$80,589,000 and \$80,845,000 at June 30, 2022 and 2021, 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 \$24,945,000 and \$27,147,000 for the fiscal years ended June 30, 2022 and 2021, respectively, are reflected in other revenue in the consolidated statements of operations.

#### **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.

## CHRISTUS Health

### Notes to Consolidated Financial Statements (continued)

#### 3. Summary of Significant Accounting Policies (continued)

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

	<b>Goodwill</b>	<b>Indefinite- Lived Asset</b>	<b>Finite-Lived Assets</b>
Balance at July 1, 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
Assets acquired	–	–	5,848
Amortization	–	–	(4,874)
Currency translation and other adjustments	1,237	–	(963)
Balance at June 30, 2022	<b>\$ 106,192</b>	<b>\$ 46,000</b>	<b>\$ 10,895</b>

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

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

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 3. Summary of Significant Accounting Policies (continued)

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.

As a result of the qualitative assessment for fiscal year 2022, no impairment loss was recognized related to goodwill. During fiscal year 2021, an impairment loss of \$27,459,000 was recognized related to goodwill in the Southwest Louisiana reporting unit.

Indefinite-lived intangible assets are also evaluated annually for impairment on April 1 of each year, by comparing the fair value of the asset with its carrying amount. The System also considers facts and circumstances surrounding the asset on an annual basis to determine whether an indefinite life continues to be appropriate. For indefinite-lived intangible asset impairment tests, the System also may elect to perform a qualitative assessment to determine whether facts and circumstances support a conclusion that it is more likely than not that the asset is not impaired. If the qualitative analysis is not conclusive, or if the System elects to proceed directly with 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, 2022 and 2021, no impairment losses on indefinite-lived intangible assets were recorded.

Finite-lived intangible assets are evaluated for impairment whenever indicators of impairment are identified. An impairment loss is recognized if the intangible asset is not recoverable and its carrying amount exceeds its fair value. No impairment losses on finite-lived intangible assets were recognized in fiscal years 2022 or 2021.

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 3. Summary of Significant Accounting Policies (continued)

#### 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, 2022 and 2021, are \$7,548,000 and \$8,326,000, 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 2022 and 2021 was \$778,000 and \$867,000, respectively.

#### Net Assets With Donor Restrictions

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

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 3. Summary of Significant Accounting Policies (continued)

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.

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:

	<u>2022</u>	<u>2021</u>
Medicare	30%	34%
Medicaid	15	10
Managed care organizations	38	37
Self-pay	4	4
Others	13	15
	<u>100%</u>	<u>100%</u>

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 3. Summary of Significant Accounting Policies (continued)

#### 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 36.0% and 39.8% of total premium revenue during the years ended June 30, 2022 and 2021, 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, Medicare Advantage plans, and for individual coverage on federal and state-based health exchanges. Premium revenue for individual coverage on the federal and state-based Exchanges and Medicare Advantage programs was 64.0% and 60.2% of total premium revenue for the fiscal years ended June 30, 2022 and 2021, 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 \$13,583,000 and \$19,686,000 as of June 30, 2022 and 2021, respectively. Ultimate settlement could differ significantly from these estimates.

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 3. Summary of Significant Accounting Policies (continued)

Costs for providing services through these contracts were \$311,722,000 and \$268,171,000 for the fiscal years ended June 30, 2022 and 2021, respectively, and are included as operating expenses in the accompanying consolidated financial statements. At June 30, 2022 and 2021, 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 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, 2022 and 2021, other revenue included amounts received under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The System recognizes grant payments under the CARES Act as revenues when the grant conditions have been substantially met. These estimates could change materially based on evolving grant compliance provisions and guidance provided by the U.S. Department of the Treasury. The System will continue to monitor the evolving guidelines and may record adjustments as additional information is released (see Note 5).



# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 3. Summary of Significant Accounting Policies (continued)

#### 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, 2022 or 2021.

At June 30, 2022 and 2021, CHRISTUS has operating loss carryforwards in its domestic operations of \$211,858,000 and \$253,726,000, which result in deferred tax assets of \$44,490,000 and \$53,282,000, respectively. CHRISTUS has provided a valuation allowance of the same amount, as it is more likely than not that the deferred tax assets will not be realized. CHRISTUS also has net deferred tax assets of approximately \$28,384,000 and \$22,087,000 as of June 30, 2022 and 2021, 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.

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### **3. Summary of Significant Accounting Policies (continued)**

#### **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, 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.

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 3. Summary of Significant Accounting Policies (continued)

#### 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.

#### New Accounting Pronouncements

In March 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2021-03, *Accounting Alternative for Evaluating Triggering Events, as an update to ASC 350, Intangibles – Goodwill and Other*. This update provides private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as required in Subtopic 350-20 as of the end of the reporting period, whether the reporting period is an interim or annual period. An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. The System adopted the guidance in ASU 2021-03 on July 1, 2021, using a prospective approach. Adoption of ASU 2021-03 did not materially impact the System's consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to address presentation and disclosure of contributed nonfinancial assets. The amendments in this update require additional qualitative and quantitative disclosures related to contributed nonfinancial assets. The System adopted the guidance in ASU 2020-07 on June 30, 2022, using a retrospective approach. The adoption of ASU 2020-07 did not materially impact the System's consolidated financial statements.

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 3. Summary of Significant Accounting Policies (continued)

#### Pending Accounting Pronouncements

In October 2021, the FASB issued ASU 2021-08, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, as an update to ASC 805, *Business Combinations*. This update requires acquiring entities to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606 as if it had originated the contracts. Under current GAAP, an acquirer generally recognizes assets acquired and liabilities assumed in a business combination, including contract assets and contract liabilities arising from revenue contracts with customers, at fair value on the acquisition date. The updated guidance will be effective on a prospective basis for fiscal years beginning after December 15, 2023, including interim periods within that fiscal year. Early adoption is permitted, including adoption in an interim period. CHRISTUS is currently evaluating the impact of this pronouncement on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The amendments in the ASU provide optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued due to reference rate reform. The guidance was effective upon issuance and generally can be applied through December 31, 2022. CHRISTUS is currently evaluating the impact of this pronouncement on its consolidated financial statements.

In January 2017, the FASB issued 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 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.

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 3. Summary of Significant Accounting Policies (continued)

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

### 4. Revenue Recognition

#### Patient Service Revenue

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

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

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 4. Revenue Recognition (continued)

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, 2022 and 2021, the System has estimated third-party settlements, net, of \$30,708,000 and \$22,974,000, 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 2022 and 2021, revenue increased \$9,535,000 and \$10,064,000, respectively, related to changes in estimates for cost report reopenings, appeals, and tentative and final cost report settlements on filed cost reports, of which some are still subject to audit, additional reopening, and/or appeal.

The transaction price for patient services provided depends greatly upon the System's payor mix, as collections on gross charges can vary significantly, depending on a patient's insurance coverage, or lack thereof, and the extent of amounts due from patients for co-pays, coinsurance, and deductibles. Various factors affect collection trends within each major class of payors. These include general economic conditions, including unemployment rates, which may influence the number of uninsured and underinsured patients; regulatory changes that affect reimbursement rates from governmental programs such as Medicare and Medicaid; and ongoing contract negotiations with managed care health plans and commercial insurance providers. In addition, estimates of implicit price concessions offered to uninsured patients or related to co-pays, coinsurance, and deductibles of patients with insurance are subject to change as historical collection and write-off

## CHRISTUS Health

### Notes to Consolidated Financial Statements (continued)

#### 4. Revenue Recognition (continued)

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 (in thousands):

	Year Ended June 30, 2022		Year Ended June 30, 2021	
	Amount	Percentage of Total	Amount	Percentage of Total
Domestic operations:				
Medicare	\$ 2,143,520	33%	\$ 2,040,599	35%
Medicaid	953,079	15	786,783	14
Managed care	2,211,497	34	1,989,184	34
Self-pay	473,255	7	356,480	6
Other	228,627	4	236,570	4
Subtotal domestic operations	<u>6,009,978</u>	<u>93</u>	<u>5,409,616</u>	<u>93</u>
International operations:				
Mexico payors (private insurance and government payors)	444,679	7	376,820	7
Net patient service revenue	<u>\$ 6,454,657</u>	<u>100%</u>	<u>\$ 5,786,436</u>	<u>100%</u>

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

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

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 4. Revenue Recognition (continued)

The System recorded \$137,760,000 and \$144,755,000 in net patient service revenue during fiscal years 2022 and 2021, 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 has historically provided supplemental payments to hospitals through two pools: Uncompensated Care (UC) and Delivery System Reform Incentive Payments (DSRIP). On July 14, 2021 HHSC submitted to CMS its request to extend and to amend the waiver program through September 30, 2030. The extension was ultimately granted on April 22, 2022. Per the terms of prior renewals, the DSRIP program ended on September 30, 2021; therefore, only UC payments will continue through the end of the Waiver program.

Revenue under the Waiver Program is recognized as a component of net patient service revenue over the applicable demonstration year. The System recorded \$288,230,000 and \$283,041,000 in net patient service revenue during fiscal years 2022 and 2021, respectively, related to the Waiver Program.

In addition to payments under the Waiver Program, the state of Texas also makes directed payments to hospitals for inpatient and outpatient services. These payments were previously made through the Uniform Hospital Incentive Rate Program (UHRIP); however, the UHRIP program expired on August 31, 2021. With the expiration of both DSRIP and UHRIP, the state implemented the Comprehensive Hospital Increase Reimbursement Program (CHIRP). CHIRP was designed to reimburse providers closer to the average commercial rate. The System recorded approximately \$104,270,000 in net patient service revenue related to UHRIP during fiscal year 2021. During fiscal year 2022, the System recorded approximately \$156,150,000 in net patient service revenue related to CHIRP and UHRIP.

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.



# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### **4. Revenue Recognition (continued)**

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

### **5. COVID-19 Pandemic and CARES Act**

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

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. To date, CHRISTUS has received approximately \$410,000,000 in stimulus funding under the Provider Relief Program to cover unreimbursed healthcare-related expenses attributable to the public health emergency and lost revenues resulting from COVID-19. CHRISTUS follows grant accounting to recognize the stimulus funding as other operating revenue, based on guidance from the U.S. Department of Health & Human Services (HHS). Approximately \$88,500,000 and \$70,000,000 of these funds have been recognized as other revenue for the fiscal years ended June 30, 2022 and 2021, 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, 2022 and 2021, the System has deferred \$122,500,000 and \$83,000,000, 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.

## CHRISTUS Health

### Notes to Consolidated Financial Statements (continued)

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

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, 2022 and 2021, CHRISTUS has approximately \$171,000,000 and \$517,000,000, 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 System also received services from similar programs in Louisiana and New Mexico. The value of these services approximated \$95,404,000 and \$161,188,000 for the fiscal years ended June 30, 2022 and 2021, respectively, and is recognized as other revenue and compensation and benefits expense in the accompanying consolidated statements of operations and changes in net assets.

## CHRISTUS Health

### Notes to Consolidated Financial Statements (continued)

#### 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):

	2022	2021
Cash and cash equivalents	\$ 966,985	\$ 1,495,862
Certificates of deposit	26,887	23,202
Domestic equities	152,106	192,376
International equities	9,042	8,832
Fixed-income securities	256,772	293,182
U.S. government securities	352,427	348,898
Mutual funds and other similar investment funds:		
Domestic equity funds	104,931	95,731
International equity funds	116,621	143,371
Fixed-income funds	237,514	266,128
Risk parity, blended, and other funds	33,536	37,812
Equity investments in managed funds:		
Fixed-income funds	129,157	113,964
Hedge funds	280,431	263,301
Private equity, real estate, and other	72,933	50,632
	\$ 2,739,342	\$ 3,333,291

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

#### Fixed Income and U.S. Government Securities

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

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### **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.

## CHRISTUS Health

### Notes to Consolidated Financial Statements (continued)

#### 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, 2022, the System had commitments to fund equity investments in private equity funds totaling \$12,153,000, 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):

	2022	2021
Assets whose use is limited or restricted, required for current bond indenture and self-insurance liabilities	\$ 51,237	\$ 39,082
Other investments, internally designated for capital expansion and other purposes	650,963	524,899
Under bond indenture agreement – held by trustee	25,179	59,553
Under liability retention and self-insurance funding arrangement – held by trustee	19,552	21,538
Under Emerald Assurance funding arrangements	102,543	118,917
Restricted cash and investments	45,013	56,562
Total assets whose use is limited or restricted	\$ 894,487	\$ 820,551

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 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):

	2022	2021
Operating interest and dividend income	\$ 19,271	\$ 13,658
Operating (loss) gain, realized and unrealized	(5,658)	6,757
Equity investment gain on managed funds	9,529	18,183
Total operating investment income	23,142	38,598
Nonoperating interest and dividend income	19,149	18,886
Nonoperating (loss) gain, realized and unrealized	(111,288)	125,159
Equity investment (loss) gain on managed funds	(7,311)	48,666
Net swap agreement activity	59,240	29,914
Total nonoperating investment (loss) gain, net	(40,210)	222,625
Total investment (loss) gain, net	\$ (17,068)	\$ 261,223

### 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.

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 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, 2022 or 2021.

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

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

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 7. Fair Value Measurements (continued)

	2021			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
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
	<u>\$ 2,024,267</u>	<u>\$ 665,282</u>	<u>\$ –</u>	<u>2,689,549</u>
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				<u>\$ 2,970,133</u>
<b>Liabilities</b>				
Interest rate swap agreements	\$ –	\$ 144,087	\$ –	\$ 144,087
Total liabilities at fair value	<u>\$ –</u>	<u>\$ 144,087</u>	<u>\$ –</u>	<u>\$ 144,087</u>

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 \$406,878,000 and \$363,158,000 at June 30, 2022 and 2021, respectively, are not included in this table, since they are accounted for using the equity method of accounting.



# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 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, 2022 and 2021, 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.

## CHRISTUS Health

### Notes to Consolidated Financial Statements (continued)

#### 8. Leases (continued)

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

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

	<u>2022</u>	<u>2021</u>
Operating lease cost	\$ 57,400	\$ 60,543
Finance lease cost:		
Amortization of right-of-use assets	10,106	8,140
Interest on lease liabilities	<u>5,785</u>	<u>10,387</u>
Total finance lease cost	15,891	18,527
Short-term and variable lease cost	<u>66,037</u>	<u>58,036</u>
Total lease cost	<u>\$ 139,328</u>	<u>\$ 137,106</u>

## CHRISTUS Health

### Notes to Consolidated Financial Statements (continued)

#### 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):

	<b>2022</b>		<b>2021</b>
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ <b>57,592</b>	\$	61,083
Operating cash flows from finance leases	<b>5,802</b>		10,385
Financing cash flows from finance leases	<b>12,004</b>		8,431
Right-of-use assets obtained in exchange for new operating leases	<b>15,535</b>		17,846
Right-of-use assets obtained in exchange for new financing leases	<b>25,461</b>		31,290
Weighted average remaining lease term:			
Operating leases	<b>5.9 years</b>		6.1 years
Finance leases	<b>12.2 years</b>		11.4 years
Weighted average discount rate:			
Operating leases	<b>6.14%</b>		6.43%
Finance leases	<b>5.06%</b>		6.68%

## CHRISTUS Health

### Notes to Consolidated Financial Statements (continued)

#### 8. Leases (continued)

Future undiscounted cash flows and maturities of lease liabilities at June 30, 2022 are presented in the following table (in thousands):

	<b>Operating Leases</b>	<b>Finance Leases</b>	<b>Total</b>
2023	\$ 52,711	\$ 14,538	\$ 67,249
2024	44,880	14,484	59,364
2025	29,703	14,538	44,241
2026	21,061	14,832	35,893
2027	16,169	10,669	26,838
Thereafter	49,577	70,324	119,901
Total minimum lease payments	214,101	139,385	353,486
Less imputed interest	(15,638)	(16,217)	(31,855)
Total lease liabilities	198,463	123,168	321,631
Less current portion	(48,505)	(12,069)	(60,574)
Long-term lease liabilities	<u>\$ 149,958</u>	<u>\$ 111,099</u>	<u>\$ 261,057</u>

#### 9. Property and Equipment

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

	<b>2022</b>	<b>2021</b>
Land	\$ 233,908	\$ 243,292
Land improvements	97,617	93,918
Buildings and fixed equipment	3,767,820	3,615,063
Major movable equipment	1,877,558	1,707,933
Accumulated depreciation	<u>(3,225,889)</u>	<u>(2,977,081)</u>
	2,751,014	2,683,125
Construction-in-progress (estimated cost to complete is \$731,001 at June 30, 2022)	273,293	183,767
Total	<u>\$ 3,024,307</u>	<u>\$ 2,866,892</u>

Depreciation expense for the System for fiscal years 2022 and 2021 totaled \$265,150,000 and \$250,364,000, respectively.

## CHRISTUS Health

### Notes to Consolidated Financial Statements (continued)

#### **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 Pontificia 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 \$21,000,000. The investment in CHRISTUS Salud is treated as an equity method investment. As of June 30, 2022 and 2021, CHRISTUS's investment in CHRISTUS Salud was \$159,827,000 and \$205,288,000, respectively. During fiscal years 2022 and 2021, CHRISTUS made additional capital contributions to CHRISTUS Salud of \$7,639,000 and \$22,702,000, respectively. The System's share of income (losses) from the operations for the fiscal years ended June 30, 2022 and 2021, was \$7,057,000 and \$7,651,000, respectively. During fiscal year 2022, CHRISTUS's investment in CHRISTUS Salud declined by \$58,791,000 due to changes in the exchange rate and the resulting translation adjustment.

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, 2022 and 2021.

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 \$13,564,000 and \$13,720,000 during the fiscal years ended June 30, 2022 and 2021, respectively.

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 11. Long-Term Debt

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

	2022	2021
Obligations issued under the CHRISTUS Health Master Trust Indenture (CHRISTUS MTI):		
Revenue bonds, in variable-rate demand mode, with weighted average interest rates of 0.24% and 0.09% in fiscal years 2022 and 2021, 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 0.33% and 0.25% in fiscal years 2022 and 2021, respectively, due in annual installments through July 1, 2031	115,500	117,825
Revenue bonds, in fixed-rate mode, bearing interest from 5.25% to 4.50%, due in annual installments through July 1, 2048	555,575	566,670
Direct-placement notes due in annual installments through July 1, 2041	73,825	82,224
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	100,000
Other notes	45,812	69,250
	1,510,368	1,555,625
Premiums, net, on long-term debt	33,876	36,807
Unamortized deferred financing costs	(7,548)	(8,326)
	1,536,696	1,584,106
Less current portion, including amounts subject to remarketing agreements	(32,016)	(100,594)
Total long-term debt	\$ 1,504,680	\$ 1,483,512

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 11. Long-Term Debt (continued)

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

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

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 11. Long-Term Debt (continued)

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

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 \$45,812,000 and \$69,250,000 as of June 30, 2022 and 2021, 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):

2023	\$	32,016
2024		30,018
2025		31,175
2026		31,455
2027		51,865
Thereafter		1,333,839
Total long-term debt	\$	<u>1,510,368</u>



# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 12. Derivative Financial Instruments

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

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

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degrees of market risk that may be undertaken. Management also mitigates risk through periodic reviews of its derivative positions in the context of its blended cost of capital. As of June 30, 2022 and 2021, CHRISTUS has interest rate swap agreements to manage interest rate risk exposure, not designated as hedging instruments, with a total notional amount of \$522,835,000 and \$883,035,000, respectively. The decrease in the notional amount is primarily driven by the expiration of four interest rate swaps in fiscal year 2022, with a total notional amount of \$350,000,000.

The following table summarizes the fair value at June 30, 2022 and 2021 and the income (loss) recorded related to the System's derivative instruments as of and for the fiscal years ended June 30, 2022 and 2021 (in thousands):

Counterparty	Description	Termination Date	Agreements	Notional Amount	Fair Value		Change in Fair Value		(Paid) Received	
					June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
<b>Interest Rate Swaps</b>										
Merrill Lynch	Var. basis	2021–2023	2/6	\$120,000/470,000	\$ 156	\$ (151)	\$ 307	\$ 331	\$ 43	\$ 116
Wells Fargo	Fixed payor	2031	1	123,575/133,775	(6,523)	(16,701)	10,178	6,808	(3,685)	(4,160)
Citigroup*	Fixed payor	2047	2	166,100	(39,374)	(75,848)	36,474	21,432	(5,351)	(5,551)
Citigroup*	Fixed payor	2047	1	113,160	(26,505)	(51,387)	24,882	14,681	(3,608)	(3,743)
			6/10	\$522,835/883,035	\$ (72,246)	\$(144,087)	\$ 71,841	\$ 43,252	\$ (12,601)	\$(13,338)

\*Insured by MBIA

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### **12. Derivative Financial Instruments (continued)**

CHRISTUS is required to post collateral under certain circumstances for negative valuations on each of its swaps according to the terms of (1) the swap insurance agreements, where applicable, and (2) the agreement with each counterparty. CHRISTUS has complied with this requirement. At June 30, 2022 and 2021, no collateral was posted. The System does not anticipate nonperformance by its counterparties.

The fair value of these derivative instruments was a liability of \$72,246,000 and \$144,087,000 at June 30, 2022 and 2021, respectively. The change in value of \$71,841,000 and \$43,252,000 for the fiscal years ended June 30, 2022 and 2021, respectively, is combined with the payments, net of receipts, made under the agreements of \$12,601,000 and \$13,338,000 for the fiscal years ended June 30, 2022 and 2021, respectively. This total is included in nonoperating investment gain (loss), net, in the consolidated statements of operations and changes in net assets.

### **13. Employee Benefit Plans**

#### **Defined Benefit Plans**

##### *Cash Balance Plan*

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

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

##### *Mother Frances Hospital Defined Benefit Pension Plan*

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

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 13. Employee Benefit Plans (continued)

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, 2022 and 2021, the net periodic benefit credit for the Cash Balance Plan was \$21,160,000 and \$16,572,000, respectively. For the years ended June 30, 2022 and 2021, the net periodic benefit credit for the TMF Plan was \$5,543,000 and \$4,038,000, 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 2022 and 2021, the Cash Balance Plan includes a settlement charge of \$4,430,000 and \$5,000,000, respectively, recorded in connection with a remeasurement of plan liabilities.

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

	Cash Balance Plan		TMF Plan	
	2022	2021	2022	2021
Benefit obligation – end of year	\$ 868,403	\$ 965,459	\$ 155,651	\$ 194,513
Fair value of plan assets – end of year	859,325	935,192	164,680	177,599
Funded status	\$ (9,078)	\$ (30,267)	\$ 9,029	\$ (16,914)

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 13. Employee Benefit Plans (continued)

As of June 30, 2022 and 2021, the Defined Benefit Plans had accumulated benefit obligations of \$1,024,054,000 and \$1,159,972,000, 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	
	2022	2021	2022	2021
Benefit obligations:				
Discount rate	<b>4.60%</b>	2.78%	<b>4.67%</b>	2.93%
Interest crediting rate	<b>3.10</b>	N/A	<b>N/A</b>	N/A
Net periodic benefit credit cost:				
Discount rate	<b>2.98</b>	2.77	<b>2.93</b>	2.84
Interest crediting rate	<b>1.73</b>	N/A	<b>N/A</b>	N/A
Expected long-term return on plan assets	<b>5.50</b>	5.50	<b>5.50</b>	5.50

As of June 30, 2022 and 2021, the total amount recognized in net assets without donor restrictions were \$177,378,000 and \$178,806,000, respectively. For the fiscal years ended June 30, 2022 and 2021, the change in pension plan obligations recognized in net assets without donor restriction was \$(1,428,000) and \$(95,314,000).

### 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 for the years ended June 30, 2022 and 2021 were \$(33,169,000) and \$165,014,000, respectively. The actual returns on the TMF Plan assets for the years ended June 30, 2022 and 2021 were \$(14,263,000) and \$25,374,000, respectively.

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 13. Employee Benefit Plans (continued)

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):

	<b>Cash Balance Plan</b>		<b>TMF Plan</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 68,270	\$ 159,838	\$ 16,878	\$ 12,079
Domestic equities	60,942	23,306	21,032	6,398
International equities	3,529	2,184	1,202	589
Fixed-income securities	22,026	23,960	20,339	21,105
Mutual funds and other similar investment funds:				
Domestic equity funds	1,075	–	8,775	29,817
International equity funds	33,870	52,494	11,169	13,523
Fixed-income funds	69,361	76,658	28,628	32,300
Risk parity, blended, and other funds	7	20,308	–	4,244
Equity investments in managed funds:				
Fixed-income funds	267,550	280,612	22,162	22,214
Hedge funds	158,564	150,806	34,331	35,330
Private equity, real estate, and other	173,562	144,872	–	–
Other	569	154	164	–
<b>Total</b>	<b>\$ 859,325</b>	<b>\$ 935,192</b>	<b>\$ 164,680</b>	<b>\$ 177,599</b>

CHRISTUS Health

Notes to Consolidated Financial Statements (continued)

**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	
	2022	2021	2022	2021
Allocation of plan assets, by asset category:				
Cash and cash equivalents	–%	–%	2%	2%
Equity securities and equity funds	15	15	33	33
Fixed-income securities and fixed-income funds	30	30	35	35
Equity investments in managed funds (Note 6)	55	55	30	30
Total	100%	100%	100%	100%

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):

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

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 13. Employee Benefit Plans (continued)

	2021			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
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

The Cash Balance Plan has \$77,941,000 of funding commitments to purchase private equity, real estate, and other funds as of June 30, 2022. The TMF Plan has no such funding commitments.

### Contributions

In fiscal year 2022, CHRISTUS contributed \$19,000,000 to the Defined Benefit Plans. In fiscal year 2023, CHRISTUS expects to contribute \$10,000,000 to the Defined Benefit Plans based on asset values for the plan year beginning January 1, 2022.

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 13. Employee Benefit Plans (continued)

#### Benefit Payments

Benefit payments for the Cash Balance Plan for the years ended June 30, 2022 and 2021 were \$52,698,000 and \$56,394,000, respectively. Benefit payments for the TMF Plan for the years ended June 30, 2022 and 2021 were \$7,656,000 and \$7,202,000, 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):

	<b>Cash Balance Plan</b>	<b>TMF Plan</b>
2023	\$ 63,576	\$ 8,369
2024	63,205	8,694
2025	62,879	8,977
2026	62,245	9,195
2027	61,000	9,399
Years 2028–31	283,203	49,092

#### 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, 2022 and 2021, expenses attributable to the Matched Savings Plan amounted to \$49,030,000 and \$40,302,000, 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, 2022 or 2021. 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, 2022 or 2021.



# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 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 2022 and 2021. For general liability, policies written provide coverage with primary limits in the amount of \$2,000,000 per claim for fiscal years 2022 and 2021. Additionally, the System internally sets aside funds for workers' compensation, Texas occupational injury program, and employee medical benefits based on actuarial analyses.

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

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

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 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, 2022, the System had expended \$612,758,000 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.

## CHRISTUS Health

### Notes to Consolidated Financial Statements (continued)

#### 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):

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

	<b>2021</b>			
	<b>Healthcare Services</b>	<b>Physician Services</b>	<b>General and Administrative</b>	<b>Total</b>
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

#### 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):

	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 838,925	\$ 1,317,597
Short-term investments and equity in managed funds	1,005,930	1,195,143
Patient accounts receivable	733,697	593,390
Total	\$ 2,578,552	\$ 3,106,130

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### 17. Liquidity (continued)

CHRISTUS has the ability to structure its financial assets to be available as its general expenditures and other obligations come due. Cash in excess of daily requirements is invested in short-term investments. CHRISTUS also maintains a \$75,000,000 line of credit with Royal Bank of Canada as discussed in Note 11. As of June 30, 2022, \$75,000,000 remained available under that line 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 were primarily allocated to working capital, property and equipment, and goodwill. During fiscal year 2022, CHRISTUS recognized a purchase accounting adjustment related to the transaction increasing goodwill from \$24,371,000 to \$25,663,000.

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. For the fiscal year ended June 30, 2022, total operating revenue and revenues in excess (deficit) of expenses attributable to CLSH were \$60,116,000 and \$5,135,000, respectively.

# CHRISTUS Health

## Notes to Consolidated Financial Statements (continued)

### **19. Subsequent Events**

The System evaluated events and transactions occurring subsequent to June 30, 2022 through October 6, 2022, the date of issuance of the accompanying consolidated financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements. However, the following event occurred that warrants disclosure.

#### **Bond Issuance**

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

# Supplementary Information – Federal and State Awards

CHRISTUS Health

Schedule of Compensation Information

Years Ended June 30, 2022 and 2021

**Chief Executive Officer:** Ernie Sadau

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

CHRISTUS Health

Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2022

Federal Grantor/State Grantor/ Pass-Through Grantor/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number/State Contract Number	Research and Development Cluster	Other Federal/State Expenditures	Total Federal/State Expenditures	Amounts Provided to Subrecipients	Location
<b>Federal Awards</b>							
<b>U.S. Department of Agriculture</b>							
Indirect Awards:							
<i>Pass-through from the Texas Department of State Health Services:</i>							
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HHS000801600001	\$ -	\$ 317,184	\$ 317,184	\$ 18,493	CHRISTUS Santa Rosa Health System
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HHS000801600001	-	793,310	793,310	101,998	CHRISTUS Santa Rosa Health System
Total WIC Special Supplemental Nutrition Program for Women, Infants, and Children			-	1,110,494	1,110,494	120,491	
<i>Pass-through from the Texas Department of State Health Services:</i>							
Snap Cluster							
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	HHS000801600001	-	2,663	2,663	-	CHRISTUS Santa Rosa Health System
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	HHS000801600001	-	1,830	1,830	-	CHRISTUS Santa Rosa Health System
Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			-	4,493	4,493	-	
<b>Total U.S. Department of Agriculture</b>			-	1,114,987	1,114,987	120,491	
<b>U.S. Department of Justice</b>							
Indirect Awards:							
<i>Pass-through from the New Mexico Crime Victims Reparation Commission:</i>							
Crime Victim Assistance	16.575	2022-VA-122	-	11,861	11,861	-	CHRISTUS St. Vincent Regional Medical Center
<i>Pass-through from the Texas Office of the Governor:</i>							
Crime Victim Assistance	16.575	3785802	-	45,633	45,633	-	CHRISTUS Health Southeast Texas
Crime Victim Assistance	16.575	3785803	-	110,300	110,300	-	CHRISTUS Health Southeast Texas
Crime Victim Assistance	16.575	3282203	-	57,051	57,051	-	CHRISTUS Santa Rosa Health System
Crime Victim Assistance	16.575	3282204	-	204,386	204,386	-	CHRISTUS Santa Rosa Health System
Total Crime Victim Assistance			-	417,370	417,370	-	
<b>Total U.S. Department of Justice</b>			-	429,231	429,231	-	
<b>U.S. Department of Treasury</b>							
Indirect Awards:							
<i>Pass-through from Gregg County, Texas</i>							
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	SKM_C55822012711390	-	1,000,000	1,000,000	-	CHRISTUS Good Shepherd Health System
<b>Total U.S. Department of Treasury</b>			-	1,000,000	1,000,000	-	
<b>U.S. Department of Health and Human Services</b>							
Direct Awards:							
COVID-19 HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461		-	41,680,944	41,680,944	-	CHRISTUS Health System
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498		-	61,047,825	61,047,825	-	CHRISTUS Health System
Accountable Health Communities	93.650	1PICMS331603-05-01	-	455,332	455,332	-	CHRISTUS Santa Rosa Health System
Accountable Health Communities	93.650	1PICMS331603-05-02	-	69,735	69,735	-	CHRISTUS Santa Rosa Health System
Total Accountable Health Communities			-	525,067	525,067	-	
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697		-	400,000	400,000	-	CHRISTUS Health System
<b>Direct Awards Total</b>			-	103,653,836	103,653,836	-	



CHRISTUS Health

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/ Pass-Through Grantor/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number/State Contract Number	Research and Development Cluster	Other Federal/State Expenditures	Total Federal/State Expenditures	Amounts Provided to Subrecipients	Location
<b>Federal Awards (continued)</b>							
Indirect Awards:							
<i>Pass-through from Louisiana Department of Health-Office of Public Health:</i>							
COVID-19 Rural Health Research Centers	93.155	2000629041	\$ -	\$ 108,919	\$ 108,919	\$ -	CHRISTUS Coushatta Health Care Center
<i>Pass-through from Texas Department of Agriculture:</i>							
COVID-19 Rural Health Research Centers	93.155	2021CTM015	-	164,201	164,201	-	CHRISTUS Jasper Memorial Hospital
COVID-19 Rural Health Research Centers	93.155	2021CTM016	-	255,561	255,561	-	CHRISTUS Mother of Frances Jacksonville
Total Rural Health Research Centers			-	528,681	528,681	-	
<i>Pass-through from Texas Department of Agriculture:</i>							
Small Rural Hospital Improvement Grant Program	93.301	2020SHP016	-	10,969	10,969	-	CHRISTUS Jasper Memorial Hospital
<i>Pass-through from the New Mexico Department of Health:</i>							
Public Health Emergency Response: Cooperative Agreement for Emergency Response:							
Public Health Crisis Response	93.354	20-665-0300-22798	-	100,000	100,000	-	CHRISTUS St. Vincent Regional Medical Center
<i>Pass-through from Fred Hutchinson Cancer Research Center:</i>							
Cancer Cause and Prevention Research	93.393	5U01CA182883-07	56,633	-	56,633	-	CHRISTUS Santa Rosa Health System
Cancer Cause and Prevention Research	93.393	6U01CA182883-09	18,512	-	18,512	-	CHRISTUS Santa Rosa Health System
Cancer Cause and Prevention Research	93.393	5U01CA182883-08	18,512	-	18,512	-	CHRISTUS Santa Rosa Health System
Total Cancer Cause and Prevention Research			93,657	-	93,657	-	
<i>Pass-through from Oregon Health and Science University:</i>							
Cancer Treatment Research	93.395	5U10CA180888-08	69,408	-	69,408	-	CHRISTUS Santa Rosa Health System
<i>Pass-through from the University of Michigan:</i>							
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	SUBK00005107	20,968	-	20,968	-	CHRISTUS Spohn Health System
<i>Pass-through from the Louisiana Hospital Association:</i>							
National Bioterrorism Hospital Preparedness Program	93.889	72-0408984	-	114,798	114,798	-	CHRISTUS Health Central Louisiana
<i>Pass-through from the Piney Woods Regional Advisory Council Trauma Service Area G:</i>							
National Bioterrorism Hospital Preparedness Program	93.889	75-2603041	-	1,615	1,615	-	CHRISTUS Trinity Mother Frances Health System
Total National Bioterrorism Hospital Preparedness Program			-	116,413	116,413	-	
<i>Pass-through from LSU Health Science Center New Orleans:</i>							
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	PH-19-111-007-A3	5,966	-	5,966	-	CHRISTUS Health Central Louisiana
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	PH-19-111-007-A4	86,918	-	86,918	-	CHRISTUS Health Central Louisiana
<i>Pass-through from the Texas Health and Human Services Commission:</i>							
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	HHS000735100004	-	14,280	14,280	-	CHRISTUS Health Ark-La-Tex
Total Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations			92,884	14,280	107,164	-	
<i>Pass-through from the Texas Department of State Health Services:</i>							
Maternal and Child Health Services Block Grant to the States	93.994	HHS000043600005	-	86,660	86,660	-	CHRISTUS Santa Rosa Health System
<b>Total U.S. Department of Health and Human Services</b>			276,917	104,510,839	104,787,756	-	
<b>Total Expenditures of Federal Awards</b>			\$ 276,917	\$ 107,055,057	\$ 107,331,974	\$ 120,491	

CHRISTUS Health

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/ Pass-Through Grantor/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number/State Contract Number	Research and Development Cluster	Other Federal/State Expenditures	Total Federal/State Expenditures	Amounts Provided to Subrecipients	Location
<b>State Awards</b>							
Graduate Medical Education Program:							
<b>Direct Awards (Texas Higher Education Coordinating Board):</b>							
Family Practice Residency Program:							
Family Practice Residency Program Operational Grant		THECB 25722	\$ -	\$ 130,143	\$ 130,143	\$ -	CHRISTUS Santa Rosa Health System
Family Practice Residency Program – Primary Care		THECB 25741	-	60,066	60,066	60,066	CHRISTUS Health Ark-La-Tex
Family Practice Residency Program Operational Grant		THECB 25723	-	190,209	190,209	-	CHRISTUS Spohn Health System
Total Family Practice Residency Program			-	380,418	380,418	60,066	
Graduate Medical Education Expansion Program:							
Graduate Medical Education Expansion Program – Pediatrics							
Graduate Medical Education Expansion Program – Pediatrics		THECB 23133	-	2,925,000	2,925,000	2,925,000	CHRISTUS Santa Rosa Health System
Graduate Medical Education Expansion Program – Family Medicine		THECB 22815	-	450,000	450,000	-	CHRISTUS Santa Rosa Health System
Graduate Medical Education Expansion Program – Emergency Medicine		THECB 22814	-	450,000	450,000	-	CHRISTUS Spohn Health System
Total Graduate Medical Expansion Education Program			-	3,825,000	3,825,000	2,925,000	
Total Graduate Medical Education Program			-	4,205,418	4,205,418	2,985,066	
<b>Direct Award (Office of the Governor, Public Safety Office)</b>							
Sexual Assault Forensic Exam (SAFE)-Ready Facilities Program		4176601	-	800	800	-	CHRISTUS Santa Rosa Health System
Sexual Assault Forensic Exam (SAFE)-Ready Facilities Program		3942802	-	21,034	21,034	-	CHRISTUS Health Southeast Texas
Sexual Assault Forensic Exam (SAFE)-Ready Facilities Program		3942803	-	32,044	32,044	-	CHRISTUS Health Southeast Texas
Total Sexual Assault Forensic Exam (SAFE)-Ready Facilities Program			-	53,878	53,878	-	
<b>Indirect Award (Cancer Prevention and Research Institute of Texas)</b>							
<i>Pass-through from the University of Texas Health Science Center at Houston:</i>							
Adolescent Vaccination Program (AVP)		SA0001760	6,470	-	6,470	-	CHRISTUS Santa Rosa Health System
<b>Total Expenditures of State Awards</b>			<u>\$ 6,470</u>	<u>\$ 4,259,296</u>	<u>\$ 4,265,766</u>	<u>\$ 2,985,066</u>	
<b>Total Expenditures of Federal and State Awards</b>			<u>\$ 283,387</u>	<u>\$ 111,314,353</u>	<u>\$ 111,597,740</u>	<u>\$ 3,105,557</u>	

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

# CHRISTUS Health

## Notes to Schedule of Expenditures of Federal and State Awards

June 30, 2022

### 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal and state award activity of CHRISTUS Health under programs of the federal and state governments for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *Texas Grant Management Standards* (TxGMS). Because the Schedule presents only a selected portion of the operations of CHRISTUS Health, it is not intended to and does not present the financial position, results of operations, changes in net assets, or cash flows of CHRISTUS Health.

### 2. Summary of Significant Accounting Policies

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

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

### 3. Nature of Activities

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

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

## CHRISTUS Health

### Notes to Schedule of Expenditures of Federal and State Awards (continued)

#### **4. Donated Personal Protective Equipment (unaudited)**

CHRISTUS Health received \$183,401 of donated personal protective equipment (PPE) from federal sources for the year ended June 30, 2022. PPE is valued based on fair market value at the time of receipt.

#### **5. Provider Relief Fund**

The Schedule includes grant activity related to the Department of Health and Human Services (HHS) Coronavirus Aid Relief and Economic Security (CARES) Act Assistance Listing Number 93.498. As required based on guidance in the 2022 OMB Compliance Supplement, the Schedule includes all funds received between July 1, 2020 and June 30, 2021, and expended by June 30, 2022, as reported to the Health Resources and Services Administration (HRSA) via the Provider Relief Fund Reporting Portal. CHRISTUS Health did not receive Period 3 funds thus no Period 3 submission was required.

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

The Board of Directors and  
Management of CHRISTUS Health

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the consolidated financial statements of CHRISTUS Health, which comprise the consolidated balance sheet as of June 30, 2022 and 2021, 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, and have issued our report thereon dated October 6, 2022.

### **Report on Internal Control Over Financial Reporting**

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

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

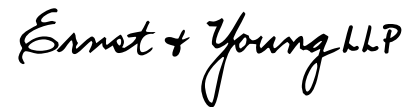
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

## **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

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



October 6, 2022



Ernst & Young LLP  
One Victory Park  
Suite 2000  
2323 Victory Avenue  
Dallas, TX 75219

Tel: +1 214 969 8000  
Fax: +1 214 969 8587  
ey.com

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

The Board of Directors and Management  
CHRISTUS Health

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

#### ***Opinion on Each Major Federal and State Program***

We have audited CHRISTUS Health's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of CHRISTUS Health's major federal programs and the types of compliance requirements described in the Texas Grant Management Standards (TxGMS) that could have a direct and material effect on CHRISTUS Health's major state program for the year ended June 30, 2022. CHRISTUS Health's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, CHRISTUS Health complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2022.

#### ***Basis for Opinion on Each Major Federal and State Program***

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

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

### ***Responsibilities of Management for Compliance***

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

### ***Auditor's Responsibilities for the Audit of Compliance***

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

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

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

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



***Other Matters***

Our audit of the major federal program identified as Assistance Listing Number 93.461 included certain audit procedures for the compliance requirement associated with activities allowed or unallowed that were limited to tests of compliance that reimbursements received, or expected to be received, related to health services allowed under this federal program. Our audit of compliance was not designed to test or provide assurance on the determination of whether a service was medically necessary, obtained through a legally appropriate referral, properly performed, rendered in a quality manner from a clinical perspective, adequately supervised, accurately documented and classified (i.e., that the correct medical bill code assigned represents the health service performed), or rendered and billed by non-sanctioned individuals. Performing procedures related to these matters is not within our professional expertise. Additional information on the nature of our procedures is available in the AICPA Audit and Accounting Guide, *Health Care Entities*. Our audit procedures for the compliance requirement associated with eligibility were limited to tests of compliance that services reimbursed, or expected to be reimbursed, were for individuals who received a temporary member identification number from the third-party service provider used by HRSA to identify a lack of active health care coverage.

**Report on Internal Control Over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a material weakness.

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

<b>Finding Number</b>	<b>Assistance Listing Number</b>	<b>Program Name</b>	<b>Compliance Requirement</b>
2022-001	93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	Activities Allowed or Unallowed

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

CHRISTUS Health is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. CHRISTUS Health's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on it.

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

*Ernst + Young LLP*

March 31, 2023

# CHRISTUS Health

## Schedule of Findings and Questioned Costs

Year Ended June 30, 2022

### Section I – Summary of Auditor’s Results

#### Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

       Yes        X   No

Significant deficiency(ies) identified?

       Yes        X   None reported

Noncompliance material to financial statements noted?

       Yes        X   No

#### Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

  X   Yes             No

Significant deficiency(ies) identified?

       Yes        X   None reported

Type of auditor’s report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

  X   Yes             No

#### State Awards

Internal control over major state programs:

Material weakness(es) identified?

       Yes        X   No

Significant deficiency(ies) identified?

       Yes        X   None reported

Type of auditor’s report issued on compliance for major state programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Texas Grant Management Standards?

       Yes        X   No

**CHRISTUS Health**

Schedule of Findings and Questioned Costs (continued)

**Section I – Summary of Auditor’s Results (continued)**

Identification of major federal programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.461	COVID-19 HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund
93.498	COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

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

Auditee qualified as low-risk auditee?        Yes   X   No

Identification of major state programs:

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

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

Auditee qualified as low-risk auditee?   X   Yes        No

**Section II – Financial Statement Findings**

No findings were noted.

# CHRISTUS Health

## Schedule of Findings and Questioned Costs (continued)

### Section III – Federal Award Findings and Questioned Costs

#### Finding 2022-001 – Internal Control Deficiency Over Activities Allowed or Unallowed

**Identification of the federal program:**

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

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

**Award Period of Performance:** January 01, 2020 – December 31, 2021

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

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

**Condition:**

CHRISTUS Health (CHRISTUS) did not consistently retain documentation to evidence approval of certain expenses incurred related to COVID-19.

**Cause:**

CHRISTUS did not have controls in place to ensure amounts recorded as COVID-19 related expenses were reviewed and approved.

**Effect or potential effect:**

Lack of documentation of controls, including review and approval of expenses, may lead to ineligible expenses charged to the program.

**Questioned Costs:**

None.

# CHRISTUS Health

## Schedule of Findings and Questioned Costs (continued)

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

#### **Finding 2022-001 – Internal Control Deficiency Over Activities Allowed or Unallowed (continued)**

**Context:**

We issued a material weakness related to internal controls in the prior year. Based upon the implementation date for the corrective action provided by management, the finding related to this internal control had not been remediated for the period under audit. As such, we did not test the operating effectiveness of this control and are issuing a material weakness consistent with the prior year finding.

CHRISTUS reported \$12,991,294 of total expenses for the Period 2 HRSA Portal Submission.

**Identification as a repeat finding, if applicable:**

The finding is a repeat finding – Finding 2021-001.

**Recommendation:**

CHRISTUS should refine its process to retain documentation evidencing that each expense recorded to the COVID accounts is reviewed and approved.

**View of Responsible Officials:**

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

### **Section IV – State Award Findings and Questioned Costs**

No findings were noted.

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