

# **Franciscan Alliance, Inc. and Affiliates**

**Consolidated Financial Statements with  
Supplemental Financial Information  
December 31, 2021 and 2020**

**Franciscan Alliance, Inc. and Affiliates**  
**Index**  
**December 31, 2021 and 2020**

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	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1-2
<b>Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Operations and Changes in Net Assets .....	4-5
Consolidated Statements of Cash Flows .....	6
Notes to Consolidated Financial Statements.....	7-41



## Report of Independent Auditors

To the Board of Trustees of Franciscan Alliance, Inc.

### ***Opinion***

We have audited the accompanying consolidated financial statements of Franciscan Alliance, Inc. and its affiliates ("Franciscan"), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Franciscan as of December 31, 2021 and 2020, and the results of its operations, its changes in 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 audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Franciscan 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.

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

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

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

### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS 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 US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the 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 Franciscan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Franciscan'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.

*PricewaterhouseCoopers LLP*

Chicago, Illinois  
May 6, 2022

**Franciscan Alliance, Inc. and Affiliates**  
**Consolidated Statements of Financial Position**  
**Years Ended December 31, 2021 and 2020**  
(In thousands)

	2021	2020		2021	2020
<b>Assets</b>			<b>Liabilities and Net Assets</b>		
Current assets			Current liabilities		
Cash and cash equivalents	\$ 274,353	\$ 42,678	Current portion of long-term debt	\$ 28,041	\$ 26,467
Short-term investments	115,593	402,478	Current portion of operating lease liabilities	26,578	27,826
Patient accounts receivable	428,846	403,514	Accounts payable and accrued expenses	369,995	319,076
Inventories of supplies	67,113	68,289	Accrued payroll and related expenses	162,665	160,703
Other current assets	<u>151,648</u>	<u>131,581</u>	Estimated third-party payor settlements	<u>242,743</u>	<u>185,046</u>
Total current assets	1,037,553	1,048,540	Total current liabilities	830,022	719,118
Board designated and other investments	3,466,532	3,174,338	Long-term debt, net of current portion	1,130,193	1,162,556
Property, plant, and equipment, net	1,969,847	1,992,288	Operating lease liabilities, net of current portion	105,724	122,937
Investments in unconsolidated affiliates	11,217	13,397	Fair value of interest rate swap contracts	60,695	79,409
Right of use leased assets, operating	129,683	148,827	Accrued pension liability	27,540	197,052
Other assets	188,478	164,364	Estimated insurance liabilities	146,164	130,189
Goodwill	26,341	24,541	Other liabilities	<u>140,799</u>	<u>339,319</u>
			Total liabilities	<u>2,441,137</u>	<u>2,750,580</u>
			Net assets without donor restrictions		
			Controlling interest	4,304,031	3,716,335
			Noncontrolling interest in consolidated affiliates	32,454	54,495
			Total net assets without donor restrictions	<u>4,336,485</u>	<u>3,770,830</u>
			Net assets with donor restrictions	<u>52,029</u>	<u>44,885</u>
			Total net assets	<u>4,388,514</u>	<u>3,815,715</u>
Total assets	<u>\$ 6,829,651</u>	<u>\$ 6,566,295</u>	Total liabilities and net assets	<u>\$ 6,829,651</u>	<u>\$ 6,566,295</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Franciscan Alliance, Inc. and Affiliates**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended December 31, 2021 and 2020**  
(In thousands)

	2021	2020
<b>Changes in net assets without donor restrictions</b>		
<b>Revenues, gains, and other support</b>		
Patient service revenue	\$ 3,242,407	\$ 2,907,255
Capitation and premium revenue	46,790	35,853
Other operating revenue	275,287	358,476
Equity in losses of investments in unconsolidated affiliates	(680)	(1,590)
Net unrealized investment gains	8,935	9,786
Net assets released from restrictions used for operations	176	108
Total revenues, gains, and other support	<u>3,572,915</u>	<u>3,309,888</u>
<b>Operating expenses</b>		
Salaries	1,359,017	1,297,331
Employee benefits	360,338	332,085
Physicians' fees	92,405	96,126
Medical supplies	268,157	221,741
Drugs and pharmaceuticals	230,534	213,496
Purchased services	316,907	310,447
Hospital assessment fees	124,552	110,572
Insurance	57,278	41,079
Interest	27,172	30,004
Depreciation and amortization	177,339	189,219
Other supplies and expenses	394,965	364,304
Total operating expenses before accelerated depreciation and asset impairment	<u>3,408,664</u>	<u>3,206,404</u>
Operating income before accelerated depreciation and asset impairment	<u>164,251</u>	<u>103,484</u>
Loss on impairment of long-lived assets	25,841	-
Accelerated depreciation	35,994	7,092
Operating income	<u>102,416</u>	<u>96,392</u>
<b>Nonoperating income (expense)</b>		
Investment income	225,968	39,126
Net unrealized investment gains	115,012	202,357
Net unrealized gains (losses) and periodic settlements on interest rate swap contracts	8,920	(23,936)
Net assets released from restrictions	4,274	5,399
Contributions and proceeds from tax incremental financing	10,386	666
Other, net	11,331	8,303
Total nonoperating income (expense), net	<u>375,891</u>	<u>231,915</u>
Consolidated excess of revenues over expenses	<u>478,307</u>	<u>328,307</u>
Less amounts attributable to noncontrolling interest in consolidated affiliates	<u>(24,307)</u>	<u>(21,793)</u>
Excess of revenues over expenses attributable to Franciscan	<u>\$ 454,000</u>	<u>\$ 306,514</u>

(continued on next page)

The accompanying notes are an integral part of these consolidated financial statements.

**Franciscan Alliance, Inc. and Affiliates**  
**Consolidated Statements of Operations and Changes in Net Assets (continued)**  
**Years Ended December 31, 2021 and 2020**  
(In thousands)

	Year Ended December 31, 2021			Year Ended December 31, 2020		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
<b>Changes in net assets without donor restrictions</b>						
Excess of revenues over expenses	\$ 478,307	\$ 454,000	\$ 24,307	\$ 328,307	\$ 306,514	\$ 21,793
Change in pension benefits other than net periodic pension costs included in accrued pension liability	119,260	119,260	-	(42,199)	(42,199)	-
Contributions received of property, plant, and equipment	139	139	-	2,024	2,024	-
Distributions to noncontrolling interests in consolidated affiliates	(27,888)	-	(27,888)	(1,610)	-	(1,610)
Purchase of noncontrolling interest in consolidated affiliate	(3,260)	15,200	(18,460)	-	-	-
Net assets released from restrictions used for purchase of property, plant, and equipment	1,072	1,072	-	1,616	1,616	-
Other, net	(1,975)	(1,975)	-	(295)	(295)	-
Increase in net assets without donor restrictions	565,655	587,696	(22,041)	287,843	267,660	20,183
<b>Changes in net assets with donor restrictions</b>						
Contributions	7,578	7,578	-	6,287	6,287	-
Investment income	389	389	-	578	578	-
Net assets released from restrictions	(4,450)	(4,450)	-	(5,507)	(5,507)	-
Net assets released from restrictions used for purchase of property, plant, and equipment	(1,072)	(1,072)	-	(1,616)	(1,616)	-
Net unrealized investment gains	3,464	3,464	-	3,538	3,538	-
Other, net	1,235	1,235	-	60	60	-
Increase in net assets with donor restrictions	7,144	7,144	-	3,340	3,340	-
Increase in net assets	572,799	594,840	(22,041)	291,183	271,000	20,183
<b>Net assets at beginning of year</b>	<b>3,815,715</b>	<b>3,761,220</b>	<b>54,495</b>	<b>3,524,532</b>	<b>3,490,220</b>	<b>34,312</b>
<b>Net assets at end of year</b>	<b>\$ 4,388,514</b>	<b>\$ 4,356,060</b>	<b>\$ 32,454</b>	<b>\$ 3,815,715</b>	<b>\$ 3,761,220</b>	<b>\$ 54,495</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Franciscan Alliance, Inc. and Affiliates**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2021 and 2020**  
(In thousands)

	2021	2020
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 572,799	\$ 291,183
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	213,330	196,352
Loss on asset impairment of long-lived assets	25,841	-
Loss (gain) on sale/disposal of assets	531	(2,469)
Net investment gains	(349,915)	(251,269)
Net unrealized (gains) losses on interest rate swap contracts	(18,714)	13,960
Distributions to noncontrolling interest in consolidated affiliates, net of contributions	27,888	1,610
Purchase of noncontrolling interest in consolidated affiliates	3,260	-
Distributions from unconsolidated affiliates	1,410	947
Equity in losses of investments in unconsolidated affiliates	680	1,590
Other changes in investments of unconsolidated affiliates	2,794	96
Contributions and proceeds from tax incremental financing	(10,386)	-
Change in pension benefits other than net periodic pension costs included in accrued pension liability	119,260	(42,199)
Changes in operating assets and liabilities		
Patient accounts receivable	(25,332)	(15,124)
Inventories of supplies and other assets	(44,209)	4,634
Accounts payable and other current liabilities	104,840	162,021
Estimated insurance liabilities and other liabilities	(182,545)	261,891
Accrued pension liability	(288,772)	42,708
Total adjustments	<u>(420,039)</u>	<u>374,748</u>
Net cash provided by operating activities	<u>152,760</u>	<u>665,931</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(7,786,416)	(7,768,486)
Proceeds from sale of investments	7,827,398	7,602,739
Purchases of property, plant, and equipment	(210,809)	(169,350)
Proceeds from sale of property, plant, and equipment	834	783
Capital contributions to investment in unconsolidated affiliates	(2,704)	(2,979)
Net cash used in investing activities	<u>(171,697)</u>	<u>(337,293)</u>
<b>Cash flows from financing activities</b>		
Principal payments on long-term debt	(27,836)	(28,129)
Distributions to noncontrolling interest in consolidated affiliates, net of contributions	(27,888)	(1,610)
Purchase of noncontrolling interest in consolidated affiliates	(3,260)	-
Contributions and proceeds from tax incremental financing	10,386	-
Proceeds from donors	8,921	6,287
Other	(4,414)	(77)
Net cash used in financing activities	<u>(44,091)</u>	<u>(23,529)</u>
Net (decrease) increase in cash and cash equivalents and restricted cash and cash equivalents	(63,028)	305,109
Cash and cash equivalents and restricted cash and cash equivalents, beginning of year	<u>438,912</u>	<u>133,803</u>
Cash and cash equivalents and restricted cash and cash equivalents, end of year	<u>\$ 375,884</u>	<u>\$ 438,912</u>

The accompanying notes are an integral part of these consolidated financial statements.



# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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#### 1. Description of Organization, Mission, and Values

##### **Organization**

Franciscan Alliance, Inc. and Affiliates (collectively referred to as “Franciscan”), under the sponsorship of the Sisters of St. Francis of Perpetual Adoration, Inc., is an Indiana non-profit, Catholic health care system. Franciscan is dedicated to providing comprehensive health care services, including emergency, medical, surgical, behavioral, rehabilitative, and other health services in inpatient and outpatient settings; home health care services; and primary and specialty physician services to communities within four geographic regions in Indiana and Illinois (the “Health Centers”). Additionally, Franciscan has an accountable care organization, a physician hospital organization, a non-profit foundation, and a number of support related divisions and affiliates including a corporate office, a consolidated information technology services division, various back office/management support organizations, a construction company, and a captive insurance company. Franciscan also has various investments in consolidated and unconsolidated affiliates (Note 11). Franciscan is incorporated as a not-for-profit corporation under the laws of Indiana and is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (“IRC”).

##### **Mission and Values**

Franciscan’s Mission statement is as follows:

*Continuing Christ’s Ministry in Our Franciscan Tradition*

Franciscan’s Values are as follows:

*Respect for Life*

*Fidelity to Our Mission*

*Compassionate Concern*

*Joyful Service*

*Christian Stewardship*

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

Consistent with its Mission and Values, Franciscan provides medical care to all patients regardless of their ability to pay, provides services intended to benefit the poor and underserved, and continually works to enhance the health status of the communities in which it operates. As illustrated in the following summary of quantifiable community benefits, which has been prepared in accordance with the Catholic Health Association of the United States' policy document, Franciscan commits significant resources to provide services intended to benefit the poor and underserved with benefits measured at the total cost net of any offsetting revenues, donations, or other funds used to defray such costs.

	<b>(Unaudited)</b>	
	<b>2021</b>	<b>2020</b>
	(in thousands)	
<b>Benefits for the poor and underserved</b>		
Unreimbursed costs of Medicaid and other indigent care programs	\$ 163,740	\$ 145,832
Cost of charity care provided	90,427	114,412
Programs for those who are poor and underserved		
Community health improvement services	543	1,278
Subsidized health services	377	422
Financial and in-kind contributions	1,641	1,142
Community building activities	-	1
Total benefits for the poor and underserved	<u>256,728</u>	<u>263,087</u>
<b>Benefits for the broader community</b>		
Subsidized health services	52,376	51,100
Health professions education	14,154	12,409
Community health improvement services	6,789	8,477
Financial and in-kind contributions	247	350
Research	1,875	1,508
Community building activities	53	56
Community benefit operations	43	29
Total benefits for the broader community	<u>75,537</u>	<u>73,929</u>
Total quantifiable community benefits	<u>332,265</u>	<u>337,016</u>
Unreimbursed costs of Medicare	<u>460,099</u>	<u>393,394</u>
Total quantifiable community benefits including unreimbursed costs of Medicare	<u>\$ 792,364</u>	<u>\$ 730,410</u>

Total quantifiable community benefits including unreimbursed costs of Medicare were approximately 23% of total operating expenses for both the years ended December 31, 2021 and 2020.

Franciscan also provides a significant amount of uncompensated care to patients which is not reported in the summary of quantifiable community benefits. Effective January 1, 2018, Franciscan adopted the Financial Accounting Standards Board ("FASB") Accounting Standard Update ("ASU") 2014-9, *Revenue from Contracts with Customers (Topic 606)* which requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled to in an

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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exchange for goods or services. Adoption of this ASU does not allow the separate reporting of the uncollectible amounts due from patients; however, the identification of this amount is needed for other purposes including governmental reporting and reimbursement calculations. Franciscan has a system-wide charity care and uninsured discount policy that includes administrative procedures for qualifying and enrolling patients for charity care or uninsured/underinsured discounts. Franciscan also uses various analytical programs to assess a patient's ability to pay and it utilizes numerous mechanisms to inform and educate patients about financial assistance. Despite these rigorous efforts, patients who need subsidized care may not seek this assistance nor choose to enroll in Medicaid or other financial assistance programs. For these and other reasons, Franciscan believes a portion of its uncollectible amounts due from patients represents charity care delivered to individuals in the communities it serves consistent with its charitable health care mission. During the years ended December 31, 2021 and 2020, Franciscan incurred approximately \$34.5 million and \$18.3 million, respectively, as uncollectible amounts due from patients based on accumulated charges.

**Benefits for the poor and underserved** include the cost of providing programs and services to persons who are economically poor or are medically indigent and cannot afford to pay for health care services because they have inadequate resources and/or are uninsured or underinsured.

**Benefits for the broader community** include the costs of providing programs and services aimed at persons and groups for reasons other than poverty. These persons and groups may include needy populations that may not qualify as poor but need special services and support or broader populations who benefit from healthy community initiatives. These programs and services are not intended to be financially self-supporting.

**Unreimbursed costs of Medicaid and other indigent care programs** represent the cost (determined using a cost to charge ratio) of providing services to beneficiaries of public programs including State Medicaid and indigent care programs in excess of any payments received.

**Charity care** represents the cost (determined using a cost to charge ratio) of health care services, provided in accordance with Franciscan's charity care and uninsured patient discount policy, for which no or partial reimbursement will be received because of the recipient's inability to pay for those services.

**Subsidized health services** are net costs for billed services that are subsidized by Franciscan. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include emergency services, free standing community clinics, hospice care, behavioral health services, prenatal services, women's and children's services, palliative care, and parish nurse programs.

**Health professions education** includes the unreimbursed cost of training health professionals such as medical residents, nursing students, technicians, and students in allied health professions.

**Community health improvement services** are activities and services carried out to improve community health and well-being for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding, which is netted against any amounts reported. Some examples include health education, health fairs, free or low cost health screening, immunization services, prescription medication assistance programs, and other various community outreach programs. Franciscan actively collaborates with community groups and agencies to assist those in need in providing such services.

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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**Financial and in-kind contributions** are made by Franciscan on behalf of the poor and underserved to various community agencies. These amounts include funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. In-kind services include hours donated by staff to the community while on work time, overhead expenses of space donated to community groups, and donations of food, equipment, supplies, and other direct costs.

**Research** includes the unreimbursed cost of clinical and community health research and studies on health care delivery.

**Community building activities** include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, provide leadership development skills training, and build community coalitions.

**Community benefit operations** include costs associated with dedicated staff, community health needs and/or asset assessments, and other costs associated with the community benefit strategy and operations.

**Unreimbursed costs of Medicare** represent the cost (determined using a cost to charge ratio) of providing services primarily to elderly beneficiaries of the Medicare program in excess of any payments received.

Franciscan's affiliated foundation funded \$5.4 million and \$8.3 million for charity care or other operating expenses on behalf of the Health Centers during the years ending December 31, 2021 and 2020, respectively. The community benefits reported above are net of the contributions from the foundation for such benefits.

## 2. Summary of Significant Accounting Policies and Significant Events

### Principles of Consolidation

The consolidated financial statements include the accounts of Franciscan and all wholly owned, majority-owned, and controlled organizations with all significant transactions and accounts between affiliates eliminated in consolidation. Investments in affiliates where Franciscan owns less than or equal to 50% and does not have operational control are recorded under the equity method of accounting unless Franciscan's control or investment percentage is insignificant in which case Franciscan uses the fair value method.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management of Franciscan to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. Franciscan considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of patient service revenue; recorded values of investments and goodwill; evaluation of long-lived assets for impairment; reserves for employee health costs and losses and expenses related to professional and general liabilities; and risks and assumptions for measurement of the pension liability. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates.

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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#### **Reclassifications**

Certain prior year amounts have been reclassified to conform with current year presentation. These reclassifications had no impact on net income, total assets, or equity.

#### **Recent Accounting Pronouncements Adopted**

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans - General (Topic 715)*. This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans. Franciscan's adoption of ASU 2018-14, having an effective date beginning January 1, 2021, conformed with the retrospective application requirement and was applied to all periods presented.

#### **New Accounting Pronouncements Not Yet Applicable**

In May 2019, the FASB issued ASU 2019-06, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. This ASU allows not-for-profits to apply accounting alternatives that simplify the subsequent accounting for goodwill and accounting for certain intangible assets that are acquired. Not-for-profits that elect the goodwill accounting alternative must amortize goodwill over a period not greater than 10 years. Additionally, goodwill is only required to be tested for impairment when a triggering event occurs. Not-for-profits that elect the intangible asset accounting alternative may recognize fewer identifiable intangible assets in an acquisition. Franciscan is currently evaluating whether to elect the alternative.

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*. This ASU modifies the disclosure requirements of contributed nonfinancial assets. This ASU is effective January 1, 2022 with retrospective application required and early adoption permitted. Franciscan is currently assessing the impact of this ASU on its consolidated financial statements.

In November 2021, the FASB issued ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*. This ASU requires the lessee to use the rate implicit in the lease when it is readily determinable. Additionally, it allows more flexibility for lessees that make the risk-free rate election for leases where the rate implicit in the lease is not readily determinable. This ASU is effective January 1, 2022 with a modified retrospective application required and early adoption permitted. Franciscan is currently assessing the impact of this ASU on its consolidated financial statements.

#### **Cash and Cash Equivalents**

Cash and cash equivalents and restricted cash and restricted cash equivalents primarily consist of cash, treasuries, and other liquid marketable securities including interest bearing securities with original maturities of three months or less. The carrying amount of cash and cash equivalents approximates fair value because of the short maturities of these instruments.

#### **Short-Term Investments**

Short-term investments primarily consist of certificates of deposit, treasuries, and other highly liquid interest bearing securities with original maturities extending longer than three months.

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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#### **Patient Accounts Receivable and Patient Service Revenue**

Patient accounts receivable and patient service revenue is reported at the amount that reflects the consideration Franciscan expects to be entitled to in exchange for providing patient care.

#### **Inventories of Supplies**

Inventories, consisting primarily of medical/surgical supplies and pharmaceuticals, are stated at the lower of cost (average cost method) or net realizable value.

#### **Board Designated and Other Investments and Investment Income**

Board designated investments represents investments set aside by board policy for future purposes including capital expenditures, acquisitions, improvements, mission programs, and, in addition, to provide for Franciscan to meet any current liquidity needs. Franciscan's board retains control of these investments and may, at its discretion and in certain circumstances, use them for other purposes. Assets limited as to use include assets under bond indenture and collateral related to interest rate swap agreements, investments maintained for the payment of estimated insurance liabilities, and amounts contributed by donors with stipulated restrictions.

Substantially all of Franciscan's board designated and other investments are invested and managed by professional managers in accordance with agreed-upon investment and socially responsible investing guidelines and are held in custody with a financial institution.

Board designated and other investments are measured at fair value, and consist of: cash and cash equivalents; U.S. government, state, municipal, and agency obligations; other fixed income securities; asset backed securities; emerging market debt; private credit; equity securities; private equity; unregistered mutual funds; index funds, exchange traded funds, and mutual funds; real assets; real estate investment trusts; hedge funds; and holdings within volatility risk premium strategies. Board designated and other investments include alternative investments, consisting of investments in hedge funds, private credit and private equity investments, and real assets, which are generally measured based on their net asset value as a practical expedient for fair value that is further described in Note 4.

Investment earnings consist of dividends, interest, and realized gains and losses. In accordance with industry practice, investment earnings and unrealized gains and losses on assets limited as to use under bond indenture and interest rate swap agreements and estimated insurance liability funds are included in other operating revenue in the consolidated statements of operations and changes in net assets. Investment earnings and unrealized gains and losses from all other investments and board designated funds are included in nonoperating income (expense) in the consolidated statements of operations and changes in net assets, unless the investment earnings and any associated unrealized gains and losses are restricted by donor or by law.

Board designated and other investments are exposed to various risks such as interest rate, market, liquidity, performance, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term may affect the amounts reported in the consolidated statements of financial position and the consolidated statements of operations and changes in net assets.

#### **Fair Value Measurement**

Franciscan's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets measured at fair value on a recurring basis in Franciscan's consolidated statements of financial position include: cash and cash equivalents; U.S. government, state, municipal, and agency obligations; other fixed income securities; emerging market debt; private credit; equity

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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securities; private equity; unregistered mutual funds; asset backed securities; index funds, exchange traded funds, and mutual funds; real assets; real estate investment trusts; hedge funds; volatility risk premium strategies; and benefit plan assets.

Fair value measurements reflected in the consolidated financial statements conceptually represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

- Level 1 Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 Valuation is based upon quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial asset or liability.
- Level 3 Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

The categorization of fair value measurements by hierarchy level is based upon the lowest level input that is significant to the overall fair value measurement for a given asset or liability.

Franciscan applies the guidance in Accounting Standards Codification 820-10-15-4, *Fair Value Measurements of Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. Under this guidance, Franciscan is permitted, as a practical expedient, to estimate the fair value of certain investments on the basis of the net asset value per share. In the normal course of business, Franciscan holds certain investments that qualify for the usage of this practical expedient. Fair value measurements of certain investments for which the measurement was based on net asset value ("NAV") or its equivalent as provided by an external manager are not required to be included within the fair value hierarchy leveling tables.

In the event that changes in the inputs used in the fair value measurements of an asset or liability results in a transfer of the fair value measurement to a different categorization (e.g., from Level 3 to Level 2), such transfers between categories are recognized at the end of the reporting period.

#### **Property, Plant, and Equipment**

Property, plant, and equipment (including internal-use software) are recorded at cost if purchased or at fair value on the date received through affiliation or donation, less accumulated depreciation. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged to expense when incurred. Cost incurred in the development and installation of internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post implementation stage. Upon sale or retirement of property, plant, and equipment, the cost and related accumulated depreciation are eliminated from

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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the respective accounts, and the resulting gain or loss is included in the consolidated statements of operations and changes in net assets. Interest costs incurred during the period of construction or development of capital assets are capitalized as a component of the cost of acquiring those assets. Depreciation is provided over the estimated useful lives of the assets utilizing the straight-line method with a useful life range of between 3 to 60 years. Useful lives may be reassessed from time to time as facts and circumstances change in regard to how assets are being used, and periodically due to the changes in operations, the need to accelerate depreciation will arise. Assets under finance lease obligations are amortized utilizing the straight-line method over the shorter of the lease term or estimated useful life of the asset. Amounts capitalized for internal-use software are amortized over the useful life of the developed asset following project completion.

A conditional asset retirement obligation is recorded for any legal obligation associated with the retirement of long-lived assets resulting from the acquisition, construction, development, and/or normal use of the underlying assets. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the asset's estimated useful life. The liability is accreted through charges to operating expense. If the conditional asset retirement obligation is settled for other than the carrying amount of the liability, a gain or loss on sale/disposal of assets is recognized. As of December 31, 2021 and 2020, conditional asset retirement obligations of approximately \$21.7 million and \$4.8 million, respectively, are included within accounts payable and accrued expenses and other liabilities in the consolidated statements of financial position.

#### **Leases**

Franciscan has operating and finance leases for various real estate and certain equipment. Franciscan determines if an arrangement is a lease at inception. Operating leases are included in right of use leased assets; current portion of lease liabilities; and lease liabilities, net of current portion on the consolidated statements of financial position. Finance leases are included in property, plant, and equipment, net; current portion of long-term debt; and long-term debt, net of current portion on the consolidated statements of financial position. Leases with an initial term of 12 months or less are not recognized on the consolidated statements of financial position; instead, lease expense for these agreements is recognized over the lease term.

Right of use leased assets and lease liabilities are recognized based on the net present value of the future minimum lease payments over the lease term at commencement date. Franciscan uses either the implicit rate noted within such agreement, when the rate can be determined, or a risk-free rate for measuring lease liabilities and for classification purposes. The right of use leased assets also includes any lease payments made and excludes lease incentives and initial direct costs incurred. The right of use leased assets include a value for options to extend or terminate, in the case it is reasonably certain that the option will be exercised. Lease payments are recognized on a straight-line basis over the lease term. Variable lease expense is recognized in the period in which the payments are made for these lease obligations.

On March 18, 2020, Meridian Development Services, LLC ("Meridian"), a wholly owned affiliate of an independent orthopedic physician organization, entered into a \$194.0 million non-recourse taxable loan from a private placement lender for the development of an orthopedic center of excellence in Carmel, Indiana. Simultaneously, Franciscan entered into a 25-year credit tenant lease on the property with an effective rent commencement date of April 1, 2022. The orthopedic center of excellence campus will include a specialty hospital, an ambulatory surgery center, and a medical office building. Franciscan has agreements in place to sublease 64% of the medical office building to the above referenced independent orthopedic physician organization and sublease 100% of the ambulatory surgery center to a surgery center company that is 51% owned by Franciscan with both subleases co-terminus with the credit tenant lease. On April 1, 2022,



# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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Franciscan exercised and paid \$19.4 million under the available accordion payment option which reduced the net present value balance on the credit tenant lease to \$174.6 million. The credit tenant lease fully amortizes over 25 years starting April 1, 2022 through 2046 with a 2% annual escalation. At the end of the lease, Franciscan will own the following buildings and land in the indicated percentages: specialty hospital and land 100%, ambulatory surgery center 51%, and medical office building 36%. A right of use leased asset and lease liability will be recorded on the consolidated statements of financial position when the certificate of occupancy has been issued and certificate of substantial completion has been delivered. The sublease with the independent orthopedic physician organization and the surgery center company will be considered an operating lease and Franciscan will be the sublessor. Lease revenue will be included in Franciscan's consolidated statements of operations and changes in net assets with disclosure of the amount of the credit tenant lease that is offset by the sublease. During 2021, Franciscan received \$10.0 million, which is included in nonoperating income (expense) in the consolidated statements of operations and changes in net assets, from the City of Carmel related to proceeds from the sale of tax incremental financing bonds to partial fund Franciscan's development and construction of a parking garage to support the Carmel orthopedic center of excellence.

#### **Goodwill and Intangible Assets**

Goodwill represents the future economic benefits arising from assets acquired that are not individually identified nor separately recognized. Goodwill is not amortized but is subject to an annual impairment test as well as more frequent reviews whenever circumstances indicate a possible impairment may exist.

Intangible assets are comprised primarily of covenants not to compete, which are amortized on a straight-line basis over periods ranging from 2 to 5 years, and are included within other assets in the consolidated statements of financial position.

#### **Asset Impairment**

**Property, Plant, and Equipment** - Franciscan evaluates long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows. If the estimated future undiscounted cash flows are less than the carrying value of the asset, the impairment recognized is calculated as the carrying value of the long-lived assets in excess of the fair value of the assets. The fair value of the assets is estimated based on appraisals, established market values of comparable assets, or internal estimates of future net cash flows expected to result from the use and ultimate disposition of the assets. During the year ended December 31, 2021, Franciscan recognized an impairment of long-lived assets of \$25.8 million at one of its Health Centers due to declines in operating performance.

**Goodwill** – Goodwill is tested for impairment on an annual basis or when an event or change in circumstance indicates the value of a reporting unit may have changed. Testing is conducted at the reporting unit level. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Estimates of fair value are based on appraisals, established market prices for comparable assets, internal estimates of future net cash flows, as well as other generally accepted valuation methodologies.

#### **Deferred Financing Costs**

Deferred financing costs incurred with the Hospital and Health System Revenue and Refunding Bonds are amortized using the bonds outstanding method. Costs associated with securing the direct pay letters of credit to support its variable rate demand bonds are amortized over the term of the associated liquidity facility. Costs associated with the issuance of direct placement bonds are

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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amortized over the associated direct placement period. Unamortized deferred financing costs are included in long-term debt, net of current portion in the consolidated statements of financial position.

#### **Estimated Insurance Liabilities**

The provision for estimated insurance liabilities includes actuarial estimates of the ultimate costs for both reported claims and claims incurred but not reported for professional liability, general liability, long-term disability insurance, workers' compensation, and amounts self-insured for allocated loss adjustment expenses.

#### **Net Assets**

Franciscan's financial statements have been prepared in accordance with U.S. GAAP, which require Franciscan to report information regarding its financial position and activities according to the following net asset classifications:

***Net Assets Without Donor Restrictions*** – Net assets that are available for use in general operations and not subject to donor restrictions. These net assets may be used at the discretion of Franciscan and the board of trustees.

***Net Assets With Donor Restrictions*** – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor or grantor. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of operations and changes in net assets. Donor restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the consolidated financial statements.

During 2021 and 2020, net assets of \$5.5 million and \$7.1 million, respectively, were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes or by the passage of time.

#### **Performance Indicator**

The consolidated statements of operations and changes in net assets includes a performance indicator, excess of revenues over expenses, which includes operating income and nonoperating income (expense). The performance indicator excludes the change in pension benefits other than net periodic pension costs which is included in accrued pension liability; contributions and distributions to noncontrolling interest in consolidated affiliates; the purchase of a noncontrolling interest in consolidated affiliates; and contributions of property, plant, and equipment (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

#### **Operating and Nonoperating Activities**

Franciscan's primary mission is to meet the health care needs in the communities it is privileged to serve by providing a broad range of general and specialized health care services, including emergency, medical, surgical, behavioral, rehabilitative, and other health services in inpatient and outpatient settings; home health care services; and primary and specialty physician services. Additionally, Franciscan has an accountable care organization and a physician hospital organization. Activities directly associated with the furtherance of this purpose are considered to

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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be operating activities. Other activities that result in gains or losses peripheral to Franciscan's primary mission are considered to be nonoperating activities.

#### **Charity Care**

As an integral part of its mission, Franciscan provides care to patients who meet certain criteria under its charity care and uninsured patient discount policy without charge or at amounts less than its established rates. The cost of charity care, as estimated below, is determined based on each Health Center's total cost as a percentage of total charges and that ratio is applied to the charges incurred by patients qualifying for charity care under Franciscan's policy. The charges associated with the provision of such care are not included in patient service revenue in the consolidated statements of operations and changes in net assets. The estimated cost of charity care provided approximated \$90.4 million and \$114.4 million for the years ended December 31, 2021 and 2020, respectively. Franciscan maintains records to identify and monitor the level of charity it provides.

#### **Capitation and Premium Revenue**

Franciscan has certain Health Centers that arrange for the delivery of health care services to enrollees through various contracts with providers and common provider entities. Enrollee contracts are negotiated on an annual basis. Premiums are due monthly and are recognized as revenue during the period in which Franciscan is obligated to provide services to enrollees.

Certain of Franciscan's Health Centers have entered into capitation agreements whereby they accept the risk for the provision of certain health care services to health plan members. Under these agreements, Franciscan's Health Centers are financially responsible for services provided to health plan members by other health care providers. Capitation revenue is recognized during the period for which the Health Centers are obligated to provide services to health plan enrollees under capitation contracts.

Reserves for incurred but not reported claims have been established to cover the unpaid costs of health care services under capitation and premium arrangements. Capitation and premium arrangement reserves are classified within accounts payable and accrued expenses in the consolidated statements of financial position. The liability is estimated based on actuarial studies, historical reporting, and payment trends. Actual claims experience differs from estimated liabilities due to variances in estimated and actual utilization of health care services, charge amounts, and other factors. As settlements are made and estimates revised, any differences are reflected in current operations. Franciscan limits a portion of its liabilities through stop-loss reinsurance.

#### **Income Taxes**

Franciscan has established its status as an organization exempt from income taxes under the IRC Section 501(c)(3) and the laws of the states in which it operates. Franciscan is, however, subject to federal and state income taxes on unrelated business income under IRC Section 511. Certain divisions and affiliates are subject to federal and state income taxes; however, such amounts are not material to the consolidated financial statements.

#### **Derivative Financial Instruments**

Derivative financial instruments consist of interest rate swap contracts that are measured at fair value. Franciscan accounts for any changes in the fair value of derivative financial instruments in nonoperating income (expense) in the consolidated statements of operations and changes in net assets. Franciscan has reflected the fair value of its interest rate swap contracts as a long-term liability on the consolidated statements of financial position (Note 8).

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

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**Consolidated Statements of Cash Flows**

Supplemental disclosure of cash flow information and noncash investing and financing activities are summarized as follows.

The following table provides a reconciliation of cash and cash equivalents, and restricted cash and cash equivalents reported within the consolidated statements of financial position to amounts shown in the consolidated statements of cash flows:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
Cash and cash equivalents	\$ 274,353	\$ 42,678
Board designated investments	60,707	350,947
Restricted cash and cash equivalents included in assets whose use is limited	<u>40,824</u>	<u>45,287</u>
Total cash and cash equivalents and restricted cash and cash equivalents shown in the consolidated statements of cash flows	<u>\$ 375,884</u>	<u>\$ 438,912</u>

Amounts included in restricted cash and cash equivalents included in assets whose use is limited includes the following:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
Assets under bond indenture and interest rate swap agreements	\$ 19,615	\$ 28,865
Other restricted investments	<u>21,209</u>	<u>16,422</u>
	<u>\$ 40,824</u>	<u>\$ 45,287</u>

Cash paid for interest, net of amounts capitalized, amounted to \$33.1 million and \$29.9 million for the years ended December 31, 2021 and 2020, respectively.

Net cash paid for income taxes was \$5.3 million and \$0.4 million for the years ended December 31, 2021 and 2020, respectively.

Included in accounts payable and accrued expenses and other liabilities at December 31, 2021 and 2020 are approximately \$11.3 million and \$11.2 million, respectively, of costs related to construction in progress and for the acquisition of property, plant, and equipment.

Franciscan paid \$48.3 million and \$54.6 million related to operating leases and \$6.9 million and \$3.9 million related to finance leases for the years ended December 31, 2021 and 2020, respectively. For the years ended December 31, 2021 and 2020, there were non-cash decreases in right of use leased assets and lease liabilities related to operating leases of \$6.1 million and \$3.9 million, and \$18.5 million and \$17.5 million, respectively. There were also non-cash increases in both property, plant, and equipment, net and in long-term debt related to finance lease liabilities of \$2.0 million and \$9.2 million for the years ended December 31, 2021 and 2020, respectively.

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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#### COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic which resulted in a national public emergency. Franciscan's patient volumes and related revenue for most services were significantly impacted beginning in mid-March 2020 and continue to affect Franciscan's consolidated statements of operations and changes in net assets during the year ending December 31, 2021. Federal, state, and local governments have passed legislation, promulgated regulations, and taken other administrative actions intended to combat the outbreak of COVID-19, such as stay-at-home orders, business closures, and the suspension and cancellation of elective or nonemergent medical procedures. In addition to experiencing volume disruptions as a result of COVID-19, certain operating expenses increased during 2021 and 2020 such as salaries, purchased labor, medical supplies, and drugs and pharmaceuticals which were utilized at higher rates and at elevated prices. Also, during the suspension and cancellation of medical procedures that occurred in April through June of 2020, Franciscan instituted pay continuance policies to keep an assembled workforce.

In response to COVID-19, the federal government passed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") on March 27, 2020, which authorized funding to hospitals and other health care providers through the Public Health and Social Services Emergency Fund, and, on September 10, 2021, made additional funding available to eligible providers under the American Rescue Plan (collectively "Provider Relief Funds"). The purpose of the Provider Relief Funds is to reimburse providers for health care-related expenses and/or lost revenues attributable to COVID-19. Recipients are not required to repay these funds, provided they attest to and comply with certain terms and conditions. For the year ended December 31, 2021, Franciscan recognized \$62.4 million of Provider Relief Funds as other operating revenue in the consolidated statements of operations and changes in net assets. Of this, \$21.0 million was received in 2021 and \$41.4 million was previously deferred in estimated third-party payor settlements in the accompanying consolidated statements of financial position as of December 31, 2020. For the year ended December 31, 2020, Franciscan received a total of \$201.0 million in Provider Relief Funds and recognized \$152.7 million of the funds as other operating revenue in the consolidated statements of operations and changes in net assets for the year ended December 31, 2020, with the remaining \$48.3 million recorded as a liability in estimated third-party payor settlements in the accompanying consolidated statements of financial position as of December 31, 2020. Future regulations or changes in interpretation may result in a reversal of amounts recognized given the lack of clarity and ever-changing terms and conditions of the programs. The CARES Act also reimburses health care providers who submit claim requests for COVID-19 related treatment of uninsured patients at Medicare rates, for which Franciscan received approximately \$4.4 million and \$3.5 million for the years ending December 31, 2021 and 2020, respectively.

In April 2020, Franciscan received approximately \$304.7 million in Medicare Accelerated and Advance payments as provided for in the CARES Act which allows for eligible health care facilities to request up to six months of advance Medicare payments to ensure providers have the resources needed to combat COVID-19. The funds provided for under this program represent advances on payments for future goods or services provided to Medicare patients with repayment based upon the terms and conditions of the program. As of December 31, 2021, the Centers for Medicare and Medicaid Services ("CMS") has recouped \$105.6 million of the advance payment to Franciscan with the remaining \$199.2 million recorded as a liability within estimated third-party payor settlements on the consolidated statements of financial position. As of December 31, 2020, the current and noncurrent portion of the Medicare Accelerated and Advance payment liability of approximately \$95.8 million and \$208.9 million is included in estimated third party payor settlements and other liabilities, respectively, on the consolidated statements of financial position based on CMS' then current repayment terms for the program.

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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The CARES Act also allows for deferred payment of the employer portion of certain payroll taxes between March 27, 2020 and December 31, 2020 with 50% due December 31, 2021 and the remaining 50% due December 31, 2022. As of December 31, 2021, Franciscan had deferred payroll tax payments of approximately \$20.0 million outstanding which is included in accrued payroll and related expenses on the consolidated statements of financial position. As of December 31, 2020, Franciscan had deferred payroll tax payments of approximately \$40.0 million outstanding with 50% included in accrued payroll and related expenses and the remaining 50% included in other liabilities on the consolidated statements of financial position. Additionally, the CARES Act provides for a payroll tax credit designed to encourage retention of employees during the pandemic. Franciscan is evaluating its eligibility and related data for consideration of the employee retention credit.

Franciscan has been working to coordinate filings with the Federal Emergency Management Agency ("FEMA") to receive funds to cover incremental expenses due to the pandemic. As of December 31, 2021, Franciscan has filed claim submissions with FEMA in Indiana and Illinois totaling \$38.2 million and has recognized \$0.4 million as other operating revenue in the consolidated statements of operations and changes in net assets as it is awaiting further guidance from FEMA on the acceptance of submitted claims.

For the year ended December 31, 2021, Franciscan received a \$5.0 million business interruption settlement related to service disruption it experienced related to the COVID-19 global pandemic which is recognized in other revenue in the consolidated statements of operations and changes in net assets.

### **3. Patient Service Revenue**

Franciscan provides health care services through various inpatient, outpatient, and ambulatory care settings. Franciscan recognizes patient service revenue at the amount that reflects the consideration to which it expects to be paid for providing such care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others, and include variable consideration for retroactive adjustments due to settlement of audits and reviews by Medicare, and amounts received under various state Medicaid hospital assessment and disproportionate share programs. Generally, Franciscan bills patients and third-party payors several days after the services are performed and/or when a patient is discharged. Performance obligations are determined based on the nature of the services provided by Franciscan and patient service revenue is recognized as performance obligations are satisfied.

Patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Generally, performance obligations satisfied over time relate to patients in Franciscan's hospitals receiving inpatient acute care services. The performance obligation is measured from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Outpatient services are performance obligations generally satisfied at a point in time and revenue is recognized when goods or services are provided. Franciscan believes that this method provides a fair depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligations.

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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

Franciscan determines the transaction price based on standard charges for goods and services provided to patients reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with Franciscan's policy, and/or implicit price concessions provided to uninsured and underinsured patients. Franciscan determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. Franciscan determines its estimate of implicit price concessions based on the aging of its patient accounts receivable, historical collection experience with uninsured and underinsured patients, and other relevant factors.

Patients who meet Franciscan's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as patient service revenue as described in Note 2.

Franciscan uses a portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient, outpatient, and physician revenue. Based on historical collection trends and other relevant factors, Franciscan believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

Franciscan has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare** – Acute inpatient, outpatient, and home health services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain services are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries. Professional services rendered by physicians are paid based on the Medicare allowable fee schedule. One of Franciscan's Health Centers was granted Critical Access Status by Medicare and is paid based upon a cost plus reimbursement methodology with final settlement determined after submission of an annual cost report. In addition to these payment methodologies, Medicare has various mandatory and voluntary value-based provider reimbursement programs.

**Medicaid** – Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, and fee schedules.

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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Certain of Franciscan's Health Centers qualify as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals ("DSH") under Indiana law (IC 12-15-16 (1-3)), and are eligible to receive DSH payments linked to the State's fiscal year, which differs from Franciscan's fiscal year. The amount of these additional DSH funds is dependent on regulatory approval by federal and state agencies and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. Franciscan records such amounts as a component of revenue when payments are received or based upon data from the State of Indiana that payments are determinable and probable of receipt. For the years ended December 31, 2021 and 2020, Franciscan recognized revenue of approximately \$36.2 million and \$30.5 million, respectively, related to the DSH program in the consolidated statements of operations and changes in net assets.

Franciscan's Indiana Health Centers participate in the State of Indiana's Hospital Assessment Fee ("HAF") program. The HAF program is a supplemental reimbursement program designed to help providers offset a portion of the cost of providing care to Medicaid and indigent patients. The HAF program is funded by a combination of federal and state resources and fees levied on hospital providers. The fee is used in part to increase reimbursement to eligible hospitals for services provided in both Medicaid fee-for-service and Medicaid managed care programs, and to fund the State share of disproportionate share hospital payments. For the years ended December 31, 2021 and 2020, Franciscan's Indiana Health Centers recognized supplemental HAF reimbursement of \$113.4 million and \$101.9 million, respectively, which is recorded as a component of patient service revenue in Franciscan's consolidated statements of operations and changes in net assets. For the years ended December 31, 2021 and 2020, Franciscan's Indiana Health Centers recognized HAF fees of \$111.7 million and \$98.7 million, respectively, in the consolidated statement of operations and changes in net assets.

Franciscan's Illinois Health Centers are obliged under Illinois Public Act 95-859 to participate in the State of Illinois Hospital Assessment Program ("HAP") that assists in financing the State's Medicaid Program. In 2018, the Illinois General Assembly enacted legislation to redesign the HAP to be implemented in four phases over six years consisting of two, two-year phases followed by two, one-year phases with completion in 2024. On June 30, 2020, phase one of the HAP ended. The Illinois General Assembly and the Centers for Medicare and Medicaid Services approved legislation for phase two of the HAP, which was signed by the Governor of Illinois having an effective date of July 1, 2020. For the years ended December 31, 2021 and 2020, Franciscan's Illinois Health Center recognized supplemental HAP and related reimbursement of \$23.9 million and \$21.2 million, respectively, which is recorded as a component of patient service revenue in Franciscan's consolidated statements of operations and changes in net assets. For the years ended December 31, 2021 and 2020, Franciscan's Illinois Health Center recognized HAP related fees of \$12.9 million and \$11.9 million, respectively, in the consolidated statement of operations and changes in net assets.

**Other** – Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates, and fee schedules. Like Medicare, commercial insurance companies are entering into various fee-for-value reimbursement programs with qualifying providers. In 2021 and 2020, Franciscan participated in various commercial ACO reimbursement programs in which Franciscan receives a care management fee per ACO participant and the opportunity to receive limited gainsharing and incentives based upon its performance as compared to established quality and efficiency benchmarks.



**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

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The composition of patient service revenue by payor for the years ended December 31, 2021 and 2020, is as follows:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
Medicare	\$ 688,073	\$ 586,526
Medicare managed care	372,835	300,031
Medicaid	106,275	167,742
Medicaid managed care	316,669	193,464
Other third-party payors	1,639,488	1,558,671
Self-pay	77,183	76,984
Other	41,884	23,837
	<u>\$ 3,242,407</u>	<u>\$ 2,907,255</u>

As to patient service revenue, Franciscan's practice is to assign a patient to the primary payor and not reflect other uninsured balances (for example, copays and deductibles) as self-pay. Therefore, the payors listed contain patient responsibility components, such as co-pays and deductibles. Franciscan grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2021 and 2020, is as follows:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
Medicare	\$ 59,245	\$ 52,530
Medicare managed care	42,399	39,635
Medicaid	17,856	31,390
Medicaid managed care	24,744	20,725
Other third-party payors	226,409	199,537
Self-pay	35,981	36,538
Other	22,212	23,159
	<u>\$ 428,846</u>	<u>\$ 403,514</u>

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory action including fines, penalties, and/or exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates may change in the near term. Patient service revenue increased by approximately \$4.6 million and \$6.8 million for the years ended December 31, 2021 and 2020, respectively, due to changes in estimates related to prior-year settlements with third party payors.

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

**4. Short-Term, Board Designated, and Other Investments**

The composition of short-term, board designated, and other investments, at December 31, 2021 and 2020, is as follows:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
Short-term investments	\$ 115,593	\$ 402,478
Board designated investments		
Funded depreciation and other Board projects	3,184,576	2,906,453
Other designated investments	2,600	2,329
	<u>3,187,176</u>	<u>2,908,782</u>
Assets limited as to use		
Estimated insurance liability funds	204,673	194,620
Assets under bond indenture and interest rate swap agreements	19,615	28,865
Other restricted investments	55,068	42,071
	<u>279,356</u>	<u>265,556</u>
Short-term, board designated, and other investments	<u>3,582,125</u>	<u>3,576,816</u>
Less short-term investments	<u>115,593</u>	<u>402,478</u>
Board designated and other investments, classified as noncurrent	<u>\$ 3,466,532</u>	<u>\$ 3,174,338</u>

Short-term, board designated, and other investments at December 31, 2021 and 2020, consist of the following:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
Cash and cash equivalents	\$ 101,531	\$ 396,234
U.S. government, state, municipal, and agency obligations	307,478	294,508
Other fixed income securities	335,983	398,263
Asset backed securities	306,342	344,125
Emerging market debt	75,000	-
Private credit	37,674	12,910
Equity securities	977,905	892,058
Private equity	167,924	98,345
Unregistered mutual funds	667,629	581,696
Index funds, exchange traded funds, and mutual funds	38,127	34,743
Real assets	79,595	118,485
Real estate investment trusts	7,331	7,563
Hedge funds	318,719	397,886
Volatility risk premium strategies	160,887	-
	<u>\$ 3,582,125</u>	<u>\$ 3,576,816</u>

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

The following tables present the fair value hierarchy of the valuation techniques utilized to determine the fair value of Franciscan's short-term, board designated, and other investments as of December 31, 2021 and 2020:

Asset category	Level 1	Level 2	Level 3	Balance as of December 31, 2021
		(in thousands)		
Cash and cash equivalents	\$ 101,531	\$ -	\$ -	\$ 101,531
U.S. government, state, municipal, and agency obligations	292,097	15,381	-	307,478
Other fixed income securities	-	335,983	-	335,983
Asset backed securities	-	306,342	-	306,342
Equity securities	977,841	-	64	977,905
Index funds, exchange funds, and mutual funds	38,127	-	-	38,127
Real estate investment trusts	7,331	-	-	7,331
	<u>\$ 1,416,927</u>	<u>\$ 657,706</u>	<u>\$ 64</u>	<u>2,074,697</u>
Investments measured at net asset value				1,507,428
Total investments at fair value as of December 31, 2021				<u>\$ 3,582,125</u>

Asset category	Level 1	Level 2	Level 3	Balance as of December 31, 2020
		(in thousands)		
Cash and cash equivalents	\$ 396,234	\$ -	\$ -	\$ 396,234
U.S. government, state, municipal, and agency obligations	276,682	17,826	-	294,508
Other fixed income securities	-	398,263	-	398,263
Asset backed securities	-	344,125	-	344,125
Equity securities	891,994	-	64	892,058
Index funds, exchange funds, and mutual funds	34,743	-	-	34,743
Real estate investment trusts	7,563	-	-	7,563
	<u>\$ 1,607,216</u>	<u>\$ 760,214</u>	<u>\$ 64</u>	<u>2,367,494</u>
Investments measured at net asset value				1,209,322
Total investments at fair value as of December 31, 2020				<u>\$ 3,576,816</u>

Certain investments categorized within Level 2 are not traded in active markets but are measured using pricing sources such as broker quotes or using models with externally verifiable inputs, such as relevant interest or exchange rates.

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

The following table summarizes Franciscan's investments calculated on a NAV per share basis (or its equivalent), the unfunded commitments, and the associated redemption provisions at December 31, 2021:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(in thousands)			
Emerging market debt	\$ 75,000	\$ -	Monthly	10 days
Private credit	37,674	2,613	Not currently redeemable	-
Private equity	167,924	124,965	Not currently redeemable	-
Unregistered mutual funds	667,629	-	Monthly	1 day
Real assets	79,595	9,388	Quarterly, not currently redeemable	45 days
Hedge funds	318,719	-	Monthly, quarterly, annually	5 - 180 days
Volatility risk premium strategies	160,887	-	Month end redemptions	5-7 days
	<u>\$ 1,507,428</u>	<u>\$ 136,966</u>		

**Emerging market debt** includes fixed income debt issued by nations with developing economies as well as corporations within those nations. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

**Private credit** includes investments that are secured by high quality assets or backed by a senior claim on stable cash flows. The fair values of the investments in this class have been estimated using the NAV of Franciscan's ownership interest in the partners' capital. Investments within these funds cannot be currently redeemed. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 2 years. However, the individual investments that will be sold have not yet been determined.

**Private equity** includes funds that invest globally using strategies that include leveraged buyouts, venture capital, growth capital, distressed investments, and mezzanine capital. The fair values of the investments in this class have been estimated using the NAV of Franciscan's ownership interest in the partners' capital. Investments within these funds cannot be currently redeemed. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 10 years. However, the individual investments that will be sold have not yet been determined.

**Unregistered mutual funds** include funds that primarily invest in domestic and international equities and short-term government, investment grade, high yield, and mortgage-related fixed income securities. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

**Real assets** include core, value-add, and opportunistic real estate which typically seek to earn a return over inflation. The fair values of the investments in this class have been estimated using the NAV of Franciscan's ownership interest in the partners' capital. Investments representing approximately 50% of the value of the investments in this class cannot be redeemed because the investments include redemption restrictions that range from 1 to 10 years after acquisition; the balance of investments (primarily energy and energy-related assets) will be liquidated over the next 1 to 5 years.

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

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**Hedge funds** include investments in funds that utilize market movement, trends, and inconsistencies when selecting securities across a variety of markets. Certain hedge funds are usually less exposed to the overall market and are likely to include long equity positions hedged with short positions to cancel out short-term uncertainty. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

**Volatility risk premium strategies** include funds that sell fully collateralized, unlevered, put options on equity indices. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

Investment returns including net unrealized gains included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2021 and 2020, are as follows:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
<b>Revenues, gains, and other support</b>		
Investment income in other operating revenue	\$ 9,744	\$ 5,003
Net unrealized investment gains	8,935	9,786
	<u>18,679</u>	<u>14,789</u>
<b>Nonoperating income (expense)</b>		
Investment income	225,968	39,126
Net unrealized investment gains	115,012	202,357
	<u>340,980</u>	<u>241,483</u>
<b>Net assets with donor restrictions, controlling interest</b>		
Investment income	389	578
Net unrealized investment gains	3,464	3,538
	<u>3,853</u>	<u>4,116</u>
	<u>\$ 363,512</u>	<u>\$ 260,388</u>

**5. Property, Plant, and Equipment**

A summary of property, plant, and equipment at December 31, 2021 and 2020, is as follows:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
Land and land improvements	\$ 176,245	\$ 176,600
Buildings and building equipment	1,705,796	1,652,003
Departmental equipment	1,806,243	1,863,651
Construction in progress	176,841	92,766
	<u>3,865,125</u>	<u>3,785,020</u>
Less accumulated depreciation	<u>(1,895,278)</u>	<u>(1,792,732)</u>
	<u>\$ 1,969,847</u>	<u>\$ 1,992,288</u>

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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For the years ended December 31, 2021 and 2020, the depreciation expense was \$177.3 million and \$189.2 million, respectively. In 2021, Franciscan's board authorized a clinical service redistribution plan to transition its Franciscan Health Hammond facility to an 8-bed inpatient short stay hospital with an emergency room, various ambulatory services, and physician offices and Franciscan's board further authorized a demolition plan for certain portions of the Health Center that would not be used. In 2020, Franciscan's board authorized the development of a replacement hospital for its Franciscan Health Crown Point facility and a demolition plan for certain portions of the current hospital campus. Both of these activities required a change in the estimated useful life of the associated assets resulting in the acceleration of depreciation for the years ended December 31, 2021 and 2020 of \$36.0 million and \$7.1 million, respectively.

At December 31, 2021, the remaining contractual commitments on construction in progress is approximately \$362.8 million and will be financed by a combination of cash flow from operations and existing funds.

#### 6. Leases

Franciscan has lease commitments for real estate as well as medical and office equipment. The lease term begins at the lease commencement date which is determined based on the noncancelable term of the lease. Franciscan's remaining operating lease terms range from 1 to 17 years, with the obligations ending December 31, 2038. Franciscan's remaining finance lease terms range from 1 to 6 years, with the obligations ending March 31, 2027. The finance lease agreements have standard lease payments that may include purchase options at the end of the agreements.

The following table summarizes Franciscan's leased assets and lease liabilities within the consolidated statements of financial position at December 31, 2021 and 2020:

	2021	2020
	(in thousands)	
Total leased assets		
Operating lease assets classified as right of use leased assets	\$ 129,683	\$ 148,827
Finance lease assets classified as property, plant, and equipment, net	25,215	31,615
	<u>\$ 154,898</u>	<u>\$ 180,442</u>
Total lease liabilities		
Operating lease liabilities	\$ 132,302	\$ 150,763
Finance lease liabilities	28,176	33,681
	<u>\$ 160,478</u>	<u>\$ 184,444</u>

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

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The components of lease expense are recorded as other expenses in the consolidated statements of operations and changes in net assets, excluding interest on finance lease liabilities which is recorded to interest expense. The components of lease expense included in the consolidated statements of operations and changes in net assets for the years ending December 31, 2021 and 2020 are as follows:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
Operating lease expense	\$ 32,421	\$ 34,893
Short-term lease expense	2,657	1,326
Variable lease expense	13,265	18,340
Finance lease expense		
Depreciation of leased assets	5,107	4,764
Interest on lease liabilities	760	897
Total lease expense	<u>\$ 54,210</u>	<u>\$ 60,220</u>

At December 31, 2021, the minimum future lease payments under these leases are as follows:

	(in thousands)		
<b>Years ended December 31,</b>	<b>Operating</b>	<b>Finance</b>	<b>Total</b>
2022	28,041	6,796	\$ 34,837
2023	24,431	6,543	30,974
2024	20,897	4,663	25,560
2025	18,172	4,150	22,322
2026	15,429	3,237	18,666
Thereafter	31,474	4,481	35,955
Total lease payments	<u>\$ 138,444</u>	<u>\$ 29,870</u>	<u>\$ 168,314</u>
Less: imputed interest	<u>(6,142)</u>	<u>(1,694)</u>	<u>(7,836)</u>
Present value of minimum lease payments	<u>\$ 132,302</u>	<u>\$ 28,176</u>	<u>\$ 160,478</u>

Other information related to leases for the years ending December 31, 2021 and 2020, is as follows:

<b>Weighted-average remaining lease term (in years):</b>	<b>2021</b>	<b>2020</b>
Operating leases	7.45	8.07
Finance leases	6.57	7.19
<b>Weighted-average discount rate:</b>		
Operating leases	2.15%	2.35%
Finance leases	2.41%	2.71%

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

**7. Long-Term Debt**

Long-term debt at December 31, 2021 and 2020, consists of the following:

	<u>Year of Final Maturity</u>	<u>Interest Rate Range over Life of Bonds</u>		<u>2021</u>	<u>2020</u>
				(in thousands)	
Tax Exempt Hospital and Health System Revenue and Refunding Bonds					
Fixed rate term and serial bonds					
Series 2008C	2022	5.0%		\$ 1,745	\$ 12,600
Series 2016A	2051	4.0%-5.0%		200,000	200,000
Series 2016B	2041	3.0%-5.0%		83,560	83,645
Series 2017B	2032	5.0%		148,135	148,135
Series 2017C	2039	3.0%-5.0%		185,940	188,580
Bond discounts and premiums, net				35,782	40,431
Fixed rate term and serial bonds				<u>\$ 655,162</u>	<u>\$ 673,391</u>
Series 2012A fixed rate direct placement bonds	2048			75,000	75,000
Total fixed rate term and serial bonds and direct placement bonds				<u>\$ 730,162</u>	<u>\$ 748,391</u>
		<u>Interest Rate Range 2021</u>	<u>Interest Rate Range 2020</u>		
Variable rate direct placement bonds					
Series 2014A	2048	0.55% - 0.60%	0.60% - 1.91%	50,000	50,000
Series 2016C	2041	0.72% - 0.76%	0.76% - 1.91%	69,255	71,055
Series 2016D	2041	0.65% - 0.69%	0.69% - 1.84%	69,145	70,950
Series 2016E	2048	0.72% - 0.76%	0.70% - 1.91%	63,895	63,895
Series 2017A	2048	0.61% - 0.65%	0.65% - 2.21%	45,250	45,250
Total variable rate direct placement bonds				<u>\$ 297,545</u>	<u>\$ 301,150</u>
Variable rate demand bonds, subject to seven-day or daily put provisions supported by direct pay bank letters of credit					
Series 2008F	2048	0.03% - 0.11%	0.09% - 5.13%	45,200	45,200
Series 2008I	2037	0.01% - 0.09%	0.02% - 8.00%	30,640	32,505
Series 2008J	2037	0.01% - 0.09%	0.02% - 8.00%	30,640	32,510
Total variable rate demand bonds				<u>\$ 106,480</u>	<u>\$ 110,215</u>
Other debt					
Finance lease obligations (excluding imputed interest of \$1,694 and \$2,254 at December 31, 2021 and 2020, respectively)				\$ 28,176	\$ 33,681
Deferred financing costs and other				(4,129)	(4,414)
Total long-term debt				1,158,234	1,189,023
Less current portion of long-term debt				(28,041)	(26,467)
Long-term debt, net of current portion				<u>\$1,130,193</u>	<u>\$1,162,556</u>



**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

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At December 31, 2021, scheduled principal payments on long-term debt are as follows:

<b>Years ended December 31</b>	<b>Fixed and Variable Rate Bonds</b>	<b>Finance Lease &amp; Other Obligations (in thousands)</b>	<b>Total</b>
2022	\$ 21,835	\$ 6,206	\$ 28,041
2023	22,885	6,176	29,061
2024	23,955	4,449	28,404
2025	25,145	3,965	29,110
2026	26,365	3,103	29,468
Thereafter	978,220	4,277	982,497
	<u>\$ 1,098,405</u>	<u>\$ 28,176</u>	<u>\$ 1,126,581</u>

Total interest costs incurred on the long-term debt less capitalized interest for the years ended December 31, 2021 and 2020 are as follows:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
Interest costs incurred	\$ 28,317	\$ 30,513
Less capitalized interest	<u>1,145</u>	<u>509</u>
Interest expense included in operating income	<u>\$ 27,172</u>	<u>\$ 30,004</u>

**Obligated Group and Designated Group Affiliates and Other Requirements** – Franciscan has long-term debt outstanding under a Master Trust Indenture dated November 1, 1997, as amended and supplemented (“MTI”). The MTI permits Franciscan to issue obligations to finance certain activities. Franciscan and any future other members of the Obligated Group created under the MTI are jointly and severally liable with respect to the payment of each obligation issued under the MTI. In addition, the MTI provides that certain affiliates of Franciscan may be designated as Designated Group Affiliates from time to time and Franciscan covenants to cause each of its Designated Group Affiliates to pay, loan, or otherwise transfer to the Obligated Group such amounts necessary to pay the obligations issued under the MTI. The Designated Group Affiliates are not members of the Obligated Group and are not directly liable for payments on the obligations. Franciscan has granted a security interest in its unrestricted receivables for the benefit of the owners of the obligations. The MTI includes covenants which require Franciscan to maintain a minimum debt service coverage ratio of 1.10 and limit the Obligated Group’s and Designated Affiliates’ ability to encumber certain of their assets. As of December 31, 2021 and 2020, Franciscan was in compliance with the terms of the MTI and there were no other Obligated Group members nor any Designated Group Affiliates.

**Fixed Rate Direct Placement Bonds** – Included in Franciscan’s debt is \$75.0 million of fixed rate direct placement bonds with the credit provider agreement having an expiration date of October 29, 2027.

**Variable Rate Direct Placement Bonds** – Included in Franciscan’s debt is approximately \$297.5 million of variable rate direct placement bonds. Franciscan has executed various variable rate direct placement agreements whereby the credit provider purchased these bonds for a predetermined period after which the agreement must be extended or the bonds must be

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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remarketed or refinanced. Termination dates for these various variable rate direct placement agreements have expiration dates extending from October 2023 through October 2026.

**Variable Rate Demand Bonds** – Included in Franciscan’s debt is approximately \$106.5 million of variable rate demand bonds. Franciscan has entered into irrevocable letters of credit to secure bond repayment and interest obligations associated with its variable rate demand bonds. These liquidity facilities are available to Franciscan should the obligations be presented for purchase and not remarketed. There were no outstanding draws on the letters of credit as of December 31, 2021. Additionally, these facilities (if utilized) have repayment terms for bonds held by the letter of credit bank that amortize ratably over 5 years. The various liquidity facility agreements have expiration dates of December 15, 2025.

#### 8. Interest Rate Swap Contracts

Franciscan utilizes interest rate swaps to manage interest rate risk associated with its variable rate bonds. Cash payments on the interest rate swap contracts totaled \$9.8 million and \$10.0 million for the years ended December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, the interest rate swap contracts were in a liability position with a fair value of approximately \$60.7 million and \$79.4 million, respectively. The fair value of Franciscan’s interest rate swap contracts are based on observable inputs, such as interest rates and credit risk spreads, that fall within Level 2 of the hierarchy of fair value inputs as described in Note 2. Certain of Franciscan’s interest rate swap agreements include collateral funding requirements based on the market value of these contracts. At December 31, 2021 and 2020, Franciscan had posted \$19.6 million and \$28.9 million, respectively, to satisfy its collateral funding obligations on these contracts which are included in assets under bond indenture and interest rate swap agreements within board designated and other investments on the consolidated statements of financial position.

#### 9. Retirement Benefits

Prior to 2014, Franciscan had various retirement programs in place due to acquisitions made over the years. Effective January 1, 2014, Franciscan amended its retirement program to have all employees (except for those from one of its Health Centers and its construction company) covered by one comprehensive retirement program that administers benefits under two different tracks. Under track A, future employer-provided retirement benefits are provided entirely through the defined benefit pension plan. Under track B, future employer-provided retirement benefits are provided through both the defined benefit pension plan and the defined contribution benefit plan. Effective September 1, 2015, Franciscan further amended its retirement program for all new employees so that employer-provided retirement benefits will be provided entirely through the defined contribution benefit program (track C).

**Noncontributory Defined Benefit Pension Plan** – As discussed above, Franciscan has a qualified, noncontributory defined benefit pension plan covering eligible employees in retirement tracks A and B. The plan provides defined benefits based on years of service and final average salary. Because the qualified, non-contributory defined benefit pension plan has church plan status as defined in the Employee Retirement Income Security Act of 1974 (“ERISA”), funding in accordance with ERISA is not required. Franciscan’s funding policy for the qualified plan, which is reviewed annually and may be adjusted as needed, is to fund the normal service cost based on the accrued benefit liability for the plan’s year and amortize any under or over funding over a ten year period.

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

In 2021, Franciscan amended the plan to offer an early retirement window for coworkers associated with the Franciscan Health Hammond facility as described in Note 5 which increased the plan's projected benefit obligation by \$3.6 million. Also in 2021, one of Franciscan's frozen plan's experienced lump sum payments approximating \$1.4 million which exceeded a settlement threshold resulting in a settlement charge of \$0.2 million and decreased that plan's projected benefit obligation by \$1.4 million. In 2020, Franciscan amended its defined benefit plan to no longer allow active participants to take their benefits as a lump sum when they terminate employment or retire which increased the plan's projected benefit obligation by \$44.8 million.

Franciscan's measurement date for all pension calculations is December 31.

The change in projected benefit obligation, change in plan assets, and funded status of Franciscan's pension plans as of December 31, 2021 and 2020, are as follows:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
<b>Change in benefit obligation</b>		
Benefit obligation, beginning of year	\$ 2,053,775	\$ 1,783,274
Service cost	61,947	55,672
Interest cost	55,344	58,156
Plan amendments/settlements	2,177	44,800
Actuarial (gain)/loss	(79,912)	193,214
Expenses paid	(2,288)	(2,214)
Benefits paid from plan assets	(53,960)	(79,127)
Benefit obligation, end of year	<u>2,037,083</u>	<u>2,053,775</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	1,857,735	1,586,533
Actual return on plan assets	126,993	272,750
Settlements	(1,369)	-
Employer contributions	84,647	79,793
Expenses paid	(2,288)	(2,214)
Benefits paid from plan assets	(53,960)	(79,127)
Fair value of plan assets, end of year	<u>2,011,758</u>	<u>1,857,735</u>
Funded status	<u>\$ (25,325)</u>	<u>\$ (196,040)</u>
<b>Amounts recognized in the consolidated statements of financial position</b>		
Noncurrent assets	\$ 2,215	\$ 1,012
Noncurrent liabilities	(27,540)	(197,052)
Total amount recognized	<u>\$ (25,325)</u>	<u>\$ (196,040)</u>

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

The amounts in net assets without donor restriction, including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows:

	<b>Net Gain (Loss)</b>	<b>Prior Service Cost</b>	<b>Total</b>
		(in thousands)	
<b>December 31, 2019</b>	\$ (426,489)	\$ 20,319	\$ (406,170)
Amounts reclassified into net periodic benefit cost	29,596	(4,767)	\$ 24,829
Amounts arising during the year	<u>(22,228)</u>	<u>(44,800)</u>	<u>\$ (67,028)</u>
<b>December 31, 2020</b>	(419,121)	(29,248)	(448,369)
Amounts reclassified into net periodic benefit cost	25,777	637	26,414
Amounts arising during the year	<u>92,846</u>	<u>-</u>	<u>92,846</u>
<b>December 31, 2021</b>	<u>\$ (300,498)</u>	<u>\$ (28,611)</u>	<u>\$ (329,109)</u>

Unrecognized prior service cost/credit is amortized on a straight line basis over the average remaining service period of participants who are expected to receive a benefit and are active at the date of the plan amendment. There are no amounts expected to be amortized from net assets in 2022.

The accumulated benefit obligation ("ABO") was \$1.90 billion at both December 31, 2021 and 2020. At December 31, 2021, there were no plans with an ABO in excess of plan assets. The following information is provided for plans with an ABO in excess of plan assets at December 31, 2020:

	<b>2020</b>
	(in thousands)
Projected benefit obligation	\$ 2,049,551
ABO	\$ 1,893,732
Fair value of plan assets	\$ 1,853,029

Components of net periodic pension cost for the years ended December 31, 2021 and 2020 are as follows:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
Service cost	\$ 61,947	\$ 55,672
Interest cost	55,344	58,156
Expected return on plan assets	(114,288)	(101,764)
Amortization of prior service cost	637	(4,767)
Plan amendment/settlement loss recognized	3,773	-
Amortization of net loss	<u>25,777</u>	<u>29,596</u>
Net periodic pension cost	<u>\$ 33,190</u>	<u>\$ 36,893</u>

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

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The following weighted-average assumptions were used to determine Franciscan's benefit obligations and net periodic pension cost for the years ended December 31:

	<b>2021</b>	<b>2020</b>
<b>Benefit obligation</b>		
Discount rate	3.00 %	2.74 %
Rate of compensation increase	4.70 %	4.70 %
<b>Net periodic pension cost</b>		
Discount rate	2.74 %	3.37 %
Expected rate of return on plan assets	6.20 %	6.45 %
Rate of compensation increase	4.70 %	4.70 %

In developing the expected rate of return on plan assets assumption, Franciscan considered the historical returns and the expectation for future returns of each asset class, as well as the target asset allocation of the pension investment portfolio. The rate of return on plan assets assumption also considers investment and administrative expenses.

The discount rate assumption reflects the yield of a portfolio of high quality bonds matched against the timing and amount of projected future benefit payments as of the measurement date.

As of December 31, 2021, Franciscan adopted the Society of Actuaries Pri-2012 Mortality Table and the MMP-2021 Mortality Improvement Projection Scale to update longevity expectations related to the pension plans.

Franciscan's pension investment policy considers the long-term nature of the asset pool as well as the liabilities it is designated to fund. The pension investment policy utilizes a liability driven investment strategy to better hedge against interest rate risk on investments and volatility of the pension liability given changes in the discount rate. Franciscan considers the risk and return characteristics of the various asset classes available to institutional investors and seeks guidance from outside investment advisors. Franciscan has established the following targeted asset allocation that categorizes assets into de-risking assets (cash and liability-driven fixed income assets) and return seeking/growth assets (equity securities and multi-strategy hedge fund of funds) given different levels of the pension plans' funded status.

<b>Pension Plan Funded Status</b>	<b>De-Risking Assets</b>	<b>Return Seeking/ Growth Assets</b>
< 95.0%	55.0%	45.0%
95.0% - 97.5%	60.0%	40.0%
97.5% - 100.0%	62.5%	37.5%
100.0% - 102.5%	65.0%	35.0%
102.5% - 105.0%	70.0%	30.0%
105.0% - 107.5%	75.0%	25.0%
107.5% - 110.0%	80.0%	20.0%
110.0% - 112.5%	85.0%	15.0%
112.5% - 115.0%	90.0%	10.0%
115.0%+	90.0%	10.0%

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

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For the years ended December 31, 2021 and 2020, the funded status of Franciscan's pension plans was 99% and 90%, respectively, when measured on a projected benefit obligation basis. For each level of funded status, the acceptable range of allocation among the de-risking and return seeking/growth assets, is plus or minus 10% around the strategic targets. Franciscan's asset allocation as of December 31, 2021 and 2020 was as follows:

	<b>Percentage of Plan Assets</b>	
	<b>2021</b>	<b>2020</b>
De-Risking Portfolio	62%	54%
Return Seeking/Growth Portfolio	38%	46%
	<u>100%</u>	<u>100%</u>

Assets are invested to achieve a rate of return consistent with the policy allocation targets which significantly contributes to meeting the current and future obligation of the plan and helps to ensure solvency of the plan over time. It is expected that this objective can be achieved through a well-diversified asset portfolio and an emphasis on long-term capital appreciation as a primary source of return. The plan utilizes a multi-manager structure of complementary investment styles and classes with manager performance judged over an investment market cycle which is generally 3 to 5 years. Plan assets are exposed to risk and fluctuations in market value from year to year. To minimize risk, each manager is required to maintain adequate portfolio diversification to insulate the plan assets from substantial loss in any single security or market sector. Asset allocation is reviewed every quarter and rebalanced as necessary.

**Cash Flows**

During 2022, Franciscan anticipates making contributions of approximately \$30.0 million to fund the normal service cost in accordance with its standard funding policy. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	(in thousands)
2022	\$ 67,670
2023	72,584
2024	77,716
2025	82,227
2026	86,874
Years 2027-2031	488,789

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

The following tables summarize Franciscan's pension assets, measured at fair value as of December 31, 2021 and 2020, respectively.

<b>Asset category</b>	<b>Level 1</b>	<b>Level 2</b> (in thousands)	<b>Balance as of December 31, 2021</b>
Cash and cash equivalents	\$ 95,312	\$ -	\$ 95,312
U.S. government, state, municipal, and agency obligations	176,416	51,082	227,498
Other fixed income securities		937,989	937,989
Equity securities	431,728	-	431,728
Real estate investment trusts	2,528	-	2,528
	<u>\$ 705,984</u>	<u>\$ 989,071</u>	<u>1,695,055</u>
Investments measured at net asset value			316,703
Total investments at fair value as of December 31, 2021			<u>\$ 2,011,758</u>

<b>Asset category</b>	<b>Level 1</b>	<b>Level 2</b> (in thousands)	<b>Balance as of December 31, 2020</b>
Cash and cash equivalents	\$ 40,604	\$ -	\$ 40,604
U.S. government, state, municipal, and agency obligations	212,193	51,957	264,150
Other fixed income securities	-	722,956	722,956
Equity securities	457,837	-	457,837
Real estate investment trusts	2,323	-	2,323
	<u>\$ 712,957</u>	<u>\$ 774,913</u>	<u>1,487,870</u>
Investments measured at net asset value			369,865
Total investments at fair value as of December 31, 2020			<u>\$ 1,857,735</u>

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2021 and 2020.

**Defined Contribution Benefit Plans** - Franciscan sponsors various defined contribution benefit plans covering eligible employees. These employees may contribute a portion of their pre-tax and/or after-tax compensation to the plans, in accordance with specified guidelines. In addition to any discretionary contributions, these plans provide for established contribution percentages up to certain limits for eligible employees. The defined contribution benefit plan expense for the years ended December 31, 2021 and 2020 aggregated \$41.6 million and \$32.5 million, respectively.

# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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#### 10. Liability Insurance and Contingencies

From time to time, Franciscan is subject to various legal proceedings and claims arising in the ordinary course of business. Franciscan has a comprehensive risk management and insurance program designed to safeguard its assets and properties. Hills Insurance Company, Inc. ("Hills Inc."), the wholly owned captive insurance subsidiary of Franciscan, provides certain professional and general liability coverage for the Health Centers and its other corporate entities. Hills has limited its exposure by purchasing reinsurance and excess insurance coverage. In the unlikely event that any of the excess insurance coverages fail, Franciscan would be liable for such defaults, however Franciscan purchases its excess insurance policies from highly rated insurance companies to mitigate that risk. In addition, Franciscan is self-insured for its employee health, long-term disability, and workers' compensation employee benefit programs. Excess workers compensation insurance is in place to limit self-insurance exposure. Franciscan maintains directors and officer's liability policies and property insurance.

The estimated insurance liabilities provide for reported losses and for losses incurred but not reported based on projections by independent actuaries using information provided by Franciscan's management. The estimated insurance liabilities, which consist of professional liability, general liability, long-term disability insurance, workers' compensation, and amounts self-insured for allocated loss adjustment expenses, approximated \$159.5 million and \$152.0 million on an undiscounted basis at December 31, 2021 and 2020, respectively.

Hospitals and health facilities, including those operated by Franciscan, are subject to numerous legal, regulatory, environmental, professional and private licensing, and certification and accreditation requirements. Also, the laws and regulations governing the Medicare, Medicaid, and other governmental health care programs that Franciscan participates in are extremely complex and subject to interpretation, making compliance an ongoing challenge for health care organizations. The federal government has ongoing enforcement activity, including audits and investigations related to billing practices, clinical documentation, and other related matters. Allegations concerning possible violations of regulations can result in the imposition of significant fines and penalties and significant repayment of billed and collected revenues for patient services. Franciscan maintains a compliance program designed to educate its employees and to prevent, detect, and correct possible violations.

#### 11. Noncontrolling Interest in Consolidated Affiliates and Investments in Unconsolidated Affiliates

Franciscan is involved in various health service entity joint ventures that support Franciscan's mission whose operations have been included in the consolidated financial statements.

##### **Noncontrolling Interest in Consolidated Affiliates**

Franciscan's consolidated financial statements include all assets, liabilities, revenues, and expenses of less than 100% owned entities that it controls. Accordingly, Franciscan has recorded the noncontrolling interest in the earnings and equities of such entities in its consolidated financial statements.



# Franciscan Alliance, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021 and 2020

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#### Investments in Unconsolidated Affiliates

Franciscan has investments in entities that are recorded under the equity method of accounting.

At December 31, 2021 and 2020, Franciscan had a 33% economic interest in Alverno Clinical Laboratories, LLC (“ACL, LLC”), an Indiana limited liability company created to direct, operate, maintain, and manage a centralized clinical laboratory in Hammond, Indiana supporting Franciscan and an unrelated health care system. Franciscan is also an owner of Alverno Provena Hospital Laboratories, LLC (“APHL”), a non-profit cooperative corporation created to direct, operate, maintain, and manage the on-site laboratories of the owners’ health centers. Governance of ACL, LLC and APHL (collectively referred to as the “Laboratories”) is shared between the health system members. Franciscan accounts for its investment in ACL, LLC under the equity method, which approximated \$6.0 million at both December 31, 2021 and 2020. Franciscan’s capital account in APHL approximates \$50,000 at both December 31, 2021 and 2020.

Franciscan’s share of the equity in losses of investments in unconsolidated affiliates accounted for on the equity method is approximately (\$0.7) million and (\$1.6) million for the years ended December 31, 2021 and 2020, respectively, which is included in total revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method as of and for the periods ended December 31 is as follows:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
Total assets	\$ 93,668	\$ 71,143
Total liabilities	62,183	43,508
Net assets	31,485	27,635
Total revenues, gains, and other support	428,943	313,783
(Deficiency) excess of revenues over expenses	(4,413)	255

#### 12. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
	(in thousands)	
Capital needs and equipment	\$ 5,533	\$ 4,876
Medical education programs	13,378	9,688
Health care operations and patient services	24,956	23,583
Other restrictions - spiritual care and mission related activities	8,162	6,738
	<u>\$ 52,029</u>	<u>\$ 44,885</u>

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

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**13. Liquidity and Availability**

The following table represents the financial assets and liquidity resources available for general expenditures within one year as of December 31, 2021 and 2020. Franciscan defines general expenditures as the normal expenditures related to operations of Franciscan, excluding capital expenditures. Franciscan invests cash in excess of daily requirements needed to satisfy general expenditures in short-term investments and board designated and other investments. Franciscan has structured its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Board designated investments represent investments set aside by board policy for future purposes including capital expenditures, acquisitions, improvements, mission programs, and, in addition, to provide for Franciscan to meet current liquidity needs.

	<b>2021</b>	<b>2020</b>
	(in thousands)	
Financial assets:		
Cash and cash equivalents	\$ 274,353	\$ 42,678
Short-term investments	115,593	402,478
Patient accounts receivable	428,846	403,514
Board designated and other investments	<u>3,466,532</u>	<u>3,174,338</u>
Total financial assets	4,285,324	4,023,008
Less amounts not available within one year or not designated for general expenditures:		
Estimated insurance liability funds	204,673	194,620
Assets under bond indenture and swap agreements	19,615	28,865
Other restricted investments	55,068	42,071
Private credit	37,674	12,910
Private equity	<u>167,924</u>	<u>98,345</u>
Total financial assets not available within one year	<u>484,954</u>	<u>376,811</u>
Financial assets and liquidity resources available for general expenditures within one year	<u>\$ 3,800,370</u>	<u>\$ 3,646,197</u>

The estimated insurance liability funds are set aside for Franciscan's captive insurance program and are not available for general expenditures. Franciscan's other restricted investments consist of foundation assets not available within one year or for general expenditures. Private credit and private equity investments are not available within one year due to the nature of those investments or contractual restrictions which prevent redemption of all or a portion of such funds.

**14. Related Party Transactions**

Franciscan's Health Centers incurred clinical laboratory charges from the Laboratories of approximately \$93.3 million and \$87.1 million for the years ended December 31, 2021 and 2020, respectively, which is included in purchased services in the consolidated statements of operations and changes in net assets. Franciscan provides information technology services, central procurement and disbursement services, and rents the core lab facilities to the Laboratories for which Franciscan has recorded approximately \$4.1 million and \$4.3 million for the years ended December 31, 2021 and 2020, respectively, as other operating revenue on the consolidated statements of operations and changes in net assets.

**Franciscan Alliance, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**

**15. Functional Expenses**

The tables below present expenses by both their nature and function for the years ending December 31, 2021 and 2020:

	(in thousands)				
	<b>Health Care</b>	<b>General and</b>	<b>Construction</b>	<b>Accountable</b>	
	<b>Servcies</b>	<b>Administrative</b>	<b>Company</b>	<b>Care</b>	<b>Total</b>
				<b>Organizations</b>	
<b>Year ended December 31, 2021</b>					
Salaries, benefits, and physician fees	\$ 1,519,735	\$ 254,478	\$ 13,284	\$ 24,263	\$ 1,811,760
Supplies, drugs, purchased services, and other	1,028,110	157,327	60,051	22,353	1,267,841
Hospital assessment fees	124,552	-	-	-	124,552
Depreciation and amortization	170,856	42,104	273	100	213,333
Interest	27,172	-	-	-	27,172
	<u>\$ 2,870,425</u>	<u>\$ 453,909</u>	<u>\$ 73,608</u>	<u>\$ 46,716</u>	<u>\$ 3,444,658</u>
<b>Year ended December 31, 2020</b>					
Salaries, benefits, and physician fees	\$ 1,382,398	\$ 307,339	\$ 22,065	\$ 13,740	\$ 1,725,542
Supplies, drugs, purchased services, and other	785,417	274,487	69,849	21,314	1,151,067
Hospital assessment fees	110,572	-	-	-	110,572
Depreciation and amortization	109,731	86,167	413	-	196,311
Interest	30,004	-	-	-	30,004
	<u>\$ 2,418,122</u>	<u>\$ 667,993</u>	<u>\$ 92,327</u>	<u>\$ 35,054</u>	<u>\$ 3,213,496</u>

The consolidated financial statements report certain categories of expenses that are attributable to more than one supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. These expenses are allocated on a variety of factors including hours worked and areas supported.

**16. Subsequent Events**

Management has evaluated events and transactions occurring subsequent to December 31, 2021 through May 6, 2022, the date the consolidated financial statements were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements and no unrecognized subsequent events requiring disclosure.