



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

Consolidated Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations as of June 30, 2019 and 2018, and their changes in net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1(v) to the consolidated financial statements, in fiscal year 2019, the System adopted new accounting guidance in connection with its implementation of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Baton Rouge, Louisiana
October 11, 2019

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

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands)

| Assets | 2019 | 2018 |
|---------------------------------------------------------------------------------------------|--------------|-------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 263,100 | 235,123 |
| Short-term investments | 19,945 | 4,391 |
| Net patient accounts receivable | 208,663 | 140,167 |
| Other current assets | 167,658 | 112,253 |
| Total current assets | 659,366 | 491,934 |
| Assets limited as to use, net of current portion | 1,033,965 | 1,090,983 |
| Property and equipment, net | 1,286,716 | 1,191,485 |
| Other assets | 236,444 | 251,119 |
| Total assets | \$ 3,216,491 | 3,025,521 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Lines of credit | \$ 10,000 | 5,000 |
| Current installments of long-term debt | 18,187 | 16,666 |
| Current portion of capital lease obligations | 2,405 | 2,567 |
| Accounts payable | 106,515 | 98,686 |
| Other current liabilities | 238,066 | 176,969 |
| Total current liabilities | 375,173 | 299,888 |
| Professional and general liabilities, excluding current portion | 28,553 | 27,118 |
| Long-term debt, excluding current installments | 732,394 | 740,776 |
| Capital lease obligations, excluding current portion | 12,323 | 13,149 |
| Accrued pension cost | 552,203 | 446,368 |
| Other long-term liabilities | 64,575 | 74,878 |
| Total liabilities | 1,765,221 | 1,602,177 |
| Net assets: | | |
| Without donor restrictions | 1,336,051 | 1,316,661 |
| With donor restrictions | 76,935 | 71,026 |
| Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc. | 1,412,986 | 1,387,687 |
| Noncontrolling interests | 38,284 | 35,657 |
| Commitment and contingencies | | |
| Total net assets | 1,451,270 | 1,423,344 |
| Total liabilities and net assets | \$ 3,216,491 | 3,025,521 |

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Years ended June 30, 2019 and 2018

(In thousands)

| | 2019 | 2018 |
|--------------------------------------------------------------------|--------------|-------------|
| Changes in net assets without donor restrictions: | | |
| Operating revenues: | | |
| Net patient service revenue | \$ 2,141,683 | 1,895,432 |
| Other revenue | 127,974 | 110,717 |
| Equity in income from equity investees, net | 18,354 | 18,042 |
| Total operating revenues | 2,288,011 | 2,024,191 |
| Net assets released from restrictions used for operations: | | |
| Satisfaction of program restrictions | 8,316 | 5,505 |
| Expiration of time restrictions | 207 | 194 |
| Total net assets released from restrictions used for operations | 8,523 | 5,699 |
| Total operating revenues and other support | 2,296,534 | 2,029,890 |
| Operating expenses: | | |
| Salaries and wages | 850,660 | 779,993 |
| Employee benefits | 177,401 | 177,888 |
| Total salaries, wages, and employee benefits | 1,028,061 | 957,881 |
| Physician fees | 90,859 | 78,701 |
| Professional services | 35,695 | 31,188 |
| Other services | 351,549 | 332,469 |
| Leases, insurance, and utilities | 76,992 | 72,227 |
| Supplies | 441,916 | 382,084 |
| Depreciation and amortization | 122,655 | 120,873 |
| Interest | 28,918 | 30,190 |
| Other | 12,881 | 9,868 |
| Total operating expenses | 2,189,526 | 2,015,481 |
| Operating income before impairment | 107,008 | 14,409 |
| Impairment | (11,560) | (3,659) |
| Operating income | 95,448 | 10,750 |

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Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Years ended June 30, 2019 and 2018

(In thousands)

| | 2019 | 2018 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Nonoperating gains: | | |
| Investment return | 30,899 | 57,622 |
| Change in fair value of interest rate swap agreements | (788) | 3,435 |
| Total nonoperating gains, net | 30,111 | 61,057 |
| Revenues, gains, and other support in excess of expenses and losses before noncontrolling interest | 125,559 | 71,807 |
| Noncontrolling interests | (4,335) | (4,227) |
| Revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc. | 121,224 | 67,580 |
| Pension-related changes other than net periodic pension cost | (102,103) | 27,776 |
| Other | 269 | (713) |
| Increase in net assets without donor restrictions | \$ 19,390 | 94,643 |

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2019 and 2018

(In thousands)

| | 2019 | 2018 |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------|
| Changes in net assets without donor restrictions: | | |
| Revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc. | \$ 121,224 | 67,580 |
| Pension-related changes other than net periodic pension cost | (102,103) | 27,776 |
| Other | 269 | (713) |
| Increase in net assets without donor restrictions | 19,390 | 94,643 |
| Changes in net assets with donor restrictions: | | |
| Contributions | 13,235 | 15,312 |
| Income from long-term investments, net | 1,197 | 2,224 |
| Net assets released from restrictions | (8,523) | (5,699) |
| Increase in net assets with donor restrictions | 5,909 | 11,837 |
| Changes in noncontrolling interests: | | |
| Revenues, gains, and other support in excess of expenses and losses | 4,335 | 4,227 |
| Distributions | (6,116) | (4,793) |
| Acquired controlling interest | 5,322 | 624 |
| Other | (914) | 450 |
| Increase in noncontrolling interests | 2,627 | 508 |
| Increase in net assets | 27,926 | 106,988 |
| Net assets, beginning of year | 1,423,344 | 1,316,356 |
| Net assets, end of year | \$ 1,451,270 | 1,423,344 |

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

| | 2019 | 2018 |
|-----------------------------------------------------------------------------------------------------|-------------|-------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 27,926 | 106,988 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 122,655 | 120,873 |
| Impairment | 11,560 | 3,659 |
| Loss on sale or disposal of assets, net | 5,664 | 206 |
| Net realized and unrealized losses (gains) on assets limited as to use and investment securities | (20,782) | (45,018) |
| Income from equity investees | (18,354) | (18,042) |
| Change in value of interest rate swap agreements | 788 | (3,435) |
| Restricted contributions for capital projects | (11,853) | — |
| Amortization of net premium on bond issues | (1,165) | (1,161) |
| Pension-related changes other than net periodic pension cost | 102,103 | (27,776) |
| Sale of noncontrolling interest | (591) | (1,074) |
| Distributions to noncontrolling interest | 6,116 | 4,793 |
| Return of income from equity investees | 13,985 | 13,463 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Receivables | (64,919) | 48,753 |
| Inventories | (2,406) | 470 |
| Prepaid expenses and other assets | (34,259) | 5,557 |
| Accounts payable, accrued expenses, and other liabilities | 56,467 | (27,339) |
| Professional and general liabilities | 1,435 | 93 |
| Net cash provided by operating activities | 194,370 | 181,010 |

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SYSTEM, INC. AND AFFILIATED ORGANIZATIONS**

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

| | 2019 | 2018 |
|--------------------------------------------------|--------------|-------------|
| Cash flows from investing activities: | | |
| Capital expenditures | \$ (154,663) | (174,124) |
| Purchases of assets limited as to use | (363,098) | (317,881) |
| Sales of assets limited as to use | 396,973 | 366,920 |
| Cash paid for acquisitions, net of cash acquired | (33,165) | — |
| Net cash used in investing activities | (153,953) | (125,085) |
| Cash flows from financing activities: | | |
| Repayment of long-term debt | (16,313) | (14,092) |
| Repayment of capital lease obligations, net | (2,455) | (5,497) |
| Proceeds from issuance of long-term debt | — | 1,136 |
| Proceeds from line of credit | 5,000 | 10,000 |
| Payments on line of credit | — | (5,000) |
| Acquired controlling interest | (4,409) | 1,074 |
| Restricted contributions for capital projects | 11,853 | — |
| Distributions to noncontrolling interest | (6,116) | (4,793) |
| Net cash used in financing activities | (12,440) | (17,172) |
| Increase in cash and cash equivalents | 27,977 | 38,753 |
| Cash and cash equivalents, beginning of year | 235,123 | 196,370 |
| Cash and cash equivalents, end of year | \$ 263,100 | 235,123 |
| Supplemental noncash disclosures: | | |
| Accounts payable for capital expenditures | \$ 544 | 4,857 |
| Capital lease obligations | — | 1,238 |
| Long-term debt for property and equipment | 8,635 | 24,298 |

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(1) Organization and Summary of Significant Accounting Policies

Franciscan Missionaries of Our Lady Health System, Inc. (FMOLHS or the System) is a not-for-profit, nonstock membership corporation and is a wholly owned subsidiary of Franciscan Missionaries of Our Lady (FMOL) in Baton Rouge, Louisiana. The members of FMOL are the provincial and the members of the Council of the Franciscan Missionaries of Our Lady – North American Province. FMOLHS is the sole member and has sole voting control of five medical centers and their affiliates (the FMOLHS Affiliates). All of these entities are not-for-profit, nonstock membership corporations. The medical centers are as follows:

- Our Lady of the Lake Hospital, Inc. d/b/a Our Lady of the Lake Regional Medical Center (the Lake) – Baton Rouge, Louisiana and Our Lady of the Lake Ascension Community Hospital in Gonzales, Louisiana
- Our Lady of Lourdes Regional Medical Center, Inc. (Lourdes) – Lafayette, Louisiana
- St. Francis Medical Center, Inc. (St. Francis) – Monroe, Louisiana
- Our Lady of the Angels Hospital, Inc. (Angels) – Bogalusa, Louisiana

The FMOLHS Affiliates participate together in a captive insurance company, Louise Insurance Co., Ltd. (Louise), which is wholly owned by FMOLHS (note 18). FMOLHS also has ownership interest in other entities providing services to meet its mission.

The significant accounting policies used by FMOLHS in preparing and presenting its consolidated financial statements follow:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of FMOLHS, its wholly owned subsidiaries, and the FMOLHS Affiliates. All significant intercompany balances and transactions have been eliminated in consolidation. Third-party equity interest in the consolidated subsidiaries and affiliates are reflected as non-controlling interest in FMOLHS's consolidated financial statements. For subsidiaries in which FMOLHS does not have a controlling interest, FMOLHS records such investments under the equity method of accounting.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the allowances for implicit price concessions and explicit price concessions (contractual adjustments), reserves for general and professional liability claims, reserves for workers' compensation claims, reserves for employee healthcare claims, estimated third-party payor settlements, certain investments in alternative funds, valuation of derivatives, and the actuarially determined benefit liability related to

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June 30, 2019 and 2018

(In thousands)

FMOLHS Affiliates' pension plans and postretirement health plans. In addition, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

(c) Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased, excluding amounts included in assets limited as to use.

FMOLHS maintains bank accounts at various financial institutions covered by Federal Depository Insurance Corporation (FDIC). FMOLHS may maintain bank account balances in excess of the FDIC-insured limit. FMOLHS believes it is not exposed to any significant credit risk related to cash and cash equivalents.

(d) Investments and Investment Return

Investments in equity securities with readily determinable fair values and all investments in debt securities, except for investments in the common stock of equity investees accounted for using the equity method, are recorded at fair value. The estimated fair value of these investments is based on quoted market prices.

FMOLHS also invests in alternative investments such as hedge funds, private equity funds, and commingled funds. When FMOLHS's alternative investments represents investments organized as corporations, or trusts with legal structures similar to a corporation, with ownership less than 20%, and transacts frequently (at least quarterly), FMOLHS accounts for these investments at fair value or net asset value (NAV) as a practical expedient to fair value. Net asset value is based on the fair value of the underlying investments. When FMOLHS's alternative investments represents investments organized as limited partnerships or limited liability companies with specific ownership accounts or trusts with legal structures similar to a partnership, FMOLHS accounts for these investments using the equity method, which generally approximates NAV.

The NAV for alternative investments for which quoted market prices are not available is based on the most recent valuations provided by the external investment managers, adjusted for receipts and disbursements through June 30. FMOLHS reviews and evaluates the values provided by the managers and agrees with the valuation methods and assumptions used to determine those values. Therefore, FMOLHS believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

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June 30, 2019 and 2018

(In thousands)

Dividend, interest and other income, realized and unrealized gains and losses on investments recorded at fair value, alternative investments recorded at NAV, and changes in the carrying value of alternative investments recorded on the equity method, are included as revenues, gains, and other support in excess of expenses and losses in the consolidated statements of operations and changes in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law. Donated investments are recorded at fair value at the date of receipt.

(e) Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (average-cost method) or net realizable value and are included in other current assets in the accompanying consolidated balance sheets.

(f) Assets Limited as to Use

Assets limited as to use include the following:

- Assets set aside by the board of directors for future capital acquisitions, capital improvements, and debt service, over which the board of directors retains control and may at its discretion subsequently use for other purposes
- Assets held by trustees under indenture agreements, self-insurance trust arrangements, and terms of donor restrictions
- Assets set aside subject to donor-imposed stipulations

Amounts required to satisfy current requirements for the payment of current construction costs and debt service costs are classified as other current assets in the accompanying consolidated balance sheets.

(g) Components of Net Assets

Net assets, revenues, and other support and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of FMOLHS and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that are available for use either by the passage of time or for specific purposes; certain of these net assets are subject to donor-imposed stipulations that they be maintained permanently by FMOLHS. Generally, the donors of these assets permit FMOLHS to use all or part of the income earned on related investment for general or specific purposes.

Revenue is reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported

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(In thousands)

as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions. Donor-restricted contributions, whose restrictions are met in the same reporting period as the contributions are recorded, are reported as increases in net assets without donor restrictions.

(h) Property and Equipment

Property and equipment, including leasehold improvements, are stated at cost upon acquisition or fair value if donated. Depreciation is computed primarily on the straight-line method based upon the shorter of the estimated useful lives of the assets or the lease term. Equipment under capital lease is amortized using the straight-line method over the shorter of the lease term of the equipment or its useful life. Such amortization is included in depreciation and amortization expense in the accompanying consolidated financial statements.

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

FMOLHS capitalizes costs associated with the acquisition or development of major software for internal use in other assets in the consolidated balance sheets and amortizes the assets over the expected life of the software, generally between three and seven years. FMOLHS only capitalizes subsequent additions, modifications, or upgrades to internal-use software to the extent that such changes allow the software to perform a task it previously did not perform. FMOLHS expenses software maintenance and training costs as incurred.

FMOLHS evaluates cloud computing arrangements to determine whether the arrangement includes a software license or is a service contract. If determined to be a software license, then FMOLHS capitalizes the arrangement as an other asset and amortizes it over the expected life of the software license, generally between three and five years. If determined to be a service contract, then FMOLHS expenses the cost of the arrangement as the services are provided.

(i) Business Combination

FMOLHS accounts for business combinations using the acquisition method. The assets acquired consist primarily of property and equipment, intangibles, and licenses. The assets acquired and liabilities assumed, if any, are measured at fair value on the acquisition date using the appropriate valuation method. The noncontrolling interest associated with joint venture acquisitions is also

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measured and recorded at fair value as of the acquisition date. The residual purchase price is recorded as cost in excess of net assets acquired. The operations of the acquisitions are included in the consolidated financial statements from their respective dates of acquisition.

(j) Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired, or goodwill, included in other assets, is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Cost in excess of net assets acquired is reviewed for impairment at least annually. FMOLHS applies the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, *Intangibles – Goodwill and Other*, which provides an entity the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required.

If the two-step goodwill impairment test is required, first, the fair value of the reporting unit is compared with its carrying amount (including cost in excess of net assets acquired). If the fair value of the reporting unit is less than its carrying amount, an indication of cost in excess of net assets acquired impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of cost in excess of net assets acquired is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed.

FMOLHS performs its annual impairment review of cost in excess of net assets acquired at June 30, and when a triggering event occurs between annual impairment tests. In 2019 and 2018, FMOLHS performed a qualitative assessment of cost in excess of net assets acquired and determined no impairment exists.

Accumulated amortization for all costs in excess of net assets acquired was \$15,846 at June 30, 2019 and 2018.

(k) Capitalization of Interest

FMOLHS capitalizes the interest costs of borrowings, net of related investment income on the unexpended funds, during the construction period of major projects as a component of the asset. Net interest expense capitalized was \$4,449 and \$2,107 for the years ended June 30, 2019 and 2018, respectively.

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June 30, 2019 and 2018

(In thousands)

(l) Impairment of Long-lived Assets

Long-lived assets, such as property and equipment and equity method investments, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, FMOLHS first compares the undiscounted future cash flows expected to be generated by the assets to its carrying value. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party appraisals, as considered necessary.

FMOLHS recorded an impairment loss of \$11,560 and \$3,659 in 2019 and 2018, respectively.

Assets to be disposed of are separately presented in the accompanying consolidated balance sheets and reported at the lower of carrying amount or fair value less costs to sell, and are no longer depreciated. There are no assets reported to be disposed of at June 30, 2019 or 2018.

(m) Cost of Issuances

Bond issuance costs are presented as a direct deduction from the carrying value of debt in the accompanying consolidated financial statements. Premiums, discounts, costs of letters of credit, and standby purchase agreements are being amortized over the terms of the related bond issues using a method that approximates the effective-interest method. Accumulated amortization was approximately \$8,074 and \$7,631 at June 30, 2019 and 2018, respectively.

(n) Estimated Workers' Compensation, Professional Liability, and Employee Health Claims

The provisions for estimated workers' compensation, professional liability, and employee health claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported. These estimates incorporate FMOLHS's past experience, as well as other considerations, including the nature of claims, industry data, relevant trends, and/or the use of actuarial information.

(o) Consolidated Statements of Operations and Changes in Net Assets without Donor Restrictions

Transactions deemed to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Investment return, consisting of dividends and interest earned on investments, as well as realized and unrealized gains and losses on the investment portfolio, medical office building rental income, the change in value of interest rate swap agreement, and gains and losses on asset disposals are reported as nonoperating gains or losses.

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(In thousands)

The consolidated statements of operations and changes in net assets without donor restrictions include revenues, gains, and other support in excess of expenses and losses, which is an indicator of financial performance. Changes in net assets without donor restrictions which are excluded from revenues, gains, and other support in excess of expenses and losses include permanent transfers of assets to and from affiliates for other than goods and services, pension-related changes other than net periodic pension cost, and contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets).

(p) Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled for providing patient care. These amounts are due from patients, third-party payors, and others and include variable consideration for retroactive revenue adjustments due to settlements of audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to audits, review, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in outpatient centers. The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the System's patients and customers in a retail setting (e.g., pharmaceuticals) as a component of other revenue in the accompanying consolidated statements of operations and changes in net assets without donor restrictions and the System does not believe it is required to provide additional goods or services related to that sale.

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

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

Our adoption of ASC 606 on July 1, 2018, on a full retrospective basis, impacted the System's previously reported results as follows (amounts in thousands):

| | As previously reported | Adjustment for the adoption of ASC 606 | As adjusted |
|----------------------------------------------|-----------------------------------|-------------------------------------------------------|--------------------|
| As of June 30, 2018 | | | |
| Consolidated Balance Sheets | | | |
| Net patient accounts receivable | \$ 140,167 | — | 140,167 |
| Allowance for uncollectible accounts | 220,230 | (220,230) | — |
| For the year ended June 30, 2018 | | | |
| Consolidated Statement of Operations | | | |
| Net patient service revenue | 2,018,919 | (123,487) | 1,895,432 |
| Provision for uncollectible accounts | (123,487) | 123,487 | — |
| Operating income | 10,750 | — | 10,750 |
| Consolidated Statement of Cash Flows | | | |
| Provision for doubtful accounts | 123,487 | (123,487) | — |
| Changes in operating assets and liabilities: | | | |
| Patient accounts receivable | (74,734) | 123,487 | 48,753 |

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

The System determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies and historical experience. Implicit price concessions represent differences between amounts billed and

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the estimated consideration the System expects to receive from patients, which are determined based on historical collection experience, current market conditions and other factors.

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

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

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

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended June 30, 2019 and 2018, additional revenue of \$5,343 and \$5,944, respectively, was recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. The additional revenue primarily represents patient account recoveries that were previously written off as uncollectible. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

(q) Charity Care

The System provides services to patients who meet the criteria of its charity care policy without charge or at amounts less than its established rates. The criteria for charity care considers household income in relation to the federal poverty guidelines and the equity value of real property assets. The System provides qualifying services without charge for patients with adjusted gross income equal to or less than 250% of the poverty guidelines. If the patient's household income exceeds 250% of the poverty guidelines, the patient may still receive charity care services under the System's catastrophic medical policies.

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The System maintains records to identify and monitor the level of charity care it provides for financial reporting and community benefit reporting requirements. For financial reporting purposes, the allocated charity expense for the years ended June 30, 2019 and 2018 was approximately \$18,570 and \$14,110, respectively, calculated based on the percentage of total operating expenses to established charges, applied to total charity adjustments recognized in net patient service revenue.

(r) Income Taxes

FMOLHS and the FMOLHS Affiliates are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as organizations described in IRC Section 501(c)(3). Certain of the FMOLHS Affiliates' subsidiaries are subject to federal and state income taxes, provisions for which have been reflected in the accompanying consolidated financial statements. The amounts of such provisions are not material.

FMOLHS recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. No reserves for uncertain tax positions have been recorded.

(s) Asset Retirement Obligation

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

(t) Fair Value Measurements

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

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

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

(u) Fair Value Option

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

(v) Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued Topic No. 606, *Revenue from Contracts with Customers* (ASC 606). ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. As a result, amounts previously classified as the provision for bad debts in the consolidated statement of operations and changes in net assets without donor restrictions is now reflected as implicit price concessions and therefore included as a reduction to net patient service revenue. For the years ended June 30, 2019 and 2018, the System recorded approximately \$71,704 and \$123,487, respectively, of implicit price concessions as a direct reduction of net patient service revenue that would have been recorded as provision for bad debt prior to the adoption of ASC 606. For the years ended June 30, 2019 and 2018, the System recorded approximately \$153,152 and \$220,230, respectively, as a direct reduction of patient accounts receivable that would have been reflected as allowance for uncollectible accounts prior to the adoption of ASC 606. ASC 606 also requires expanded disclosures regarding the Systems' revenue recognition policies and significant judgments employed in the determination of revenue. The System adopted ASC 606 utilizing the retrospective approach in 2019. Other than these changes in presentation and disclosure, the adoption of ASC 606 did not have a material impact on the accompanying consolidated balance sheets or consolidated statements of operations and changes in net assets without donor restrictions for the years ended June 30, 2019 and 2018.

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In August 2016, the FASB issued ASU No 2016-14, *Presentation of Financial Statements of Non-for-Profit Entities* (ASU No 2016-14). ASU 2016-14 (1) reduces the number of net asset classes presented from three to two, (2) requires the presentation of expenses by functional and natural classification in one location, and (3) requires quantitative and qualitative disclosures about liquidity and availability of financial assets. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The System implemented the provisions of ASU 2016-14 effective July 1, 2018 and has included the required disclosures in notes 1(g), 15 and 16. Prior to the adoption of ASU 2016-14, FMOLHS previously presented \$65,576 and \$5,450 as temporarily and permanently restricted net assets for the year ended June 30, 2018. Upon adoption of ASU 2016-14, FMOLHS presents these items as with donor restrictions in the consolidated financial statements. The System's implementation of the ASU did not have a material impact on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). The new guidance applies to all entities that receive or make contributions, including not-for-profit entities. FMOLHS was required to apply ASU No. 2018-08 to contributions received during annual periods beginning after June 15, 2018, including interim periods within those annual periods. FMOLHS is required to apply ASU No. 2018-08 to contributions provided during annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. The adoption of ASU 2018-08 did not have a material impact on the consolidated financial statements and related disclosures.

(w) Recently Issued Accounting Pronouncements

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01), which makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The new standard also affects financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The provisions of ASU 2016-01 are effective for annual periods in fiscal years beginning after December 15, 2018. FMOLHS is currently evaluating the effect that ASU 2016-01 will have on its consolidated financial statements. In addition, in February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities*, to clarify certain aspects of ASU 2016-01; FMOLHS will adopt ASU 2018-03 and ASU 2016-01 concurrently.

The FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which introduces a right-of-use model that requires lessees to recognize all leases, other than short-term leases with a maximum possible term of one year or less, on their balance sheet. Also, the amortization of these leases will be dependent of the portion of the underlying asset being utilized during the lease term. Additionally, in January and July 2018, the FASB issued ASUs 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*, 2018-10, *Codification Improvements to Topic 842, Leases*, and 2018-11, *Leases (Topic 842): Targeted Improvements*. ASU 2018-01 clarified the applicability of ASC

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842 to land easements and provided an optional transition practical expedient for existing land easements. ASU 2018-10 made certain technical corrections to ASC 842. ASU 2018-11 allows companies to adopt ASC 842 without revising comparative period reporting or disclosures and provides an optional practical expedient to lessors to not separate lease and nonlease components of a contract if certain criteria are met. ASU 2016-02 is effective for FMOLHS beginning July 1, 2019, with early adoption permitted. The three ASUs issued in 2018 are effective for FMOLHS at the same time as it adopts ASU 2016-02. FMOLHS is currently implementing lease management technology and evaluating the impact of the ASU, but is currently unable to estimate the effect.

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

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07), which requires companies to present the service cost component of net benefit cost in the income statement line items where they report compensation cost, and all other components of net benefit cost in the income statement separately from the service cost component and outside of operating income, if this subtotal is presented. Additionally, the service cost component will be the only component that can be capitalized. ASU 2017-07 is effective for FMOLHS in annual periods in fiscal years beginning after December 15, 2018. The standard requires retrospective application for the amendments related to the presentation of the service cost component and other components of net benefit cost, and prospective application for the amendments related to the capitalization requirements for the service cost components of net benefit cost. FMOLHS is currently assessing the impact that ASU 2017-07 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

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

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In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans* (Topic 715) (ASU 2018-14), which modified the disclosure requirements for employers that sponsor defined benefit pension or other postretirement benefit plans. The guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. The new guidance is effective for annual periods in fiscal years beginning after December 15, 2021, and early adoption is permitted. FMOLHS is currently evaluating this guidance and the impact on its consolidated financial statements.

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

(x) Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 consolidated financial statements presentation as noted in note 1(v). These reclassifications have not changed the results of operations or cash flows of prior periods.

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

Short-term investments at June 30, 2019 and 2018 consist of the following:

| | 2019 | 2018 |
|--------------------|-----------|-------|
| Cash | \$ 17,412 | 11 |
| Equity securities: | | |
| U.S. companies | 2,533 | 2,383 |
| Fixed income | — | 1,997 |
| Total | \$ 19,945 | 4,391 |

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The composition of assets limited as to use at June 30, 2019 and 2018 is as follows:

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

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| Asset category | 2018 | | | | | | Total |
|-----------------------------------------------------------------------------------|-------------------------------------|-------------------------------------|---------------------------|-----------------------------------|-------------------|-------------------------------|-------------------------|
| | Board- designated for capital | Donor- restricted for capital | Trusteed bond funds | Self- insurance trust funds | Other | Donor- restricted Other | |
| Cash | \$ 85,976 | 2,070 | 105,873 | — | 892 | 1,959 | 196,770 |
| Equity securities: | | | | | | | |
| U.S. equity | 200,425 | 4,826 | — | 4,281 | — | 8,102 | 217,634 |
| Non-U.S. equity | 176,537 | 4,251 | — | — | — | — | 180,788 |
| Private investments: | | | | | | | |
| Private equity/venture capital | 56,684 | 1,365 | — | — | — | — | 58,049 |
| Private real assets | 10,054 | 242 | — | — | — | — | 10,296 |
| Hedge funds | 218,851 | 5,270 | — | — | — | 151 | 224,272 |
| Real assets | 90,596 | 2,181 | — | — | — | — | 92,777 |
| Fixed income | 106,781 | 2,571 | — | 28,417 | — | 3,546 | 141,315 |
| | <u>945,904</u> | <u>22,776</u> | <u>105,873</u> | <u>32,698</u> | <u>892</u> | <u>13,758</u> | <u>1,121,901</u> |
| Less amounts classified as current assets, included in other current assets | — | — | 29,354 | — | — | 1,564 | 30,918 |
| Noncurrent portion \$ | <u><u>945,904</u></u> | <u><u>22,776</u></u> | <u><u>76,519</u></u> | <u><u>32,698</u></u> | <u><u>892</u></u> | <u><u>12,194</u></u> | <u><u>1,090,983</u></u> |

(a) Board-Designated for Capital

In accordance with board of directors' approval, the FMOLHS Affiliates have designated assets to fund future capital acquisitions and capital improvements.

The FMOLHS Affiliates invest their board-designated for capital funds together within FMOLHS in a capital reserve investment fund held in a Northern Trust custodial account. Through usage of unitized accounting, these investments are segregated for each FMOLHS Affiliate. Investments held as board-designated for capital are managed by several money managers, which focus on different investment strategies and provide diversity to the investments.

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(b) Alternative Assets

Alternative assets include limited partnerships and offshore investment funds. These funds invest in certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of risk, may result in loss due to changes in the market (market risk). Alternative assets by strategy type are as follows:

| | 2019 | 2018 |
|--------------------------------|------------|---------|
| Alternative assets: | | |
| Global equity | \$ 101,414 | — |
| U.S. equity | 137,439 | 109,450 |
| Non-U.S. equity | 134,577 | 120,973 |
| Private equity/venture capital | 44,267 | 45,229 |
| Private real assets | 6,678 | 10,296 |
| Hedge funds | 204,131 | 224,272 |
| Real assets | 59,152 | 52,725 |
| Fixed income | 9,279 | 12,820 |
| Total alternative assets | \$ 696,937 | 575,765 |

At June 30, 2019, FMOLHS's remaining outstanding commitments to private equity interests totaled \$59,497. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below:

| | Projected capital calls |
|--------------|----------------------------|
| Fiscal year: | |
| 2020 | \$ 25,665 |
| 2021 | 14,336 |
| 2022 | 14,336 |
| 2023 | 5,162 |
| | \$ 59,497 |

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2019, the average remaining life of the private equity interests is approximately 2.2 years.

At June 30, 2019 and 2018, FMOLHS had investments with restrictions of \$292,635 and \$329,272, respectively, which were restricted from redemption for lock-up periods. Some of the investments with restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually requiring 30 to 180 days' notice after the initial lock-up period.

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Based upon the terms and conditions in effect at June 30, 2019, FMOLHS's investments with restrictions can be redeemed or sold as follows:

| | Amount |
|---------------|---------------|
| Fiscal years: | |
| 2020 | \$ 276,846 |
| 2021 | 12,990 |
| 2022 | 1,394 |
| 2023 | — |
| 2024 | — |
| Thereafter | 1,405 |
| Total | \$ 292,635 |

(c) *Trusted Bond Funds*

Certain trusted bond funds have been established in accordance with the requirements of indentures related to various bond obligations. The consolidated trusted bond funds as of June 30, 2019 and 2018 consist of the following categories:

| | 2019 | 2018 |
|-------------------------------------------------|-------------|-------------|
| Principal and interest funds | \$ 27,027 | 26,429 |
| Construction fund | 46,193 | 79,444 |
| Less amounts classified as other current assets | (73,220) | (29,354) |
| Noncurrent portion | \$ — | 76,519 |

The above funds were established in accordance with related indentures to secure the payment of principal and interest on the related obligations, and to pay or reimburse the FMOLHS Affiliates for payment of the costs of the acquisition, construction, and installation of certain extensions and improvements to their facilities. Amounts classified as current represent funds deposited to pay related debt service costs and contribution fund classified as current liabilities. Information regarding FMOLHS's debt obligations is included in note 9.

(d) *Self-Insurance Trust Funds*

The self-insurance trust funds represent amounts designated to pay certain self-insured losses (note 18).

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(e) Other

Other assets limited as to use as of June 30, 2019 and 2018 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------------|------------------|----------------|
| Scholarships – by donor | \$ 179 | 209 |
| Healthcare services – by donor | 13,680 | 13,549 |
| Resident deposits | 81 | 43 |
| Escrow, security deposits, and surplus cash | 172 | 172 |
| Capital improvement – by grantor agency | 635 | 677 |
| | <u>14,747</u> | <u>14,650</u> |
| Less amounts classified as current | <u>(1,622)</u> | <u>(1,564)</u> |
| | <u>\$ 13,125</u> | <u>13,086</u> |

All investments are considered “trading” for accounting purposes. All unrestricted investment income, including both realized and unrealized gains and losses, is included in the reported total of revenues, gains, and other support in excess of expenses and losses in the consolidated statements of operations and changes in net assets without donor restrictions.

Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets, statements of operations and changes in net assets without donor restrictions, and statements of changes in net assets.

(3) Other Current Assets

The composition of other current assets at June 30, 2019 and 2018 is as follows:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------------------------------------|-------------------|----------------|
| Other receivables | \$ 18,926 | 20,134 |
| Inventories | 44,889 | 38,492 |
| Prepaid expenses and other current assets | 29,001 | 22,709 |
| Assets limited as to use required for current liabilities | 74,842 | 30,918 |
| | <u>\$ 167,658</u> | <u>112,253</u> |

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(4) Property and Equipment

A summary of property and equipment as of June 30, 2019 and 2018 is as follows:

| | <u>2019</u> | <u>2018</u> | Estimated useful lives |
|-------------------------------------|---------------------|------------------|-----------------------------------|
| Land | \$ 143,166 | 132,149 | — |
| Land improvements | 25,494 | 25,327 | 2–40 Years |
| Buildings and building improvements | 1,222,681 | 1,212,407 | 5–50 Years |
| Fixed equipment | 119,111 | 96,213 | 3–50 Years |
| Movable equipment | 709,097 | 702,593 | 3–25 Years |
| Leasehold improvements | 19,374 | 18,383 | 5–15 Years |
| Construction in progress | 201,009 | 140,311 | — |
| | <u>2,439,932</u> | <u>2,327,383</u> | |
| Less accumulated depreciation | <u>1,153,216</u> | <u>1,135,898</u> | |
| | <u>\$ 1,286,716</u> | <u>1,191,485</u> | |

At June 30, 2019, the FMOLHS Affiliates were obligated under purchase commitments of \$16,323 relating to the completion of various construction projects and purchases of equipment. Approximately \$8,120 and \$5,300 related to such projects and other property additions are included in accounts payable at June 30, 2019 and 2018, respectively.

(5) Other Assets

The composition of other assets at June 30, 2019 and 2018 is as follows:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------------------------------|-------------------|----------------|
| Investments in equity investees | \$ 56,274 | 62,520 |
| Cost in excess of net assets acquired | 114,667 | 111,011 |
| Software License and Build, net of accumulated amortization | 48,540 | 49,932 |
| Other | 16,963 | 27,656 |
| | <u>\$ 236,444</u> | <u>251,119</u> |

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(6) Investment in Equity Investees

A summary of the FMOLHS's investment in equity investees at June 30, 2019 and 2018 included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2019 and 2018 are as follows:

| | <u>Ownership interest</u> | <u>Investment in investees</u> | <u>Equity income (loss) of investees</u> |
|--------------------------------------------------------------------------|-------------------------------|----------------------------------------|--------------------------------------------------|
| 2019: | | | |
| Convenient Care, LLC | 50% | \$ 2,804 | 1,240 |
| Surgical Specialty Center of Baton Rouge, LLC | 49 | 7,331 | 6,855 |
| Regional Eye Surgery Center LLC | 13 | 330 | 260 |
| Baton Rouge Physical Therapy – Lake Lake Urgent Care Ascension – Lake | 15 | 1,203 | 1,003 |
| Premier Health Holdings, LLC | 50 | 292 | 848 |
| LHC Group Hospice | 50 | 3,220 | 79 |
| Innovation Institute | 33 | 27 | 37 |
| Slidell HealthCare | 14 | 15,173 | 499 |
| P&S Surgery Center, LLC | 38 | 699 | 301 |
| Northeast Louisiana Cancer Institute, LLC | — | — | 128 |
| Northeast Louisiana Physician Hospital Organization | 50 | 3,622 | 600 |
| Louisiana Home Care of Monroe, LLC | 25 | 115 | (15) |
| St. Francis Urgent Care | 33 | 88 | 107 |
| Lourdes After Hours, LLC | 50 | 453 | 86 |
| LHCG VIII | 50 | 855 | 453 |
| Park Place Surgery Center | 33 | 489 | 38 |
| H & S Land Company, LLC | 45 | 6,042 | 3,691 |
| Resource Optimization and Innovation, LLC | 50 | 228 | — |
| Mary Bird Perkins Cancer Center – Lake InHealth | 10 | 8,241 | 1,199 |
| | 35 | 3,460 | 344 |
| | 23 | 1,602 | 601 |
| | | <u>\$ 56,274</u> | <u>18,354</u> |

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| | <u>Ownership interest</u> | | <u>Investment in investees</u> | <u>Equity income (loss) of investees</u> |
|-----------------------------------------------------|-------------------------------|----|----------------------------------------|--------------------------------------------------|
| 2018: | | | | |
| Convenient Care, LLC | 50% | \$ | 2,664 | 1,276 |
| Surgical Specialty Center of Baton Rouge, LLC | 49 | | 7,004 | 6,828 |
| Regional Eye Surgery Center LLC | 13 | | 325 | 318 |
| Baton Rouge Physical Therapy – Lake | 29 | | 749 | 81 |
| Lake Urgent Care Ascension – Lake | 40 | | 66 | 382 |
| Premier Health Holdings, LLC | 50 | | 3,342 | 94 |
| LHC Group Hospice | 33 | | 43 | (4) |
| Innovation Institute | 16 | | 14,673 | 764 |
| Baton Rouge Physical Therapy – St. Elizabeth | 4 | | 93 | 10 |
| P&S Surgery Center, LLC | 50 | | 7,132 | (90) |
| Northeast Louisiana Cancer Institute, LLC | 50 | | 3,421 | 725 |
| Northeast Louisiana Physician Hospital Organization | 25 | | 130 | (9) |
| Louisiana Home Care of Monroe, LLC | 33 | | 115 | 94 |
| St. Francis Urgent Care | 50 | | 367 | 150 |
| Lourdes After Hours, LLC | 50 | | 802 | 675 |
| LHCG VIII | 33 | | 505 | 130 |
| Park Place Surgery Center | 45 | | 5,861 | 4,213 |
| H & S Land Company, LLC | 50 | | 228 | — |
| Resource Optimization and Innovation, LLC | 10 | | 10,699 | 1,443 |
| Lake Urgent Care Ascension – St. Elizabeth | 27 | | 44 | 255 |
| Mary Bird Perkins Cancer Center – St. Elizabeth | 35 | | 3,116 | 328 |
| InHealth | 23 | | 1,141 | 379 |
| | | \$ | <u>62,520</u> | <u>18,042</u> |

(7) Lines of Credit

At June 30, 2019, the FMOLHS Affiliates had various unsecured working capital lines of credit with banks in aggregate amount of \$70,000, bearing interest at variable rates expiring at various dates through June 2019. The amount outstanding at June 30, 2019 and 2018 was \$10,000 and \$5,000, respectively. FMOLHS affiliates expect to renew the lines of credit at expiration under substantially the same terms and conditions.

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(8) Other Current Liabilities

The composition of other current liabilities at June 30, 2019 and 2018 is as follows:

| | <u>2019</u> | <u>2018</u> |
|------------------------------------------------|-------------------|----------------|
| Accrued salaries and related expenses | \$ 94,944 | 80,694 |
| Accrued interest | 11,988 | 12,279 |
| Due to third-party payors | 70,586 | 35,637 |
| Accrued expenses and other current liabilities | <u>60,548</u> | <u>48,359</u> |
| | <u>\$ 238,066</u> | <u>176,969</u> |

(9) Long-term Debt

A summary of long-term debt at June 30, 2019 and 2018 is as follows:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Obligated group bonds: | | |
| Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998A, \$72,560 tax-exempt bonds; due in varying installments through fiscal year 2026 with interest fixed at rates ranging from 5.50% to 5.75% | \$ 12,130 | 21,665 |
| Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005B, \$50,000 tax-exempt bonds; due in varying installments from 2014 through fiscal year 2031, which bear interest at a variable rate (2.53% at June 30, 2019) | 44,700 | 45,375 |
| Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005D, \$89,350 bonds due in varying installments through fiscal year 2029, which bear interest at a variable rate (2.51% at June 30, 2019) | 57,600 | 60,375 |
| Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2008A, \$47,185 bonds; due in varying installments through fiscal year 2026, which bear interest at a variable rate (2.59% at June 30, 2019) | 41,295 | 42,775 |
| Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2012A, \$56,530 bonds; due in varying installments through 2033, with interest fixed at 2.47% | 56,395 | 56,395 |

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| | 2019 | 2018 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|---------|
| Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2012B, \$100,000 bonds; due in varying installments through 2043, with interest at fixed rates ranging from 4.00% to 5.00% | 100,000 | 100,000 |
| Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2015A, \$190,710; due in varying installments through 2040, with interest fixed rates ranging from 3.50% to 5.00% | 189,560 | 189,560 |
| Master Trust Indenture Note (Franciscan Missionaries of Our Lady Health System Project) Series 2015B, Northern Trust Company Note; due in full on August 17, 2025, with variable interest rate at LIBOR plus 0.95% (3.39% at June 30, 2019) | 35,160 | 35,160 |
| Louisiana Public Facilities Authority Hospital Revenue Bond Series 2017A, \$150,000 bonds; due in varying installments through fiscal year 2048, with fixed interest rates ranging from 3.75% to 5.00% | 150,000 | 150,000 |
| | 686,840 | 701,305 |
| Add unamortized premiums | 28,663 | 29,828 |
| Total Obligated Group debt | 715,503 | 731,133 |
| Capital improvement financing | 32,859 | 24,224 |
| Other debt due in varying installments through 2033 | 9,174 | 9,483 |
| Total long-term debt for FMOLHS | 757,536 | 764,840 |
| Less current installments of long-term debt | 18,187 | 16,666 |
| Less costs of issuance | 6,955 | 7,398 |
| | \$ 732,394 | 740,776 |

In December 2017, the Lake, Inc. and Baton Rouge Hospital Energy Holdings I, LLC (BREHEH) entered into a concession agreement to manage and optimize the Lake's heating and cooling infrastructure, which will provide energy efficiencies and capacity. In association with the concession agreement, the Lake and BRHEH also entered into a thermal services agreement, with payment terms that will fund operating and maintenance costs, thermal services costs, and debt repayments for capital improvement financing. The concession agreement has a term of 20 years and as of June 30, 2019, the amount of borrowings under the agreement totaled \$32,859.

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FMOLHS and FMOLHS Affiliates participate in an Obligated Group Master Trust Indenture whereby the obligated issuers have agreed to be jointly and severally liable for timely payments due and for the performance and observance of all covenants and agreements pursuant to the trust indenture. FMOLHS directs the proceeds of the borrowed funds to the particular affiliate benefiting therefrom and separate escrow funds are maintained by the trustee for each of the affiliates to support each affiliate's allocated portion of the bonds (note 2). The total debt subject to the Obligated Group Guarantee and Master Trust Indenture amounted to \$715,503 and \$731,133 as of June 30, 2019 and 2018, respectively.

The Master Trust Indenture covering the bond issues contains numerous covenants typical of such agreements, including a liquidity ratio, debt service coverage ratio, and leverage ratio. In addition, the Obligated Group members are subject to restrictions on maintenance of revenue, incurrence of additional debt, disposition of assets, maintenance of insurance, and other restrictions. Obligations of the Obligated Group under the Master Trust Indenture are general obligations secured by the full faith and credit of the Obligated Group. None of the bonds are secured by a mortgage on, or security interest in, any real or personal property of FMOLHS or its affiliates.

In 2005, FMOLHS completed a system-wide refinancing for the purposes of advance refunding certain Series 1998A and Series 1998C bonds and providing additional capital by issuing four series of revenue bonds. The following bond series were issued by the Louisiana Public Facilities Authority (the Authority): \$80,000 fixed rate Revenue Bonds (Series 2005A), \$100,000 variable rate Revenue Bonds (Series 2005B and 2005C in the amounts of \$50,000 each), and \$89,325 in variable rate Revenue and Refunding bonds (Series 2005D). The four bond issues totaled \$269,325, of which approximately \$83,000 represented refunding of existing bonds and the remainder of approximately \$186,000 was designated for capital improvements, including facility modifications and additions and new equipment acquisitions.

In May 2008, FMOLHS tendered its Series 2005B and Series 2005C auction rate bonds and reissued Series 2005B and Series 2005C bonds at weekly variable interest modes. In July and August 2008, the Series 2005D and Series 1998B auction rate bonds were tendered by FMOLHS and reissued at daily variable interest modes. In August 2008, the Series 2008A bonds were issued by FMOLHS. These bonds, issued in the amount of \$47,185, bear interest at a variable rate based upon a weekly index rate and are due in 2025. These bonds refunded \$42,735 of the Series 1998A bonds and \$3,225 of the Series 1998C bonds.

In 2012, FMOLHS completed an issuance of \$100,000 of Hospital Revenue Bonds Series 2012 (the 2012B Series). The proceeds for the 2012B Series were used for (i) acquiring, constructing, and equipping a patient tower and other capital improvements at the campus of the Lake and (ii) paying the costs of issuance of the bonds. FMOLHS also completed a \$56,530 issuance of Hospital Revenue Bonds Series 2012 (the 2012A Series). The proceeds for the 2012A Series were used to refund all outstanding Series 2005C bonds and prepayment cost.

On August 7, 2014, FMOLHS completed a refinancing of the Series 2008A through the purchase of the Bonds by Capital One Municipal Funding. The interest rate on the Series 2008A Bonds is computed as a percentage of London Interbank Offered Rate (LIBOR) plus a spread and matures in varying installments through 2025.

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

On March 1, 2015, FMOLHS completed the issuance of \$190,710 of the Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds (FMOLHS Project – Series 2015A). The proceeds of the bonds were issued for the purpose of advance refunding \$44,980 of the Series 2005A, advance refunding all \$125,000 of the outstanding Series 2009A, and paying the costs of issuance. Series 2015A shall mature on July 1, 2039.

On August 1, 2015, FMOLHS entered into a taxable loan agreement with The Northern Trust Company (2015B). The loan proceeds were used to refund the remaining portion of the 2005A Series and the related issuance costs. The principal amount of the loan agreement is \$35,160 and will mature on August 17, 2025. The interest rate is computed at the index rate, which shall be LIBOR index plus the applicable spread.

On June 29, 2017, FMOLHS completed the issuance of \$150,000 Louisiana Public Facilities Authority Hospital Revenue Bond Series 2017A. The proceeds of the bonds were used for the purpose of (i) financing a portion of the cost of acquiring, constructing, furnishing, and equipping a new freestanding children's hospital in Baton Rouge, Louisiana and (ii) paying costs of issuance of the bonds.

FMOLHS and FMOLHS Affiliates made cash payments for interest of \$27,436 and \$28,631 during the years ended June 30, 2019 and 2018, respectively.

Aggregate maturities of long-term debt at June 30, 2019 follow:

| | | |
|----------------------|----|----------------|
| Year ending June 30: | | |
| 2020 | \$ | 18,187 |
| 2021 | | 18,165 |
| 2022 | | 17,935 |
| 2023 | | 17,680 |
| 2024 | | 18,505 |
| Thereafter | | 638,401 |
| | \$ | <u>728,873</u> |

(10) Interest Rate Swaps

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

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

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

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

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

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

The interest rate swap agreements are not afforded hedge accounting treatment in the consolidated financial statements and are marked to fair value through the consolidated statements of operations and changes in net assets without donor restrictions. The net unrealized (loss) gain on the interest rate swaps for the years ended June 30, 2019 and 2018 was (\$788), and \$3,435, respectively, and is included in nonoperating gains in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

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The following is a summary of the contracts outstanding at June 30, 2019 and 2018 and are recorded, as applicable, in either other assets or other long-term liabilities:

| June 30, 2019 | | | | | | |
|--------------------------|--------------------|------------------|----------------------|-----------------------------|--------------------------------------------------|--------------------|
| Related bond issuance | Notional amount | Maturity date | Average rate paid | Average rate received | Increase (decrease) in interest expense | Swap fair value |
| 2005D | \$ 57,600 | 7/1/2028 | 3.53% | 1.65% | 1,070 | (5,737) |
| 2005D | 57,600 | 7/1/2028 | 1.65% | 1.58% | 51 | (54) |
| 2008A | 43,325 | 7/1/2025 | 3.66% | 1.65% | 868 | (2,634) |
| 2008A | 43,325 | 7/1/2025 | 1.65% | 1.58% | 38 | (66) |
| June 30, 2018 | | | | | | |
| Related bond issuance | Notional amount | Maturity date | Average rate paid | Average rate received | Increase (decrease) in interest expense | Swap fair value |
| 2005D | \$ 60,375 | 7/1/2028 | 3.53% | 1.08% | 1,465 | (4,590) |
| 2005D | 60,375 | 7/1/2028 | 1.08 | 1.44 | (208) | (410) |
| 2008A | 44,825 | 7/1/2025 | 3.66 | 1.08 | 1,157 | (2,503) |
| 2008A | 44,825 | 7/1/2025 | 1.08 | 1.44 | (154) | (200) |

(11) Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 and 2018 are available for the following purposes:

| | 2019 | 2018 |
|----------------------|------------------|---------------|
| Healthcare services | \$ 58,111 | 50,131 |
| Elderly housing | 7,735 | 8,035 |
| Educational services | 10,893 | 12,450 |
| Other | 195 | 410 |
| | <u>\$ 76,935</u> | <u>71,026</u> |

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

| | <u>2019</u> | <u>2018</u> |
|--------------------------|------------------|---------------|
| Cash | \$ 34,502 | 28,466 |
| Assets limited as to use | 35,689 | 36,534 |
| Other current assets | <u>6,744</u> | <u>6,026</u> |
| | <u>\$ 76,935</u> | <u>71,026</u> |

Net assets released from restrictions for the years ended June 30, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------|-----------------|--------------|
| Healthcare services | \$ 5,364 | 4,107 |
| Elderly housing | 212 | 203 |
| Educational services and other | <u>2,947</u> | <u>1,389</u> |
| | <u>\$ 8,523</u> | <u>5,699</u> |

(12) Net Patient Service Revenue

The System has determined that the nature, amount, and uncertainty of revenue and cash flows are affected by the following factors: payors and service lines. The following tables provide details of these factors.

The composition of net patient service revenue by primary payor for the years ended June 30, 2019 and 2018 is as follows:

| | <u>2019</u> | <u>2018</u> |
|--------------------|---------------------|------------------|
| Medicare | \$ 716,362 | 663,049 |
| Medicaid | 467,206 | 405,471 |
| Blue Cross | 509,063 | 477,528 |
| Self-pay | 66,295 | 18,018 |
| Managed care/other | <u>382,757</u> | <u>331,366</u> |
| | <u>\$ 2,141,683</u> | <u>1,895,432</u> |

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

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The composition of net patient service revenue based on the System's lines of business for the years ended June 30, 2019 and 2018 are as follows:

| | 2019 | 2018 |
|--------------------------------------|--------------|-------------|
| Service Lines: | | |
| Hospitals (Inpatient and Outpatient) | \$ 1,826,283 | 1,608,567 |
| Physician Groups | 219,985 | 197,685 |
| Elderly Services | 43,365 | 41,330 |
| Joint Ventures and Other | 52,050 | 47,850 |
| | \$ 2,141,683 | 1,895,432 |

The FMOLHS Affiliates have agreements with governmental and other third-party payors that provide for reimbursement to the FMOLHS Affiliates at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. Management regularly analyzes the historical contractual adjustments for each payor group to determine if current estimates for contractual adjustment allowances need to be revised. A summary of the basis of reimbursement with major third-party payors is as follows:

(a) Medicare

Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive determination methodologies. The FMOLHS Affiliates are paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicare fiscal intermediary. The FMOLHS Affiliates' Medicare cost reports have been audited by the Medicare fiscal intermediary through varying years ranging from June 30, 2011 to June 30, 2013. Periods for which final settlements have not been made are subject to audit by program representatives. In the opinion of management, adequate provision has been made in the accompanying consolidated financial statements for the effects of estimated final settlements.

(b) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. These rates vary according to a hospital classification system that is based on bed size, teaching status, and other factors. Additional outlier payments are made for neonatal intensive care patients with extended lengths of stay. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost-reimbursement methodology. The FMOLHS Affiliates are paid at a tentative rate with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicaid fiscal intermediary. The FMOLHS Affiliates' Medicaid cost reports

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have been audited by the Medicaid fiscal intermediary through varying years ranging from June 30, 2005 to June 30, 2012. Periods for which final settlements have not been made are subject to audit by program representatives. In the opinion of management, adequate provision has been made in the accompanying consolidated financial statements for the effects of estimated final settlements.

(c) Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined per diem rates. Outpatient services are paid based on a fee schedule.

(d) Other Payors – Certain Commercial Insurance Carriers, Health Maintenance Organizations, and Preferred Provider Organizations

Payment methodologies under these agreements include prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates, and fee schedules.

Revenue from the Medicare and Medicaid programs accounted for approximately 33% and 22%, respectively, of the System's net patient service revenue for the year ended June 30, 2019. Revenue from the Medicare and Medicaid programs accounted for approximately 35% and 21%, respectively, of the System's net patient service revenue for the year ended June 30, 2018. Net patient service revenue decreased by approximately \$14,578 and increased by approximately \$454 in 2019 and 2018, respectively, due to final settlements and revised estimated settlements in excess of amounts previously recorded, removal of allowances previously estimated that are no longer necessary as a result of final settlements, and years that are no longer subject to audits, reviews, and investigations.

With the reduction of prepayment reviews, including recovery audit contractor (RAC) reviews by the CMS, the FMOLHS Affiliates continue to experience changes to net patient service revenue for prior years of service. Due to completed, pending, and projected RAC reviews, the FMOLHS Affiliates' net patient revenue decreased by \$233 and decreased by \$2,020 for the years ended June 30, 2019 and 2018, respectively.

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross System receivables from patients and third-party payors at June 30, 2019 and 2018 was as follows:

| | <u>2019</u> | <u>2018</u> |
|--------------------|-------------|-------------|
| Medicare | 33% | 39% |
| Medicaid | 21 | 20 |
| Blue Cross | 16 | 15 |
| Self-pay | 12 | 9 |
| Managed care/other | 18 | 17 |
| | <u>100%</u> | <u>100%</u> |

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A reconciliation of the amount of services provided to patients at established rates to patient service revenue, as presented in the accompanying consolidated statements of operations and changes in net assets without donor restrictions, is as follows for the years ended June 30, 2019 and 2018:

| | 2019 | 2018 |
|-----------------------------------------------------------------------------|--------------|-------------|
| Gross patient service revenue | \$ 6,963,139 | 6,203,043 |
| Less: | | |
| Contractual adjustments, implicit price concessions, and other discounts | 4,821,456 | 4,307,611 |
| Net patient service revenue | \$ 2,141,683 | 1,895,432 |

(13) Related-Party Transactions

The FMOL Sisters formed the Franciscan Fund (the Fund) to support community programs in the operating areas of the FMOLHS hospitals. Each FMOLHS hospital makes contributions to the Fund based on a percentage of earnings determined by the Fund, then can submit grant applications to the Fund to receive moneys back for supporting its community programs. Grant-making decisions are made by the FMOL Sisters and no guarantee is provided that each hospital will receive back its specific contribution amounts in the form of a formal grant from the Fund. During fiscal year 2019 and 2018, no contributions were made to the Fund. This fund is included in Health System's investment portfolio and recognized on the consolidated balance sheet in both assets limited as to use and other long-term liabilities.

The affiliation agreement between FMOLHS and Mary Bird Perkins Cancer Center was effective July 1, 2012 to further enhance the cancer program operations, including clinical research, and to provide the community with comprehensive cancer care services. The cost of this program is shared by both entities, and the operating expense for FMOLHS for the years ended June 30, 2019 and 2018 was \$901 and \$851, respectively.

During 2013, FMOLHS entered into Management Services agreements with Mary Bird Perkins Cancer Center to manage the business operations of medical oncology services. The services provided by Mary Bird Perkins Cancer Center included management of operations, scheduling and registration of patients, management of billing and collections services, and staffing support for clinical and nonclinical personnel. During 2018, FMOLHS entered into additional Management Services agreement with Mary Bird Perkins Cancer Center to manage business operations of new Gamma Knife Center treatment services. The management services and staffing expenses for both agreements incurred for the years ended June 30, 2019 and 2018 were \$4,392 and \$5,532, respectively.

The Lake contributed \$3,800 (50% ownership interest) to Premier Health Holdings, LLC, which was formed on December 31, 2014. Premier Health Holdings, LLC owns, leases, and provides management services for urgent care centers. Management and consulting services are provided to urgent care centers owned or partially owned by the Lake and Lourdes. The Lake also owns 50% of Convenient Care, LLC, and some members with ownership in the remaining 50% of Convenient Care, LLC also have an ownership interest in Premier Health Holdings, LLC. In December 2016, Premier Health Holdings, LLC signed a \$5,400 Line of

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Credit note with the Lake. In April 2019, the note was revised to add an additional \$5,000. The balance drawn, and due to the Lake, as of June 2019 is \$10,000.

In December 2017, the Lake and Baton Rouge Hospital Energy Holdings I, LLC entered into an agreement to manage and optimize the Lake's heating and cooling infrastructure, which will provide energy efficiencies and capacity. The former CEO of Bernhard Energy Solutions, owner of BREH, was a member of FMOLHS's board of trustees through late spring-summer of 2019.

(14) Retirement Plans

(a) Defined Benefit Plans

FMOLHS Affiliates sponsor various defined benefit plans (the Plans). The following tables at June 30, 2019 and 2018 sets forth, in the aggregate, the Plans' changes in benefit obligations, changes in plan assets, and the funded status of the Plans:

| | 2019 | 2018 |
|-------------------------------------------------------------------|--------------|-------------|
| Change in benefit obligation: | | |
| Projected benefit obligation, beginning of year | \$ 1,042,709 | 1,021,455 |
| Service cost | 19,729 | 22,535 |
| Interest cost | 41,556 | 35,822 |
| Actuarial (gains) losses | 110,597 | (7,141) |
| Benefits paid | (31,036) | (29,962) |
| Projected benefit obligation, end of year | 1,183,555 | 1,042,709 |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of year | 596,341 | 555,777 |
| Actual return on plan assets | 30,484 | 35,426 |
| Contributions made | 35,563 | 35,100 |
| Benefits paid | (31,036) | (29,962) |
| Fair value of plan assets, end of year | 631,352 | 596,341 |
| Funded status | \$ (552,203) | (446,368) |
| Amounts recognized in the consolidated balance sheets consist of: | | |
| Accrued pension cost | \$ (552,203) | (446,368) |
| Amounts recognized in net assets without donor restrictions: | | |
| Prior service cost | \$ 471 | 446 |
| Net actuarial loss | 353,825 | 251,747 |
| | \$ 354,296 | 252,193 |

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Weighted average assumptions used to determine the projected benefit obligations at June 30, 2019 and 2018 were as follows:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------|-------------|-------------|
| Weighted average discount rate: | | |
| The Lake (including FMOLHS) | 3.75% | 4.34% |
| Lourdes | 3.69 | 4.31 |
| St. Francis | 3.66 | 4.30 |
| Rate of compensation increase | 3.00-4.00 | 3.00-4.00 |

Net periodic pension cost for the years ended June 30, 2019 and 2018 includes the following components:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------------------------------------------------------------------------------|-------------------|-----------------|
| Service cost, benefits earned during the year | \$ 19,729 | 22,535 |
| Interest cost on projected benefit obligation | 41,556 | 35,822 |
| Expected return on plan assets | (44,823) | (41,846) |
| Amortization of actuarial losses | 22,859 | 27,080 |
| Amortization of prior service cost | (25) | (25) |
| Net periodic pension cost | <u>39,296</u> | <u>43,566</u> |
| Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions: | | |
| Net actuarial loss | 124,937 | (721) |
| Amortization of net actuarial losses | (22,859) | (27,080) |
| Amortization of prior service cost | 25 | 25 |
| | <u>102,103</u> | <u>(27,776)</u> |
| Total recognized in net periodic benefit costs and net assets without donor restrictions | <u>\$ 141,399</u> | <u>15,790</u> |

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Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2019 and 2018 were as follows:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------|-------------|-------------|
| Weighted average discount rate: | | |
| The Lake (including FMOLHS) | 4.34% | 4.06% |
| Lourdes | 4.31 | 4.01 |
| St. Francis | 4.30 | 3.99 |
| Expected return on plan assets: | | |
| The Lake (including FMOLHS) | 7.50% | 7.50% |
| Lourdes | 7.50 | 7.50 |
| St. Francis | 7.50 | 7.50 |
| Rate of compensation increase: | | |
| The Lake (including FMOLHS) | 3.0%-4.0% | 3.0%-4.0% |
| Lourdes | 3.0%-4.0% | 3.0%-4.0% |
| St. Francis | 3.0%-4.0% | 3.0%-4.0% |

The defined-benefit pension plan asset allocation as of the measurement date (June 30, 2019 and 2018) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

| | <u>2019</u> | <u>2018</u> | <u>Target allocation</u> |
|---------------------|-------------|-------------|------------------------------|
| Growth | 51% | 51% | 45%-60% |
| Diversifiers | 24 | 23 | 15-33 |
| Inflation Sensitive | 8 | 9 | 0-10 |
| Liability Hedge | 16 | 16 | 10-25 |
| Cash | 1 | 1 | 0-5 |

The allocation percentages above reflect investments recognized by investee funds within one day of year-end.

The asset allocation policy provides for a range of minimum and maximum investments in each asset class to allow flexibility in achieving expected long term rate of return. Historical return patterns and correlations, consensus return forecast, and other relevant financial factors are analyzed to check for reasonableness and appropriateness of the asset allocation to ensure that the probability of meeting actuarial assumptions is reasonable. The Investment Committee monitors manager performance, rate of return, and risk factors on a quarterly basis and makes required adjustments to achieve expected returns.

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FMOLHS's overall expected long-term rate of return on assets is 7.50%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based on historical returns, without adjustments.

FMOLHS provides investment oversight for all of the FMOLHS Affiliates' defined-benefit plans. Asset allocations and investment performance are formally reviewed quarterly by the FMOLHS Investment Committee (Investment Committee). FMOLHS utilizes an investment adviser, multiple managers for different asset classes, and a separate custodian in managing the pooled funds.

The asset allocation is designed to provide a diversified mix of asset classes, including U.S. and foreign equity securities, fixed-income securities, hedge funds, real estate investment trusts, and cash. The investment goals for the pooled funds are to achieve returns in the top half of a representative universe of professionally managed funds with a percentage of equity, fixed income, and alternate investments to be indicative of the asset mix policy of the fund; to exceed the return of a balanced market index weighted to replicate the asset allocation policy of the plan; to exceed the rate of inflation as measured by the consumer price index by at least 500 basis points on an annualized basis; to achieve a positive risk-adjusted return; and to achieve a rate of return above the current actuarial assumption. Risk management practices include various criteria for each asset class, including measurement against various benchmarks, achievement of a positive risk-adjusted return, and investment guidelines for each class of assets that enumerate types of investments allowed in each category.

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

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The following is a summary of the levels within the fair value hierarchy of plan assets as of June 30, 2019 and 2018:

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

| June 30, 2018 | | | | |
|---------------------------|----------------|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Asset category: | | | | |
| Cash | \$ 40,289 | — | — | 40,289 |
| Equity: | | | | |
| U.S. equity | 37,856 | — | — | 37,856 |
| Non-U.S. equity | 36,180 | — | — | 36,180 |
| Real assets | 30,944 | — | — | 30,944 |
| Fixed income | 58,203 | — | — | 58,203 |
| Assets measured at NAV(1) | — | — | — | 392,869 |
| Total | \$ 203,472 | — | — | 596,341 |

(1) Investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table for these investments are included to permit reconciliation of the fair value hierarchy to the total plan assets.

There were no transfers into or out of Level 1, Level 2, or Level 3 investments during fiscal year 2019 or 2018.

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The fair values of the following plan assets have been estimated using the NAV per share as of June 30, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> | <u>Redemption terms**</u> | <u>Notice period (Days)</u> | <u>Remaining life**</u> |
|---------------------------------------|-------------------|----------------|-------------------------------|-------------------------------------|-----------------------------|
| Asset category: | | | | | |
| U.S. equity funds (a) | \$ 83,163 | 84,286 | Monthly-Quarterly | 30-60 | — |
| International equity funds (b) | 98,218 | 41,957 | Monthly | 5-15 | — |
| International emerging markets (c) | 17,035 | 28,906 | Semi-Monthly - Monthly | 5-30 | — |
| Fixed-income funds (d) | 38,717 | 36,410 | Daily-illiquid | 2-illiquid | — |
| Hedge fund of funds (e) | 154,152 | 136,466 | Monthly-illiquid | 5-illiquid | — |
| Real asset funds (f) | 30,963 | 22,717 | Monthly | 30 | — |
| U.S. venture capital funds (g) | 4,692 | 4,884 | — | — | 1-3 Years |
| U.S. private equity (g) | 17,006 | 10,386 | — | — | 1-7 Years |
| International private equity (g) | 22,747 | 16,098 | — | — | 1-10 Years |
| Natural resources (g) | 5,869 | 6,307 | — | — | 1-8 Years |
| Real estate funds (g) | 6,740 | 4,452 | — | — | 0-6 Years |
| Total | <u>\$ 479,302</u> | <u>392,869</u> | | | |

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

- (a) Objective is to drive overall portfolio growth while also outperforming the Russell 3000 Index with similar levels of risk.
- (b) Objective is to drive overall portfolio growth while also outperforming MSCI EAFE Index (Net) with similar levels of risk.
- (c) Objective is to drive overall portfolio growth while also outperforming the MSCI Emerging Markets Index (Net) with similar levels of risk.
- (d) Objective is to ensure a liquid source of capital for spending and/or rebalancing during a period of economic contraction by investing primarily in high-quality bonds of sufficient duration.
- (e) Objective is to reduce the volatility inherent in a portfolio with an equity bias while providing: 1) a return between that of equities and bonds, 2) lower volatility than equity markets, and 3) low correlation to other portfolio assets.
- (f) Objective is to ensure a liquid source of capital for spending during periods of high, unanticipated inflation by investing in assets that tend to respond favorably in such an environment.
- (g) Objective is to drive growth while capturing an "illiquidity premium" above that of public equity markets for locking up capital for an extended period of time.

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At June 30, 2019, FMOLHS's remaining outstanding commitments to private equity interests within the plan assets totaled \$56,244. The projected capital calls for the next five fiscal years and thereafter are summarized in the table below:

| | <u>Projected capital calls</u> |
|--------------|------------------------------------|
| Fiscal year: | |
| 2020 | \$ 24,343 |
| 2021 | 19,709 |
| 2022 | 9,001 |
| 2023 | 3,192 |
| 2024 | — |
| Thereafter | — |
| | <u>\$ 56,244</u> |

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2019, the average remaining life of the private equity interests in the plan assets is approximately 4.0 years.

At June 30, 2019, FMOLHS had plan assets of \$211,729 which were restricted from redemption for lock-up periods. Some of the investments with redemption restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually requiring 30 to 180 days' notice after the initial lock-up period.

Based upon the terms and conditions in effect at June 30, 2019, FMOLHS's plan assets investments with restrictions can be redeemed or sold as follows:

| | <u>Amount</u> |
|--------------|-------------------|
| Fiscal year: | |
| 2020 | \$ 187,336 |
| 2021 | 12,171 |
| 2022 | 9,224 |
| 2023 | — |
| 2024 | — |
| Thereafter | 2,998 |
| | <u>\$ 211,729</u> |

As of June 30, 2019 and 2018, the Plans had accumulated benefit obligations (ABO) of \$1,103,060 and \$971,165, respectively. At June 30, 2019 and 2018, the fair value of plan assets falls short of the ABO by \$471,708 and \$374,824, respectively.

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The estimated net loss and prior service cost that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year is \$(34,850) and \$(22,834), respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and five years thereafter as of June 30, 2019 are as follows:

| | | |
|-----------|----|---------|
| 2020 | \$ | 38,703 |
| 2021 | | 42,379 |
| 2022 | | 45,688 |
| 2023 | | 48,670 |
| 2024 | | 51,861 |
| 2025–2029 | | 296,162 |

(b) Defined Contribution Plans

The FMOLHS Affiliates sponsor 403(b) and 401(k) plans, which were closed to new entrants in 2006. No contributions are made to the plans by the FMOLHS Affiliates.

A new defined contribution plan was created for those hired after June 30, 2006, the FMOL Health System Retirement Plan (FMOL Plan). Substantially all employees of the FMOLHS Affiliates meeting eligibility requirements may participate in the FMOL Plan. The FMOLHS Affiliates may annually elect to make a contribution on behalf of those participants in an amount determined by the FMOLHS Affiliates. Contribution expense of \$13,658 and \$14,511 was recorded for the years ended June 30, 2019 and 2018, respectively.

(c) Retiree Medical Plan

Lourdes offers partially subsidized healthcare benefits to employees who retired before June 30, 2006. Costs are accrued for this plan during the service lives of covered employees. Retirees contribute a portion of the self-funded cost of healthcare benefits and Lourdes contributes the remainder. The healthcare plan is funded on a pay-as-you-go basis. Lourdes retains the right to modify or terminate the benefits and/or cost-sharing provisions. The accrued liability for such benefits was approximately \$258 and \$301 at June 30, 2019 and 2018, respectively, and is included in other long-term liabilities.

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(15) Functional Expenses

The FMOLHS Affiliates provide healthcare and other services to residents within its service area. Expenses related to providing these services for the years ended June 30, 2019 and 2018 are as follows:

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

| <u>2018</u> | <u>Educational</u> | <u>Fundraising</u> | <u>General and administrative</u> | <u>Healthcare services</u> | <u>Total</u> |
|--------------------------------|--------------------|--------------------|---------------------------------------|--------------------------------|------------------|
| Salaries and wages | \$ 11,043 | 1,241 | 142,512 | 625,197 | 779,993 |
| Employee benefits | 3,089 | 311 | 50,896 | 123,592 | 177,888 |
| Physician fees | — | — | 2,874 | 75,827 | 78,701 |
| Professional services | 173 | 7 | 6,988 | 24,020 | 31,188 |
| Other services | 3,929 | 1,514 | 123,295 | 203,731 | 332,469 |
| Leases, insurance, and utility | 2,110 | 105 | 32,857 | 37,155 | 72,227 |
| Supplies | 541 | 130 | 3,971 | 377,442 | 382,084 |
| Depreciation and amortization | 692 | 13 | 40,175 | 79,993 | 120,873 |
| Interest | — | — | 28,827 | 1,363 | 30,190 |
| Other | — | 2,199 | 7,513 | 156 | 9,868 |
| | <u>\$ 21,577</u> | <u>5,520</u> | <u>439,908</u> | <u>1,548,476</u> | <u>2,015,481</u> |

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(16) Availability of Resources and Liquidity

The System has \$439,218 of financial assets available to meet cash needs for general expenditures within one year of the consolidated balance sheet date. Available financial assets consist of cash of \$263,100, short-term investments of \$19,945, and patient accounts receivable, collectible within one year, of \$156,173. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for expenditure within one year of the balance sheet date. The System has a goal to maintain cash and investments sufficient to cover operating expenses at levels that meet or exceed standards established by rating agencies for similar organizations. That goal is currently 200 days. With average daily operating expenses of approximately \$2,000, the System's financial asset coverage is approximately 215 days. The System has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

(17) Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The carrying amounts of all applicable asset and liability financial instruments reported in the consolidated balance sheets, except for long-term debt, approximate their estimated fair values, in all significant respects, at June 30, 2019 and 2018.

FMOLHS's financial instruments for which estimated fair values differ from their carrying amounts at June 30, 2019 and 2018 are summarized as follows:

| | 2019 | | 2018 | |
|---------------------------------|--------------------|-------------------------|--------------------|-------------------------|
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| Liabilities – long-term debt \$ | 750,581 | 810,043 | 757,441 | 789,073 |

The fair value of long-term debt, which is a Level 2 estimate, is determined by discounting the future cash flows of each instrument at rates that reflect rates currently observed in publicly traded debt markets for debt of similar terms to companies with comparable credit risk.

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(b) Fair Value Hierarchy

The following tables present the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2019 and 2018:

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

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| | June 30, 2018 | | | |
|--------------------------------------------------------------------------------------------------------------------|-------------------|---------------|----------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets category: | | | | |
| Equity securities: | | | | |
| U.S. Equity | \$ 110,566 | — | — | 110,566 |
| Non-U.S. Equity | 59,815 | — | — | 59,815 |
| Real assets | 40,052 | — | — | 40,052 |
| Fixed income | 63,428 | 79,884 | — | 143,312 |
| Assets measured at NAV | — | — | — | 116,870 |
| Total – categorized | <u>\$ 273,861</u> | <u>79,884</u> | <u>—</u> | <u>470,615</u> |
| Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized | | | | <u>655,677</u> |
| | | | | <u>1,126,292</u> |
| Liabilities: | | | | |
| Interest rate swaps | \$ — | 7,703 | — | 7,703 |

The fair values of the following investments have been estimated using the NAV per share as of June 30, 2019 and 2018:

| | 2019 | 2018 | Redemption terms** | Notice period (Days) | Remaining life** |
|---------------------------------------|------------------|----------------|--------------------|----------------------|------------------|
| Asset category: | | | | | |
| U.S. Equities (a) | \$ — | 18,987 | Monthly | 30 | — |
| International Equity (b) | 71,965 | 69,927 | Monthly | 5 | — |
| Real Assets – Inflation Sensitive (c) | — | 27,956 | Monthly | 24 | — |
| Totals | <u>\$ 71,965</u> | <u>116,870</u> | | | |

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

(a) Objective is to drive overall portfolio growth while also outperforming the Russell 3000 Index with similar levels of risk.

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- (b) Objective is to drive overall portfolio growth while also outperforming MSCI EAFE Index (Net) with similar levels of risk.
- (c) Objective is to ensure a liquid source of capital for spending during periods of high, unanticipated inflation by investing in assets that tend to respond favorably in such an environment.

FMOLHS's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no significant transfers into or out of Level 1, Level 2, or Level 3 for the years ended June 30, 2019 or 2018.

The investments classified as Level 2 are as follows:

- Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of FMOLHS's interest therein, its classification in Level 2 is based on FMOLHS's ability to redeem its interest at or near the date of the consolidated balance sheets. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.
- Bonds whose fair values are determined by independent vendors. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued.

(c) Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(18) Insurance Programs

The FMOLHS Affiliates are qualified under the State of Louisiana medical malpractice program and are self-insured for the first \$100 of professional liability per occurrence; additional coverage is provided by the Louisiana Patients' Compensation Fund for the next \$400 of professional liability up to the present statutory maximum of \$500 per claim (exclusive of additional amounts for future medical expenses provided by law). FMOLHS's professional and general liability insurance program is managed through Louise, its wholly owned captive insurer. As of June 30, 2019, FMOLHS has excess insurance coverage in place for general and professional liability risks, with a \$2,000 self-insured retention for professional liability and a \$1,000 layer of self-insurance for general liability. A \$6,000 aggregate sits above these limits, covering general and professional liability. Incurred losses identified under FMOLHS's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate FMOLHS's past experience, as well as other considerations, such as the nature of each claim or incident, relevant trend factors, and advice

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

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

from consulting actuaries. The reserve for estimated professional and general liability, and worker's compensation costs is approximately \$28,553 and \$27,118 as of June 30, 2019 and 2018, respectively. Claims liabilities are estimated at a present value of future claims payments using a discount rate of 3%.

FMOLHS has established a self-insurance trust fund for payment of liability claims and makes deposits to the fund in amounts determined by consulting actuaries. FMOLHS also has substantial excess liability coverage available under the provisions of certain claims-made policies, currently expiring on June 30, 2020. To the extent that any claims-made coverage is not renewed or replaced with equivalent value insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through the incident reporting process that any such claims would not have a material effect on FMOLHS's results of operations or financial position. In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires.

FMOLHS is also self-insured with respect to employee health coverage (up to \$500 limit per claim) and workers' compensation (up to a limit of \$450 per individual claim). Substantial coverage with a third-party carrier is maintained for potential excess losses under the workers' compensation program. The employee health self-insured reserves are approximately \$10,351 and \$9,205 as of June 30, 2019 and 2018, respectively, and are included in other current liabilities in the consolidated balance sheets. The workers' compensation reserves are approximately \$10,387 and \$12,149 as of June 30, 2019 and 2018, respectively, and are included in other current liabilities in the consolidated balance sheets.

(19) Leases – Lessor

FMOLHS Affiliates lease office space and clinical facilities under operating leases. The terms of these leases range from month to month to 20 years. Assets held for lease at June 30, 2019 and 2018 consist of buildings and improvements with an original cost of \$212,196 and \$232,843, respectively, and fixed equipment with an original cost of \$10,003 and \$11,883, respectively. Total accumulated depreciation is \$120,822 and \$134,285 at June 30, 2019 and 2018, respectively. Future minimum lease payments to be received at June 30, 2019 are as follows:

| | | |
|----------------------|----|---------------|
| Year ending June 30: | | |
| 2020 | \$ | 11,633 |
| 2021 | | 9,737 |
| 2022 | | 8,788 |
| 2023 | | 8,203 |
| 2024 | | 6,129 |
| Thereafter | | 31,885 |
| | \$ | <u>76,375</u> |

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

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(20) Commitments and Contingencies

(a) Investments

FMOLHS is obligated under certain limited partnership agreements to provide advance funding up to specific levels upon the request of the general partner. See note 2(b).

(b) Capital Leases

As of June 30, 2019, FMOLHS Affiliates were obligated under various capital leases, each with noncancelable terms in excess of one year. Future minimum lease payments as of June 30, 2019 are as follows:

| | | |
|-----------------------------------------------------|----|----------------------|
| Year ending June 30: | | |
| 2020 | \$ | 3,706 |
| 2021 | | 3,399 |
| 2022 | | 3,066 |
| 2023 | | 2,968 |
| 2024 | | 2,761 |
| Thereafter | | <u>3,647</u> |
| Total minimum lease payments | | 19,547 |
| Less amounts representing interest | | <u>4,819</u> |
| Present value of future minimum lease payments | | 14,728 |
| Less current portion of capital lease obligations | | <u>2,405</u> |
| Capital lease obligations excluding current portion | \$ | <u><u>12,323</u></u> |

The net book value of assets under capital lease as of June 30, 2019 and 2018 was \$13,981 and \$14,139, respectively.

For the years ended June 30, 2019 and 2018, FMOLHS entered into new capital leases for equipment in the amounts of \$802 and \$1,238, respectively.

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

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(c) Operating Leases – Lessee

Rental expense for all operating leases totaled \$28,339 and \$26,618 for the years ended June 30, 2019 and 2018, respectively. Future minimum rental payments under operating leases that have initial or remaining noncancelable terms in excess of one year as of June 30, 2019 follow:

| Year ending June 30: | | | |
|----------------------|----|---------------|--|
| 2020 | \$ | 19,655 | |
| 2021 | | 14,199 | |
| 2022 | | 13,264 | |
| 2023 | | 9,668 | |
| 2024 | | 4,431 | |
| Thereafter | | 8,951 | |
| | \$ | <u>70,168</u> | |

(d) Asset Retirement Obligations

FMOLHS recognizes obligations associated with the future retirement of long lived assets. Estimated asset retirement obligations of \$1,874 and \$2,035 for the years ended June 30, 2019 and 2018, respectively, are classified as other long-term liabilities.

(e) Contingent Liabilities

FMOLHS and the FMOLHS Affiliates have certain pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed the self-insurance reserves or insurance coverage, and will not materially affect the financial position or the results of operations.

(f) Regulatory Compliance

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers. The FMOLHS Affiliates are subject to these regulatory efforts and have corporate compliance committees that monitor and respond to regulatory changes and any issues that may arise.

In consultation with legal counsel, management is not aware of any issues that could have a material adverse effect on the FMOLHS Affiliates' financial position or results of operations.

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

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(21) Cooperative Endeavor Agreements

(a) *Our Lady of the Lake Cooperative Endeavor Agreement*

As part of its mission to ensure an appropriate supply of medical professionals in its service area and improve graduate medical education in the region, the Lake entered into an agreement with the State of Louisiana Department of Health and Hospitals (DHH) and Louisiana State University Health Sciences (LSU) in February 2010. The parties received associated governmental approval of the agreement from the CMS on July 13, 2010. Major components of the agreement are as follows:

- The Lake constructed a medical education building (MEB) to house LSU training programs (which was donated by the Lake to LSU at completion of construction), expanded its clinical capacity by 60 licensed beds, and implemented a Trauma Center. The Lake recorded \$1,712 and \$1,852 in other current liabilities in the consolidated balance sheets as of June 30, 2019 and 2018, respectively, to reflect its promise to give in accordance with relevant accounting literature, related to the MEB.

In addition to the Medicaid claims payments, DHH provided payments under a reimbursement structure to the Lake, which are intended to compensate the Lake for incremental costs associated with higher Medicaid and uninsured patient volumes that have occurred with the Lake's increased role in LSU's graduate medical education program. The supplemental hospital payments received through June 30, 2019 were based on estimated costs for uninsured patients and other reimbursable cost provided under the agreement. For the years ended June 30, 2019 and 2018, the Lake recorded additional uninsured net patient service revenues less the estimate amounts for retroactive adjustments under the agreement of \$119,023 and \$55,080, respectively.

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

The Cooperative Endeavor Agreement was amended on April 10, 2013 to ensure viability of existing LSU Health outpatient facilities and patient care services and programs. The major components of the Lake's amended agreement include:

- The Lake manages and operates the operations of LSU Health outpatient facilities. The reimbursement structure of the agreement was revised to include payment to the Lake for the operations of these facilities. Lease agreements were implemented for LSU Health outpatient facilities and equipment.
- GME program amendments were implemented for assignment of GME reimbursement caps.
- Clinical service agreements were implemented with LSU School of Medicine to provide professional services at the LSU Health clinics.

**FRANCISCAN MISSIONARIES OF OUR LADY HEALTH
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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

- For the years ended June 30, 2019 and 2018, the amount paid to LSU for leased building and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was \$56,754 and \$54,456, respectively.

(b) Our Lady of Angels Cooperative Endeavor Agreement

Angels entered into an agreement with the DHH and LSU in January 2014. Angels receives disproportionate share payments and other supplemental payments from DHH to cover costs associated with higher Medicaid and uninsured patient volumes for this service area. The commencement date for patient care services for Angels was March 7, 2014. For the years ended June 30, 2019 and 2018, Angels recorded additional net patient service revenue of \$32,099 and \$29,694, respectively.

The major components of the Angels' agreement include:

- Angels leases facilities and equipment and manages the operations of the hospital and outpatient facilities.
- Angels agrees to continue the graduate medical education and training programs in Bogalusa, Louisiana.
- Angels established clinical services agreements, including the LSU School of Medicine, to provide professional services at the hospital and outpatient facilities.
- For the years ended June 30, 2019 and 2018, the amount paid to LSU for leased buildings and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was \$6,130 and \$12,339, respectively.

(22) Acquisitions

On July 31, 2018, St. Francis acquired the remaining 50% interest in P&S Surgery Center, LLC, for a total purchase price of \$7,132. The purchase price was paid with cash on hand on the date of the transaction. Based on the preliminary purchase price allocation, the System recorded assets of \$10,632, including cash of \$3,047 and liabilities of \$3,500.

On March 1, 2019, Lourdes acquired assets and liabilities, constituting a business, of Women's and Children's Hospital for a total purchase price of \$29,594. The purchase price was paid with cash on hand on the date of the transaction. Based on the preliminary purchase price allocation, the System recorded assets of \$37,737, including cash of \$514, liabilities of \$3,143, and a noncontrolling interest of \$5,000.

(23) Subsequent Events

FMOLHS has evaluated subsequent events from the balance sheet date through October 11, 2019, the date at which the consolidated financial statements were available to be issued, and determined that there were no other items to disclose, except as follows:

**FRANCISCAN MISSIONARIES OF OUR LADY HEALTH
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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

The System entered into a Shared Mission Agreement with St. Dominic Health Services, Inc. (St. Dominic) to integrate two Catholic ministries. St. Dominic is a Mississippi nonprofit corporation. The agreement includes a co-sponsorship with the Dominican Sisters of Springfield, Illinois (Dominican Sisters) and the Franciscan Calais Ministries. The co-sponsorship was effective July 1, 2019 and will continue until approval occurs by the Holy See for Franciscan Calais Ministries to become the sole sponsor. In recognition of Dominican Sister's charitable mission, the System will contribute support payments over three years for their ongoing ministries totaling \$62,000. St. Dominic's total net assets at June 30, 2019 was approximately \$400,000.

Effective September 30, 2019, HealthTrust Group completed an equity purchase agreement with Resource Optimization and Innovation (ROi). At June 30, 2019, FMOLHS held a 9.45% ownership in ROi for a total asset value of \$11,800. On September 30, 2019, FMOLHS received \$12,500 in cash for its portion of ownership in ROi. In addition to cash payment, FMOLHS received 9.45% ownership in ROi CPS, LLC, a newly formed LLC for custom pack supplies with an investment value of \$482.

On October 10, 2019, FMOLHS refunded both the Series 2005B note that is due in varying installments through 2031 and the 2015B note that is due in full in 2025 with \$78,015 of taxable bank debt. The interest rate on the new debt is a fixed rate of 2.06% and mature in full on October 9, 2029.

FMOLHS expects to consummate the issuance of approximately \$150,000 Bond Series 2019B in late October of 2019. The proceeds of the bonds are planned to be utilized to finance various capital projects.

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

Consolidating Schedule – Balance Sheet Information

June 30, 2019

(with comparative totals as of June 30, 2018)

(In thousands)

| Assets | Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries | Franciscan Missionaries of Our Lady University, Inc. | Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations | St. Francis Medical Center Inc. and subsidiaries | Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries | Our Lady of the Angels Hospital | Eliminations | Total | |
|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------|---------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------------------------------------|---------------------------------|--------------------|------------------|------------------|
| | | | | | | | | 2019 | 2018 |
| Current assets: | | | | | | | | | |
| Cash and cash equivalents | \$ 84,503 | 7,732 | 131,140 | 12,089 | 39,304 | 19,178 | (30,826) | 263,100 | 235,123 |
| Short-term investments | 19,945 | — | 15,362 | — | — | — | (15,362) | 19,945 | 4,391 |
| Net patient accounts receivables | (3,370) | — | 134,702 | 28,562 | 50,621 | (1,852) | — | 208,683 | 140,167 |
| Other current assets | (9,619) | 1,334 | 159,741 | 26,323 | (4,061) | 1,177 | (7,037) | 167,658 | 112,253 |
| Total current assets | 91,259 | 9,066 | 440,945 | 66,954 | 85,864 | 18,503 | (53,225) | 659,366 | 491,934 |
| Assets limited as to use, net of current portion | 1,018,343 | 8,092 | 841,594 | 82,742 | 24,481 | — | (939,287) | 1,033,965 | 1,090,983 |
| Property and equipment, net | 77,009 | 2,407 | 849,617 | 98,229 | 255,126 | 4,328 | — | 1,286,718 | 1,191,485 |
| Other assets | 82,368 | 11,666 | 117,390 | 12,818 | 31,069 | 5,183 | (24,080) | 236,444 | 251,119 |
| Total assets | \$ 1,268,979 | 29,231 | 2,249,546 | 260,743 | 396,560 | 28,024 | (1,018,592) | 3,216,491 | 3,025,521 |
| Liabilities and Net Assets | | | | | | | | | |
| Current liabilities: | | | | | | | | | |
| Lines of credit | \$ — | — | 10,000 | — | — | — | — | 10,000 | 5,000 |
| Current installments of long-term debt | — | — | 7,643 | 5,537 | 5,007 | — | — | 18,187 | 16,668 |
| Current portion of capital lease obligations | — | — | 1,708 | 584 | 113 | — | — | 2,405 | 2,567 |
| Accounts payable | 19,839 | 110 | 59,015 | 13,628 | 15,055 | 4,587 | (5,719) | 106,515 | 98,886 |
| Other current liabilities | 46,113 | 3,416 | 127,363 | 24,550 | 31,880 | 6,062 | (1,318) | 238,086 | 176,969 |
| Total current liabilities | 65,952 | 3,526 | 205,729 | 44,299 | 52,055 | 10,649 | (7,037) | 375,173 | 299,888 |
| Professional and general liabilities, excluding current portion | 25,897 | — | 17,941 | 5,089 | 3,330 | 211 | (23,895) | 28,553 | 27,118 |
| Long-term debt, excluding current installments | — | — | 462,393 | 109,804 | 160,197 | — | — | 732,394 | 740,776 |
| Capital lease obligations, excluding current portion | — | — | 11,463 | 265 | 595 | — | — | 12,323 | 13,149 |
| Accrued pension cost | 27 | 5,452 | 368,114 | 79,300 | 99,310 | — | — | 552,203 | 446,368 |
| Other long-term liabilities | 1,047,563 | — | 355 | 1,874 | 258 | — | (985,475) | 64,575 | 74,878 |
| Total liabilities | 1,139,439 | 8,978 | 1,065,995 | 240,611 | 315,745 | 10,860 | (1,018,407) | 1,765,221 | 1,602,177 |
| Net assets: | | | | | | | | | |
| Without donor restrictions | 129,381 | 9,359 | 1,093,758 | 19,857 | 66,670 | 17,156 | (130) | 1,336,051 | 1,316,662 |
| With donor restrictions | 159 | 10,894 | 58,390 | 275 | 7,264 | 8 | (55) | 76,935 | 71,025 |
| Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc. | 129,540 | 20,253 | 1,152,148 | 20,132 | 73,934 | 17,164 | (185) | 1,412,986 | 1,387,687 |
| Noncontrolling interests | — | — | 31,403 | — | 6,881 | — | — | 38,284 | 35,857 |
| Total net assets | 129,540 | 20,253 | 1,183,551 | 20,132 | 80,815 | 17,164 | (185) | 1,451,270 | 1,423,544 |
| Total liabilities and net assets | \$ 1,268,979 | 29,231 | 2,249,546 | 260,743 | 396,560 | 28,024 | (1,018,592) | 3,216,491 | 3,025,521 |

See accompanying independent auditors' report.

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

Consolidating Schedule – Statement of Operations and changes in Net Assets without Donor Restrictions Information

Year ended June 30, 2019

(with comparative totals for the year ended June 30, 2018)

(In thousands)

| | Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries | Franciscan Missionaries of Our Lady University, Inc. | Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations | St. Francis Medical Center, Inc. and subsidiaries | Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries | Our Lady of the Angels Hospital | Eliminations | Total | |
|-----------------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------|--------------|-----------|-----------|
| | | | | | | | | 2019 | 2018 |
| Changes in net assets without donor restrictions | | | | | | | | | |
| Operating Revenues | | | | | | | | | |
| Net patient service revenue | \$ 23,161 | — | 1,391,852 | 291,520 | 361,965 | 73,185 | — | 2,141,683 | 1,895,432 |
| Other revenue | 298,016 | 20,834 | 61,703 | 10,220 | 11,429 | 1,419 | (275,647) | 127,974 | 110,717 |
| Equity in income from equity investees, net | 2,299 | — | 10,930 | 906 | 4,219 | — | — | 18,354 | 18,042 |
| Total operating revenues | 323,476 | 20,834 | 1,464,485 | 302,646 | 377,613 | 74,604 | (275,647) | 2,288,011 | 2,024,191 |
| Net assets released from restrictions used for operations: | | | | | | | | | |
| Satisfaction of program restrictions | 296 | 2,652 | 2,708 | 2,479 | 181 | — | — | 8,316 | 5,505 |
| Expiration of time restrictions | — | — | 207 | — | — | — | — | 207 | 194 |
| Total net assets released from restrictions used for operations | 296 | 2,652 | 2,915 | 2,479 | 181 | — | — | 8,523 | 5,699 |
| Total operating revenues and other support | 323,772 | 23,486 | 1,467,400 | 305,125 | 377,794 | 74,604 | (275,647) | 2,296,534 | 2,029,890 |
| Operating expenses: | | | | | | | | | |
| Salaries and wages | 103,799 | 12,054 | 490,898 | 106,661 | 111,942 | 25,556 | (250) | 850,660 | 779,993 |
| Employee benefits | 22,657 | 2,920 | 96,701 | 23,206 | 27,054 | 4,863 | — | 177,401 | 177,888 |
| Total salaries, wages, and employee benefits | 126,456 | 14,974 | 587,599 | 129,867 | 138,996 | 30,419 | (250) | 1,028,061 | 957,881 |
| Physician fees | 270 | — | 65,424 | 4,460 | 14,138 | 6,579 | (12) | 90,859 | 78,701 |
| Professional services | 3,945 | 225 | 19,724 | 10,610 | 1,109 | 82 | — | 35,695 | 31,188 |
| Other services | 126,514 | 3,856 | 308,289 | 56,738 | 57,745 | 14,744 | (216,337) | 351,549 | 332,469 |
| Leases, insurance, and utilities | 17,356 | 2,006 | 35,105 | 8,305 | 13,240 | 7,342 | (6,362) | 76,992 | 72,227 |
| Supplies | 67,470 | 1,060 | 271,113 | 52,632 | 96,529 | 5,798 | (52,686) | 441,916 | 382,084 |
| Depreciation and amortization | 44,425 | 611 | 50,835 | 12,961 | 13,550 | 273 | — | 122,655 | 120,873 |
| Interest | 41 | — | 17,108 | 5,164 | 6,931 | — | (326) | 28,918 | 30,190 |
| Other | 231 | 152 | 7,497 | 2,967 | 1,732 | 302 | — | 12,881 | 9,668 |
| Total operating expenses | 386,708 | 22,884 | 1,362,694 | 283,704 | 343,970 | 65,539 | (275,973) | 2,189,526 | 2,015,481 |
| Operating income before impairment | (62,936) | 602 | 104,706 | 21,421 | 33,824 | 9,065 | 326 | 107,008 | 14,409 |
| Impairment | — | — | — | (11,560) | — | — | — | (11,560) | (3,659) |
| Operating income | (62,936) | 602 | 104,706 | 9,861 | 33,824 | 9,065 | 326 | 95,448 | 10,750 |

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

Consolidating Schedule – Statement of Operations Information

Year ended June 30, 2019

(with comparative totals for the year ended June 30, 2018)

(In thousands)

| | Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries | Franciscan Missionaries of Our Lady University, Inc. | Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations | St. Francis Medical Center, Inc. and subsidiaries | Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries | Our Lady of the Angels Hospital | Eliminations | Total | |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------|--------------|-----------|---------|
| | | | | | | | | 2019 | 2018 |
| Nonoperating gains | | | | | | | | | |
| Investment return | 1,773 | 345 | 25,669 | 2,537 | 901 | — | (326) | 30,899 | 57,622 |
| Change in fair value of interest rate swap agreements | (788) | — | — | — | — | — | — | (788) | 3,435 |
| Total nonoperating gains, net | 985 | 345 | 25,669 | 2,537 | 901 | — | (326) | 30,111 | 61,057 |
| Revenues, gains, and other support in excess of expenses and losses before noncontrolling interest | (61,951) | 947 | 130,375 | 12,398 | 34,725 | 9,065 | — | 125,559 | 71,807 |
| Noncontrolling interests | — | — | (2,544) | — | (1,791) | — | — | (4,335) | (4,227) |
| Revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc. | (61,951) | 947 | 127,831 | 12,398 | 32,934 | 9,065 | — | 121,224 | 67,580 |
| Pension-related changes other than net periodic pension cost | — | — | (68,661) | (13,991) | (19,451) | — | — | (102,103) | 27,776 |
| Other | 43,889 | (215) | (29,451) | (6,226) | (7,260) | (468) | — | 269 | (713) |
| (Decrease) increase in net assets without donor restrictions | \$ (18,062) | 732 | 29,719 | (7,819) | 6,223 | 8,597 | — | 19,390 | 94,643 |

See accompanying independent auditors' report

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

Consolidating Schedule – Statement of Changes in Net Assets Information

Year ended June 30, 2019

(with comparative totals for the year ended June 30, 2018)

(In thousands)

| | Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries | Franciscan Missionaries of Our Lady University, Inc. | Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations | St. Francis Medical Center, Inc. and subsidiaries | Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries | Our Lady of the Angels Hospital | Eliminations | Total | |
|--------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------|--------------|-----------|-----------|
| | | | | | | | | 2019 | 2018 |
| Changes in net assets without donor restrictions | | | | | | | | | |
| Revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc | \$ (61,951) | 947 | 127,831 | 12,396 | 32,934 | 9,067 | — | 121,224 | 67,580 |
| Pension-related changes other than net periodic pension cost | — | — | (68,661) | (13,991) | (19,451) | — | — | (102,103) | 27,776 |
| Other | 43,889 | (215) | (29,451) | (6,224) | (7,260) | (470) | — | 269 | (713) |
| Increase (decrease) in net assets without donor restrictions | (18,062) | 732 | 29,719 | (7,819) | 6,223 | 8,597 | — | 19,390 | 94,643 |
| Changes in net assets with donor restrictions: | | | | | | | | | |
| Contributions | 186 | 1,045 | 7,661 | 1,755 | 2,357 | (1) | 232 | 13,235 | 15,344 |
| Income from long-term investments, net | — | — | 1,197 | — | — | — | — | 1,197 | 2,224 |
| Net assets released from restrictions | (296) | (2,652) | (2,915) | (2,479) | (181) | — | — | (8,523) | (5,699) |
| Increase in net assets with donor restrictions | (110) | (1,607) | 5,943 | (724) | 2,176 | (1) | 232 | 5,909 | 11,869 |
| Changes in noncontrolling interest | | | | | | | | | |
| Revenues, gains, and other support in excess of expenses and losses | — | — | 2,544 | — | 1,791 | — | — | 4,335 | 4,227 |
| Distributions | — | — | (3,681) | — | (2,435) | — | — | (6,116) | (4,793) |
| Acquired controlling interest | — | — | 322 | — | 5,000 | — | — | 5,322 | 624 |
| Other | — | — | (914) | — | — | — | — | (914) | 450 |
| (Decrease) increase in noncontrolling interest | — | — | (1,729) | — | 4,356 | — | — | 2,627 | 508 |
| Increase (decrease) in net assets | (18,172) | (875) | 33,933 | (8,543) | 12,755 | 8,596 | 232 | 27,926 | 107,020 |
| Net assets, beginning of year | 147,712 | 21,128 | 1,149,618 | 28,675 | 68,060 | 8,568 | (417) | 1,423,344 | 1,316,356 |
| Net assets, end of year | \$ 129,540 | 20,253 | 1,183,551 | 20,132 | 80,815 | 17,164 | (185) | 1,451,270 | 1,423,376 |

See accompanying independent auditors' report



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

Report on Federal Awards in Accordance with the Uniform Guidance

Year Ended June 30, 2019

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System), which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 11, 2019.

As discussed in note 1(v) to the consolidated financial statements, in fiscal year 2019, the System adopted new accounting guidance in connection with its implementation of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Internal Control over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

Jackson, Mississippi
October 11, 2019



KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

**Independent Auditors' Report on Compliance for the Major Federal Program;
Report on Internal Control over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

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

Report on Compliance for the Major Federal Program

We have audited Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations' (the System's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the System's major federal program for the year ended June 30, 2019. The System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The System's consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., which collectively expended \$13,309,758 in federal awards, which is not included in the System's accompanying schedule of expenditures of federal awards for the year ended June 30, 2019. Our audit, described below, did not include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. because those U.S. Housing and Urban Development (HUD) Projects listed above arranged to have separate audits performed in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the System's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the System's compliance.



Opinion on the Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the System as of and for the year ended June 30, 2019, and have issued our report thereon dated October 11, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Jackson, Mississippi
January 17, 2020

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

| Federal sponsor/program title | Federal CFDA number | Pass-through award number | Pass-through entity | Direct expenditures | Pass-through expenditures | Total expenditures |
|---------------------------------------------------------------------------------------------------------|---------------------------|------------------------------|------------------------------------------|------------------------|------------------------------|-----------------------|
| Student Financial Aid Cluster*: | | | | | | |
| U.S. Department of Education: | | | | | | |
| Federal Work-Study (FWS) | 84.033 | | | \$ 32,016 | — | 32,016 |
| Federal Supplemental Education Opportunity Grant (FSEOG) | 84.007 | | | 54,706 | — | 54,706 |
| Federal Pell Grant Program (PELL) | 84.063 | | | 1,382,459 | — | 1,382,459 |
| Federal Direct Student Loans (Direct Loan) | 84.268 | | | 15,488,075 | — | 15,488,075 |
| Total Student Financial Aid Cluster | | | | <u>16,957,256</u> | <u>—</u> | <u>16,957,256</u> |
| Other Financial Assistance: | | | | | | |
| U.S. Department of Transportation | | | | | | |
| Enhanced Mobility of Seniors and Individuals with Disabilities. | 20.513 | L16-X-004 L16-X-006 | Louisiana Dept of Transportation | — | 108,526 | 108,526 |
| U.S. Department of Housing and Urban Development: | | | | | | |
| Continuum of Care Program (COC) | 14.235 | LA0100L6H041306 | City of Baton Rouge | — | 65,740 | 65,740 |
| Housing Opportunities for Persons with AIDS | 14.241 | HOPIWA-12-0003 | City of Baton Rouge | — | 100,744 | 100,744 |
| Total U.S. Department of Housing and Urban Development | | | | <u>—</u> | <u>166,484</u> | <u>166,484</u> |
| U.S. Department of Health and Human Services: | | | | | | |
| Nurse Anesthetist Traineeships | 93.124 | | | 93,896 | — | 93,896 |
| Coordinated Services and Access to Research for Women, Infants, Children, and Youth (Ryan White Part D) | 93.153 | | | 323,917 | — | 323,917 |
| Affected Family Members AIDS Healthcare | 93.153 | H12HA24808 | Louisiana State University Health System | — | 165,486 | 165,486 |
| Total CFDA | | | | <u>323,917</u> | <u>165,486</u> | <u>489,403</u> |
| Our Lady of the Lake – National Bioterrorism Hospital Preparedness Program | 93.889 | 059583 | Louisiana Hospital Association | — | 50,794 | 50,794 |
| Lourdes – National Bioterrorism Hospital Preparedness Program | 93.889 | 059583 | Louisiana Hospital Association | — | 129,969 | 129,969 |
| St. Francis Medical Center – National Bioterrorism Hospital Preparedness Program | 93.889 | 059583 | Louisiana Hospital Association | — | 23,836 | 23,836 |
| St. Francis Medical Center Health and Human Services (HHS) Affordable Care Act | 93.889 | 059583 | Louisiana Hospital Association | — | 96,900 | 96,900 |
| Total CFDA | | | | <u>—</u> | <u>301,499</u> | <u>301,499</u> |
| HIV Emergency Relief (Ryan White Part A) | 93.914 | H89HA11432 | City of Baton Rouge | — | 343,467 | 343,467 |
| Aids United/The Fenway Institute | 93.914 | U69HA310670100 | Aids United | — | 107,672 | 107,672 |
| Total CFDA | | | | <u>—</u> | <u>451,139</u> | <u>451,139</u> |
| Our Lady of the Lake – Early Intervention (Ryan White Part C) | 93.918 | | | 366,476 | — | 366,476 |
| Total U.S. Department of Health and Human Services | | | | <u>784,289</u> | <u>918,124</u> | <u>1,702,413</u> |
| U.S. Department of Homeland Security: | | | | | | |
| Corporation for National and Community Service | | | | | | |
| Senior Companion Program (SCP) | 94.016 | | | 198,224 | — | 198,224 |
| Total federal expenditures | | | | <u>\$ 17,939,769</u> | <u>1,193,134</u> | <u>19,132,903</u> |

* Denotes a major program.

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System) under programs of the federal government for the year ended June 30, 2019. The System's consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., which collectively expended \$13,309,758 in federal awards, which is not included in the Schedule. The amounts reported as federal expenditures were obtained from the System's general ledger. Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, results of operations, changes in net assets, and cash flows of the System.

For purposes of the Schedule, federal expenditures include all grants, contracts, and similar agreements entered into directly between the System, the agencies and departments of the federal government, and all subawards to the System by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The information in the Schedule is presented in accordance with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

(2) Summary of Significant Accounting Policies

For purposes of the Schedule, expenditures of federal award programs are recognized on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The System has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

(3) Federal Direct Student Loans

The System's Federal Direct Student Loans (Direct Loans) included in the Schedule represent loans received by students during fiscal year 2019, which were not made by the System. The System is responsible only for the performance of certain administrative duties with respect to its Direct Loans Program, and accordingly, these loans are not included in its consolidated financial statements. The System is not required to maintain the balance of the loans outstanding to students and former students of the System under these programs. Such balances are maintained and administered by the lenders and guarantors of these loans.

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

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

During the year ended June 30, 2019, the System advanced the following amounts of new loans under the Direct Loan Program:

| | CFDA number | Amount expended |
|-------------------------------------------|------------------------|----------------------------|
| Unsubsidized direct loans | 84.268 | \$ 7,387,308 |
| Direct loans | 84.268 | 2,092,559 |
| Parents' loans for undergraduate students | 84.268 | 824,805 |
| Parents' loans for graduate students | 84.268 | 5,183,403 |
| Total | | \$ 15,488,075 |

(4) Relationship to Consolidated Financial Statements

Federal expenditures are reported in the System's 2019 consolidated financial statements as follows:

| | |
|----------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Total expenditures under federal grants and contracts included in other revenue in the consolidated financial statements of the System | \$ 2,113,767 |
| Federal Supplemental Education Opportunity Grant – agency transactions | 54,706 |
| Federal Pell Grant Program – agency transactions | 1,382,459 |
| Federal Direct Student Loans (Direct Loan) – agency transactions | 15,488,075 |
| Nurse Anesthetists Traineeships – agency transactions | 93,896 |
| Federal expenditures per the Schedule | \$ 19,132,903 |

(5) Matching Expenditures

Although not included on the Schedule, the System incurred matching expenditures of the following during the year ended June 30, 2019:

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Our Lady of the Lake Hospital (Livingston) – National Bioterrorism Hospital Preparedness Program | \$ 2,384 |
| PACE – Department of Transportation Federal Transit Administration Grant – Enhanced Mobility of Seniors and Individuals with Disabilities | 36,954 |
| St. Francis Medical Center – National Bioterrorism Hospital Preparedness Program | 2,384 |
| Total matching expenditures | \$ 41,722 |

(6) Expenditures of Federal Awards to Subrecipients

The System did not pass through any expenditures of federal awards to subrecipients during 2019.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

(1) Summary of Auditor's Results

- (a) Type of report issued on whether the consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None Reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major program disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major program: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- (g) Major program:
 - Student Financial Aid Cluster/U.S. Department of Education – CFDA 84.033, 84.007, 84.063, and 84.268
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- (i) Auditee qualified as a low-risk auditee: **No**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None

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

Schedule of Status of Prior Year Audit Findings
Year ended June 30, 2019

Finding No. 2018-01 Special Tests and Provisions – Disbursement Notification

Federal Agency:

U.S. Department of Education

CFDA Number:

84.268

Program:

Student Financial Aid Cluster

Award Year:

July 1, 2017 through June 30, 2018

Criteria

Under the Student Financial Aid Cluster, schools must notify students when federal funds are credited to the students' accounts in accordance with 34 CFR section 668.165. Following disbursement of Direct Loans, FPL, TEACH, and FFEL, schools must notify students or their parents, in writing, of the amount and type of funds that have been credited to the student's account. This notification must also state the student's ability to cancel all or a portion of these funds and the process to do so. Schools with an affirmative confirmation process must notify students within 30 days before or 30 days after the funds are disbursed.

Condition

During our test work over the Student Financial Aid Cluster, we selected a sample of 25 students who had received financial aid funding during the fiscal year. Within our sample, we noted 1 instance in which a student was not notified of a Direct Loan being credited to her account for the summer 2018 semester.

Cause

The Senior Financial Aid Counselor receives a weekly report listing all students who had financial aid funds allocated to their accounts. This report is in excel and lists the student's email and the type, amount, and date of each disbursement. She then uses Mail Merge within Microsoft Word to send out personalized emails to these students from her email account. The emails are automatically personalized for each student's name and email address with amount and type of funds disbursed as listed in the report. The student who did not receive notification was on the list of students who received disbursements and was on the list linked to Mail Merge. A Mail Merge issue caused her email to not be sent. Lack of a control checking that all students with disbursements were sent notification emails through Mail Merge prevented this student from being sent the appropriate notification.

Questioned Cost

None identified.

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

Schedule of Status of Prior Year Audit Findings
Year ended June 30, 2019

Effect

Noncompliance resulted in the student not being notified funding was credited to their account. Additionally, the student did not receive the information on their right to cancel all or part of this funding.

Recommendation

We recommend that the University add a control to verify all students who received loan disbursements and were on the Mail Merge list were actually sent the appropriate notification within the required timeframes.

Management Response

We concur with the finding. Management has updated the University's procedures to include a process whereby the disbursement roster is verified against the award list during the mail merge process. The senior financial aid counselor currently prints copies of all disbursement emails. Effective immediately, the senior financial aid counselor will pass the printed copies to another financial aid counselor for comparison to the initial disbursement roster. Upon completion of verification, the financial aid counselor will sign off on the roster confirming all emails were processed. Should any student on the disbursement roster not have a disbursement email, notice will be given to the senior financial aid counselor who will proceed with creation of the email. University personnel will also research using the Communications Management module within Colleague to automate and track this process.

Management Action Taken During the Current Year

After sending the disbursement emails, the senior financial aid counselor provides printed copies of all disbursement emails, along with the disbursement roster, to the other financial aid counselors within the Financial Aid office for verification. The financial aid counselors validate that each student who received awards have been issued an email notification of the award. To confirm the validation, the Financial Aid counselor initials the disbursement roster, indicating the verification took place.