Franciscan Alliance, Inc. and Affiliates

Consolidated Financial Statements with Supplemental Financial Information

December 31, 2022 and 2021

Report of Independent Auditors

To the Board of Trustees of Franciscan Alliance, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Franciscan Alliance, Inc. and its affiliates ("Franciscan"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Franciscan as of December 31, 2022 and 2021, and the results of its operations, its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Franciscan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

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

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

PricewaterhouseCoopers LLP

Louisville, Kentucky
May 26, 2023

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Financial Position
As of December 31, 2022 and 2021
(In thousands)

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	$ 94,156	$ 274,353
Short-term investments	191,852	115,593
Patient accounts receivable	381,912	428,846
Inventories of supplies	64,823	67,113
Other current assets	180,814	155,987
Total current assets	913,557	1,041,892
Board designated and other investments	2,555,822	3,466,532
Property, plant, and equipment, net	1,988,892	2,018,998
Investments in unconsolidated affiliates	22,505	11,217
Right of use leased assets, operating	123,921	129,683
Other assets	261,076	232,755
Goodwill	26,322	26,341
Total assets	$ 5,892,095	$ 6,927,418

	2022	2021
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 27,891	$ 28,041
Current portion of operating lease liabilities	27,933	26,578
Accounts payable and accrued expenses	369,541	379,497
Accrued payroll and related expenses	148,679	162,665
Estimated third-party payor settlements	33,111	242,743
Total current liabilities	607,155	839,524
Long-term debt, net of current portion	1,190,625	1,224,621
Operating lease liabilities, net of current portion	101,358	105,724
Fair value of interest rate swap contracts	20,931	60,695
Accrued pension liability	-	27,540
Estimated insurance liabilities	140,044	146,164
Other liabilities	125,271	140,799
Total liabilities	2,185,384	2,545,067
Net assets without donor restrictions		
Controlling interest	3,632,184	4,297,868
Noncontrolling interest in consolidated affiliates	32,329	32,454
Total net assets without donor restrictions	3,664,513	4,330,322
Net assets with donor restrictions	42,198	52,029
Total net assets	3,706,711	4,382,351
Total liabilities and net assets	$ 5,892,095	$ 6,927,418

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

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2022 and 2021
(In thousands)

	2022	2021
Changes in net assets without donor restrictions		
Revenues, gains, and other support		
Patient service revenue	$ 3,156,580	$ 3,242,407
Capitation revenue	51,731	46,790
Other operating revenue	181,875	258,324
Equity in income (losses) of investments in unconsolidated affiliates	1,452	(680)
Net unrealized investment (losses) gains	(33,657)	8,935
Net assets released from restrictions used for operations	126	176
Total revenues, gains, and other support	3,358,107	3,555,952
Operating expenses		
Salaries	1,391,308	1,356,898
Employee benefits	347,328	359,216
Purchased labor	148,179	60,810
Physicians' fees	97,919	92,405
Medical supplies	275,269	268,157
Drugs and pharmaceuticals	228,678	230,534
Purchased services	332,636	316,907
Hospital assessment fees	125,625	124,552
Insurance	41,584	57,278
Interest	33,670	27,172
Depreciation and amortization	171,174	177,339
Other supplies and expenses	317,496	323,585
Total operating expenses before accelerated depreciation and asset impairment	3,510,866	3,394,853
Operating (loss) income before accelerated depreciation and asset impairment	(152,759)	161,099
Loss on impairment of long-lived assets	93,706	25,841
Accelerated depreciation	6,670	35,994
Operating (loss) income	(253,135)	99,264
Nonoperating (expense) income		
Investment income	64,239	225,968
Net unrealized investment (losses) gains	(533,864)	115,012
Net unrealized gains and periodic settlements on interest rate swap contracts	32,719	8,920
Net assets released from restrictions	5,747	4,274
Contributions and proceeds from tax incremental financing	452	10,386
Other, net	9,989	11,331
Total nonoperating (expense) income, net	(420,718)	375,891
Consolidated (deficiency) excess of revenues over expenses	(673,853)	475,155
Less amounts attributable to noncontrolling interest in consolidated affiliates	(23,279)	(24,307)
(Deficiency) excess of revenues over expenses attributable to Franciscan	$ (697,132)	$ 450,848

(continued on next page)

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

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets (continued)
Years Ended December 31, 2022 and 2021
(In thousands)

	Year Ended December 31, 2022			Year Ended December 31, 2021		
	Total	**Controlling**	**Noncontrolling**	**Total**	**Controlling**	**Noncontrolling**
Changes in net assets without donor restrictions						
(Deficiency) excess of revenues over expenses	$ (673,853)	$ (697,132)	$ 23,279	$ 475,155	$ 450,848	$ 24,307
Change in pension benefits other than net periodic pension costs included in other assets and accrued pension liability for 2022 and 2021, respectively	31,680	31,680	-	119,260	119,260	-
Contributions received of property, plant, and equipment	117	117	-	139	139	-
Distributions to noncontrolling interests in consolidated affiliates	(25,958)	-	(25,958)	(27,888)	-	(27,888)
Purchase of noncontrolling interest in consolidated affiliates	-	-	-	(3,260)	15,200	(18,460)
Net assets released from restrictions used for purchase of property, plant, and equipment	710	710	-	1,072	1,072	-
Other, net	1,495	(1,059)	2,554	(1,975)	(1,975)	-
(Decrease) increase in net assets without donor restrictions	(665,809)	(665,684)	(125)	562,503	584,544	(22,041)
Changes in net assets with donor restrictions						
Contributions	6,827	6,827	-	7,578	7,578	-
Investment (loss) income	(648)	(648)	-	389	389	-
Net assets released from restrictions	(5,873)	(5,873)	-	(4,450)	(4,450)	-
Net assets released from restrictions used for purchase of property, plant, and equipment	(710)	(710)	-	(1,072)	(1,072)	-
Net unrealized investment (losses) gains	(7,306)	(7,306)	-	3,464	3,464	-
Other, net	(2,121)	(2,121)	-	1,235	1,235	-
(Decrease) increase in net assets with donor restrictions	(9,831)	(9,831)	-	7,144	7,144	-
(Decrease) increase in net assets	(675,640)	(675,515)	(125)	569,647	591,688	(22,041)
Net assets at beginning of year	**4,382,351**	**4,349,897**	**32,454**	**3,812,704**	**3,758,209**	**54,495**
Net assets at end of year	**$ 3,706,711**	**$ 3,674,382**	**$ 32,329**	**$ 4,382,351**	**$ 4,349,897**	**$ 32,454**

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

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021
(In thousands)

	2022	2021
Cash flows from operating activities		
(Decrease) increase in net assets	$ (675,640)	$ 569,647
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	177,844	213,333
Loss on asset impairment of long-lived assets	93,706	25,841
Loss on sale/disposal of assets	3,995	531
Net investment losses (gains)	503,282	(349,915)
Net unrealized gains on interest rate swap contracts	(39,764)	(18,714)
Distributions to noncontrolling interest in consolidated affiliates, net of contributions	25,958	27,888
Purchase of noncontrolling interest in consolidated affiliates	-	3,260
Distributions from unconsolidated affiliates	3,005	1,410
Equity in (income) losses of investments in unconsolidated affiliates	(1,452)	680
Other changes in investments of unconsolidated affiliates	(708)	2,794
Contributions and proceeds from tax incremental financing	(452)	(10,386)
Change in pension benefits other than net periodic pension costs included in other assets and accrued pension liability for 2022 and 2021, respectively	31,680	119,260
Changes in operating assets and liabilities		
Patient accounts receivable	46,934	(25,332)
Inventories of supplies and other assets	23,106	(67,963)
Accounts payable and other current liabilities	(224,278)	112,527
Estimated insurance liabilities and other liabilities	(50,805)	(182,545)
Accrued pension liability and other assets	(103,109)	(288,772)
Total adjustments	488,942	(436,103)
Net cash (used in) provided by operating activities	(186,698)	133,544
Cash flows from investing activities		
Purchases of investments	(6,507,523)	(7,786,416)
Proceeds from sale of investments	6,898,298	7,827,398
Purchases of property, plant, and equipment	(252,799)	(234,828)
Proceeds from sale of property, plant, and equipment	712	834
Capital contributions to investment in unconsolidated affiliates	(12,134)	(2,704)
Net cash provided by (used in) investing activities	126,554	(195,716)
Cash flows from financing activities		
Principal payments on long-term debt	(35,922)	(27,836)
Proceeds from long-term debt issuance	5,237	43,235
Distributions to noncontrolling interest in consolidated affiliates, net of contributions	(25,958)	(27,888)
Purchase of noncontrolling interest in consolidated affiliates	-	(3,260)
Contributions and proceeds from tax incremental financing	452	10,386
Proceeds from donors	509	8,921
Other	(4,256)	(4,414)
Net cash used in financing activities	(59,938)	(856)
Net decrease in cash and cash equivalents and restricted cash and cash equivalents	(120,082)	(63,028)
Cash and cash equivalents and restricted cash and cash equivalents, beginning of year	375,884	438,912
Cash and cash equivalents and restricted cash and cash equivalents, end of year	$ 255,802	$ 375,884

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

1. Description of Organization, Mission, and Values

Organization

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

Mission and Values

Franciscan’s Mission statement is as follows:

Continuing Christ’s Ministry in Our Franciscan Tradition

Franciscan’s Values are as follows:

Respect for Life

Fidelity to Our Mission

Compassionate Concern

Joyful Service

Christian Stewardship

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

	(Unaudited)	
	2022	2021
	(in thousands)	
Benefits for the poor and underserved		
Unreimbursed costs of Medicaid and other indigent care programs	$ 185,616	$ 163,740
Cost of charity care provided	80,386	90,427
Programs for those who are poor and underserved		
Community health improvement services	572	543
Subsidized health services	176	377
Financial and in-kind contributions	2,148	1,641
Total benefits for the poor and underserved	268,898	256,728
Benefits for the broader community		
Subsidized health services	56,101	52,376
Health professions education	10,535	14,154
Community health improvement services	4,555	6,789
Financial and in-kind contributions	19,992	247
Research	2,072	1,875
Community building activities	9	53
Community benefit operations	180	43
Total benefits for the broader community	93,444	75,537
Total quantifiable community benefits	362,342	332,265
Unreimbursed costs of Medicare	496,857	460,099
Total quantifiable community benefits including unreimbursed costs of Medicare	$ 859,199	$ 792,364

Total quantifiable community benefits including unreimbursed costs of Medicare were approximately 24% and 23% of total operating expenses for the years ended December 31, 2022, and 2021, respectively.

Franciscan also provides a significant amount of uncompensated care to patients which is not reported in the summary of quantifiable community benefits. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Update ("ASU") 2014-9, *Revenue from Contracts with Customers (Topic 606)*, Franciscan recognizes revenue in an amount that reflects the consideration the entity expects to be entitled to in an exchange for goods or services. Adoption of this ASU does not allow the separate reporting of the uncollectible amounts due from patients; however, the identification of this amount is needed for other purposes including governmental reporting and reimbursement calculations. Franciscan has a system-wide charity care and uninsured discount policy that includes administrative procedures for qualifying and enrolling patients for charity care or uninsured/underinsured discounts. Franciscan also uses various analytical programs to assess a patient's ability to pay and it utilizes numerous mechanisms to inform and educate patients about financial assistance. Despite these rigorous efforts, patients who need subsidized care may not seek this assistance nor choose to enroll in Medicaid or other financial assistance programs. For these and other reasons, Franciscan believes a portion of its uncollectible amounts due from patients represents charity care delivered to individuals in the communities it serves consistent with its charitable health care mission. During the years ended December 31, 2022 and 2021, Franciscan incurred approximately $7.8 million and $34.5 million, respectively, as uncollectible amounts due from patients based on accumulated charges.

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

Benefits for the broader community represent the cost of programs and services provided for the general benefit of the communities in which Franciscan operates. Many of the programs are targeted toward populations that may be poor and need special services and support. These programs and services are not financially self-supporting.

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

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

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

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

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

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

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

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

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

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

Franciscan's affiliated foundation funded $6.8 million and $5.4 million for charity care or other operating expenses on behalf of the Health Centers during the years ending December 31, 2022 and 2021, respectively. The community benefits reported above are net of the contributions from the foundation for such benefits.

2. Summary of Significant Accounting Policies and Significant Events

Principles of Consolidation

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Recent Accounting Pronouncements Adopted

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 requires presentation of contributed nonfinancial assets as a separate line in the consolidated statement of operations and change in net assets, apart from contributions of cash or other financial assets. This guidance is effective beginning January 1, 2022, and Franciscan has applied this guidance starting in 2022.

In November 2021, the FASB issued ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*. The amendments in this guidance affect lessees that are not public business entities, including all not-for-profit entities regardless of whether they are conduit bond obligators and employee benefit plans. Current guidance includes a practical expedient that allows the entity to use a risk-free rate as the discount rate for all leases. The amendments in this ASU allow the lessees to make the risk-free rate election by class of underlying assets, rather than an entity-wide level. The amendments in this ASU are effective January 1, 2022. Franciscan has elected not to use the risk-free rate by class of underlying assets.

New Accounting Pronouncements Not Yet Applicable

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. This guidance is intended to align the needs of the users of financial statements related to credit loss recognition and also addressed the potential weakness from delayed recognition of credit losses, resulting in an overstatement of assets. The amendments replace the current incurred loss methodology, which delays recognition until it is probable a loss has occurred, with one that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform loss estimates. This guidance is effective for Franciscan beginning January 1, 2023. Franciscan is currently assessing the impact this guidance will have on its consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805) – Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. This guidance was issued to address the inconsistency in accounting related to recognition of an acquired contract liability and the payment terms and their effect on subsequent revenue by the acquirer. The amendments in this update require that the acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, as it had originated the contracts, generally consistent with how they were recognized and measured in the acquiree's financial statements. This guidance is effective for Franciscan beginning January 1, 2024. Franciscan will apply this guidance in consideration of any future business combinations that may occur on or after January 1, 2024.

Cash and Cash Equivalents

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

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

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

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

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

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

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

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

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

Fair Value Measurement
Franciscan's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets measured at fair value on a recurring basis in Franciscan's consolidated statements of financial position include: cash and cash equivalents; U.S. government, state, municipal, and agency obligations; other fixed income securities; asset backed securities; emerging market debt; private credit; equity securities; private equity; unregistered mutual funds; index funds, exchange traded funds, and mutual funds; real assets; real estate investment trusts; hedge funds; volatility risk premium strategies; and benefit plan assets.

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

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

Level 1 Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Valuation is based upon quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial asset or liability.

Level 3 Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

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

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

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

Property, Plant, and Equipment
Property, plant, and equipment (including internal-use software) are recorded at cost if purchased or at fair value on the date received through affiliation or donation, less accumulated depreciation. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged to expense when incurred. Cost incurred in the development and installation of internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post implementation stage. Upon sale or retirement of property, plant, and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the consolidated statements of operations and changes in net assets. Interest costs incurred during the period of construction or development of capital assets are capitalized as a component of the cost of acquiring those assets. Depreciation is provided over the estimated useful lives of the assets utilizing the straight-line method. Building and building equipment has a useful life range of between 3 to 60 years. Departmental equipment has a useful life range of between 3 to 25 years. Useful lives may be reassessed from time to time as facts and circumstances change in regard to how assets are being used, and periodically due to the changes in operations, the need to accelerate depreciation will arise. Assets under finance lease obligations are amortized utilizing the straight-line method over the shorter of the lease term or estimated useful life of the asset. Amounts capitalized for internal-use software are amortized over the useful life of the developed asset following project completion.

A conditional asset retirement obligation is recorded for any legal obligation associated with the retirement of long-lived assets resulting from the acquisition, construction, development, and/or normal use of the underlying assets. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the asset's estimated useful life. The liability is accreted through charges to operating expense. If the conditional asset retirement obligation is settled for other than the carrying amount of the liability, a gain or loss on sale/disposal of assets is recognized. As of December 31, 2022 and 2021, conditional asset retirement obligations of approximately $23.2 million and $21.7 million, respectively, are included within other liabilities in the consolidated statements of financial position.

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

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

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

Intangible assets were comprised primarily of covenants not to compete, which were amortized on a straight-line basis over periods ranging from 2 to 5 years, and were included within other assets in the consolidated statements of financial position. At December 31, 2022, all the intangible assets were fully amortized.

Asset Impairment
Property, Plant, and Equipment – Franciscan evaluates long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows. If the estimated future undiscounted cash flows are less than the carrying value of the asset, the impairment recognized is calculated as the carrying value of the long-lived assets in excess of the fair value of the assets. The fair value of the assets is estimated based on appraisals, established market values of comparable assets, or internal estimates of future net cash flows expected to result from the use and ultimate disposition of the assets. During the years ended December 31, 2022 and 2021, Franciscan recognized an impairment of long-lived assets of $93.7 million and $25.8 million, respectively, at one of its Health Centers due to declines in operating performance.

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

Deferred Financing Costs
Deferred financing costs incurred with the Hospital and Health System Revenue and Refunding Bonds are amortized using the bonds outstanding method. Costs associated with securing the direct pay letters of credit to support its variable rate demand bonds are amortized over the term of the associated liquidity facility. Costs associated with the issuance of direct placement bonds are amortized over the associated direct placement period. Unamortized deferred financing costs are included in long-term debt, net of current portion in the consolidated statements of financial position.

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

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

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

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

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of operations and changes in net assets. Donor restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the consolidated financial statements. During 2022 and 2021, net assets of $6.6 million and $5.5 million, respectively, were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes or by the passage of time.

Performance Indicator
The consolidated statements of operations and changes in net assets incudes a performance indicator, (deficiency) excess of revenues over expenses, which includes operating (loss) income and nonoperating (expense) income. The performance indicator excludes the change in pension benefits other than net periodic pension costs which is included in other assets and accrued pension liability for 2022 and 2021, respectively; contributions and distributions to noncontrolling interest in consolidated affiliates; the purchase of a noncontrolling interest in consolidated affiliates; and contributions of property, plant, and equipment (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

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

Charity Care
As an integral part of its mission, Franciscan provides care to patients who meet certain criteria under its charity care and uninsured patient discount policy without charge or at amounts less than its established rates. The cost of charity care, as estimated below, is determined based on each Health Center's total cost as a percentage of total charges and that ratio is applied to the charges incurred by patients qualifying for charity care under Franciscan's policy. The charges associated with the provision of such care are not included in patient service revenue in the consolidated

statements of operations and changes in net assets. The estimated cost of charity care provided approximated $80.4 million and $90.4 million for the years ended December 31, 2022 and 2021, respectively. Franciscan maintains records to identify and monitor the level of charity it provides.

Capitation Revenue

Program of All-Inclusive Care for the Elderly ("PACE") – Franciscan offers PACE services in several of its geographic regions in which it provides comprehensive medical and social services in a community-based center or in the home to certain elderly individuals to help delay or avoid long-term nursing home care. Most PACE enrollees are dual eligible for Medicare and Medicaid benefits. Franciscan receives monthly capitated payments for enrollees from both Medicare and Medicaid that is used to cover the full range of covered services, along with separate Medicare Part D reimbursement for enrollees.

Health Management Services – Franciscan has a capitated contract arrangement for the delivery of health care services to enrollees in Northwest Indiana and South Suburban Chicago. Healthcare services are provided by Franciscan providers or through affiliated and nonaffiliated providers. Franciscan receives monthly capitated payments which is recognized as revenue during the period in which Franciscan is obligated to provide services, with medical claims and administrative costs recognized as other supplies and expenses in the consolidated statement of operations and changes in net assets.

Reserves for incurred but not reported claims related to the capitation programs described above have been established and are classified within accounts payable and accrued expenses in the consolidated statements of financial position to cover the unpaid costs of health care services. The liability is estimated based on actuarial studies, historical reporting, and payment trends. Actual claims experience differs from estimated liabilities due to variances in estimated and actual utilization of health care services, charge amounts, and other factors. As settlements are made and estimates revised, any differences are reflected in current operations.

Income Taxes

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

Derivative Financial Instruments

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

Consolidated Statements of Cash Flows

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

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

	2022	2021
	(in thousands)	
Cash and cash equivalents	$ 94,156	$ 274,353
Board designated investments	119,347	60,707
Restricted cash and cash equivalents included in assets whose use is limited	42,299	40,824
Total cash and cash equivalents and restricted cash and cash equivalents shown in the consolidated statements of cash flows	$ 255,802	$ 375,884

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

	2022	2021
	(in thousands)	
Collateral assets related to interest rate swap agreements	$ 2,570	$ 19,615
Other restricted investments	39,729	21,209
	$ 42,299	$ 40,824

Cash paid for interest, net of amounts capitalized, amounted to $46.8 million and $33.1 million for the years ended December 31, 2022 and 2021, respectively.

Net cash paid for income taxes was $4.9 million and $5.3 million for the years ended December 31, 2022 and 2021, respectively.

Included in accounts payable and accrued expenses and other liabilities at December 31, 2022 and 2021 are approximately $7.3 million and $16.5 million, respectively, of costs related to construction in progress and for the acquisition of property, plant, and equipment.

The cash and non-cash activities related to leases for the years ended December 31, 2022 and 2021, are as follows:

	2022	2021
	(in thousands)	
Cash paid - operating lease liabilities	$ 31,225	$ 48,300
Cash paid - finance lease liabilities	6,696	6,900
Net decrease in right of use leased assets, operating	(5,760)	(6,100)
Net decrease in operating lease liabilities	(3,010)	(18,500)
Increase in property, plant, and equipment, net and long-term debt - finance lease liabilities	658	2,000

During the year ended December 31, 2022, Franciscan donated property, plant, and equipment to an unaffiliated not-for-profit entity. At the time of the donation, the property, plant, and equipment had a net book value of $4.4 million and a fair market value of $15.0 million. The donation of property, plant, and equipment resulted in a gain on disposal of assts of $10.6 million which is recorded in other supplies and expenses in the consolidated statements of operations and changes in net assets.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization designated COVID-19 a global pandemic which resulted in a national public emergency that has and may continue to impact the global economy, the healthcare industry, and the communities and patients Franciscan serves. From 2020 through 2022, federal, state, and local governments passed legislation, promulgated regulations, and taken other administrative actions intended to combat the outbreak of COVID-19, such as stay-at-home orders, business closures, and the suspension and cancellation of elective or nonemergent medical procedures. In addition to experiencing volume disruptions as a result of COVID-19, certain operating expenses increased from 2020 through 2022 such as salaries, purchased labor, medical supplies, and drugs and pharmaceuticals which were utilized at higher rates and at elevated prices.

In response to COVID-19, the federal government passed the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) on March 27, 2020, which authorized funding to hospitals and other health care providers through the Public Health and Social Services Emergency Fund, and, on September 10, 2021, made additional funding available to eligible providers under the American Rescue Plan (collectively “Provider Relief Funds”). The purpose of the Provider Relief Funds is to reimburse providers for health care-related expenses and/or lost revenues attributable to COVID-19. Recipients are not required to repay these funds, provided they attest to and comply with certain terms and conditions. For the years ended December 31, 2022 and 2021, Franciscan recognized $4.3 million and $62.4 million, respectively, of Provider Relief Funds as other operating revenue in the consolidated statements of operations and changes in net assets. The CARES Act also reimburses health care providers who submit claim requests for COVID-19 related treatment of uninsured patients at Medicare rates, for which Franciscan received approximately $4.7 million and $4.4 million for the years ending December 31, 2022 and 2021, respectively.

In April 2020, Franciscan received approximately $304.7 million in Medicare Accelerated and Advance payments as provided for in the CARES Act which allowed eligible health care facilities to request up to a six month advance of Medicare payments to ensure providers had the resources needed to combat COVID-19. The funds provided for under this program represented advances on payments for future goods or services provided to Medicare patients with repayment based upon the terms and conditions of the program. As of December 31, 2022, the Medicare Accelerated and Advance payments were repaid in full. As of December 31, 2021, the Centers for Medicare and Medicaid Services (“CMS”) had recouped $105.6 million of the advance payment to Franciscan with the remaining $199.2 million recorded as a liability within estimated third-party payor settlements on the consolidated statements of financial position.

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

As of December 31, 2022 and 2021, Franciscan has claim submissions pending eligibility determination with the Federal Emergency Management Agency ("FEMA") to seek reimbursement for eligible pandemic expenditures incurred from 2020 through July 1, 2022. For the years ended December 31, 2022 and 2021, Franciscan recognized $4.7 million and $0.4 million, respectively, of FEMA reimbursement as other operating revenue in the consolidated statements of operations and changes in net assets.

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

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

Revision of Prior Year Financial Statements
Franciscan has revised its prior period consolidated financial statements to correct an error in the accounting for the credit tenant lease with Meridian Ortho Development, LLC, and any subleases Franciscan has with its tenants, to account as build-to-suit arrangements in which Franciscan was deemed the owner of the assets during the construction period instead of as finance leases. Franciscan evaluated the sublease transactions and determined the subleases should be assessed as built-to-suit arrangements in which the sublessees are deemed the owner of the subleased assets during the construction period (2019 to early 2022). Management has evaluated the errors and concluded they were not material to the previously issued financial statements. See Note 7 for additional information.

A summary of revisions to the consolidated statements of financial position, the consolidated statements of operations and changes in net assets, and the consolidated statement of cash flows for the year ended December 31, 2021, is presented below:

Revised Consolidated Statement of Financial Position

	As of December 31, 2021		
	As Reported	Impact of Revision	As Revised
		(in thousands)	
Total current assets	1,037,553	4,339	1,041,892
Property, plant, and equipment, net	1,969,847	49,151	2,018,998
Other assets	188,478	44,277	232,755
Total assets	6,829,651	97,767	6,927,418
Total current liabilities	830,022	9,502	839,524
Long-term debt, net of current portion	1,130,193	94,428	1,224,621
Total liabilities	2,441,137	103,930	2,545,067
Total net assets	4,388,514	(6,163)	4,382,351
Total liabilities and net assets	6,829,651	97,767	6,927,418

Revised Consolidated Statement of Operations and Changes in Net Assets

	Year Ended December 31, 2021		
	As Reported	Impact of Revision	As Revised
		(in thousands)	
Total revenues, gains, and other support	3,572,915	(16,963)	3,555,952
Total operating expenses before accelerated depreciation and asset impairment	3,408,664	(13,811)	3,394,853
Operating income	102,416	(3,152)	99,264
Consolidated excess of revenues over expenses	478,307	(3,152)	475,155
Excess of revenues over expenses attributable to Franciscan	454,000	(3,152)	450,848

	Year Ended December 31, 2021				
	As Reported		Impact of	As Revised	
	Total	Controlling	Revision	Total	Controlling
			(in thousands)		
Excess of revenues over expenses	$ 478,307	$ 454,000	$ (3,152)	$ 475,155	$ 450,848
Increase in net assets without donor restrictions	565,655	587,696	(3,152)	562,503	584,544
Increase in net assets	572,799	594,840	(3,152)	569,647	591,688
Net assets at beginning of year	3,815,715	3,761,220	(3,011)	3,812,704	3,758,209
Net assets at end of year	4,388,514	4,356,060	(6,163)	4,382,351	4,349,897

Revised Consolidated Statement of Cash Flows

	Year Ended December 31, 2021		
	As Reported	Impact of Revision	As Revised
		(in thousands)	
(Decrease) increase in net assets	$ 572,799	$ (3,152)	$ 569,647
Net cash provided by operating activities	152,760	(19,216)	133,544
Net cash used in investing activities	(171,697)	(24,019)	(195,716)
Net cash used in financing activities	(44,091)	43,235	(856)
Net decrease in cash and cash equivalents	(63,028)	-	(63,028)

3. Patient Service Revenue

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

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

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

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

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

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

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

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

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

Certain of Franciscan's Health Centers qualify or previously qualified as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals ("DSH") under Indiana law (IC 12-15-16 (1-3)), with DSH payments linked to the State's fiscal year, which differs from Franciscan's fiscal year. The amount of these additional DSH funds is dependent on regulatory approval by federal and state agencies and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. Franciscan records such amounts as a component of revenue when payments are received or based upon data from the State of Indiana that payments are determinable and probable of receipt. For the years ended December 31, 2022 and 2021, Franciscan recognized revenue of approximately $24.8 million and $36.2 million, respectively, related to the DSH program in the consolidated statements of operations and changes in net assets.

Franciscan's Indiana Health Centers participate in the State of Indiana's Hospital Assessment Fee ("HAF") program. The HAF program is a supplemental reimbursement program designed to help providers offset a portion of the cost of providing care to Medicaid and indigent patients. The HAF program is funded by a combination of federal and state resources and fees levied on hospital providers. The fee is used in part to increase reimbursement to eligible hospitals for services provided in both Medicaid fee-for-service and Medicaid managed care programs, and to fund the State share of disproportionate share hospital payments. For the years ended December 31, 2022 and 2021, Franciscan's Indiana Health Centers recognized supplemental HAF reimbursement of $111.7 million and $113.4 million, respectively, which is recorded as a component of patient service revenue in Franciscan's consolidated statements of operations and changes in net assets. For the years ended December 31, 2022 and 2021, Franciscan's Indiana Health Centers recognized HAF fees of $113.4 million and $111.7 million, respectively, in the consolidated statement of operations and changes in net assets.

The State of Illinois Hospital Assessment Program and the Enhanced Illinois Hospital Assessment Program (collectively referred to as "HAP"), which is designed to help providers offset a portion of the cost of providing care to Medicaid patients, have been approved by the federal government through December 31, 2026. For the years ended December 31, 2022 and 2021, Franciscan's Illinois Health Center recognized HAP and related reimbursement of $24.3 million and $23.9 million, respectively, which is recorded as a component of patient service revenue in Franciscan's consolidated statements of operations and changes in net assets. For the years ended December 31, 2022 and 2021, Franciscan's Illinois Health Center recognized HAP related fees of $12.3 million and $12.9 million, respectively, in the consolidated statement of operations and changes in net assets. Effective July 1, 2022, HAP reimbursement is made on a Medicaid claims basis with a quarterly payment adjustment.

Other – Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates, and fee schedules. Like Medicare, commercial insurance companies have various fee-for-value reimbursement programs with qualifying providers. In 2022 and 2021, Franciscan participated in various commercial value-based reimbursement programs in which it receives a clinical coordination fee per member and additional compensation when it provides enhanced value to assigned members through improved outcomes and reductions in the cost of care.

The composition of patient service revenue by payor for the years ended December 31, 2022 and 2021, is as follows:

	2022	2021
	(in thousands)	
Medicare	$ 644,842	$ 702,733
Medicare managed care	459,674	389,314
Medicaid	95,981	132,107
Medicaid managed care	358,514	325,834
Other third-party payors	1,509,902	1,595,283
Self-pay	27,182	48,927
Other	60,485	48,209
	$ 3,156,580	$ 3,242,407

As to patient service revenue, Franciscan's practice is to assign a patient to the primary payor and not reflect other uninsured balances (for example, copays and deductibles) as self-pay. Therefore, the payors listed contain patient responsibility components, such as co-pays and deductibles. Franciscan grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2022 and 2021, is as follows:

	2022	2021
	(in thousands)	
Medicare	$ 56,068	$ 54,388
Medicare managed care	37,881	40,840
Medicaid	24,457	26,122
Medicaid managed care	16,676	18,410
Other third-party payors	233,096	263,214
Self-pay	7,610	16,464
Other	6,124	9,408
	$ 381,912	$ 428,846

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory action including fines, penalties, and/or exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates may change in the near term. Patient service revenue increased by approximately $6.2 million and $4.6 million for the years ended December 31, 2022 and 2021, respectively, due to changes in estimates related to prior-year settlements with third party payors.

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

The composition of short-term, board designated, and other investments, at December 31, 2022 and 2021, is as follows:

	2022	2021
	(in thousands)	
Short-term investments	$ 191,852	$ 115,593
Board designated investments		
Funded depreciation and other Board projects	2,312,775	3,184,576
Other designated investments	2,329	2,600
	2,315,104	3,187,176
Assets limited as to use		
Estimated insurance liability funds	185,367	204,673
Collateral assets related to interest rate swap agreements	2,570	19,615
Other restricted investments	52,781	55,068
	240,718	279,356
Short-term, board designated, and other investments	2,747,674	3,582,125
Less short-term investments	191,852	115,593
Board designated and other investments, classified as noncurrent	$ 2,555,822	$ 3,466,532

Short-term, board designated, and other investments at December 31, 2022 and 2021, consist of the following:

		2022		2021
		(in thousands)		
Cash and cash equivalents	$	161,646	$	101,531
U.S. government, state, municipal, and agency obligations		149,403		307,478
Other fixed income securities		269,775		335,983
Asset backed securities		254,739		306,342
Emerging market debt		65,868		75,000
Private credit		91,041		37,674
Equity securities		603,442		977,905
Private equity		182,547		167,924
Unregistered mutual funds		467,507		667,629
Index funds, exchange traded funds, and mutual funds		59,565		38,127
Real assets		105,112		79,595
Real estate investment trusts		4,371		7,331
Hedge funds		182,590		318,719
Volatility risk premium strategies		150,068		160,887
	$	2,747,674	$	3,582,125

The following tables present the fair value hierarchy of the valuation techniques utilized to determine the fair value of Franciscan's short-term, board designated, and other investments as of December 31, 2022 and 2021:

Asset category		**Level 1**		**Level 2**		**Level 3**		**as of December 31, 2022**
				(in thousands)				
Cash and cash equivalents	$	161,646	$	-	$	-	$	161,646
U.S. government, state, municipal, and agency obligations		139,671		9,732		-		149,403
Other fixed income securities		-		269,775		-		269,775
Asset backed securities		-		254,739		-		254,739
Equity securities		603,378		-		64		603,442
Index funds, exchange funds, and mutual funds		59,565		-		-		59,565
Real estate investment trusts		4,371		-		-		4,371
	$	968,631	$	534,246	$	64	$	1,502,941
Investments measured at net asset value								1,244,733
Total investments at fair value as of December 31, 2022							$	2,747,674

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

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

The following table summarizes Franciscan's investments calculated on a NAV per share basis (or its equivalent), the unfunded commitments, and the associated redemption provisions at December 31, 2022:

	Fair Value (in thousands)	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Emerging market debt	$ 65,868	$ -	Monthly	10 days
Private credit	91,041	91,580	Not currently redeemable	-
Private equity	182,547	141,626	Not currently redeemable	-
Unregistered mutual funds	467,507	-	Monthly	1 day
Real assets	105,112	8,726	Quarterly, not currently redeemable	45 days
Hedge funds	182,590	-	Monthly, quarterly, annually	5 - 180 days
Volatility risk premium strategies	150,068	-	Month end redemptions	5-7 days
	$ 1,244,733	$ 241,932		

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

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

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

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

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

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

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

Investment returns including net unrealized (losses) gains included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2022 and 2021, are as follows:

	2022	2021
	(in thousands)	
Revenues, gains, and other support		
Investment income in other operating revenue	$ 5,641	$ 9,744
Net unrealized investment (losses) gains	(33,657)	8,935
	(28,016)	18,679
Nonoperating (expense) income		
Investment income	64,239	225,968
Net unrealized investment (losses) gains	(533,864)	115,012
	(469,625)	340,980
Net assets with donor restrictions, controlling interest		
Investment (loss) income	(648)	389
Net unrealized investment (losses) gains	(7,306)	3,464
	(7,954)	3,853
	$ (505,595)	$ 363,512

5. Property, Plant, and Equipment

A summary of property, plant, and equipment at December 31, 2022 and 2021, is as follows:

	2022	2021
	(in thousands)	
Land and land improvements	$ 175,355	$ 176,245
Buildings and building equipment	1,729,889	1,713,896
Departmental equipment	1,777,243	1,798,143
Construction in progress	261,097	225,992
	3,943,584	3,914,276
Less accumulated depreciation	(1,954,692)	(1,895,278)
	$ 1,988,892	$ 2,018,998

For the years ended December 31, 2022 and 2021, the depreciation expense was $171.2 million and $177.3 million, respectively.

In 2020, Franciscan's board authorized the development of a replacement hospital for its Franciscan Health Crown Point facility and a demolition plan for certain portions of the current hospital campus. In 2021, Franciscan's board authorized a clinical service redistribution plan to transition its Franciscan Health Hammond facility to an 8-bed inpatient short stay hospital with an emergency room, various ambulatory services, and physician offices and authorized a demolition plan for certain portions of the Health Center that would not be used. In 2022, given the reduction in inpatient volume and the low acuity of patients presenting to the emergency room, Franciscan's board approved the closure of Franciscan Health Hammond 8-bed inpatient short stay hospital and emergency room. Both of these activities required a change in the estimated useful life of the associated assets resulting in the acceleration of depreciation for the years ended December 31, 2022 and 2021 of $6.7 million and $36.0 million, respectively.

At December 31, 2022, the remaining contractual commitments on construction in progress is approximately $107.0 million and will be financed by a combination of cash flow from operations and existing funds.

6. Leases

Franciscan has lease commitments for real estate as well as medical and office equipment. The lease term begins at the lease commencement date which is determined based on the noncancelable term of the lease. Franciscan's remaining operating lease terms range from 1 to 16 years, with the obligations ending December 31, 2038. Franciscan's remaining finance lease terms range from 1 to 5 years, with the obligations ending November 30, 2027. The finance lease agreements have standard lease payments that may include purchase options at the end of the agreements.

The following table summarizes Franciscan's leased assets and lease liabilities within the consolidated statements of financial position at December 31, 2022 and 2021:

	2022	2021
	(in thousands)	
Total leased assets		
Operating lease assets classified as right of use leased assets	$ 123,921	$ 129,683
Finance lease assets classified as property, plant, and equipment, net	19,253	25,215
	$ 143,174	$ 154,898
Total lease liabilities		
Operating lease liabilities	$ 129,291	$ 132,302
Finance lease liabilities	22,147	28,176
	$ 151,438	$ 160,478

The components of lease expense are recorded as other expenses in the consolidated statements of operations and changes in net assets, excluding interest on finance lease liabilities which is recorded to interest expense. The components of lease expense and sublease revenue included in the consolidated statements of operations and changes in net assets for the years ending December 31, 2022 and 2021 are as follows:

	2022	2021
	(in thousands)	
Operating sublease revenue	$ 4,302	$ 4,706
Operating lease expense	$ 30,207	$ 32,421
Short-term lease expense	2,547	2,657
Variable lease expense	16,582	13,265
Finance lease expense		
Depreciation of leased assets	4,720	5,107
Interest on lease liabilities	578	760
Total lease expense	$ 54,634	$ 54,210

At December 31, 2022, the minimum future lease payments under these leases are as follows:

	(in thousands)		
Years ended December 31,	**Operating**	**Finance**	**Total**
2023	30,515	5,622	$ 36,137
2024	26,851	4,773	31,624
2025	24,009	4,495	28,504
2026	19,385	3,536	22,921
2027	13,191	1,908	15,099
Thereafter	24,534	2,900	27,434
Total lease payments	$ 138,485	$ 23,234	$ 161,719
Less: imputed interest	(9,194)	(1,087)	(10,281)
Present value of minimum lease payments	$ 129,291	$ 22,147	$ 151,438

Other information related to leases for the years ending December 31, 2022 and 2021, is as follows:

Weighted-average remaining lease term (in years):	**2022**	**2021**
Operating leases	6.92	7.45
Finance leases	6.20	6.57
Weighted-average discount rate:		
Operating leases	2.29%	2.15%
Finance leases	1.96%	2.41%

7. Long-Term Debt

Long-term debt at December 31, 2022 and 2021, consists of the following:

	Year of Final Maturity	Interest Rate Range over Life of Bonds		2022	2021
				(in thousands)	
Tax Exempt Hospital and Health System Revenue and Refunding Bonds					
Fixed rate term and serial bonds					
Series 2008C	2022	5.0%		$ -	$ 1,745
Series 2016A	2051	4.0%-5.0%		200,000	200,000
Series 2016B	2041	3.0%-5.0%		79,350	83,560
Series 2017B	2032	5.0%		141,595	148,135
Series 2017C	2039	3.0%-5.0%		180,405	185,940
Bond discounts and premiums, net				31,317	35,782
Fixed rate term and serial bonds				$ 632,667	$ 655,162
Series 2012A fixed rate direct placement bonds	2048			75,000	75,000
Total fixed rate term and serial bonds and direct placement bonds				$ 707,667	$ 730,162
		Interest Rate Range 2022	**Interest Rate Range 2021**		
Variable rate direct placement bonds					
Series 2014A	2048	0.56% - 3.78%	0.55% - 0.60%	50,000	50,000
Series 2016C	2041	0.66% - 3.54%	0.72% - 0.76%	69,255	69,255
Series 2016D	2041	0.59% - 3.47%	0.65% - 0.69%	69,145	69,145
Series 2016E	2048	0.66% - 3.54%	0.72% - 0.76%	63,895	63,895
Series 2017A	2048	0.62% - 3.76%	0.61% - 0.65%	45,250	45,250
Total variable rate direct placement bonds				$ 297,545	$ 297,545
Variable rate demand bonds, subject to seven-day or daily put provisions supported by direct pay bank letters of credit					
Series 2008F	2048	0.03% - 3.87%	0.03% - 0.11%	45,200	45,200
Series 2008I	2037	0.01% - 4.02%	0.01% - 0.09%	28,735	30,640
Series 2008J	2037	0.01% - 4.02%	0.01% - 0.09%	28,740	30,640
Total variable rate demand bonds				$ 102,675	$ 106,480
Other debt		**Interest Rate over Life of Loan**			
Orthopedic Center of Excellence loan	2047	9.56%		$ 92,275	$ 94,428
Finance lease obligations (excluding imputed interest of $1,087 and $1,694 at December 31, 2022 and 2021, respectively)				22,147	28,175
Deferred financing costs and other				(3,793)	(4,128)
Total long-term debt				1,218,516	1,252,662
Less current portion of long-term debt				(27,891)	(28,041)
Long-term debt, net of current portion				$ 1,190,625	$ 1,224,621

At December 31, 2022, scheduled principal payments on long-term debt are as follows:

Years ended December 31	Fixed and Variable Rate Bonds	Finance Lease & Other Obligations	Total
		(in thousands)	
2023	$ 22,885	$ 5,006	$ 27,891
2024	23,955	4,549	28,504
2025	25,145	4,285	29,430
2026	26,365	3,371	29,736
2027	27,605	1,819	29,424
Thereafter	950,615	95,392	1,046,007
	$ 1,076,570	$ 114,422	$ 1,190,992

Total interest costs incurred on the long-term debt less capitalized interest for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
	(in thousands)	
Interest costs incurred	$ 40,834	$ 36,004
Less capitalized interest	7,164	8,832
Interest expense included in operating income	$ 33,670	$ 27,172

Obligated Group and Designated Group Affiliates and Other Requirements – Franciscan has long-term debt outstanding under a Master Trust Indenture dated November 1, 1997, as amended and supplemented ("MTI"). The MTI permits Franciscan to issue obligations to finance certain activities. Franciscan and any future other members of the Obligated Group created under the MTI are jointly and severally liable with respect to the payment of each obligation issued under the MTI. In addition, the MTI provides that certain affiliates of Franciscan may be designated as Designated Group Affiliates from time to time and Franciscan covenants to cause each of its Designated Group Affiliates to pay, loan, or otherwise transfer to the Obligated Group such amounts necessary to pay the obligations issued under the MTI. The Designated Group Affiliates are not members of the Obligated Group and are not directly liable for payments on the obligations. Franciscan has granted a security interest in its unrestricted receivables for the benefit of the owners of the obligations. The MTI includes covenants which require Franciscan to maintain a minimum debt service coverage ratio of 1.10 and limit the Obligated Group's and Designated Affiliates' ability to encumber certain of their assets. As of December 31, 2022 and 2021, Franciscan was in compliance with the terms of the MTI and there were no other Obligated Group members nor any Designated Group Affiliates.

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

Variable Rate Direct Placement Bonds – Included in Franciscan's debt is approximately $297.5 million of variable rate direct placement bonds. Franciscan has executed various variable rate direct placement agreements whereby the credit provider purchased these bonds for a predetermined period after which the agreement must be extended or the bonds must be remarketed or refinanced. Subsequent to December 31, 2022, Franciscan refinanced the Series 2016D variable rate direct placement bonds with the Series 2023A variable rate direct placement bond. Termination dates for the variable rate direct placement agreements have expiration dates extending from June 2024 through November 2041.

Variable Rate Demand Bonds – Included in Franciscan's debt is approximately $102.7 million of variable rate demand bonds. Franciscan has entered into irrevocable letters of credit to secure bond repayment and interest obligations associated with its variable rate demand bonds. These liquidity facilities are available to Franciscan should the obligations be presented for purchase and not remarketed. There were no outstanding draws on the letters of credit as of December 31, 2022. Additionally, these facilities (if utilized) have repayment terms for bonds held by the letter of credit bank that amortize ratably over 5 years. The liquidity facility agreements have expiration dates of December 15, 2025.

Orthopedic Center of Excellence Loan – On March 18, 2020, Meridian Ortho Development, LLC ("Meridian"), a wholly owned affiliate of an independent orthopedic physician organization, entered into a non-recourse taxable loan from a private placement lender for the development of an Orthopedic Center of Excellence campus ("OCE") consisting of a specialty hospital, an ambulatory surgery center, and a medical office building in Carmel, Indiana. Simultaneously, Franciscan entered into a 25-year credit tenant lease on the property. In accordance with ASC 842, *Leases,* Franciscan accounts for its credit tenant lease agreement with Meridian, and any associated subleases Franciscan has with its tenants, as build to suit arrangements. Franciscan has agreements in place to sublease 64% of the medical office building to Thomas A. Brady Sports Medicine Center, P.C and sublease 100% of the ambulatory surgery center to Franciscan Orthopedic Surgery Center, LLC ("FOSC") that is 51% owned by Franciscan with both subleases co-terminus with the credit tenant lease.

Franciscan evaluated the build-to-suit guidance within ASC 842, *Leases,* and determined that, during the construction period, it was deemed the owner of the OCE and the sublessees were the owners of related subleased assets. As a result, Franciscan recognized, on an incremental basis a construction in progress asset and a loan for the OCE throughout the construction period (2019 to early 2022). Further, Franciscan reduced its construction in progress asset to account for the sublessees' ownership and recognized a corresponding receivable. Revenue and corresponding cost of goods sold were recognized on the subleases as control of the underlying assets were transferred to the sublessees. The credit tenant lease and associated subleases were deemed failed sale and leaseback arrangements given the conveyance of title for the OCE at the end of lease term; as such, were recognized as secured financing loans.

The components of the sublease arrangements Franciscan has with its tenants as included in the consolidated statements of financial position and the consolidated statements of operations and changes in net assets are as follows:

	2022	2021
	(in thousands)	
Interest receivable, included in other current assets	$ 7,547	$ 4,339
Loan receivable, included in other assets	46,678	44,277
Interest revenue, included in other operating revenue	4,564	3,479
Sales revenue, included in other operating revenue	2,401	20,275
Cost of goods sold, included in other supplies and expenses	3,502	23,754

8. Interest Rate Swap Contracts

Franciscan utilizes interest rate swaps to manage interest rate risk associated with its variable rate bonds. Cash payments on the interest rate swap contracts totaled $7.0 million and $9.8 million for the years ended December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, the interest rate swap contracts were in a liability position with a fair value of approximately $20.9 million and $60.7 million, respectively. The fair value of Franciscan's interest rate swap contracts are based on observable inputs, such as interest rates and credit risk spreads, that fall within Level 2 of the hierarchy of fair value inputs as described in Note 2. Certain of Franciscan's interest rate swap agreements include collateral funding requirements based on the market value of these contracts. At December 31, 2022 and 2021, Franciscan had posted $2.6 million and $19.6 million, respectively, to satisfy its collateral funding obligations on these contracts which are included in assets under bond indenture and interest rate swap agreements within board designated and other investments on the consolidated statements of financial position.

9. Retirement Benefits

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

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

In 2021, Franciscan amended the plan to offer an early retirement window for coworkers associated with the Franciscan Health Hammond facility as described in Note 5 which increased the plan's projected benefit obligation by $3.6 million. Also in 2021, one of Franciscan's frozen plan's experienced lump sum payments approximating $1.4 million which exceeded a settlement threshold resulting in a settlement charge of $0.2 million and decreased that plan's projected benefit obligation by $1.4 million.

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

The change in projected benefit obligation, change in plan assets, and funded status of Franciscan's pension plans as of December 31, 2022, and 2021, are as follows:

	2022	2021
	(in thousands)	
Change in benefit obligation		
Benefit obligation, beginning of year	$ 2,037,083	$ 2,053,775
Service cost	54,912	61,947
Interest cost	60,013	55,344
Plan amendments/settlements	-	2,177
Actuarial gain	(588,170)	(79,912)
Expenses paid	(1,974)	(2,288)
Benefits paid from plan assets	(61,308)	(53,960)
Benefit obligation, end of year	1,500,556	2,037,083
Change in plan assets		
Fair value of plan assets, beginning of year	2,011,758	1,857,735
Actual (loss) return on plan assets	(461,766)	126,993
Settlements	-	(1,369)
Employer contributions	60,008	84,647
Expenses paid	(1,974)	(2,288)
Benefits paid from plan assets	(61,308)	(53,960)
Fair value of plan assets, end of year	1,546,718	2,011,758
Funded status	$ 46,162	$ (25,325)
Amounts recognized in the consolidated statements of finanical position		
Noncurrent assets recorded in other assets	$ 46,162	$ 2,215
Noncurrent liabilities	-	(27,540)
Total amount recognized	$ 46,162	$ (25,325)

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

	Net Gain (Loss)	Prior Service Cost (in thousands)	Total
December 31, 2020	$ (419,121)	$ (29,248)	$ (448,369)
Amounts reclassified into net periodic benefit cost	25,777	637	26,414
Amounts arising during the year	92,846	-	92,846
December 31, 2021	(300,498)	(28,611)	(329,109)
Amounts reclassified into net periodic benefit cost	11,658	2,118	13,776
Amounts arising during the year	17,904	-	17,904
December 31, 2022	$ (270,936)	$ (26,493)	$ (297,429)

Unrecognized prior service cost/credit is amortized on a straight-line basis over the average remaining service period of participants who are expected to receive a benefit and are active at the date of the plan amendment.

The accumulated benefit obligation ("ABO") was $1.5 billion and $1.9 billion at December 31 2022 and 2021, respectively. At December 31, 2022, and 2021, there were no plans with an ABO in excess of plan assets.

Components of net periodic pension cost for the years ended December 31, 2022, and 2021 are as follows:

	2022	2021
	(in thousands)	
Service cost	$ 54,912	$ 61,947
Interest cost	60,013	55,344
Expected return on plan assets	(108,500)	(114,288)
Amortization of prior service cost	2,118	637
Plan amendment/settlement loss recognized	-	3,773
Amortization of net loss	11,658	25,777
Net periodic pension cost	$ 20,201	$ 33,190

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

	2022	2021
Benefit obligation		
Discount rate	5.50 %	3.00 %
Rate of compensation increase	4.70 %	4.70 %
Net periodic pension cost		
Discount rate	3.00 %	2.74 %
Expected rate of return on plan assets	5.40 %	6.20 %
Rate of compensation increase	4.70 %	4.70 %
Interest crediting rate	3.30 %	4.00 %

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

The discount rate assumption reflects the yield of a portfolio of high-quality bonds matched against the timing and amount of projected future benefit payments as of the measurement date. The actuarial gain recorded in the change in benefit obligation for 2022 was caused by an increase in the discount rate of 250 basis points along with incorporating new census data.

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

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

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

For the years ended December 31, 2022, and 2021, the funded status of Franciscan's pension plans was 103% and 99%, respectively, when measured on a projected benefit obligation basis. For each level of funded status, the acceptable range of allocation among the de-risking and return seeking/growth assets, is plus or minus 10% around the strategic targets. Franciscan's asset allocation as of December 31, 2022, and 2021 was as follows:

	Percentage of Plan Assets	
	2022	**2021**
De-Risking Portfolio	60%	62%
Return Seeking/Growth Portfolio	40%	38%
	100%	100%

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

Cash Flows

During 2023, Franciscan anticipates making contributions of approximately $32.1 million to fund the normal service cost in accordance with its standard funding policy. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	(in thousands)
2023	$ 73,086
2024	77,870
2025	82,409
2026	87,139
2027	91,111
Years 2028-2032	511,957

The following tables summarize Franciscan's pension assets, measured at fair value as of December 31, 2022 and 2021, respectively.

Asset category		**Level 1**		**Level 2** (in thousands)		**Balance as of December 31, 2022**
Cash and cash equivalents	$	71,937	$	-	$	71,937
U.S. government, state, municipal, and agency obligations		115,849		44,563		160,412
Other fixed income securities		-		709,967		709,967
Equity securities		351,610		-		351,610
Mutual funds		250,676		-		250,676
Real estate investment trusts		2,116		-		2,116
Total investments at fair value	$	792,188	$	754,530	$	1,546,718

Asset category		**Level 1**		**Level 2** (in thousands)		**Balance as of December 31, 2021**
Cash and cash equivalents	$	95,312	$	-	$	95,312
U.S. government, state, municipal, and agency obligations		176,416		51,082		227,498
Other fixed income securities		-		937,989		937,989
Equity securities		431,728		-		431,728
Mutual funds		316,703		-		316,703
Real estate investment trusts		2,528		-		2,528
Total investments at fair value	$	1,022,687	$	989,071	$	2,011,758

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2022, and 2021.

Defined Contribution Benefit Plans - Franciscan sponsors various defined contribution benefit plans covering eligible employees. These employees may contribute a portion of their pre-tax and/or after-tax compensation to the plans, in accordance with specified guidelines. In addition to any discretionary contributions, these plans provide for established contribution percentages up to certain limits for eligible employees. The defined contribution benefit plan expense for the years ended December 31, 2022, and 2021 aggregated $38.0 million and $41.6 million, respectively.

10. Liability Insurance and Contingencies

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

The estimated insurance liabilities provide for reported losses and for losses incurred but not reported based on projections by independent actuaries using information provided by Franciscan's management. The estimated insurance liabilities, which consist of professional liability, general liability, long-term disability insurance, workers' compensation, and amounts self-insured for allocated loss adjustment expenses, approximated $165.7 million and $159.5 million on an undiscounted basis at December 31, 2022 and 2021, respectively.

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

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

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

Noncontrolling Interest in Consolidated Affiliates

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

Investments in Unconsolidated Affiliates

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

At December 31, 2022 and 2021, Franciscan had a 33%, economic interest in Alverno Clinical Laboratories, LLC ("ACL, LLC"), an Indiana limited liability company created to direct, operate, maintain, and manage a centralized clinical laboratory in Hammond, Indiana supporting Franciscan and an unrelated health care system. Franciscan is also an owner of Alverno Provena Hospital Laboratories, LLC ("APHL"), a non-profit cooperative corporation created to direct, operate, maintain, and manage the on-site laboratories of the owners' health centers. Governance of ACL, LLC and APHL (collectively referred to as the "Laboratories") is shared between the health system members. Franciscan accounts for its investment in ACL, LLC under the equity method, which approximated $6.0 million at both December 31, 2022 and 2021. Franciscan's capital account in APHL approximates $50,000 at both December 31, 2022 and 2021.

At December 31, 2022 and 2021, Franciscan had a 51% economic interest in FOSC, an Indiana limited liability company created to lease and operate a state licensed, Medicare certified ambulatory surgery center specializing in orthopedic procedures in Carmel, Indiana. Franciscan accounts for its investment in FOSC under the equity method, which approximated $12.1 million at December 31, 2022.

Franciscan's share of the equity in income (losses) of investments in unconsolidated affiliates accounted for on the equity method is approximately $1.5 million and ($0.7) million for the years ended December 31, 2022 and 2021, respectively, which is included in total revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

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

	(Unaudited) 2022	2021
	(in thousands)	
Total assets	$ 194,896	$ 123,211
Total liabilities	147,420	91,726
Net assets	47,476	31,485
Total revenues, gains, and other support	485,456	428,943
Excess (deficiency) of revenues over expenses	8,917	(4,413)

12. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2022 and 2021:

	2022	2021
	(in thousands)	
Capital needs and equipment	$ 3,979	$ 5,533
Medical education programs	9,147	13,378
Health care operations and patient services	22,288	24,956
Other restrictions - spiritual care and mission related activities	6,784	8,162
	$ 42,198	$ 52,029

13. Liquidity and Availability

The following table represents the financial assets and liquidity resources available for general expenditures within one year as of December 31, 2022 and 2021. Franciscan defines general expenditures as the normal expenditures related to operations of Franciscan, excluding capital expenditures. Franciscan invests cash in excess of daily requirements needed to satisfy general expenditures in short-term investments and board designated and other investments. Franciscan has structured its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Board designated investments represent investments set aside by board policy for future purposes including capital expenditures, acquisitions, improvements, mission programs, and, in addition, to provide for Franciscan to meet current liquidity needs.

	2022	2021
	(in thousands)	
Financial assets:		
Cash and cash equivalents	$ 94,156	$ 274,353
Short-term investments	191,852	115,593
Patient accounts receivable	381,912	428,846
Board designated and other investments	2,555,822	3,466,532
Total financial assets	3,223,742	4,285,324
Less amounts not available within one year or not designated for general expenditures:		
Estimated insurance liability funds	185,367	204,673
Collateral assets related to interest rate swap agreements	2,570	19,615
Other restricted investments	52,781	55,068
Private credit	91,041	37,674
Private equity	182,547	167,924
Total financial assets not available within one year	514,306	484,954
Financial assets and liquidity resources available for general expenditures within one year	$ 2,709,436	$ 3,800,370

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

14. Related Party Transactions

Franciscan’s Health Centers incurred clinical laboratory charges from the Laboratories of approximately $96.3 million and $93.3 million for the years ended December 31, 2022 and 2021, respectively, which is included in purchased services in the consolidated statements of operations and changes in net assets. Franciscan provides information technology services, central procurement and disbursement services, and rents the core lab facilities to the Laboratories for which Franciscan has recorded approximately $6.8 million and $4.1 million for the years ended December 31, 2022 and 2021, respectively, as other operating revenue on the consolidated statements of operations and changes in net assets.

15. Functional Expenses

The tables below present expenses by both their nature and function for the years ending December 31, 2022 and 2021:

(in thousands)

	Health Care Servcies	General and Administrative	Construction Company	Accountable Care Organizations	Total
Year ended December 31, 2022					
Salaries, benefits, purchased labor, and physician fees	$ 1,674,263	$ 280,439	$ 5,522	$ 24,510	$ 1,984,734
Supplies, drugs, purchased services, and other	981,652	149,981	40,417	23,613	1,195,663
Hospital assessment fees	125,625	-	-	-	125,625
Depreciation and amortization	142,470	35,109	132	133	177,844
Interest	33,670	-	-	-	33,670
Investment expense included in investment income	-	7,799	-	-	7,799
Other components of net periodic pension cost included in other, net	-	(34,711)	-	-	(34,711)
Other nonoperating expenses included in other, net	-	26,048	-	-	26,048
	$ 2,957,680	$ 464,665	$ 46,071	$ 48,256	$ 3,516,672
Year ended December 31, 2021					
Salaries, benefits, purchased labor, and physician fees	$ 1,571,691	$ 263,262	$ 10,043	$ 24,333	$ 1,869,329
Supplies, drugs, purchased services, and other	996,349	152,103	25,726	22,283	1,196,461
Hospital assessment fees	124,552	-	-	-	124,552
Depreciation and amortization	170,856	42,104	273	100	213,333
Interest	27,172	-	-	-	27,172
Investment expense included in investment income	-	8,916	-	-	8,916
Other components of net periodic pension cost included in other, net	-	(29,371)	-	-	(29,371)
Other nonoperating expenses included in other, net	-	12,955	-	-	12,955
	$ 2,890,620	$ 449,969	$ 36,042	$ 46,716	$ 3,423,347

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

16. Subsequent Events

Management has evaluated events and transactions occurring subsequent to December 31, 2022 through May 26, 2023, the date the consolidated financial statements were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements and no unrecognized subsequent events requiring disclosure except for the Series 2016D variable rate direct placement bonds that were refinanced with the Series 2023A bonds in January 2023 as further described in Note 7.