Franciscan Alliance, Inc.
and Affiliates
Consolidated Financial Statements
December 31, 2023 and 2022

Franciscan Alliance, Inc. and Affiliates
Index
December 31, 2023 and 2022

Page(s)

pwc

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, 2023 and 2022, 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, 2023 and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 consolidated 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
April 17, 2024

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Financial Position
As of December 31, 2023 and 2022
(In thousands)

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	$ 99,924	$ 94,156
Short-term investments	125,184	191,852
Patient accounts receivable	460,330	381,912
Inventories of supplies	63,966	64,823
Other current assets	190,797	180,814
Total current assets	940,201	913,557
Board designated and other investments	2,800,627	2,555,822
Property, plant, and equipment, net	2,045,071	1,988,892
Investments in unconsolidated affiliates	16,677	22,505
Right of use leased assets, operating	106,154	123,921
Other assets	382,773	261,076
Goodwill	27,241	26,322
Total assets	$ 6,318,744	$ 5,892,095

	2023	2022
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 28,687	$ 27,891
Current portion of operating lease liabilities	26,160	27,933
Accounts payable and accrued expenses	411,076	369,541
Accrued payroll and related expenses	153,605	148,679
Estimated third-party payor settlements	38,558	33,111
Total current liabilities	658,086	607,155
Long-term debt, net of current portion	1,162,864	1,190,625
Operating lease liabilities, net of current portion	84,925	101,358
Fair value of interest rate swap contracts	19,227	20,931
Estimated insurance liabilities	137,275	140,044
Other liabilities	147,777	125,271
Total liabilities	2,210,154	2,185,384
Net assets without donor restrictions		
Controlling interest	4,032,124	3,632,184
Noncontrolling interest in consolidated affiliates	30,200	32,329
Total net assets without donor restrictions	4,062,324	3,664,513
Net assets with donor restrictions	46,266	42,198
Total net assets	4,108,590	3,706,711
Total liabilities and net assets	$ 6,318,744	$ 5,892,095

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, 2023 and 2022
(In thousands)

	2023	2022
Changes in net assets without donor restrictions		
Revenues, gains, and other support		
Patient service revenue	$ 3,404,706	$ 3,156,580
Capitation revenue	50,998	51,731
Other operating revenue	285,928	181,875
Equity in income of investments in unconsolidated affiliates	11,763	1,452
Net unrealized investment gains (losses)	24,540	(33,657)
Net assets released from restrictions used for operations	109	126
Total revenues, gains, and other support	3,778,044	3,358,107
Operating expenses		
Salaries	1,425,479	1,391,308
Employee benefits	331,416	347,328
Purchased labor	131,169	148,179
Physicians' fees	131,512	97,919
Medical supplies	289,379	275,269
Drugs and pharmaceuticals	279,193	228,678
Purchased services	344,403	332,636
Hospital assessment fees	157,480	125,625
Insurance	39,439	41,584
Interest	38,307	33,670
Depreciation and amortization	160,251	171,174
Other supplies and expenses	385,544	317,496
Total operating expenses before accelerated depreciation and asset impairment	3,713,572	3,510,866
Operating income (loss) before accelerated depreciation and asset impairment	64,472	(152,759)
Loss on impairment of long-lived assets	34,459	93,706
Accelerated depreciation	19,072	6,670
Operating income (loss)	10,941	(253,135)
Nonoperating income (expense)		
Investment income	29,773	64,239
Net unrealized investment gains (losses)	298,956	(533,864)
Net unrealized gains and periodic settlements on interest rate swap contracts	944	32,719
Net assets released from restrictions	5,616	5,747
Other, net	(10,069)	10,441
Total nonoperating income (expense), net	325,220	(420,718)
Consolidated excess (deficiency) of revenues over expenses	336,161	(673,853)
Less amounts attributable to noncontrolling interest in consolidated affiliates	(24,608)	(23,279)
Excess (deficiency) of revenues over expenses attributable to Franciscan	$ 311,553	$ (697,132)

(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, 2023 and 2022
(In thousands)

	Year Ended December 31, 2023			Year Ended December 31, 2022		
	Total	**Controlling**	**Noncontrolling**	**Total**	**Controlling**	**Noncontrolling**
Changes in net assets without donor restrictions						
Excess (deficiency) of revenues over expenses	$ 336,161	$ 311,553	$ 24,608	$ (673,853)	$ (697,132)	$ 23,279
Change in pension benefits other than net periodic pension costs included in other assets	93,011	93,011	-	31,680	31,680	-
Contributions received of property, plant, and equipment	-	-	-	117	117	-
Distributions to noncontrolling interests in consolidated affiliates	(26,680)	-	(26,680)	(25,958)	-	(25,958)
Net assets released from restrictions used for purchase of property, plant, and equipment	1,449	1,449	-	710	710	-
Other, net	(6,130)	(6,073)	(57)	1,495	(1,059)	2,554
Increase (decrease) in net assets without donor restrictions	397,811	399,940	(2,129)	(665,809)	(665,684)	(125)
Changes in net assets with donor restrictions						
Contributions	5,555	5,555	-	6,827	6,827	-
Investment income (loss)	1,904	1,904	-	(648)	(648)	-
Net assets released from restrictions	(5,725)	(5,725)	-	(5,873)	(5,873)	-
Net assets released from restrictions used for purchase of property, plant, and equipment	(1,449)	(1,449)	-	(710)	(710)	-
Net unrealized investment gains (losses)	6,292	6,292	-	(7,306)	(7,306)	-
Other, net	(2,509)	(2,509)	-	(2,121)	(2,121)	-
Increase (decrease) in net assets with donor restrictions	4,068	4,068	-	(9,831)	(9,831)	-
Increase (decrease) in net assets	401,879	404,008	(2,129)	(675,640)	(675,515)	(125)
Net assets at beginning of year	**3,706,711**	**3,674,382**	**32,329**	**4,382,351**	**4,349,897**	**32,454**
Net assets at end of year	**$ 4,108,590**	**$ 4,078,390**	**$ 30,200**	**$ 3,706,711**	**$ 3,674,382**	**$ 32,329**

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, 2023 and 2022
(In thousands)

	2023	2022
Cash flows from operating activities		
Increase (decrease) in net assets	$ 401,879	$ (675,640)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	179,323	177,844
Loss on asset impairment of long-lived assets	34,459	93,706
Loss on sale/disposal of assets	2,278	3,995
Net investment (gains) losses	(353,269)	503,282
Net unrealized gains on interest rate swap contracts	(1,704)	(39,764)
Distributions to noncontrolling interest in consolidated affiliates	26,680	25,958
Distributions from unconsolidated affiliates	21,152	3,005
Equity in income of investments in unconsolidated affiliates	(11,763)	(1,452)
Other	(4,159)	(1,160)
Changes in operating assets and liabilities		
Patient accounts receivable	(78,418)	46,934
Inventories of supplies and other assets	2,586	23,106
Accounts payable and other current liabilities	55,505	(224,278)
Estimated insurance liabilities and other liabilities	(10,168)	(50,805)
Accrued pension liability and other assets	(98,769)	(71,429)
Total adjustments	(236,267)	488,942
Net cash provided by (used in) operating activities	165,612	(186,698)
Cash flows from investing activities		
Purchases of investments	(4,882,590)	(6,507,523)
Proceeds from sale of investments	5,026,337	6,898,298
Purchases of property, plant, and equipment	(277,270)	(252,799)
Proceeds from sale of property, plant, and equipment	161	712
Capital contributions to investment in unconsolidated affiliates	(4,154)	(12,134)
Other	(625)	-
Net cash (used in) provided by investing activities	(138,141)	126,554
Cash flows from financing activities		
Principal payments on long-term debt	(28,727)	(35,922)
Principal payments on extinguishment of debt	(119,145)	-
Proceeds from long-term debt issuance	119,145	5,237
Distributions to noncontrolling interest in consolidated affiliates	(26,680)	(25,958)
Other	3,549	(3,295)
Net cash used in financing activities	(51,858)	(59,938)
Net decrease in cash and cash equivalents and restricted cash and cash equivalents	(24,387)	(120,082)
Cash and cash equivalents and restricted cash and cash equivalents, beginning of year	255,802	375,884
Cash and cash equivalents and restricted cash and cash equivalents, end of year	$ 231,415	$ 255,802

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) 2023	2022
	(in thousands)	
Benefits for the poor and underserved		
Unreimbursed costs of Medicaid and other indigent care programs	$ 189,202	$ 185,616
Cost of charity care provided	66,991	80,386
Programs for those who are poor and underserved		
Community health improvement services	560	572
Subsidized health services	1,494	176
Financial and in-kind contributions	1,097	2,148
Total benefits for the poor and underserved	259,344	268,898
Benefits for the broader community		
Subsidized health services	35,312	56,101
Health professions education	14,903	10,535
Community health improvement services	3,890	4,555
Financial and in-kind contributions	489	19,992
Research	1,842	2,072
Community building activities	-	9
Community benefit operations	189	180
Total benefits for the broader community	56,625	93,444
Total quantifiable community benefits	315,969	362,342
Unreimbursed costs of Medicare	523,667	496,857
Total quantifiable community benefits including unreimbursed costs of Medicare	$ 839,636	$ 859,199

Total quantifiable community benefits including unreimbursed costs of Medicare were approximately 23% and 24% of total operating expenses for the years ended December 31, 2023, and 2022, respectively. Franciscan's affiliated foundation funded $7.2 million and $6.8 million for charity care or other operating expenses on behalf of the Health Centers during the years ending December 31, 2023 and 2022, respectively. The community benefits reported above are net of the contributions from the foundation for such benefits.

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, 2023 and 2022, Franciscan incurred approximately $32.4 million and $7.8 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.

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 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. The adoption of this guidance during 2023 did not materially impact Franciscan's financial position or consolidated statements of operations and change in net assets.

New Accounting Pronouncements Not Yet Applicable

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.

In March 2023, the FASB issued ASU 2023-01 – *Leases (Topic 842): Common Control Arrangements*. This guidance simplifies the analysis of legally enforceable terms and conditions for the arrangements between entities under common control. Under this guidance, private companies and not-for-profit entities have the option to use as a practical expedient the written terms and conditions of a common control arrangement as the legally enforceable terms and conditions. This guidance is effective for Franciscan beginning January 1, 2024. Franciscan will apply this guidance in consideration of any future common control lease arrangements that 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; infrastructure; and holdings within volatility risk premium strategies. Board designated and other investments include alternative investments, consisting of investments in hedge funds, infrastructure, 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. 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 income (expense) in the consolidated statements of operations and changes in net assets, unless the investment earnings and any associated unrealized gains and losses are restricted by donor or by law.

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

Fair Value Measurement

Franciscan's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets measured at fair value on a recurring basis in Franciscan's consolidated statements of financial position include: cash and cash equivalents; U.S. government, state, municipal, and agency obligations; other fixed income securities; asset backed securities; emerging market debt; private credit; equity securities; private equity; unregistered mutual funds; index funds, exchange traded funds, and mutual funds; real asset investment funds; real estate investment trusts; hedge funds; infrastructure investment 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, 2023, conditional asset retirement obligations of approximately $7.5 million and $28.5 million are included within accounts payable and accrued expenses and other liabilities, respectively, in the consolidated statements of financial position. As of December 31, 2022, conditional asset retirement obligations of approximately $23.2 million 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
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.

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, 2023 and 2022, Franciscan recognized an impairment of long-lived assets of $34.5 million and $93.7 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 2023 and 2022, net assets of $7.2 million and $6.6 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, excess (deficiency) of revenues over expenses, which includes operating income (loss) and nonoperating income (expense). The performance indicator excludes the change in pension benefits other than net periodic pension costs which is included in other assets; 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 $66.3 million and $80.4 million for the years ended December 31, 2023 and 2022, 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. Franciscan includes penalties and interest, if any, with its provision for income taxes in other nonoperating income (expense) in its consolidated statements of operations and changes in net assets.

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

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:

	2023	2022
	(in thousands)	
Cash and cash equivalents	$ 99,924	$ 94,156
Board designated investments	84,190	119,347
Restricted cash and cash equivalents included in assets whose use is limited (Note 4)	47,301	42,299
Total cash and cash equivalents and restricted cash and cash equivalents shown in the consolidated statements of cash flows	$ 231,415	$ 255,802

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

	2023	2022
	(in thousands)	
Collateral assets related to interest rate swap agreements	$ -	$ 2,570
Investments held by Franciscan's captive insurance company	26,042	29,280
Investments held by Franciscan's foundation	10,442	361
Other restricted investments	10,817	10,088
	$ 47,301	$ 42,299

Cash paid for interest, net of amounts capitalized, amounted to $42.1 million and $46.8 million for the years ended December 31, 2023 and 2022, respectively.

Net cash paid for income taxes was $0.6 million and $4.9 million during the years ended December 31, 2023 and 2022, respectively.

Included in accounts payable and accrued expenses and other liabilities at December 31, 2023 and 2022 are approximately $3.5 million and $7.3 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, 2023 and 2022, are as follows:

	2023	2022
	(in thousands)	
Cash paid - operating lease liabilities	$ 30,698	$ 31,225
Cash paid - finance lease liabilities	5,842	6,696
Net decrease in right of use leased assets, operating	(17,767)	(5,760)
Net decrease in operating lease liabilities	(18,206)	(3,010)
(Decrease) increase in property, plant, and equipment, net and finance lease liabilities	(1,001)	658

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

In 2020 and 2021, the federal government authorized various COVID-19 pandemic relief funding measures to support hospitals and other healthcare providers ("Provider Relief Funds") and offer reimbursement through the Federal Emergency Management Agency ("FEMA") for pandemic related expenses. The United States Federal Public Health Emergency expired on May 11, 2023, marking the end of the eligibility period for qualifying healthcare-related expenses and/or lost revenues attributable to COVID-19. For the year ended December 31, 2022, Franciscan recognized $9.0 million of Provider Relief Funds in total revenues, gains, and other support in the consolidated statements of operations and changes in net assets with no amounts recorded for the year ended December 31, 2023. As of December 31, 2023 and 2022, Franciscan recognized other operating revenue of $14.6 million and $4.7 million, respectively, in the consolidated statements of operations and changes in net assets for the reimbursement of costs incurred in response to the pandemic from FEMA.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation. These reclassifications had no impact on excess of revenue over expenses, total assets, total liabilities, or total net assets.

3. Patient Service Revenue

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

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

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, current conditions, and reasonable and supportable forecasts.

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. In addition to these payment methodologies, Medicare has various mandatory and voluntary value-based provider reimbursement programs in which Franciscan participates.

One of Franciscan's Health Centers was granted Critical Access Hospital 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 2023, one of Franciscan's Health Centers was granted Medicare Dependent Hospital ("MDH") status by Medicare with a retroactive effective date of January 1, 2020, and as such, Franciscan recorded $13.9 million of patient service revenue in 2023 within the consolidated statements of operations and changes in net assets associated with reimbursement related to periods prior to January 1, 2023. A qualifying MDH facility may receive an additional payment from Medicare if its' historic costs (adjusted for inflation) exceed what the hospital would have received under the regular inpatient prospective payment system.

Section 340B of the Public Health Service Act ("340B") allows qualifying hospitals and other providers to purchase certain covered outpatient drugs or biologicals from manufacturers at discounted prices. Prior to 2018, the Medicare payment rate to qualifying hospitals for Part B covered outpatient drugs was the statutory default rate of the average sales price ("ASP") plus 6%. From 2018 through September 2022, the Centers for Medicare & Medicaid Services ("CMS") adjusted the payment rate for 340B drugs to ASP minus 22.5%. In late 2022, CMS returned the payment rate for qualifying 340B hospitals to ASP plus 6%. CMS issued a final rule on November 2, 2023 to finalize a remedy whereby covered hospitals will receive a lump sum payment related to the difference in payment rates for the years 2018-2022. For the year ended December 31, 2023, Franciscan recognized patient service revenue of approximately $29.5 million, related to the 340B remedy in the consolidated statements of operations and changes in net assets.

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 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, 2023 and 2022, Franciscan recognized revenue of approximately $26.2 million and $24.8 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, 2023 and 2022, Franciscan's Indiana Health Centers recognized supplemental HAF reimbursement of $121.1 million and $111.7 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, 2023 and 2022, Franciscan's Indiana Health Centers recognized HAF fees of $142.1 million and $113.4 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, 2023 and 2022, Franciscan's Illinois Health Center recognized HAP and related reimbursement of $21.5 million and $24.3 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, 2023 and 2022, Franciscan's Illinois Health Center recognized HAP related fees of $15.3 million and $12.3 million, respectively, in the consolidated statement of operations and changes in net assets.

Other – Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates, and fee schedules. Like Medicare, commercial insurance companies have various fee-for-value reimbursement programs with qualifying providers. In 2023 and 2022, 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, 2023 and 2022, is as follows:

	2023	2022
	(in thousands)	
Medicare	$ 664,103	$ 644,842
Medicare managed care	559,938	459,674
Medicaid	109,308	95,981
Medicaid managed care	384,839	358,514
Other third-party payors	1,593,887	1,509,902
Self-pay	38,363	27,182
Other	54,268	60,485
	$ 3,404,706	$ 3,156,580

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, 2023 and 2022, is as follows:

	2023	2022
	(in thousands)	
Medicare	$ 96,701	$ 56,068
Medicare managed care	55,460	37,881
Medicaid	26,345	24,457
Medicaid managed care	17,888	16,676
Other third-party payors	251,492	233,096
Self-pay	8,097	7,610
Other	4,347	6,124
	$ 460,330	$ 381,912

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 $3.0 million and $6.2 million for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, is as follows:

	2023	2022
	(in thousands)	
Short-term investments	$ 125,184	$ 191,852
Board designated investments		
Funded depreciation and other Board projects	2,533,413	2,312,775
Other designated investments	2,534	2,329
	2,535,947	2,315,104
Assets limited as to use		
Estimated insurance liability funds	211,720	185,367
Collateral assets related to interest rate swap agreements	-	2,570
Other restricted investments	52,960	52,781
	264,680	240,718
Short-term, board designated, and other investments	2,925,811	2,747,674
Less short-term investments	125,184	191,852
Board designated and other investments, classified as noncurrent	$ 2,800,627	$ 2,555,822

Short-term, board designated, and other investments at December 31, 2023 and 2022, consist of the following:

	2023	2022
	(in thousands)	
Cash and cash equivalents	$ 131,491	$ 161,646
U.S. government, state, municipal, and agency obligations	134,384	149,403
Other fixed income securities	263,273	269,775
Asset backed securities	258,183	254,739
Emerging market debt	67,246	65,868
Private credit	116,906	91,041
Equity securities	599,292	603,442
Private equity	235,841	182,547
Unregistered mutual funds	537,198	467,507
Index funds, exchange traded funds, and mutual funds	69,154	59,565
Real assets	86,112	105,112
Real estate investment trusts	1,037	4,371
Hedge funds	182,601	182,590
Infrastructure	96,323	-
Volatility risk premium strategies	146,770	150,068
	$ 2,925,811	$ 2,747,674

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, 2023 and 2022:

Asset category	Level 1	Level 2	Level 3	Balance as of December 31, 2023
		(in thousands)		
Cash and cash equivalents	$ 131,491	$ -	$ -	$ 131,491
U.S. government, state, municipal, and agency obligations	123,366	11,018	-	134,384
Other fixed income securities	-	263,273	-	263,273
Asset backed securities	-	258,183	-	258,183
Equity securities	599,228	-	64	599,292
Index funds, exchange funds, and mutual funds	69,154	-	-	69,154
Real estate investment trusts	1,037	-	-	1,037
	$ 924,276	$ 532,474	$ 64	$ 1,456,814
Investments measured at net asset value				1,468,997
Total investments at fair value as of December 31, 2023				$ 2,925,811

Asset category	Level 1	Level 2	Level 3	Balance 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

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, 2023:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(in thousands)			
Emerging market debt	$ 67,246	$ -	Monthly	10 days
Private credit	116,906	67,374	Not currently redeemable	-
Private equity	235,841	161,059	Not currently redeemable	-
Unregistered mutual funds	537,198	-	Daily	1 day
Real assets	86,112	7,666	Not currently redeemable	-
Hedge funds	182,601	-	Monthly, quarterly, annually	5 - 180 days
Infrastructure	96,323		Quarterly	90 days
Volatility risk premium strategies	146,770	-	Month end redemptions	7 days
	$ 1,468,997	$ 236,099		

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.

Infrastructure is a core, open-ended investment that invests in developed market infrastructure with a primary focus on Europe and the Americas. Assets are split across a variety of sectors including toll roads, airports, gas, water, electricity, and telecom. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

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

Investment returns including net unrealized gains (losses) included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2023 and 2022, are as follows:

	2023	2022
	(in thousands)	
Revenues, gains, and other support		
Investment income in other operating revenue	$ 1,591	$ 5,641
Net unrealized investment gains (losses)	24,540	(33,657)
	26,131	(28,016)
Nonoperating income (expense)		
Investment income	29,773	64,239
Net unrealized investment gains (losses)	298,956	(533,864)
	328,729	(469,625)
Net assets with donor restrictions, controlling interest		
Investment income (loss)	1,904	(648)
Net unrealized investment gains (losses)	6,292	(7,306)
	8,196	(7,954)
	$ 363,056	$ (505,595)

5. Property, Plant, and Equipment

A summary of property, plant, and equipment at December 31, 2023 and 2022, is as follows:

	2023	2022
	(in thousands)	
Land and land improvements	$ 171,863	$ 175,355
Buildings and building equipment	1,682,477	1,729,889
Departmental equipment	1,662,228	1,777,243
Construction in progress	444,908	261,097
	3,961,476	3,943,584
Less accumulated depreciation	(1,916,405)	(1,954,692)
	$ 2,045,071	$ 1,988,892

For the years ended December 31, 2023 and 2022, the depreciation expense was $160.3 million and $171.2 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 2022, Franciscan's board approved the closure of the Franciscan Health Hammond 8-bed inpatient short stay hospital and emergency room and a demolition plan for certain portions of the hospital campus. Both of these activities required a change in the estimated useful life of the associated assets resulting in the acceleration of depreciation of $19.1 million and $6.7 million for the years ended December 31, 2023 and 2022, respectively.

At December 31, 2023, the remaining contractual commitments on construction in progress is approximately $39.8 million and will be financed by a combination of cash flow from operations and existing funds.

6. Leases

Franciscan has lease commitments for real estate as well as medical and office equipment. The lease term begins at the lease commencement date which is determined based on the noncancelable term of the lease. Franciscan's remaining operating lease terms range from 1 to 15 years, with the obligations ending December 31, 2038. Franciscan's remaining finance lease terms range from 1 to 7 years, with the obligations ending November 30, 2030. 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, 2023 and 2022:

	2023	2022
	(in thousands)	
Total leased assets		
Operating lease assets classified as right of use leased assets	$ 106,154	$ 123,921
Finance lease assets classified as property, plant, and equipment, net	18,332	19,253
	$ 124,486	$ 143,174
Total lease liabilities		
Operating lease liabilities	$ 111,085	$ 129,291
Finance lease liabilities	22,067	22,147
	$ 133,152	$ 151,438

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, 2023 and 2022 are as follows:

	2023	2022
	(in thousands)	
Operating sublease revenue	$ 3,880	$ 4,302
Operating lease expense	$ 27,543	$ 30,207
Short-term lease expense	2,200	2,547
Variable lease expense	18,483	16,582
Finance lease expense		
Depreciation of leased assets	4,885	4,720
Interest on lease liabilities	511	578
Total lease expense	$ 53,622	$ 54,634

At December 31, 2023, the minimum future lease payments under these leases are as follows:

		(in thousands)	
Years ended December 31,	**Operating**	**Finance**	**Total**
2024	28,529	4,995	$ 33,524
2025	25,785	4,659	30,444
2026	21,401	4,208	25,609
2027	15,272	3,702	18,974
2028	10,443	3,443	13,886
Thereafter	17,607	2,253	19,860
Total lease payments	$ 119,037	$ 23,260	$ 142,297
Less: imputed interest	(7,952)	(1,193)	(9,145)
Present value of minimum lease payments	$ 111,085	$ 22,067	$ 133,152

Other information related to leases for the years ending December 31, 2023 and 2022, is as follows:

Weighted-average remaining lease term (in years):	**2023**	**2022**
Operating leases	6.51	6.92
Finance leases	5.20	6.20
Weighted-average discount rate:		
Operating leases	2.45%	2.29%
Finance leases	2.26%	1.96%

7. Long-Term Debt

Long-term debt at December 31, 2023 and 2022, consists of the following:

	Year of Final Maturity	Interest Rate Range over Life of Bonds		2023	2022
				(in thousands)	
Tax Exempt Hospital and Health System Revenue and Refunding Bonds					
Fixed rate term and serial bonds					
Series 2016A	2051	4.0% - 5.0%		$ 200,000	$ 200,000
Series 2016B	2041	3.0% - 5.0%		75,760	79,350
Series 2017B	2032	5.0%		131,930	141,595
Series 2017C	2039	3.0% - 5.0%		174,590	180,405
Bond discounts and premiums, net				27,143	31,317
Fixed rate term and serial bonds				609,423	632,667
Series 2012A fixed rate direct placement bonds	2048			75,000	75,000
Total fixed rate term and serial bonds and direct placement bonds				684,423	707,667
	Year of Final Maturity	**Interest Rate Range 2023**	**Interest Rate Range 2022**		
Variable rate direct placement bonds					
Series 2014A	-	3.78% - 4.92%	0.56% - 3.78%	-	50,000
Series 2016C	2041	3.72% - 4.47%	0.66% - 3.54%	69,155	69,255
Series 2016D	-	4.40%	0.59% - 3.47%	-	69,145
Series 2016E	2048	3.72% - 4.47%	0.66% - 3.54%	63,895	63,895
Series 2017A	2048	3.96% - 4.80%	0.62% - 3.76%	45,250	45,250
Series 2023A	2041	4.40% - 5.10%		69,145	-
Series 2023B	2048	4.92% - 4.92%		50,000	-
Total variable rate direct placement bonds				297,445	297,545
	Year of Final Maturity	**Interest Rate Range 2023**	**Interest Rate Range 2022**		
Variable rate demand bonds, subject to seven-day or daily put provisions supported by direct pay bank letters of credit					
Series 2008F	2048	1.63% - 4.48%	0.03% - 3.87%	45,200	45,200
Series 2008I	2037	1.05% - 4.95%	0.01% - 4.02%	26,875	28,735
Series 2008J	2037	1.05% - 4.95%	0.01% - 4.02%	26,885	28,740
Total variable rate demand bonds				98,960	102,675
Other debt	**Year of Final Maturity**	**Interest Rate over Life of Loan**			
Orthopedic Center of Excellence loan	2047	9.56%		92,275	92,275
Finance lease obligations (excluding imputed interest of $1,193 and $1,087 at December 31, 2023 and 2022, respectively)				22,067	22,147
Deferred financing costs and other				(3,619)	(3,793)
Total long-term debt				1,191,551	1,218,516
Less current portion of long-term debt				(28,687)	(27,891)
Long-term debt, net of current portion				$ 1,162,864	$ 1,190,625

At December 31, 2023, 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)	
2024	$ 23,955	$ 4,732	$ 28,687
2025	25,145	4,420	29,565
2026	26,365	3,992	30,357
2027	27,605	3,513	31,118
2028	28,840	3,267	32,107
Thereafter	921,775	94,418	1,016,193
	$ 1,053,685	$ 114,342	$ 1,168,027

Total interest costs incurred on the long-term debt less capitalized interest for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
	(in thousands)	
Interest costs incurred	$ 49,709	$ 40,834
Less capitalized interest	11,402	7,164
Interest expense included in operating income	$ 38,307	$ 33,670

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, 2023 and 2022, Franciscan was in compliance with the terms of the MTI and there were no other Obligated Group members nor any Designated Group Affiliates.

Issuance, Refunding, and Redemption of Long-Term Debt – During January 2023, Franciscan refunded its $69.1 million Series 2016D variable rate direct placement bonds with Series 2023A variable rate direct placement bonds. The 2023A variable rate direct placement agreement expires in November 2041. During December 2023, Franciscan refunded its $50 million Series 2014A variable rate direct placement bonds with Series 2023B variable rate direct placement bonds. The Series 2023B variable rate direct placement agreement expires in December 2028. Additionally, during December 2023, Franciscan reissued its $45.3 million Series 2017A variable rate direct placement bonds through an amendment with the associated credit provider. The 2017A variable rate direct placement agreement expires in December 2028.

***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 unless the bonds mature. Termination dates for the variable rate direct placement agreements have expiration dates extending from October 2026 through November 2041.

Variable Rate Demand Bonds – Included in Franciscan's debt is approximately $99.0 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, 2023. 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 – In 2020, Franciscan entered into a 25-year credit tenant lease 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. Franciscan has agreements in place to sublease 64% of the medical office building to an unaffiliated third party, and 100% of the ambulatory surgery center to a joint venture that is 51% owned by Franciscan and recorded under the equity method of accounting, with both subleases co-terminus with the credit tenant lease. In accordance with ASC 842, *Leases,* the credit tenant lease and associated subleases were deemed failed sale-leaseback arrangements given the conveyance of title for the OCE at the end of lease term and as such, were recognized as secured financing loans. Revenue and corresponding cost of goods sold are recognized as control of the underlying assets are transferred to the sublessees. 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:

	2023	**2022**
	(in thousands)	
Interest receivable, included in other current assets	$ 6,999	$ 7,547
Loan receivable, included in other assets	46,678	46,678
Interest revenue, included in other operating revenue	4,577	4,564

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 $0.8 million and $7.0 million for the years ended December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, the interest rate swap contracts were in a liability position with a fair value of approximately $19.2 million and $20.9 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, Franciscan posted $2.6 million 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 and there were no amounts posted as collateral as of December 31, 2023.

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.

The change in projected benefit obligation, change in plan assets, and funded status of Franciscan's pension plans as of December 31, 2023, and 2022, are as follows:

	2023	2022
	(in thousands)	
Change in benefit obligation		
Benefit obligation, beginning of year	$ 1,500,556	$ 2,037,083
Service cost	32,741	54,912
Interest cost	80,353	60,013
Actuarial loss (gain)	28,309	(588,170)
Expenses paid	(3,162)	(1,974)
Benefits paid from plan assets	(64,930)	(61,308)
Benefit obligation, end of year	1,573,867	1,500,556
Change in plan assets		
Fair value of plan assets, beginning of year	1,546,718	2,011,758
Actual return (loss) on plan assets	208,076	(461,766)
Employer contributions	32,097	60,008
Expenses paid	(3,162)	(1,974)
Benefits paid from plan assets	(64,930)	(61,308)
Fair value of plan assets, end of year	1,718,799	1,546,718
Funded status	$ 144,932	$ 46,162
Amounts recognized in the consolidated statements of finanical position		
Noncurrent assets recorded in other assets	$ 144,932	$ 46,162
Total amount recognized	$ 144,932	$ 46,162

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	Total
		(in thousands)	
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)
Amounts reclassified into net periodic benefit cost	14,153	2,744	16,897
Amounts arising during the year	76,114	-	76,114
December 31, 2023	$ (180,669)	$ (23,749)	$ (204,418)

Unrecognized prior service cost 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 at both December 31 2023 and 2022. At December 31, 2023, and 2022, there were no plans with an ABO in excess of plan assets.

Components of net periodic pension cost for the years ended December 31, 2023, and 2022 are as follows:

	2023	2022
	(in thousands)	
Service cost	$ 32,741	$ 54,912
Interest cost	80,353	60,013
Expected return on plan assets	(103,653)	(108,500)
Amortization of prior service cost	2,744	2,118
Amortization of net loss	14,153	11,658
Net periodic pension cost	$ 26,338	$ 20,201

The following weighted-average assumptions were used to determine Franciscan's benefit obligations and net periodic pension cost with the measurement date of December 31, 2023 and 2022:

	2023	2022
Benefit obligation		
Discount rate	5.44 %	5.50 %
Rate of compensation increase	4.70 %	4.70 %
Net periodic pension cost		
Discount rate	5.50 %	3.00 %
Expected rate of return on plan assets	6.81 %	5.40 %
Rate of compensation increase	4.70 %	4.70 %
Interest crediting rate	3.30 %	3.30 %

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 loss recorded in the change in benefit obligation for 2023 was caused by the plans' assets earning more than the expected return, a decrease in discount rate by 6 basis points, and incorporating new census data. 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.

Franciscan utilizes 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, 2023, and 2022, the funded status of Franciscan's pension plans was 109% and 103%, 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, 2023, and 2022 was as follows:

	Percentage of Plan Assets	
	2023	2022
De-Risking Portfolio	72%	60%
Return Seeking/Growth Portfolio	28%	40%
	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 2024, Franciscan anticipates making contributions of approximately $22.9 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)
2024	$ 77,583
2025	82,508
2026	87,374
2027	91,431
2028	95,973
Years 2029-2033	534,963

The following tables summarize Franciscan's pension assets, measured at fair value as of December 31, 2023 and 2022, respectively.

Asset category	Level 1	Level 2 (in thousands)	Balance as of December 31, 2023
Cash and cash equivalents	$ 57,884	$ -	$ 57,884
U.S. government, state, municipal, and agency obligations	195,508	60,022	255,530
Other fixed income securities	-	935,591	935,591
Equity securities	186,317	-	186,317
Mutual funds	282,275	-	282,275
Real estate investment trusts	1,202	-	1,202
Total investments at fair value	$ 723,186	$ 995,613	$ 1,718,799

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

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2023, and 2022.

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, 2023, and 2022 aggregated $43.8 million and $38.0 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 $163.8 million and $165.7 million on an undiscounted basis at December 31, 2023 and 2022, 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, 2023 and 2022, 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 equally shared between the health system members.

At December 31, 2023 and 2022, Franciscan had a 51% economic interest in Franciscan Orthopedic Surgery Center, LLC ("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 $8.9 million and $12.1 million at December 31, 2023 and 2022, respectively.

Franciscan's share of the equity in income of investments in unconsolidated affiliates accounted for under the equity method is approximately $11.8 million and $1.5 million for the years ended December 31, 2023 and 2022, respectively, which is included in total revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

12. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2023 and 2022:

	2023	2022
	(in thousands)	
Capital needs and equipment	$ 6,242	$ 3,979
Medical education programs	10,489	9,147
Health care operations and patient services	21,136	22,288
Other restrictions - spiritual care and mission related activities	8,399	6,784
	$ 46,266	$ 42,198

The Department of Education issued regulations, effective July 1, 2020, regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Federal Title IV regulations. These reconciliation disclosures are not required by accounting principles generally accepted in the United States of America but are intended for use by the Department of Education and to ensure compliance with the federal regulations. This information includes the following:

	2023	2022
	(in thousands)	
Net assets with donor restrictions: restricted by time or purpose	$ 34,021	$ 27,744
Net assets with donor restrictions: restricted in perpetuity	12,245	14,454
Total net assets with donor restrictions	$ 46,266	$ 42,198

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, 2023 and 2022. 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.

	2023	2022
	(in thousands)	
Financial assets:		
Cash and cash equivalents	$ 99,924	$ 94,156
Short-term investments	125,184	191,852
Patient accounts receivable	460,330	381,912
Board designated and other investments	2,800,627	2,555,822
Total financial assets	3,486,065	3,223,742
Less amounts not available within one year or not designated for general expenditures:		
Estimated insurance liability funds	211,720	185,367
Collateral assets related to interest rate swap agreements	-	2,570
Other restricted investments	52,960	52,781
Private credit	116,906	91,041
Private equity	235,841	182,547
Total financial assets not available within one year	617,427	514,306
Financial assets and liquidity resources available for general expenditures within one year	$ 2,868,638	$ 2,709,436

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 $94.0 million and $96.3 million for the years ended December 31, 2023 and 2022, 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 $6.6 million and $6.8 million for the years ended December 31, 2023 and 2022, 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, 2023 and 2022:

(in thousands)

	Health Care Servcies	General and Administrative	Construction Company	Accountable Care Organizations	Total
Year ended December 31, 2023					
Salaries, benefits, purchased labor, and physician fees	$ 1,703,442	$ 285,399	$ 13,639	$ 17,096	$ 2,019,576
Medical supplies, drugs, purchased services, insurance, and other supplies and expenses	1,062,997	162,642	85,795	26,524	1,337,958
Hospital assessment fees	157,480	-	-	-	157,480
Depreciation and amortization	143,462	35,351	279	231	179,323
Interest	38,307	-	-	-	38,307
Other components of net periodic pension cost included in other, net	-	(6,402)	-	-	(6,402)
Other nonoperating expenses included in other, net	-	13,314	4,185	558	18,057
	$ 3,105,688	$ 490,304	$ 103,898	$ 44,409	$ 3,744,299
Year ended December 31, 2022					
Salaries, benefits, purchased labor, and physician fees	$ 1,674,263	$ 280,439	$ 5,522	$ 24,510	$ 1,984,734
Medical supplies, drugs, purchased services, insurance, and other supplies and expenses	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
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	$ 456,866	$ 46,071	$ 48,256	$ 3,508,873

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, 2023 through April 17, 2024, 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.