Franciscan Alliance, Inc. and Affiliates

Consolidated Financial Statements
December 31, 2024 and 2023

Franciscan Alliance, Inc. and Affiliates
Index
December 31, 2024 and 2023

Page(s)

Report of Independent Auditors.....1-2

Consolidated Financial Statements

Consolidated Statements of Financial Position.....3

Consolidated Statements of Operations and Changes in Net Assets 4–5

Consolidated Statements of Cash Flows 6

Notes to Consolidated Financial Statements.....7 - 42



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, 2024 and 2023, 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, 2024 and 2023, 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 16, 2025

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Financial Position
As of December 31, 2024 and 2023
(In thousands)

	2024	2023		2024	2023
Assets			**Liabilities and Net Assets**		
Current assets			Current liabilities		
Cash and cash equivalents	$ 64,740	$ 99,924	Current portion of long-term debt	$ 123,113	$ 28,687
Short-term investments	213,464	125,184	Current portion of operating lease liabilities	25,872	26,160
Patient accounts receivable, net	466,852	511,411	Accounts payable and accrued expenses	451,500	462,157
Inventories of supplies	64,851	63,966	Accrued payroll and related expenses	155,446	153,605
Other current assets	238,428	190,797	Estimated third-party payor settlements	35,577	38,558
Total current assets	1,048,335	991,282	Total current liabilities	791,508	709,167
Board designated and other investments	2,938,593	2,800,627	Long-term debt, net of current portion	1,042,828	1,162,864
Property, plant, and equipment, net	2,082,624	2,045,071	Operating lease liabilities, net of current portion	70,767	84,925
Investments in unconsolidated affiliates	14,911	16,677	Fair value of interest rate swap contracts	11,645	19,227
Right of use leased assets, operating	92,242	106,154	Estimated insurance liabilities	144,471	137,275
Other assets	383,240	382,773	Other liabilities	151,527	147,777
Goodwill	23,002	27,241	Total liabilities	2,212,746	2,261,235
			Net assets without donor restrictions		
			Controlling interest	4,300,893	4,032,124
			Noncontrolling interest in consolidated affiliates	24,400	30,200
			Total net assets without donor restrictions	4,325,293	4,062,324
			Net assets with donor restrictions	44,908	46,266
			Total net assets	4,370,201	4,108,590
Total assets	$ 6,582,947	$ 6,369,825	Total liabilities and net assets	$ 6,582,947	$ 6,369,825

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, 2024 and 2023
(In thousands)

	2024	2023
Changes in net assets without donor restrictions		
Revenues, gains, and other support		
Net patient service revenue	$ 3,547,162	$ 3,404,706
Capitation revenue	57,612	50,998
Other operating revenue	301,134	285,928
Equity in income of investments in unconsolidated affiliates	14,151	11,763
Net unrealized investment gains	16,144	24,540
Net assets released from restrictions used for operations	104	109
Total revenues, gains, and other support	3,936,307	3,778,044
Operating expenses		
Salaries	1,535,312	1,425,479
Employee benefits	345,771	331,416
Purchased labor	74,842	131,169
Physicians' fees	148,916	131,512
Medical supplies	317,847	289,379
Drugs and pharmaceuticals	313,598	279,193
Purchased services	389,912	344,403
Hospital assessment fees	161,967	157,480
Insurance	56,408	39,439
Interest	46,703	38,307
Depreciation and amortization	167,709	160,251
Other supplies and expenses	366,312	385,544
Total operating expenses before accelerated depreciation and asset impairment	3,925,297	3,713,572
Operating income before accelerated depreciation and asset impairment	11,010	64,472
Loss on impairment of assets	4,239	34,459
Accelerated depreciation	3,832	19,072
Operating income	2,939	10,941
Nonoperating income (expense)		
Investment income	137,284	29,773
Net unrealized investment gains	151,092	298,956
Net unrealized gains and periodic settlements on interest rate swap contracts	7,438	944
Net assets released from restrictions	6,624	5,616
Other, net	(2,309)	(10,069)
Total nonoperating income, net	300,129	325,220
Consolidated excess of revenues over expenses	303,068	336,161
Less amounts attributable to noncontrolling interest in consolidated affiliates	(24,517)	(24,608)
Excess of revenues over expenses attributable to Franciscan	$ 278,551	$ 311,553

(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, 2024 and 2023
(In thousands)

	Year Ended December 31, 2024			Year Ended December 31, 2023		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
Changes in net assets without donor restrictions						
Excess of revenues over expenses	$ 303,068	$ 278,551	$ 24,517	$ 336,161	$ 311,553	$ 24,608
Change in pension benefits other than net periodic pension costs included in other assets	(18,089)	(18,089)	-	93,011	93,011	-
Distributions to noncontrolling interests in consolidated affiliates	(25,642)	-	(25,642)	(26,680)	-	(26,680)
Other changes in noncontrolling interest in consolidated affiliates	(413)	4,389	(4,802)	-	-	-
Net assets released from restrictions used for purchase of property, plant, and equipment	4,218	4,218	-	1,449	1,449	-
Other, net	(173)	(300)	127	(6,130)	(6,073)	(57)
Increase (decrease) in net assets without donor restrictions	262,969	268,769	(5,800)	397,811	399,940	(2,129)
Changes in net assets with donor restrictions						
Contributions	7,667	7,667	-	5,555	5,555	-
Investment income	3,377	3,377	-	1,904	1,904	-
Net assets released from restrictions	(6,728)	(6,728)	-	(5,725)	(5,725)	-
Net assets released from restrictions used for purchase of property, plant, and equipment	(4,218)	(4,218)	-	(1,449)	(1,449)	-
Net unrealized investment gains	3,798	3,798	-	6,292	6,292	-
Other, net	(5,254)	(5,254)	-	(2,509)	(2,509)	-
(Decrease) increase in net assets with donor restrictions	(1,358)	(1,358)	-	4,068	4,068	-
Increase (decrease) in net assets	261,611	267,411	(5,800)	401,879	404,008	(2,129)
Net assets at beginning of year	**4,108,590**	**4,078,390**	**30,200**	**3,706,711**	**3,674,382**	**32,329**
Net assets at end of year	**$ 4,370,201**	**$ 4,345,801**	**$ 24,400**	**$ 4,108,590**	**$ 4,078,390**	**$ 30,200**

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, 2024 and 2023
(In thousands)

	2024	2023
Cash flows from operating activities		
Increase in net assets	$ 261,611	$ 401,879
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	171,541	179,323
Loss on asset impairment	4,239	34,459
Loss on sale/disposal of assets	1,477	2,278
Net investment gains	(307,751)	(353,269)
Net unrealized gains on interest rate swap contracts	(7,582)	(1,704)
Distributions to noncontrolling interest in consolidated affiliates	25,642	26,680
Purchase of noncontrolling interest in consolidated affiliates	11,283	-
Distributions from unconsolidated affiliates	21,888	21,152
Equity in income of investments in unconsolidated affiliates	(14,151)	(11,763)
Other	(6,060)	(4,159)
Changes in operating assets and liabilities		
Patient accounts receivable, net	44,559	(129,499)
Inventories of supplies and other assets	(20,244)	(96,183)
Accounts payable and other current liabilities	(52,150)	106,586
Estimated insurance liabilities and other liabilities	10,945	(10,168)
Total adjustments	(116,364)	(236,267)
Net cash provided by operating activities	145,247	165,612
Cash flows from investing activities		
Purchases of investments	(4,723,250)	(4,882,590)
Proceeds from sale of investments	4,800,407	5,026,337
Purchases of property, plant, and equipment	(191,296)	(277,270)
Proceeds from sale of property, plant, and equipment	232	161
Capital contributions to investment in unconsolidated affiliates	(5,971)	(4,154)
Other	-	(625)
Net cash used in investing activities	(119,878)	(138,141)
Cash flows from financing activities		
Principal payments on long-term debt	(24,009)	(28,727)
Principal payments on extinguishment of debt	-	(119,145)
Proceeds from long-term debt issuance	-	119,145
Purchase of noncontrolling interest in consolidated affiliates	(11,283)	-
Distributions to noncontrolling interest in consolidated affiliates	(25,642)	(26,680)
Other	(3,967)	3,549
Net cash used in financing activities	(64,901)	(51,858)
Net decrease in cash and cash equivalents and restricted cash and cash equivalents	(39,532)	(24,387)
Cash and cash equivalents and restricted cash and cash equivalents, beginning of year	231,415	255,802
Cash and cash equivalents and restricted cash and cash equivalents, end of year	$ 191,883	$ 231,415

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

1. Description of Organization, Mission, and Values (continued)

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.

	2024	2023
	(in thousands)	
Benefits for the poor and underserved		
Unreimbursed costs of Medicaid and other indigent care programs	$ 175,505	$ 189,202
Cost of charity care provided	75,519	66,991
Programs for those who are poor and underserved		
Community health improvement services	659	560
Subsidized health services	1,096	1,494
Financial and in-kind contributions	1,897	1,097
Total benefits for the poor and underserved	254,676	259,344
Benefits for the broader community		
Subsidized health services	52,434	35,312
Health professions education	16,430	14,903
Community health improvement services	7,116	3,890
Financial and in-kind contributions	6,570	489
Research	1,560	1,842
Community benefit operations	260	189
Total benefits for the broader community	84,370	56,625
Total quantifiable community benefits	339,046	315,969
Unreimbursed costs of Medicare	573,586	523,667
Total quantifiable community benefits including unreimbursed costs of Medicare	$ 912,632	$ 839,636

Total quantifiable community benefits including unreimbursed costs of Medicare were approximately 23% of total operating expenses for the years ended December 31, 2024 and 2023. Franciscan's affiliated foundation funded $10.9 million and $7.2 million for charity care or other operating expenses on behalf of the Health Centers during the years ended December 31, 2024 and 2023, respectively. The community benefits reported above are net of the contributions from the foundation for such benefits.

1. Description of Organization, Mission, and Values (continued)

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 year ended December 31, 2024 and 2023, Franciscan incurred approximately $28.9 million and $32.4 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.

1. Description of Organization, Mission, and Values (continued)

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 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 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.

2. Summary of Significant Accounting Policies and Significant Events (continued)

Recent Accounting Pronouncements Adopted
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 requires acquiring entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. This guidance was effective for Franciscan beginning January 1, 2024 and its adoption did not materially impact Franciscan's consolidated statements of financial position or consolidated statements of operations and changes in net assets, nor did it impact how organizations acquired by Franciscan subsequently recognized revenue under their respective contracts.

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. The application of this guidance during 2024 did not materially impact Franciscan's consolidated statements of financial position or consolidated statements of operations and change in net assets.

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, other highly liquid interest-bearing securities with original maturities extending longer than three months and other investments that can be liquidated to meet current liquidity needs.

Patient Accounts Receivable, Net and Net Patient Service Revenue
Patient accounts receivable, net and net 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 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 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 investments maintained for the payment of estimated insurance liabilities and amounts contributed by donors with stipulated restrictions.

2. Summary of Significant Accounting Policies and Significant Events (continued)

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; multi-asset credit investments; 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 investments; and holdings within volatility risk premium strategies. Board designated and other investments include unregistered mutual funds, volatility risk premium strategies, alternative investments, consisting of investments in hedge funds, infrastructure investments, private credit and private equity investments, and real assets, which are generally measured based on their net asset value ("NAV") 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 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; multi-asset credit investments; 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 investments; volatility risk premium strategies; and benefit plan assets.

2. Summary of Significant Accounting Policies and Significant Events (continued)

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. 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.

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 NAV or its equivalent as provided by an external manager are not required to be included within the fair value hierarchy leveling tables.

2. Summary of Significant Accounting Policies and Significant Events (continued)

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. Changes in operations or usage may cause a reassessment of the associated useful life of an asset resulting in accelerated depreciation. 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 remaining 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, 2024, conditional asset retirement obligations of approximately $23.6 million and $15.3 million are included within accounts payable and accrued expenses, and other liabilities, respectively, in the consolidated statements of financial position. 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.

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, operating and current portion of operating lease liabilities and operating lease liabilities, net of current portion on the consolidated statements of financial position. Finance leases are included in property, plant, and equipment, net and 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.

2. Summary of Significant Accounting Policies and Significant Events (continued)

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. No impairment was recognized for the year ended December 31, 2024. For the year ended December 31, 2023, Franciscan recognized a $34.5 million impairment of long-lived assets for one of its Health Centers due to declines in operating performance.

Goodwill – Franciscan evaluates goodwill for impairment annually or more frequently if events or circumstances suggest that the carrying value of an asset may not be recoverable. The goodwill impairment analysis, performed at the reporting unity level, includes estimating the fair value of a reporting unit and comparing that to the carrying value. If the carrying amount of the reporting unit goodwill exceeds the implied fair value, 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. For the year ended December 31, 2024, Franciscan recognized a $4.2 million impairment loss of goodwill related to a dissolution of a joint venture at one of its Health Centers. No impairment was recognized for the year ended December 31, 2023.

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.

2. Summary of Significant Accounting Policies and Significant Events (continued)

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 2024 and 2023, net assets of $10.9 million and $7.2 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 of revenues over expenses, which includes operating income and nonoperating income (expense). The performance indicator excludes the change in pension benefits other than net periodic pension costs which is included in other assets; distributions to noncontrolling interest in consolidated affiliates; other changes in noncontrolling interest in consolidated affiliates; and net assets released from restrictions used for purchase of property, plant, and equipment.

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.

2. Summary of Significant Accounting Policies and Significant Events (continued)

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 net patient service revenue in the consolidated statements of operations and changes in net assets. The estimated cost of charity care provided approximated $75.5 million and $66.3 million for the years ended December 31, 2024 and 2023, 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 as other supplies and expenses in the consolidated statement of operations and changes in net assets.

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.

2. Summary of Significant Accounting Policies and Significant Events (continued)

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:

	2024	2023
	(in thousands)	
Cash and cash equivalents	$ 64,740	$ 99,924
Board designated investments	82,451	84,190
Restricted cash and cash equivalents included in assets whose use is limited (Note 4)	44,692	47,301
Total cash and cash equivalents and restricted cash and cash equivalents shown in the consolidated statements of cash flows	$ 191,883	$ 231,415

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

	2024	2023
	(in thousands)	
Investments held by Franciscan's captive insurance company	$ 13,056	$ 26,042
Investments held by Franciscan's foundation	19,806	10,442
Other restricted investments	11,830	10,817
	$ 44,692	$ 47,301

Cash paid for interest, net of amounts capitalized, amounted to $50.3 million and $42.1 million for the years ended December 31, 2024 and 2023, respectively.

Net cash paid for income taxes was $1.9 million and $0.6 million for the years ended December 31, 2024 and 2023, respectively.

Included in accounts payable and accrued expenses and other liabilities at December 31, 2024 and 2023 are approximately $3.6 million and $3.5 million, respectively, of costs related to construction in progress and for the acquisition of property, plant, and equipment.

2. Summary of Significant Accounting Policies and Significant Events (continued)

The cash and non-cash activities related to leases for the years ended December 31, 2024 and 2023, are as follows:

	2024	2023
	(in thousands)	
Cash paid - operating lease liabilities	$ 30,215	$ 30,698
Cash paid - finance lease liabilities	7,158	5,842
Net decrease in right of use leased assets, operating	(13,912)	(17,767)
Net decrease in operating lease liabilities	(14,446)	(18,206)
Increase (decrease) in property, plant, and equipment, net and finance lease liabilities	754	(1,001)

Revenue From Other Sources
For the years ended December 31, 2024 and 2023, other operating revenue includes revenue of $0.8 million and $14.6 million, respectively, related to the Federal Emergency Management Agency's obligation to reimburse various costs incurred by Franciscan for the Covid-19 pandemic.

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 or total net assets.

3. Net Patient Service Revenue

Franciscan provides health care services through various inpatient, outpatient, and ambulatory care settings. Franciscan recognizes net 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 net patient service revenue is recognized as performance obligations are satisfied.

Net 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.

3. Net Patient Service Revenue (continued)

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

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

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 net 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 – Inpatient acute care services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries. Outpatient services are paid using prospectively determined rates per service. Professional services 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.

3. Net Patient Service Revenue (continued)

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 net 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. There was no net patient service revenue recognized related to MDH status for periods prior to January 1, 2024 during the year ended December 31, 2024. 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 net patient service revenue of approximately $29.5 million, related to the 340B remedy in the consolidated statements of operations and changes in net assets. For the year ended December 31, 2024, there was no net patient service revenue recognized related to the 340B remedy.

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 have 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, 2024 and 2023, Franciscan recognized revenue of approximately $14.8 million and $26.2 million, respectively, related to the DSH program in the consolidated statements of operations and changes in net assets.

3. Net Patient Service Revenue (continued)

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, 2024 and 2023, Franciscan's Indiana Health Centers recognized supplemental HAF reimbursement of $104.0 million and $121.1 million, respectively, which is recorded as a component of net patient service revenue in Franciscan's consolidated statements of operations and changes in net assets. For the years ended December 31, 2024 and 2023, Franciscan's Indiana Health Centers recognized HAF fees of $146.6 million and $142.1 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 are 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, 2024 and 2023, Franciscan's Illinois Health Center recognized HAP related reimbursement of $17.4 million and $21.5 million, respectively, which is recorded as a component of net patient service revenue in Franciscan's consolidated statements of operations and changes in net assets. For the years ended December 31, 2024 and 2023, Franciscan's Illinois Health Center recognized HAP related fees of $15.4 million and $15.3 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 2024 and 2023, Franciscan participated in various value-based incentive programs in which it was eligible to receive a clinical coordination fee and/or additional incentive payments when it provided enhanced value to assigned members through improved outcomes and reductions in the cost of care.

3. Net Patient Service Revenue (continued)

The composition of net patient service revenue by payor for the years ended December 31, 2024 and 2023, is as follows:

	2024	2023
	(in thousands)	
Medicare	$ 696,360	$ 664,103
Medicare managed care	596,075	559,938
Medicaid	458,551	494,147
Other third-party payors	1,693,295	1,593,887
Self-pay	35,079	38,363
Other	67,802	54,268
	$ 3,547,162	$ 3,404,706

As to net patient service revenue, Franciscan's practice is to assign a patient to the primary payor; 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, 2024 and 2023, is as follows:

	2024	2023
	(in thousands)	
Medicare	$ 66,617	$ 102,041
Medicare managed care	71,617	66,560
Medicaid	41,110	48,282
Other third-party payors	260,343	275,691
Self-pay	11,453	8,222
Other	15,712	10,615
	$ 466,852	$ 511,411

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. Net patient service revenue increased by approximately $3.1 million and $3.0 million for the years ended December 31, 2024 and 2023, 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, 2024 and 2023, is as follows:

	2024	2023
	(in thousands)	
Short-term investments	$ 213,464	$ 125,184
Board designated investments		
Funded depreciation and other Board projects	2,640,131	2,533,413
Other designated investments	2,803	2,534
	2,642,934	2,535,947
Assets limited as to use		
Estimated insurance liability funds	232,679	211,720
Other restricted investments	62,980	52,960
	295,659	264,680
Short-term, board designated, and other investments	3,152,057	2,925,811
Less short-term investments	213,464	125,184
Board designated and other investments, classified as noncurrent	$ 2,938,593	$ 2,800,627

Short-term, board designated, and other investments at December 31, 2024 and 2023, consist of the following:

	2024	2023
	(in thousands)	
Cash and cash equivalents	$ 127,143	$ 131,491
U.S. government, state, municipal, and agency obligations	144,736	134,384
Mulit-asset credit	254,570	-
Other fixed income securities	149,675	263,273
Asset backed securities	264,171	258,183
Emerging market debt	-	67,246
Private credit	147,593	116,906
Equity securities	702,074	599,292
Private equity	282,422	235,841
Unregistered mutual funds	614,443	537,198
Index funds, exchange traded funds, and mutual funds	76,609	69,154
Real assets	73,071	86,112
Real estate investment trusts	1,643	1,037
Hedge funds	186,012	182,601
Infrastructure	100,894	96,323
Volatility risk premium strategies	27,001	146,770
	$ 3,152,057	$ 2,925,811

4. Short-Term, Board Designated, and Other Investments (continued)

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, 2024 and 2023:

Asset category	Level 1	Level 2	Level 3	Balance as of December 31, 2024
		(in thousands)		
Cash and cash equivalents	$ 127,143	$ -	$ -	$ 127,143
U.S. government, state, municipal, and agency obligations	135,208	9,528	-	144,736
Other fixed income securities	-	149,675	-	149,675
Asset backed securities	-	264,171	-	264,171
Equity securities	702,010	-	64	702,074
Index funds, exchange traded funds, and mutual funds	76,609	-	-	76,609
Real estate investment trusts	1,643	-	-	1,643
	$ 1,042,613	$ 423,374	$ 64	$ 1,466,051
Investments measured at net asset value				1,686,006
Total investments at fair value as of December 31, 2024				$ 3,152,057

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 traded 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

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.

4. Short-Term, Board Designated, and Other Investments (continued)

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, 2024:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(in thousands)			
Multi-asset credit	$ 254,570	$ -	Month end redemptions	30 days
Private credit	147,593	22,679	Not currently redeemable	-
Private equity	282,422	154,669	Not currently redeemable	-
Unregistered mutual funds	614,443	-	Daily, monthly	1 day
Real assets	73,071	7,426	Monthly, quarterly, not currently redeemable	45 days
Hedge funds	186,012	-	Monthly, quarterly, annually	5 - 80 days
Infrastructure	100,894	-	Quarterly	90 days
Volatility risk premium strategies	27,001	-	Month end redemptions	5 - 7 days
	$ 1,686,006	$ 184,774		

Multi-asset credit includes funds that invest in various credit instruments including but not limited to investment grade credit, high yield debt, senior bank loans, emerging market debt, structured credit, and convertible bonds. 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 5 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.

4. Short-Term, Board Designated, and Other Investments (continued)

Real assets include core infrastructure and 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 or using the NAV per share of the investments, depending on the vehicle. Investments representing approximately 27% of the value of the investments in this class are legacy closed-end private vehicles which cannot be redeemed because of redemption restrictions. It is expected that the balance of these legacy investments will be received over the next 1 to 5 years. The remaining 73% of the value of investments in this class are core infrastructure and real estate open-ended vehicles which offer periodic liquidity terms and can generally be liquidated within 1 to 3 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 include core, open-ended infrastructure investments within developed markets primarily focused in 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 included in the consolidated statements of operations and changes in net assets for the years ended December 31 2024 and 2023, are as follows:

	2024	2023
	(in thousands)	
Revenues, gains, and other support		
Investment income in other operating revenue	$ 7,065	$ 1,591
Net unrealized investment gains	16,144	24,540
	23,209	26,131
Nonoperating income (expense)		
Investment income	137,284	29,773
Net unrealized investment gains	151,092	298,956
	288,376	328,729
Net assets with donor restrictions, controlling interest		
Investment income	3,377	1,904
Net unrealized investment gains	3,798	6,292
	7,175	8,196
	$ 318,760	$ 363,056

5. Property, Plant, and Equipment

A summary of property, plant, and equipment at December 31, 2024 and 2023, is as follows:

	2024	2023
	(in thousands)	
Land and land improvements	$ 180,493	$ 171,863
Buildings and building equipment	2,060,062	1,682,477
Departmental equipment	1,745,743	1,662,228
Construction in progress	112,869	444,908
	4,099,167	3,961,476
Less accumulated depreciation	(2,016,543)	(1,916,405)
	$ 2,082,624	$ 2,045,071

For the years ended December 31, 2024 and 2023, the depreciation expense, including accelerated depreciation expense, was $171.5 million and $179.3 million, respectively.

In 2020, Franciscan's board authorized the development of a replacement hospital for its Franciscan Health Crown Point facility and a demolition plan for certain portions of the current hospital campus. In 2024, Franciscan's board approved the transition of the Franciscan Health Dyer hospital to a behavioral health facility and a demolition plan for certain portions of the hospital campus. These activities required a change in the estimated useful life of the associated assets resulting in the acceleration of depreciation of $3.8 million and $19.1 million for the years ended December 31, 2024 and 2023, respectively.

At December 31, 2024, the remaining contractual commitments on construction in progress is approximately $89.0 million and will be financed by a combination of cash flow from operations and existing funds.

6. Leases

Franciscan has lease commitments for real estate as well as medical and office equipment. The lease term begins at the lease commencement date which is determined based on the noncancelable term of the lease. Franciscan's remaining operating lease terms range from 1 to 15 years, with the obligations ending December 31, 2039. Franciscan's remaining finance lease terms range from 1 to 6 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.

6. Leases (continued)

The following table summarizes Franciscan's leased assets and lease liabilities within the consolidated statements of financial position at December 31, 2024 and 2023:

	2024	2023
	(in thousands)	
Total leased assets		
Operating lease assets classified as right of use leased assets, operating	$ 92,242	$ 106,154
Finance lease assets classified as property, plant, and equipment, net	21,083	18,332
	113,325	$ 124,486
Total lease liabilities		
Operating lease liabilities	$ 96,639	$ 111,085
Finance lease liabilities	24,064	22,067
	$ 120,703	$ 133,152

The components of lease expense are recorded as other expenses in the consolidated statements of operations and changes in net assets, excluding depreciation and interest on finance lease liabilities which is recorded to depreciation and amortization and interest expense, respectively. The components of lease expense and sublease revenue included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2024 and 2023 are as follows:

	2024	2023
	(in thousands)	
Operating sublease revenue	$ 3,547	$ 3,880
Operating lease expense	$ 28,218	$ 27,543
Short-term lease expense	4,172	2,200
Variable lease expense	18,762	18,483
Finance lease expense		
Depreciation of leased assets	6,342	4,885
Interest on lease liabilities	729	511
Total lease expense	$ 58,223	$ 53,622

6. Leases (continued)

At December 31, 2024, the minimum future lease payments under these leases are as follows:

	(in thousands)		
Years ended December 31,	**Operating**	**Finance**	**Total**
2025	$ 28,125	$ 7,489	$ 35,614
2026	23,927	6,951	30,878
2027	17,874	5,589	23,463
2028	12,755	3,401	16,156
2029	7,436	1,837	9,273
Thereafter	13,729	27	13,756
Total lease payments	$ 103,846	$ 25,294	$ 129,140
Less: imputed interest	(7,207)	(1,230)	(8,437)
Present value of minimum lease payments	$ 96,639	$ 24,064	$ 120,703

Other information related to leases for the years ended December 31, 2024 and 2023, is as follows:

Weighted-average remaining lease term (in years):	**2024**	**2023**
Operating leases	6.21	6.51
Finance leases	3.78	5.20
Weighted-average discount rate:		
Operating leases	2.67%	2.45%
Finance leases	2.91%	2.26%

7. Long-Term Debt

Long-term debt at December 31, 2024 and 2023, consists of the following:

	Year of Final Maturity	Interest Rate Range over Life of Bonds	2024	2023
			(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%	71,505	75,760
Series 2017B	2032	5.0%	122,155	131,930
Series 2017C	2039	3.0% - 5.0%	168,500	174,590
Bond discounts and premiums, net			23,230	27,143
Fixed rate term and serial bonds			585,390	609,423
Series 2012A fixed rate direct placement bonds	2048		75,000	75,000
Total fixed rate term and serial bonds and direct placement bonds			660,390	684,423

	Year of Final Maturity	Interest Rate Range 2024	Interest Rate Range 2023		
Variable rate direct placement bonds					
Series 2016C	2041	3.92% - 4.48%	3.72% - 4.47%	69,155	69,155
Series 2016E	2048	3.92% - 4.48%	3.72% - 4.47%	63,895	63,895
Series 2017A	2048	4.23% - 4.85%	3.96% - 4.80%	45,250	45,250
Series 2023A	2041	4.46% - 5.11%	4.40% - 5.10%	69,045	69,145
Series 2023B	2048	4.28% - 4.91%	4.92%	50,000	50,000
Total variable rate direct placement bonds				297,345	297,445

	Year of Final Maturity	Interest Rate Range 2024	Interest Rate Range 2023		
Variable rate demand bonds, subject to seven-day or daily put provisions supported by direct pay bank letters of					
Series 2008F	2048	1.95% - 4.50%	1.63% - 4.48%	45,200	45,200
Series 2008I	2037	0.50% - 4.90%	1.05% - 4.95%	25,010	26,875
Series 2008J	2037	0.50% - 4.90%	1.05% - 4.95%	25,015	26,885
Total variable rate demand bonds				95,225	98,960

	Year of Final Maturity	Interest Rate over Life of Loan		
Other debt				
Secured financing loan	2047	9.56%	92,275	92,275
Finance lease obligations (excluding imputed interest of $1,230 and $1,193 at December 31, 2024 and 2023, respectively)			24,064	22,067
Deferred financing costs and other			(3,358)	(3,619)
Total long-term debt			1,165,941	1,191,551
Less current portion of long-term debt			(123,113)	(28,687)
Long-term debt, net of current portion			$ 1,042,828	$ 1,162,864

7. Long-Term Debt (continued)

At December 31, 2024, 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)	
2025	$ 116,395	$ 6,718	$ 123,113
2026	22,240	6,613	28,853
2027	23,350	5,317	28,667
2028	26,305	3,236	29,541
2029	27,740	1,748	29,488
Thereafter	813,700	92,707	906,407
	$ 1,029,730	$ 116,339	$ 1,146,069

Total interest costs incurred on the long-term debt less capitalized interest for the years ended December 31, 2024 and 2023, are as follows:

	2024	2023
	(in thousands)	
Interest costs incurred	$ 50,353	$ 49,709
Less capitalized interest	3,650	11,402
Interest expense included in operating income	$ 46,703	$ 38,307

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 Group Affiliates' ability to encumber certain of their assets. As of December 31, 2024 and 2023, Franciscan was in compliance with the terms of the MTI and there were no other Obligated Group members nor any Designated Group Affiliates.

7. Long-Term Debt (continued)

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 its Series 2023A variable rate bonds having a direct placement agreement expiring in November 2041. During December 2023, Franciscan refunded its $50 million Series 2014A variable rate direct placement bonds with its Series 2023B variable rate bonds having a direct placement agreement expiring 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 that extended the direct placement agreement to December 2028.

Fixed Rate Direct Placement Bonds – Included in Franciscan's debt is approximately $75.0 million of fixed rate direct placement bonds with the credit provider agreement expiring in October 2027.

Variable Rate Direct Placement Bonds – Included in Franciscan's debt is approximately $297.3 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 $95.2 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, 2024. 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 and are included in current portion of long-term debt in the consolidated statements of financial position at December 31, 2024.

Secured Financing Loan – Franciscan has a credit tenant lease for an orthopedic center of excellence campus ("OCE") consisting of a specialty hospital, an ambulatory surgery center, and a medical office building. Franciscan subleases 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 the lease term and as such, were recognized as secured financing loans. The components of the sublease arrangements Franciscan has with its tenants, as recorded in the consolidated statements of financial position and the consolidated statements of operations and changes in net assets, are as follows:

	2024	2023
	(in thousands)	
Interest receivable, included in other current assets	$ 5,828	$ 6,999
Loan receivable, included in other assets	46,678	46,678
Interest revenue, included in other operating revenue	4,643	4,577

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 $0.1 million and $0.8 million for the years ended December 31, 2024 and 2023, respectively. At December 31, 2024 and 2023, the interest rate swap contracts were in a liability position with a fair value of approximately $11.6 million and $19.2 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 in excess of a threshold set forth in the related agreement. No collateral was posted as of December 31, 2024 or 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.

9. Retirement Benefits (continued)

The change in projected benefit obligation, change in plan assets, and funded status of Franciscan's pension plans as of December 31, 2024 and 2023, are as follows:

	2024	2023
	(in thousands)	
Change in benefit obligation		
Benefit obligation, beginning of year	$ 1,573,867	$ 1,500,556
Service cost	33,653	32,741
Interest cost	83,332	80,353
Actuarial (gain) loss	(53,849)	28,309
Expenses paid	(1,713)	(3,162)
Benefits paid from plan assets	(68,903)	(64,930)
Benefit obligation, end of year	1,566,387	1,573,867
Change in plan assets		
Fair value of plan assets, beginning of year	1,718,799	1,546,718
Actual return on plan assets	25,211	208,076
Employer contributions	22,920	32,097
Expenses paid	(1,713)	(3,162)
Benefits paid from plan assets	(68,903)	(64,930)
Fair value of plan assets, end of year	1,696,314	1,718,799
Funded status	$ 129,927	$ 144,932
Amounts recognized in the consolidated statements of finanical position		
Noncurrent assets recorded in other assets	$ 129,927	$ 144,932
Total amount recognized	$ 129,927	$ 144,932

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, 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)
Amounts reclassified into net periodic benefit cost	1,051	2,675	3,726
Amounts arising during the year	(21,815)	-	(21,815)
December 31, 2024	$ (201,433)	$ (21,074)	$ (222,507)

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.

9. Retirement Benefits (continued)

The accumulated benefit obligation ("ABO") was approximately $1.5 billion at December 31, 2024 and 2023. At December 31, 2024 and 2023, there were no plans with an ABO in excess of plan assets.

Components of net periodic pension cost for the years ended December 31, 2024 and 2023 are as follows:

	2024	2023
	(in thousands)	
Service cost	$ 33,653	$ 32,741
Interest cost	83,332	80,353
Expected return on plan assets	(100,875)	(103,653)
Amortization of prior service cost	2,675	2,744
Amortization of net loss	1,051	14,153
Net periodic pension cost	$ 19,836	$ 26,338

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, 2024 and 2023:

	2024	2023
Benefit obligation		
Discount rate	5.72 %	5.44 %
Rate of compensation increase	4.70 %	4.70 %
Net periodic pension cost		
Discount rate	5.44 %	5.50 %
Expected rate of return on plan assets	5.99 %	6.81 %
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.

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.

9. Retirement Benefits (continued)

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 with the asset allocation reviewed every quarter and rebalanced as necessary.

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%	90.0%	10.0%

For the years ended December 31, 2024 and 2023, the funded status of Franciscan's pension plans was 108% and 109%, respectively, when measured on a projected benefit obligation basis. Franciscan's asset allocation as of December 31, 2024 and 2023 was as follows:

	Percentage of Plan Assets	
	2024	2023
De-Risking Portfolio	84%	72%
Return Seeking/Growth Portfolio	16%	28%
	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. 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 and the de-risking assets are not adjusted downward with a reduction in the plan's funded status.

9. Retirement Benefits (continued)

Cash Flows

During 2025, Franciscan anticipates making contributions of approximately $25.5 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)
2025	$ 83,561
2026	88,491
2027	92,649
2028	97,046
2029	101,149
Years 2030-2034	552,711

The following tables summarize Franciscan's pension assets, measured at fair value as of December 31, 2024 and 2023, respectively:

Asset category	Level 1	Level 2	Balance as of December 31, 2024
		(in thousands)	
Cash and cash equivalents	$ 57,520	$ -	$ 57,520
U.S. government, state, municipal, and agency obligations	170,274	58,384	228,658
Other fixed income securities	-	1,156,702	1,156,702
Equity securities	74,333	-	74,333
Mutual funds	178,725	-	178,725
Asset backed securities	-	65	65
Real estate investment trusts	311	-	311
Total investments at fair value	$ 481,163	$ 1,215,151	$ 1,696,314

Asset category	Level 1	Level 2	Balance as of December 31, 2023
		(in thousands)	
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

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2024 and 2023.

9. Retirement Benefits (continued)

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, 2024 and 2023 aggregated $42.3 million and $43.8 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 $162.9 million and $163.8 million on an undiscounted basis at December 31, 2024 and 2023, respectively. These liabilities are included within accounts payable and accrued expenses and estimated insurance liabilities in the consolidated statements of financial position.

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, 2024 and 2023, 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.

Franciscan's share of the equity in income of investments in unconsolidated affiliates accounted for under the equity method is approximately $14.2 million and $11.8 million for the years ended December 31, 2024 and 2023, 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, 2024 and 2023:

	2024	2023
	(in thousands)	
Capital needs and equipment	$ 2,475	$ 6,242
Medical education programs	10,428	10,489
Health care operations and patient services	20,737	21,136
Other restrictions - spiritual care and mission related activities	11,268	8,399
	$ 44,908	$ 46,266

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, 2024 and 2023. 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.

	2024	2023
	(in thousands)	
Financial assets:		
Cash and cash equivalents	$ 64,740	$ 99,924
Short-term investments	213,464	125,184
Patient accounts receivable, net	466,852	511,411
Board designated and other investments	2,938,593	2,800,627
Total financial assets	3,683,649	3,537,146
Less amounts not available within one year or not designated for general expenditures:		
Estimated insurance liability funds	232,679	211,720
Other restricted investments	62,980	52,960
Private credit	147,593	116,906
Private equity	282,422	235,841
Real assets not currently redeemable	19,460	26,947
Total financial assets not available within one year	745,134	644,374
Financial assets and liquidity resources available for general expenditures within one year	$ 2,938,515	$ 2,892,772

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 $100.4 million and $94.0 million for the years ended December 31, 2024 and 2023, 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 $5.4 million and $6.6 million for the years ended December 31, 2024 and 2023, respectively, as other operating revenue on the consolidated statements of operations and changes in net assets.

14. Related Party Transactions (continued)

Franciscan incurred clinical and support services from an unconsolidated affiliate approximating $56.3 million and $53.5 million for the years ended December 31, 2024 and 2023, respectively, which is included in physician fees and purchased services in 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 ended December 31, 2024 and 2023:

(in thousands)

	Health Care Services	General and Administrative	Construction Company	Accountable Care Organizations	Total
Period Ended December 31, 2024					
Salaries and related costs	$ 1,767,086	$ 296,062	$ 23,528	$ 18,165	$ 2,104,841
Medical supplies, drugs, services, and other expenses	1,141,435	174,643	99,421	28,578	1,444,077
Hospital assessment fees	161,967	-	-	-	161,967
Depreciation and amortization	136,820	33,715	664	342	171,541
Interest	46,703	-	-	-	46,703
Other components of net periodic pension cost included in other, net	-	(13,817)	-	-	(13,817)
Other nonoperating expenses included in other, net	-	18,421	-	395	18,816
	$ 3,254,011	$ 509,024	$ 123,613	$ 47,480	$ 3,934,128
Year ended December 31, 2023					
Salaries and related costs	$ 1,703,442	$ 285,399	$ 13,639	$ 17,096	$ 2,019,576
Medical supplies, drugs, services, and other 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

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, 2024 through April 16, 2025, 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.