COMMONSPIRIT HEALTH

Consolidated Financial Statements as of
and for the Years Ended June 30, 2019 and 2018
With Report of Independent Auditors

COMMONSPIRIT HEALTH

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Report of Independent Auditors

The Board of Stewardship Trustees
CommonSpirit Health

We have audited the accompanying consolidated financial statements of CommonSpirit Health, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CommonSpirit Health as of June 30, 2019 and 2018, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

October 4, 2019

COMMONSPIRIT HEALTH

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2019 AND 2018 (in millions)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	$ 1,569	$ 510
Short-term investments	2,511	-
Assets limited as to use	2,315	218
Patient accounts receivable, net of allowance for doubtful accounts of $827 in 2018	3,726	2,122
Broker receivables for unsettled investment trades	291	-
Provider fee receivable	964	43
Assets held for sale	223	196
Other current assets	1,403	642
Total current assets	13,002	3,731
Assets limited as to use:		
Designated assets for:		
Capital projects and other	7,519	5,309
Held for self-insured claims	1,551	869
Under bond indenture agreements for debt service	31	-
Donor-restricted	879	309
Other	397	197
Less amount required to meet current obligations	(2,315)	(218)
Assets limited as to use, net	8,062	6,466
Property and equipment, net	15,266	8,111
Ownership interests in health-related activities	3,145	1,733
Goodwill	242	239
Intangible assets, net	714	182
Other long-term assets, net	194	133
Total assets	$ 40,625	$ 20,595

(Continued)

COMMONSPIRIT HEALTH

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2019 AND 2018 (in millions)

Liabilities and Net Assets	**2019**	**2018**
Current liabilities:		
Current portion of long-term debt	$ 3,475	$ 2,087
Demand bonds subject to short-term liquidity arrangements	820	97
Accounts payable	1,362	743
Accrued salaries and benefits	1,348	566
Self-insured reserves and claims	423	197
Broker payables for unsettled investment trades	403	-
Liabilities held for sale	162	252
Provider fee payables	335	13
Other accrued liabilities	1,190	801
Total current liabilities	9,518	4,756
Other liabilities - long-term:		
Self-insured reserves and claims	1,104	483
Pension and other postretirement benefit liabilities	3,692	865
Derivative instruments	214	33
Other	1,094	984
Total other liabilities - long-term	6,104	2,365
Long-term debt, net of current portion	9,212	6,342
Total liabilities	24,834	13,463
Net assets:		
Without donor restrictions - attributable to CommonSpirit Health	14,428	6,529
Without donor restrictions - noncontrolling interests	486	300
With donor restrictions	877	303
Total net assets	15,791	7,132
Total liabilities and net assets	$ 40,625	$ 20,595

See notes to consolidated financial statements.

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2019 AND 2018 (in millions)

	2019	2018
Operating revenues:		
Patient revenue, net of contractual discounts and adjustments		$ 14,903
Provision for bad debts		(767)
Net patient revenue	$ 19,476	14,136
Premium revenue	476	53
Revenue from health-related activities, net	70	18
Other operating revenue	897	733
Contributions	47	42
Total operating revenues	20,966	14,982
Operating expenses:		
Salaries and benefits	10,161	7,111
Supplies	3,337	2,449
Purchased services and other	6,273	4,379
Depreciation and amortization	1,087	856
Interest expense, net	391	313
Total operating expenses	21,249	15,108
Operating loss before special charges and other costs	(283)	(126)
Special charges and other costs	(319)	(141)
Operating loss	(602)	(267)
Nonoperating income (loss):		
Investment income, net	612	443
Income tax expense	(14)	(10)
Change in fair value and cash payments of interest rate swaps	(131)	52
Contribution from business combination	9,155	-
Other	(6)	4
Total nonoperating income, net	9,616	489
Excess of revenues over expenses	$ 9,014	$ 222
Less excess of revenues over expenses attributable to noncontrolling interests	6	28
Excess of revenues over expenses attributable to CommonSpirit Health	$ 9,008	$ 194

(Continued)

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2019 AND 2018 (in millions)

	Without Donor Restrictions			
	Attributable to CommonSpirit Health	Noncontrolling Interest	With Donor Restrictions	Total Net Assets
Balance, June 30, 2017	$ 7,048	$ 368	$ 311	$ 7,727
Excess of revenues over expenses	194	28	-	222
Contributions	-	-	42	42
Net assets released from restrictions for capital	21	-	(21)	-
Net assets released from restrictions for operations and other	-	-	(26)	(26)
Change in funded status of pension and other postretirement benefit plans	139	4	-	143
Loss from discontinued operations, net	(790)	(3)	-	(793)
Other	(83)	(97)	(3)	(183)
Decrease in net assets	(519)	(68)	(8)	(595)
Balance, June 30, 2018	6,529	300	303	7,132
Excess of revenues over expenses	9,008	6	-	9,014
Contribution from business combination	-	235	559	794
Contributions	-	-	69	69
Net assets released from restrictions for capital	28	-	(28)	-
Net assets released from restrictions for operations and other	-	-	(35)	(35)
Change in funded status of pension and other postretirement benefit plans	(1,026)	-	-	(1,026)
Loss from discontinued operations, net	(79)	-	-	(79)
Other	(32)	(55)	9	(78)
Increase in net assets	7,899	186	574	8,659
Balance, June 30, 2019	$ 14,428	$ 486	$ 877	$ 15,791

See notes to consolidated financial statements.

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018 (in millions)

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 8,659	$ (595)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Net loss on deconsolidation of subsidiary	-	319
Depreciation and amortization	1,087	856
Provision for doubtful accounts	-	767
Health-related activities:		
Changes in equity of unconsolidated entities	(78)	(18)
Purchase of noncontrolling interest	12	155
Contribution from business combination	(9,949)	-
Net gain on disposal of assets	(24)	(46)
Asset impairment of discontinued operations	-	378
Noncash special charges and other	124	14
Change in fair value of swaps	104	(80)
Change in funded status of pension and other postretirement benefit plans	1,026	(139)
Pension cash contributions	(19)	(117)
Changes in certain assets and liabilities:		
Accounts receivable, net	(110)	(917)
Accounts payable	76	(83)
Self-insured reserves and claims	20	8
Accrued salaries and benefits	117	(64)
Changes in broker receivables/payables for unsettled investment trades	142	-
Provider fee assets and liabilities	152	14
Other accrued liabilities	130	20
Prepaid and other current assets	(30)	(4)
Other, net	49	68
Cash provided by operating activities before net change in investments and assets limited as to use	1,488	536
Net decrease in investments and assets limited as to use	409	198
Cash provided by operating activities	1,897	734

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COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018 (in millions)

	2019	2018
Cash flows from investing activities:		
Purchases of property and equipment	(1,148)	(759)
Investments in health-related activities	(121)	(110)
Business acquisitions, net of cash acquired	665	(21)
Proceeds from asset sales	72	61
Cash distributions from health-related activities	109	50
Other, net	6	(17)
Cash used in investing activities	(417)	(796)
Cash flows from financing activities:		
Borrowings	580	910
Repayments	(869)	(1,044)
Swaps cash collateral (posted) received	(65)	84
Distributions to noncontrolling interests	(49)	(33)
Purchase of noncontrolling interests	(12)	(155)
Other	(6)	-
Cash used in financing activities	(421)	(238)
Net increase (decrease) in cash and cash equivalents	1,059	(300)
Cash and cash equivalents at beginning of the year	510	810
Cash and cash equivalents at end of the year	$ 1,569	$ 510
Components of cash and cash equivalents and investments at end of year:		
Cash and cash equivalents	$ 1,569	$ 510
Short-term investments	2,511	-
Designated assets for capital projects and other	7,519	5,309
Total	$ 11,599	$ 5,819
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 430	$ 338
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease or note payable	$ 15	$ 19
Investments in health-related activities	$ 17	$ 11
Accrued purchases of property and equipment	$ 113	$ 44

See notes to consolidated financial statements.

1. ORGANIZATION

CommonSpirit Health (the "Corporation") is a Colorado nonprofit public benefit corporation exempt from federal and state income taxes. Effective February 1, 2019, Catholic Health Initiatives (dba "CHI") changed its name to CommonSpirit Health and became the sole corporate member of Dignity Health, a California nonprofit public benefit corporation also exempt from federal and state income taxes. CommonSpirit Health is a Catholic healthcare system sponsored by the public juridic person, Catholic Health Care Federation ("CHCF"). Due to the circumstances of the business combination between CHI and Dignity Health, through the alignment under CHCF, the transaction qualified for acquisition accounting with CommonSpirit Health as the accounting acquirer of Dignity Health.

CommonSpirit Health owns and operates health care facilities in 21 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations that are exempt from federal and state income taxes. CommonSpirit Health is comprised of 142 hospitals, including three academic health centers, major teaching hospitals, and 31 critical access facilities; community health services organizations; accredited nursing colleges; home health agencies; living communities; a medical foundation and other affiliated medical groups; and other facilities and services that span the inpatient and outpatient continuum of care. CommonSpirit Health also has two offshore and one onshore captive insurance companies. The accompanying consolidated financial statements include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit").

CommonSpirit Health and substantially all of its direct affiliates and subsidiaries have been granted exemptions from federal income tax as charitable organizations under Section 501(c)(3) of the Internal Revenue Code.

The accompanying consolidated balance sheets and related consolidated statements of operations and changes in net assets and statements of cash flows reflect the financial position and results of operations of CHI as of and for the year ended June 30, 2018, and of CommonSpirit as of and for the year ended June 30, 2019. CommonSpirit's results of operations for the year ended June 30, 2019, include 12 months of results of operations and cash flows for CHI, and five months of results of operations and cash flows for Dignity Health from February 1, 2019 to June 30, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis for Presentation – The accompanying consolidated financial statements of CommonSpirit were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of CommonSpirit after elimination of intercompany transactions and balances.

Reclassifications – Certain reclassifications and changes in presentation were made in the 2018 consolidated financial statements to conform to the 2019 presentation. As previously presented, CommonSpirit classified net assets with no donor-imposed restriction as unrestricted. Such net assets are reported herein as net assets without donor restrictions. Also, as previously presented, CommonSpirit classified net assets with donor-imposed restrictions as either temporarily restricted or permanently restricted. Such net assets are reported herein as net assets with donor restrictions.

A crosswalk of the 2018 consolidated financial statement presentation to the 2019 presentation is provided below. The changes in presentation were made in part to separately present balances that became material to CommonSpirit in 2019, as a result of the affiliation with Dignity Health during the fiscal year. Other accounts were combined as they were no longer material to the CommonSpirit 2019 results.

(in millions)	As Originally Presented	Reclassifications	As Adjusted
Cash and equivalents	$ 510	$ -	$ 510
Current portion of investments and assets limited as to use	64	154	218
Patient accounts receivable, net	2,122	-	2,122
Other accounts receivable	257	(257)	-
Provider fee receivable	-	43	43
Inventories	299	(299)	-
Assets of discontinued operations and held for sale	196	-	196
Prepaid and other	144	(144)	-
Other current assets	-	642	642
Total investments and assets limited as to use, net of current portion	6,473	(7)	6,466
Property and equipment, net	8,111	-	8,111
Investments in unconsolidated organizations	1,733	-	1,733
Intangible assets and goodwill, net	421	(421)	-
Goodwill	-	239	239
Intangible assets, net	-	182	182
Notes receivable and other	265	(265)	-
Other long-term assets, net	-	133	133
Total assets	$ 20,595	$ -	$ 20,595
Commercial paper and current portion of debt	$ 2,087	$ -	$ 2,087
Variable-rate debt with self-liquidity	97	-	97
Compensation and benefits	569	(3)	566
Accounts payable	-	743	743
Third-party liabilities, net	132	(132)	-
Accounts payable and accrued expenses	1,480	(1,480)	-
Self-insured reserves and claims, current	-	197	197
Liabilities of discontinued operations and held for sale	252	-	252
Provider fee payables	-	13	13
Other accrued liabilities	-	801	801
Self-insured reserves and claims, long-term	623	(140)	483
Pension liability	854	(854)	-
Pension and other postretirement benefit liabilities	-	865	865
Derivative instruments	-	33	33
Other liabilities	1,027	(43)	984
Long-term debt	6,342	-	6,342
Total liabilities	$ 13,463	$ -	$ 13,463

The notable changes in presentation for the 2018 consolidated statement of operations include reclassifying $53 million of premium revenue out of other operating revenue, and $10 million of income tax expense out of other operating expenses into a separate line within nonoperating income (loss). Special charges and other costs represent 2018 restructuring, impairment and other losses as previously presented.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. CommonSpirit considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient revenue, which includes contractual discounts and adjustments; price concessions and charity care; fair value of acquired assets and assumed liabilities in business combinations; recorded values of depreciable and amortizable assets, investments and goodwill; reserves for self-insured workers' compensation and professional and general liabilities; contingent liabilities; and assumptions for measurement of pension and other postretirement benefit liabilities. Management bases its estimates on historical experience and various other assumptions that it believes are reasonable under the particular circumstances. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents consist primarily of cash and liquid marketable securities with an original maturity of three months or less.

Inventories – Inventories, primarily consisting of pharmacy drugs and medical and surgical supplies, are stated at the lower of cost or net realizable value, determined using the first-in, first-out method.

Broker Receivables and Payables for Unsettled Investment Trades – CommonSpirit accounts for its investments on a trade date basis. Amounts due to/from brokers for investment activity represent transactions that have been initiated prior to the consolidated balance sheet date, but are formally settled subsequent to the consolidated balance sheet date.

Assets and Liabilities Held for Sale – Assets and liabilities held for sale represent assets and liabilities that are expected to be sold within one year. A group of assets and liabilities expected to be sold within one year is classified as held for sale if it meets certain criteria. The assets and liabilities held for sale are measured at the lower of carrying value or fair value less cost to sell. Such valuations include estimates of fair values generally based upon firm offers, discounted cash flows and incremental direct costs to transact a sale (Level 2 and Level 3 inputs).

Investments and Investment Income – The CommonSpirit Board of Stewardship Trustees Investment Committee establishes guidelines for investment decisions. Within those guidelines, CommonSpirit invests in equity and debt securities which are measured at fair value and are classified as trading securities. Accordingly, unrealized gains and losses on marketable securities are recorded within excess of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets, and cash flows from the purchases and sales of marketable securities are reported as a component of operating activities in the accompanying consolidated statements of cash flows.

CommonSpirit also invests in alternative investments through limited partnerships. Alternative investments are comprised of private equity, real estate, hedge fund and other investment vehicles. CommonSpirit receives a proportionate share of the investment gains and losses of the partnerships. The limited partnerships generally contract with managers who have full discretionary authority over the investment decisions, within CommonSpirit's guidelines. These alternative investment vehicles invest in equity securities, fixed income securities, currencies, real estate, commodities, and derivatives.

CommonSpirit accounts for its ownership interests in these alternative investments under the equity method, the value of which is based on the net asset value ("NAV") practical expedient and is determined using investment valuations provided by the external investment managers, fund managers or general partners.

Alternative investments generally are not marketable and many alternative investments have underlying investments that may not have quoted market values. The estimated value of such investments is subject to uncertainty and could differ had a ready market existed. Such differences could be material. CommonSpirit's risk is limited to its capital investment in each investment and capital call commitments as discussed in Note 8.

Investment income or loss is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Income earned on tax-exempt borrowings for specific construction projects is offset against interest expense capitalized for such projects during construction.

Assets Limited as to Use – Assets limited as to use include assets set aside by CommonSpirit for future long-term purposes, including funding depreciation, to the extent that funds are available, to be used for replacement, expansion and improvement of operating property and equipment. Assets limited as to use also include amounts held by trustees under bond indenture agreements, funds set aside for self-insurance programs, amounts contributed by donors with stipulated restrictions, and amounts held for mission and ministry purposes.

Liquidity – Cash and cash equivalents, short-term investments, patient and other accounts receivable, broker receivables, and provider fee receivables are the financial assets available to meet expected expenditure needs within the next year. Additionally, although intended to satisfy long-term obligations, management estimates that approximately 87% of designated assets for capital projects and other in assets limited as to use, as stated at June 30, 2019, could be utilized within the next year, if needed. CommonSpirit also has credit facility programs, as described in Note 15, available to meet unanticipated liquidity needs.

Deferred Financing Costs and Original Issue Discounts/Premiums on Bond Indebtedness – CommonSpirit amortizes deferred financing costs and original issue discounts/premiums on bond indebtedness over the estimated average period the related bonds will be outstanding, which approximates the effective interest method. Both deferred financing costs and original issue discounts/premiums are recorded with the related debt.

Property and Equipment – Property and equipment are stated at cost if purchased and at fair market value upon receipt if donated or upon the date of impairment if impaired. Depreciation of property and equipment is recorded using the straight-line method. Amortization of capital lease assets is included in depreciation expense. Estimated useful lives by major classification are as follows:

Land improvements	2 to 40 years
Buildings and improvements	5 to 40 years
Equipment	3 to 20 years
Software	3 to 10 years

Asset Impairment – CommonSpirit routinely evaluates the carrying value of its long-lived assets for 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 generated by the underlying tangible assets. When the carrying value of an asset exceeds the estimated recoverability, an asset impairment charge is recognized. The impairment tests are based on financial projections prepared by management that incorporate anticipated results from programs and initiatives being implemented and market value assessments of the assets. If these projections are not met, or if negative trends occur that impact the future outlook, the value of the long-lived assets may be impaired.

Goodwill and indefinite-lived intangible assets are tested for impairment annually on various dates and when an event or circumstance indicates the value of the reporting unit or intangible asset may be impaired. CommonSpirit uses the income and market approaches to estimate the fair value of its reporting units and uses the income approach to estimate the fair value of its indefinite-lived intangible assets. If the carrying value exceeds the fair value, an impairment charge is recognized. See Notes 11 and 12.

Fair Value of Financial Instruments – The carrying amounts reported in the accompanying consolidated balance sheets for assets and liabilities, such as cash and cash equivalents, patient accounts receivable, interests in unconsolidated foundations, excess insurance receivables, community investment loans, broker receivables and payables on unsettled investment trades, accounts payable, and accrued expenses approximate fair value due to the nature of these items. The fair value of investments is disclosed in Note 8.

Derivative Instruments – CommonSpirit utilizes derivative arrangements to manage interest costs and the risk associated with changing interest rates. CommonSpirit records derivative instruments on the accompanying consolidated balance sheets as either an asset or liability measured at its fair value. See Notes 8 and 16.

CommonSpirit does not have derivative instruments that are designated as hedges. Interest cost and changes in fair value of derivative instruments are included in change in fair value and cash payments of interest rate swaps in nonoperating income, net, in the accompanying consolidated statements of operations and changes in net assets.

Ownership Interests in Health-Related Activities – Generally, when the ownership interest in health-related activities is more than 50% and CommonSpirit has a controlling interest, the ownership interest is consolidated, and a noncontrolling interest is recorded in net assets without donor restrictions. When the ownership interest is at least 20%, but not more than 50%, or CommonSpirit has the ability to exercise significant influence over operating and financial policies of the investee, it is accounted for under the equity method, and the income or loss is reflected in revenue from health-related activities, net. Ownership interests for which CommonSpirit's ownership is less than 20% or for which CommonSpirit does not have the ability to exercise significant influence are carried at the lower of cost or estimated fair value. See Note 10.

Self-Insurance Plans – CommonSpirit maintains self-insurance programs for workers' compensation benefits for employees and for professional and general liability risks. Annual self-insurance expense under these programs is based on past claims experience and projected losses. Actuarial estimates of uninsured losses for each program at June 30, 2019 and 2018, have been accrued as liabilities and include an actuarial estimate for claims incurred but not reported ("IBNR"). CommonSpirit has insurance coverage in place for amounts in excess of the self-insured retention for workers' compensation and professional and general liabilities. The current and long-term portions of these liabilities are reflected accordingly in self-insured reserves and claims in the accompanying consolidated balance sheets.

CommonSpirit maintains separate trusts for these programs from which claims and related expenses and costs of administering the plans are paid. CommonSpirit's policy is to fund the trusts such that, over time, assets held equal liabilities for claims incurred for workers' compensation and claims made for professional liability risks.

CommonSpirit is also self-insured for certain employee medical benefits. The liability for IBNR claims for these benefits is included in self-insured reserves and claims within current liabilities in the accompanying consolidated balance sheets.

Patient Accounts Receivable, Allowance for Doubtful Accounts and Net Patient Revenue – Patient service revenue is reported at the amounts that reflect the consideration CommonSpirit expects to be paid in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others, and include consideration for retroactive revenue adjustments due to settlement of audits and reviews. Generally, performance obligations for patients receiving inpatient acute care services and outpatient services are recognized over time as services are provided. Net patient revenue is primarily comprised of hospital and physician services.

Performance obligations are generally satisfied over a period less than one year. As such, CommonSpirit has elected to apply the optional exemption provided in Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2015-14, *Revenue From Contracts with Customers (Topic 606),* and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

CommonSpirit determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with CommonSpirit's financial assistance policy, and implicit price concessions provided to uninsured and underinsured patients. CommonSpirit determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. CommonSpirit determines its estimate of implicit price concessions based on its historical collection experience with these classes of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. CommonSpirit relies on the results of detailed reviews of historical write-offs and collections in estimating the collectability of accounts receivable. Updates to the hindsight analysis is performed at least quarterly using primarily a rolling eighteen-month collection history and write-off data. Subsequent changes to estimates of the transaction price are generally recorded as adjustments to net patient revenue in the period of the change.

Subsequent changes that are determined to be the result of an adverse change in a third-party payor's ability to pay are recorded as bad debt expense in purchased services and other in the accompanying consolidated statements of operations and changes in net assets. Bad debt expense for 2019 was not significant.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements included in net patient revenue follows:

Medicare: Payments for inpatient services are generally made on a prospectively determined rate based on clinical diagnosis. Certain facilities receive cost-based reimbursement. Hospital outpatient services are generally paid based on prospectively determined rates. Physician services are paid based upon established fee schedules.

Medicaid: Payments for inpatient services are generally made on a prospectively determined rate based on clinical diagnosis or on a per case or per diem basis. Hospital outpatient services and physician services are paid based upon established fee schedules, a cost basis reimbursement methodology, or discounts from established charges.

Commercial: Payments for inpatient and outpatient services provided to patients covered under commercial insurance policies are paid using a variety of payment methodologies, including per diem and case rates.

Self-Pay and Other: Payment agreements with uninsured or underinsured patients, along with other responsible entities, including institutions, other hospitals and other government payors, are based on a variety of payment methodologies.

Net patient revenue includes estimated settlements under payment agreements with third party payors. Settlements with third-party payors are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined. These settlements are estimated and evaluated based on the terms of the payment agreement with the payor, correspondence from the payor, and historical settlement activity.

Premium Revenue – CommonSpirit has at-risk agreements with various payors to provide medical services to enrollees. Under these agreements, CommonSpirit receives monthly payments based on the number of enrollees, regardless of services actually performed by CommonSpirit. CommonSpirit accrues costs when services are rendered under these contracts, including estimates of IBNR claims and amounts receivable/payable under risk-sharing arrangements. The IBNR accrual includes an estimate of the costs of services for which CommonSpirit is responsible, including out-of-network services, and is recorded in other accrued liabilities.

Traditional Charity Care – Charity care is free or discounted health services provided to persons who cannot afford to pay and who meet CommonSpirit's criteria for financial assistance. The amount of services written off as charity quantified at customary charges was $1.2 billion and $934 million for 2019 and 2018, respectively. CommonSpirit estimates the cost of charity care by calculating a ratio of cost to usual and customary charges and applying that ratio to the usual and customary uncompensated charges associated with providing care to patients who qualify for charity care. This amount is not included in net patient revenue in the accompanying consolidated statements of operations and changes in net assets. The estimated cost of charity care associated with write-offs in 2019 and 2018 was $317 million and $226 million, respectively, for continuing operations, and $5 million and $18 million in 2019 and 2018, respectively, for discontinued operations. See Note 23.

Other Operating Revenue – Other operating revenue includes grant revenues, retail pharmacy revenues, management services revenues, rental revenues, cafeteria revenues, certain contributions released from restrictions, gains on sales of assets, and other nonpatient care revenues.

Contributions and Net Assets With Donor Restrictions – Gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, net assets with donor restrictions related to capital purchases are reclassified as net assets without donor restrictions and reflected as net assets released from restrictions used for the purchase of property and equipment in the accompanying statements of operations and changes in net assets, whereas net assets with donor restrictions related to other gifts are reclassified as net assets without restrictions and recorded as other operating revenue. Gifts received with no restrictions are recorded as contributions in operating revenues. Gifts of long-lived operating assets, such as property and equipment, are reported as additions to net assets without donor restrictions, unless otherwise specified by the donor.

Unconditional promises to give cash and other assets to CommonSpirit are recorded at fair value at the date the promise is received using a discount rate of 2.0% to 5.5% and are generally due within five years. Conditional promises to give are recorded when the conditions have been substantially met. Donor indications of intentions to give are not recorded; such gifts are recorded at fair value only upon actual receipt of the gift. Investment income on net assets with donor restrictions is classified pursuant to the intent or requirement of the donor.

Endowment assets, which are primarily to be used for equipment and expansion, research and education, or charity purposes, include donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Donor-restricted endowment net assets totaled $877 million and $303 million in 2019 and 2018, respectively. Changes in endowment net assets primarily relate to investment returns, contributions, and appropriations for expenditures. CommonSpirit preserves the fair value of these gifts as of the date of donation unless otherwise stipulated by the donor. Donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure. CommonSpirit considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of CommonSpirit.

CommonSpirit has investment and spending policies for endowment assets designed to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets.

Endowment assets are invested in a manner that is intended to produce results that achieve the respective benchmark while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, CommonSpirit relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). CommonSpirit targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Special Charges and Other Costs – Special charges include costs related to the affiliation of CHI and Dignity Health, changes in business operations, long-lived asset impairments, and pension settlement activity. Changes in business operations include patient information go-live support and costs incurred to implement reorganization efforts within specific operations in order to align CommonSpirit's operations in the most strategic and cost effective manner. See Note 19.

Community Benefits – As part of its mission, CommonSpirit provides services to the poor and benefits for the broader community. The costs incurred to provide such services are included in excess of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets. CommonSpirit prepares a summary of unsponsored community benefit expense in accordance with Internal Revenue Service Form 990, Schedule H, and the Catholic Health Association of the United States ("CHA") publication, *A Guide for Planning and Reporting Community Benefit*. See Note 23.

Interest Expense – Interest expense on debt issued for construction projects is capitalized until the projects are placed in service. Interest expense, net, includes interest and fees on debt, net of these capitalized amounts. See Note 17.

Income Taxes – CommonSpirit has established its status as an organization exempt from income taxes under the Internal Revenue Code Section 501(c)(3) and the laws of the states in which it operates, and as such, is generally not subject to federal or state income taxes. However, CommonSpirit's exempt organizations are subject to income taxes on net income derived from a trade or business, regularly carried on, which does not further the organizations' exempt purposes. No significant income tax provision has been recorded in the accompanying consolidated financial statements for net income derived from unrelated trade or business.

CommonSpirit's for-profit subsidiaries account for income taxes related to their operations. The for-profit subsidiaries recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of their assets and liabilities, along with net operating loss and tax credit carryovers, for tax positions that meet the more-likely-than-not recognition criteria. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Income tax interest and penalties are recorded as income tax expense. For the years ended June 30, 2019 and 2018, CommonSpirit's taxable entities recorded an immaterial amount of interest and penalties as part of the provision for income taxes. CommonSpirit's taxable entities did not have any material unrecognized income tax benefits as of June 30, 2019 and 2018. CommonSpirit reviews its tax positions quarterly and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated financial statements.

Performance Indicator – Management considers excess of revenues over expenses to be CommonSpirit's performance indicator. Excess of revenues over expenses includes all changes in net assets without donor restrictions except for the effect of changes in accounting principles, gains and losses from discontinued operations, net assets released from restrictions used for purchase of property and equipment, change in funded status of pension and other postretirement benefit plans, change in ownership interests held by controlled subsidiaries, change in accumulated unrealized derivative gains and losses, and funds donated from unconsolidated sources for purchase of property and equipment.

Operating and Nonoperating Activities – CommonSpirit's primary purpose is to provide a variety of health care-related activities, education and other benefits to the communities in which it operates. Activities directly related to the furtherance of this purpose are recorded as operating activities. Other activities outside of this mission are reported as nonoperating activities. Such activities include net investment income, income tax expense, interest cost and changes in fair value of interest rate swaps, contribution gains from affiliations, and the nonoperating component of Joint Operating Agreement ("JOA") income share adjustments.

Recent Accounting Pronouncements – In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842),* which enhanced ASU No. 2016-02, *Leases (Topic 842),* and amendments thereto. The guidance of these ASUs requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet and allows for an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements. The ASUs were effective July 1, 2019, and CommonSpirit has elected the practical expedient to initially apply the new leasing standard at the effective date. CommonSpirit is finalizing its analysis of certain key assumptions that will be utilized at the transition date, including the incremental borrowing rate. The primary effect of the new standard will be to record right-of-use assets and obligations for leases classified as operating leases under current guidance, which will have a material impact on the consolidated balance sheets and significant incremental disclosures in the notes to consolidated financial statements. The standard will not have a material impact on CommonSpirit's consolidated statements of operations or cash flows.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires employers to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, and the other components of net benefit cost are required to be presented on the income statement separately from the service cost component and outside of income from operations. The guidance is effective for CommonSpirit for the annual period ending June 30, 2020, and interim periods beginning July 1, 2020. The estimated net loss and prior service credit for the pension plans expected to be recognized in net periodic benefit cost during the year ending June 30, 2020, is $67 million. As a result of the adoption of ASU 2017-07, this component of net periodic benefit cost will be reflected in nonoperating income (loss) in the consolidated statements of operations and changes in net assets.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities,* which requires changes in presentation and disclosures to help not-for-profit entities provide more relevant information about their resources, including liquidity information, to donors, grantors, creditors, and other issues. The most significant change is that net assets are now reported in two classes: net assets without donor restrictions and net assets with donor restrictions. CommonSpirit adopted the guidance as of June 30, 2019, on a retrospective basis for all periods presented. The adoption did not have a material impact on the accompanying consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers,* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires expanded disclosures about revenue recognition. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. CommonSpirit adopted the guidance, as amended by ASU 2015-14, as of July 1, 2018, under the modified retrospective approach applied to all contracts existing as of that date. CommonSpirit primarily used a portfolio approach to apply the new model to classes of customers with similar characteristics. The impact of the adoption of the new standard on CommonSpirit's 2019 total revenues and results of operations is not material, as the analysis of its contracts under the new guidance supports the recognition of revenue consistent with its prior revenue recognition model. The most significant impact of adopting the new standard is to the presentation of the consolidated statements of operations and changes in net assets, where the provision for doubtful accounts is no longer presented as a separate line item and revenues are presented net of estimated implicit price concession revenue deductions. The related presentation of allowances for uncollectible accounts has been eliminated on the consolidated balance sheets for 2019 as a result of the adoption of the new standard.

Subsequent Events – CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal year and October 4, 2019, the date the financial statements were issued. See Notes 3 and 15.

3. ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

Affiliation of CHI and Dignity Health – On February 1, 2019, CHI and Dignity Health effected a business combination as discussed in Note 1. Due to the circumstances of the business combination between CHI and Dignity Health, through the alignment under CHCF, the transaction qualified for acquisition accounting with CommonSpirit Health as the accounting acquirer of Dignity Health. The affiliation was accounted for as an acquisition under Accounting Standards Codification ("ASC") 958-805, *Not-for-Profit Entities – Business Combinations*. No cash consideration was involved in the affiliation. As a result of the affiliation, a contribution of the excess of assets over liabilities of Dignity Health assumed by CommonSpirit of $10 billion was recognized. Of this amount, $9.2 billion was reported as a contribution from business combination within other income (loss) in the accompanying consolidated statements of operations and changes in net assets, and $235 million and $559 million was recorded as contribution from business combination for noncontrolling interest and net assets with donor restrictions, respectively, in the accompanying consolidated statements of operations and changes in net assets.

Dignity Health's assets acquired and liabilities assumed were fair valued using Level 3 inputs. The following summarizes the fair value estimate of Dignity Health's assets acquired and liabilities assumed as of February 1, 2019 (in millions):

Cash and cash equivalents	$	679
Short-term investments		2,425
Patient accounts receivable, net		1,789
Broker receivables for unsettled investment trades		36
Provider fee receivable		1,099
Other current assets		699
Designated assets for capital projects and other		2,746
Designated assets held for self-insured claims		768
Assets held under bond indenture agreements for debt service		4
Donor-restricted		557
Other assets limited as to use		90
Property and equipment, net		7,146
Ownership interests in health-related activities		1,315
Intangible assets, net		516
Other long-term assets, net		44
Long-term debt		(5,246)
Accounts payable		(564)
Accrued salaries and benefits		(719)
Broker payables for unsettled investment trades		(7)
Provider fee payables		(347)
Self-insured reserves and claims		(721)
Pension and other postretirement benefit liabilities		(1,640)
Derivative instruments		(140)
Other accrued liabilities		(527)
Total contribution of net assets	$	10,002

The following summarizes the financial results of Dignity Health included in the accompanying consolidated financial statements from the date of the affiliation through June 30, 2019 (in millions):

Total operating revenues	$	5,839
Operating income		117
Excess of revenues over expenses		372

The following unaudited pro forma consolidated financial information of CommonSpirit for 2019 and 2018 has been derived by CommonSpirit management from the results of CHI and Dignity Health assuming that operations of the two organizations were combined as of July 1, 2017. Acquisition-related adjustments have been excluded from the pro forma results.

	2019		**2018**	
(in millions)	**Actual**	**Pro Forma (a)**	**Actual**	**Pro Forma (b)**
Operating revenues:				
Net patient revenue	$ 19,476	$ 26,570	$ 14,136	$ 26,820
Premium revenue	476	1,034	53	955
Revenue from health-related activities, net	70	104	18	145
Other operating revenue	897	1,090	733	1,222
Contributions	47	63	42	62
Total operating revenues	20,966	28,861	14,982	29,204
Operating expenses:				
Salaries and benefits	10,161	14,154	7,111	14,071
Supplies	3,337	4,519	2,449	4,422
Purchased services and other	6,273	8,495	4,379	8,365
Depreciation and amortization	1,087	1,423	856	1,458
Interest expense, net	391	492	313	472
Total operating expenses	21,249	29,083	15,108	28,788
Operating income (loss) before special charges and other costs	(283)	(222)	(126)	416
Special charges and other costs	(319)	(360)	(141)	(172)
Operating gain (loss)	(602)	(582)	(267)	244
Nonoperating income (loss):				
Investment income, net	612	558	443	891
Income tax expense	(14)	(23)	(10)	1
Change in fair value and cash payments of interest rate swaps	(131)	(150)	52	70
Contribution (loss) from business combination, net	9,155	(53)	-	-
Other	(6)	(4)	4	4
Total nonoperating income, net	9,616	328	489	966
Excess (deficit) of revenues over expenses	$ 9,014	$ (254)	$ 222	$ 1,210
Less excess of revenues over expenses attributable to noncontrolling interests	6	36	28	84
Excess (deficit) of revenues over expenses attributable to CommonSpirit	$ 9,008	$ (290)	$ 194	$ 1,126

(a) Includes the historical results of Dignity Health for the seven-month period ended January 31, 2019, prior to the affiliation.

(b) Includes the historical results of Dignity Health for the year ended June 30, 2018, prior to the affiliation.

KentuckyOne Health – In July 2017, in accordance with an agreement entered into in December 2016 between KentuckyOne Health and University Medical Center ("UMC"), UMC took over the management of its assets and CHI ceased consolidating the UMC operations as part of KentuckyOne Health. The transaction resulted in a loss on deconsolidation of $319 million in 2018, reflected in discontinued operations in the accompanying consolidated statement of operations and changes in net assets.

In September 2017, CHI became the sole owner of KentuckyOne Health through the purchase of the noncontrolling interest from the remaining partner for $150 million in cash consideration.

QualChoice Health, Inc. – In January 2019, CHI sold QualChoice Health Inc.'s ("QualChoice Health") Medicare Advantage health insurance contract rights in the state of Washington. The purchase price is contingent upon future increases in the number of lives covered by the Medicare Advantage plans acquired and upon maintaining a specified Centers for Medicare & Medicaid Services ("CMS") Star Rating as published annually in October 2018 and 2019. As of June 30, 2019, QualChoice Health has recognized $14 million in proceeds from the sale.

In April 2019, CHI sold the commercial insurance operations of QualChoice Health in the state of Arkansas for gross proceeds of $46 million.

Jewish Hospital and St. Mary's Healthcare, Inc. – In May 2017, CHI approved a plan to sell or otherwise dispose of certain entities of Jewish Hospital and St. Mary's Healthcare, Inc. ("JHSMH"). In December 2017, CHI entered into a nonbinding letter of intent to negotiate a definitive agreement for the purchase of substantially all of the JHSMH assets. As of December 31, 2017, and as a result of the anticipated sale transaction, the assets and liabilities of the JHSMH discontinued operations were remeasured at the lower of their carrying amount or their fair value less cost to sell, which resulted in the recognition of an impairment charge of $272 million in the accompanying consolidated statements of operations and changes in net assets.

In June 2018, an updated letter of intent for the purchase of JHSMH was received and, based upon the terms of that letter of intent, CHI recognized additional impairment charges of $106 million in discontinued operations and $12 million in continuing operations to adjust the JHSMH property and equipment values to the lower of their carrying value or their fair value less cost to sell.

In August 2019, an Asset Purchase Agreement was signed with parties related to the University of Louisville for the purchase of the JHSMH operations held for sale. The closing of the transaction is expected to occur on October 31, 2019, with an effective date of November 1, 2019, pending usual and customary closing conditions.

Premier Health Partners – In January 2018, CHI effected an agreement with Premier Health Partners ("Premier"), an Ohio nonprofit corporation operating various hospitals in southwest Ohio, to reorganize and restructure the existing joint operating agreement with Premier. The agreement provided that CHI transfer ownership of Good Samaritan-Dayton ("Dayton") to Premier in exchange for a 22% interest in Premier. No gain or loss was recognized upon the exchange as the net book value of Dayton was equal to the fair value of the interest received in Premier of $325 million.

4. ASSETS AND LIABILITIES HELD FOR SALE

A summary of major classes of assets and liabilities held for sale is presented below as of June 30 (in millions):

Assets	**2019**	**2018**
Patient accounts receivable, net	$ 124	$ -
Other accounts receivable	16	24
Held for self-insurance claims	47	127
Other assets	26	31
Property and equipment, net	9	7
Other long-term assets	1	7
Total assets held for sale	$ 223	$ 196
Liabilities		
Current portion of long-term debt	$ -	$ 9
Accounts payable	58	27
Accrued salaries and benefits	43	42
Other accrued liabilities	20	39
Self-insured reserves and claims	7	91
Other long-term liabilities	34	44
Total liabilities held for sale	$ 162	$ 252

Operating results of discontinued operations are reported in the accompanying consolidated statements of operations and changes in net assets and are summarized as follows for the years ended June 30 (in millions):

	2019	**2018**
Net patient revenue	$ 703	$ 713
Other operating revenue	419	582
Total operating revenues	1,122	1,295
Salaries and benefits	427	440
Purchased services and other	727	917
Depreciation and amortization	3	4
Total operating expenses	1,157	1,361
Operating loss before special charges and other	(35)	(66)
Special charges and other	(40)	(724)
Operating loss	(75)	(790)
Nonoperating loss	(4)	(3)
Deficit of revenues over expenses	(79)	(793)
Deficit of revenues over expenses attributable to noncontrolling interests	-	(3)
Deficit of revenues over expenses attributable to CommonSpirit Health	$ (79)	$ (790)

In 2018, discontinued operations include impairment charges totaling $378 million for JHSMH and a $319 million loss on deconsolidation of UMC.

5. NET PATIENT REVENUE

The percentage of inpatient and outpatient services, calculated on the basis of usual and customary charges, is as follows for the year ended June 30:

	2019	2018
Inpatient services	48%	44%
Outpatient services	52%	56%

Patient revenue, net of contractual discounts and adjustments and implicit price concessions, is comprised of the following for the year ended June 30 (in millions):

	2019	2018
Government	$ 9,676	$ 6,587
Contracted	8,236	6,036
Self-pay and other	1,564	1,513
	$ 19,476	$ 14,136

Government payor type includes Medicare fee for service, Medicare capitated, Medicare managed care fee for service, Medicaid fee for service, Medicaid capitated and Medicaid managed care fee for service patient accounts. Contracted payor type includes contracted rate payors and commercial capitated patient accounts.

Total operating revenues by service line is as follows:

	2019	2018
Hospitals	$ 17,167	$ 12,040
Physician organizations	2,277	1,772
Long-term care and home care	324	324
Other	184	53
Net patient and premium revenue	19,952	14,189
Health plans, accountable care, and other	1,014	793
Total operating revenue	$ 20,966	$ 14,982

The increase in total operating revenue in 2019 relates to the affiliation with Dignity Health. See Note 1.

6. OTHER CURRENT ASSETS

Other current assets consist of the following at June 30 (in millions):

	2019	2018
Inventories	$ 538	$ 299
Receivables, other than patient accounts receivable	522	205
Prepaid expenses	286	137
Other	57	1
Total other current assets	$ 1,403	$ 642

7. INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments and assets limited as to use include assets set aside by CommonSpirit for future long-term purposes, including capital improvements and self-insurance for workers' compensation and professional and general liabilities, funds held by trustees under bond indenture agreements, amounts contributed by donors with stipulated restrictions, and amounts held for mission and ministry programs. Amounts set aside consist of the following at June 30 (in millions):

	2019	2018
Cash and short-term investments	$ 697	$ 112
U.S. government securities	843	200
U.S. corporate bonds	941	215
U.S. equity securities	1,372	269
Foreign government securities	-	83
Foreign corporate bonds	153	-
Foreign equity securities	1,302	-
Asset-backed securities	-	121
Private equity investments	643	-
Multi-strategy hedge fund investments	1,179	-
Real estate	233	-
CHI Operating Investment Program	4,738	5,534
Other	459	150
Interest in net assets of unconsolidated foundations	328	-
Total	$ 12,888	$ 6,684
Assets limited as to use:		
Current	$ 2,315	$ 218
Long-term	8,062	6,466
Short-term investments	2,511	-
Total	$ 12,888	$ 6,684

The current portion of assets limited as to use includes the amount of assets available to meet current obligations for debt service and claims payments under the self-insured programs for workers' compensation for employees and professional and general liability, and the current portion of pledges receivable.

8. FAIR VALUE MEASUREMENTS

CommonSpirit accounts for certain assets and liabilities at fair value or on a basis that approximates fair value. A fair value hierarchy for valuation inputs categorizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels and is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets in this category include money market funds, U.S. Treasury securities and listed equities.

Level 2: Pricing inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, and derivative instruments.

Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following represents assets and liabilities measured at fair value or at the NAV practical expedient on a recurring basis and certain other assets accounted for under the equity method as of June 30 (in millions):

	2019			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets				
Cash and short-term investments	$ 630	$ 67	$ -	$ 697
U.S. government securities	727	116	-	843
U.S. corporate bonds	71	440	-	511
U.S. equity securities	1,147	12	-	1,159
Foreign equity securities	629	2	-	631
Private equity	-	-	65	65
Other investments	61	25	1	87
Assets measured at fair value	$ 3,265	$ 662	$ 66	3,993
Assets at NAV:				
U.S. corporate bonds				430
U.S. equity securities				213
Foreign corporate bonds				153
Foreign equity securities				671
Private equity				578
Hedge funds				1,179
Real estate				233
Total assets				$ 7,450
Liabilities				
Derivative instruments	$ -	$ 454	$ -	$ 454
Other	3	-	74	77
Total liabilities	$ 3	$ 454	$ 74	$ 531

	2018			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Cash and short-term investments	$ 102	$ 10	$ -	$ 112
U.S. government securities	185	15	-	200
U.S. corporate bonds	-	215	-	215
U.S. equity securities	267	2	-	269
Foreign government securities	-	83	-	83
Asset-backed securities	-	121	-	121
Other investments	-	2	3	5
Total assets	$ 554	$ 448	$ 3	$ 1,005
Liabilities				
Derivative instruments	$ -	$ 208	$ -	$ 208
Other	5	-	82	87
Total liabilities	$ 5	$ 208	$ 82	$ 295

Assets and liabilities measured at fair value on a recurring basis reflected in the table above are reported in short-term investments, assets limited as to use, current liabilities and other liabilities in the accompanying consolidated balance sheets.

There were no transfers among any of the levels of fair value hierarchy during the periods presented.

The Level 2 and 3 instruments listed in the fair value hierarchy tables above use the following valuation techniques and inputs:

For marketable securities, such as U.S. and foreign government securities, U.S. and foreign corporate bonds, U.S. and foreign equity securities, mortgage and asset-backed securities, and structured debt, in the instances where identical quoted market prices are not readily available, fair value is determined using quoted market prices and/or other market data for comparable instruments and transactions in establishing prices, discounted cash flow models and other pricing models. These inputs to fair value are included in industry-standard valuation techniques, such as the income or market approach. CommonSpirit classifies all such investments as Level 2.

For private equity investments where no fair value is readily available, the fair value is determined using models that take into account relevant information considered material. Due to the significant unobservable inputs present in these valuations, CommonSpirit classifies all such investments as Level 3.

The fair value of collateral held under securities lending program is classified as Level 2. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include non-cash collateral of $54 million and $0 million as of June 30, 2019 and 2018, respectively.

The fair value of assets and liabilities for derivative instruments, such as interest rate swaps classified as Level 2, is determined using an industry standard valuation model, which is based on a market approach. A credit risk spread (in basis points) is added as a flat spread to the discount curve used in the valuation model. Each leg is discounted and the difference between the present value of each leg’s cash flows equals the fair value of the swap.

Investments that are measured using the NAV per share practical expedient have not been classified in the fair value hierarchy. The NAV amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheet.

Related to investments valued using the NAV per share practical expedient, management also performs, on a regular basis when information is available, various validations and testing of NAV provided and determines that the investment managers' valuation techniques are compliant with fair value measurement accounting standards.

Financial assets totaling $65 million were transferred to Level 3 through the contribution from business combination. See Note 3.

The following table and explanations identify attributes relating to the nature and risk of investments for which fair value is determined using a calculated NAV as of June 30, 2019 (in millions):

		As of June 30, 2019			
		NAV Practical Expedient	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Private equity	(1)	$ 578	$ -	-	-
Multi-strategy hedge funds	(2)	1,179	-	Monthly, Quarterly, Semi-annually, Annually	5 - 120 days
Real estate	(3)	233	10	Quarterly	90 days
Commingled funds - debt securities	(4)	583	41	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	884	-	Daily, Monthly, Quarterly	1 - 90 days
Total		$ 3,457	$ 51		

(1) This category includes private equity funds that specialize in providing capital to a variety of investment groups, including, but not limited to, venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at June 30, 2019, to be over the next 11 years.

(2) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term, risk-adjusted absolute returns. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. The following table reflects the various redemption frequencies, notice periods, and any applicable lock-up periods or gates to redemption as of June 30, 2019:

Percentage of the Value of Category (2)			Redemption	Redemption	Redemption
Total	**Subtotal**	**Redemption Frequency**	**Notice Period**	**Locked Up Until (if applicable)**	**Gate % of Account (if applicable)**
7.4%	6.0%	Annually	60 days	2 years	up to 50.0%
	1.4%	Annually	75 days	-	-
8.8%	5.4%	Semi-annually	60 days	-	up to 25.0%
	3.4%	Semi-annually	75 - 90 days	2 years	-
51.1%	9.1%	Quarterly	30 - 45 days	2 years	up to 20.0%
	30.8%	Quarterly	60 - 65 days	1 year	up to 12.5% - 25.0%
	11.2%	Quarterly	90 days	-	up to 12.5% - 25.0%
32.7%	11.7%	Monthly	5 - 20 days	-	-
	12.7%	Monthly	30 - 45 days	-	up to 16.7%
	8.3%	Monthly	60 - 120 days	6 months	up to 20.0%

(3) This category includes investments in real estate funds that invest primarily in institutional-quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts. Investments representing 16% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at June 30, 2019, to be over the next six years.

(4) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets. Also included in this category are commingled fixed income funds that provide capital in a variety of mezzanine debt, distressed debt and other special debt securities situations. Investments representing approximately 9% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at June 30, 2019, to be over the next six years.

(5) This category includes investments in commingled funds that invest primarily in domestic or foreign equity securities with multiple investment strategies. A majority of the funds attempt to match or exceed the returns of specific equity indices.

The investments included above are not expected to be sold at amounts that are materially different from NAV.

CHI's investment portfolio is held directly by the CHI Operating Investment Program, L.P. (the "Program"). The Program is structured under a limited partnership agreement with CHI as managing general partner and numerous limited partners, most sponsored by CHI. The partnership provides a vehicle whereby virtually all entities associated with CHI, as well as certain other unrelated entities, can optimize investment returns while managing investment risk. Limited partners may make deposits into the Program on the first business day of each month. Withdrawals may be made from the Program on the first business day of each month upon five business days' prior notice. Fulfillment of withdrawal requests may be delayed due to market restrictions or other conditions as determined by CHI. Withdrawal requests will be fulfilled as soon as practical based upon the conditions necessitating the delay, with at least 25% of the amount requested fulfilled within 60 days, the next 25% within 90 days, and the remaining 50% within 180 days. The entire withdrawal request shall be fulfilled within 180 days of the date such request was made. The limited partnership agreement permits a simple-majority vote of the noncontrolling limited partners to terminate the partnership. Accordingly, CHI recognizes only the utilized portion of Program assets attributable to CHI and its direct affiliates in which it has sole corporate membership or ownership, accounting for its ownership in the Program under the equity method. As such, these investments are excluded from the scope of fair value measurements reported above.

Certain of the Program's alternative investments are made through limited liability companies ("LLCs") and limited liability partnerships ("LLPs"). These LLCs and LLPs provide the Program with a proportionate share of the investment gains or losses. The Program accounts for its ownership in the LLCs and LLPs under the equity method.

The Program's alternative investments are not publicly traded and readily available market quotations are generally not available to be used for valuation purposes. Accordingly, the Program's alternative investments are measured at NAV as of the reporting date, as reported by fund managers, and are excluded from the three-level hierarchy for fair value measurements.

While the Program believes that its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to estimate the fair value of Level 3 investments could result in a different estimate of fair value at the reporting date. Level 3 fair value estimates and Alternative Investments measured at NAV may differ significantly from the values that would have been determined had a readily available market for such investments existed, or had such investments been liquidated or sold to external investors, and these differences could be material to the Program's financial statements.

In situations where inputs used to determine fair value fall into different levels of the fair value hierarchy, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following represents assets and liabilities of the Program in its entirety, of which CHI holds 89% as of June 30, 2019 and 2018, measured at fair value or at the NAV practical expedient on a recurring basis and certain other assets accounted for under the equity method as of June 30 (in millions):

	2019			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets				
Short-term investments	$ 321	$ 77	$ -	$ 398
Common stocks	2,100	-	-	2,100
Mutual funds and exchange-traded funds	97	-	-	97
Preferred stocks	5	9	-	14
Fixed-income funds	-	417	-	417
Corporate bonds	-	314	-	314
Asset-backed securities	-	347	-	347
U.S. government bonds:				
U.S. treasury inflation indexed bonds	23	-	-	23
U.S. treasury notes	57	-	-	57
Other	-	8	-	8
Foreign government bonds	-	64	-	64
CHI Direct Community Investment Program	-	-	55	55
Foreign currency exchange contracts	-	220	-	220
Term loans	-	-	192	192
Assets measured at fair value	$ 2,603	$ 1,456	$ 247	4,306
Assets at NAV:				
Hedge funds				524
Real estate				427
Venture capital/private equity				351
Total assets				$ 5,608
Liabilities - foreign currency exchange contracts	$ -	$ 220	$ -	$ 220

	2018			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets				
Short-term investments	$ 229	$ 120	$ -	$ 349
Common stocks	2,399	-	-	2,399
Mutual funds and exchange-traded funds	333	-	-	333
Preferred stocks	5	7	-	12
Fixed-income funds	-	668	-	668
Corporate bonds	-	421	-	421
Asset-backed securities	-	478	-	478
U.S. government bonds:				
U.S. treasury inflation indexed bonds	14	-	-	14
U.S. treasury notes	150	-	-	150
Other	-	21	-	21
Foreign government bonds	-	73	-	73
CHI Direct Community Investment Program	-	-	54	54
Foreign currency exchange contracts	-	207	-	207
Term loans	-	-	193	193
Assets measured at fair value	$ 3,130	$ 1,995	$ 247	5,372
Assets at NAV:				
Hedge funds				523
Real estate				397
Venture capital/private equity				334
Total assets				$ 6,626
Liabilities - foreign currency exchange contracts	$ -	$ 208	$ -	$ 208

9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following at June 30 (in millions):

	2019	2018
Land and improvements	$ 1,879	$ 759
Buildings	11,290	7,162
Equipment	8,666	6,945
Construction in progress	1,685	656
Total	23,520	15,522
Less: Accumulated depreciation	(8,254)	(7,411)
Property and equipment, net	$ 15,266	$ 8,111

10. OWNERSHIP INTERESTS IN HEALTH-RELATED ACTIVITIES

Joint Operating Agreements – CommonSpirit participates in JOAs with hospital-based organizations in three separate market areas. The agreements generally provide for, among other things, joint management of the combined operations of the local facilities included in the JOAs through Joint Operating Companies ("JOCs"). CommonSpirit retains ownership of the assets, liabilities, equity, revenues and expenses of the CommonSpirit facilities that participate in the JOAs. The financial statements of the CommonSpirit facilities managed under all JOAs are included in the accompanying consolidated financial statements. Transfers of assets from facilities owned by the JOA participants generally are restricted under the terms of the agreements.

As of June 30, 2019 and 2018, CommonSpirit has investment interests of 65%, 50% and 50% in JOCs based in Colorado, Iowa, and Ohio, respectively. CommonSpirit's interests in the JOCs are included in ownership interests in health-related activities in the accompanying consolidated balance sheets and totaled $450 million and $436 million at June 30, 2019 and 2018, respectively. CommonSpirit recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide varying levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization.

Other Ownership Interests in Health-Related Activities – In addition to the JOCs above, CommonSpirit has significant ownership interests, as further described below, that are accounted for under the equity method and reflected in the accompanying consolidated balance sheet in ownership interests in health-related activities:

- CHI acquired the investment in Conifer Health Solutions ("Conifer") in May 2012 as part of a multi-year agreement whereby Conifer provides revenue cycle services and health information management solutions for CHI's acute care operations. CommonSpirit's ownership interest in Conifer was 23.8% as of June 2019 and 2018.
- In January 2018, CHI entered into an agreement with Premier to reorganize and restructure the existing JOA with Premier. The agreement provided that CHI transfer ownership of the Dayton market-based organization to Premier in exchange for a 22% interest in Premier.
- Dignity Health transferred and contributed to Optum360, LLC ("Optum360º") certain equipment and the intellectual property related to its internal revenue cycle management functions for a noncontrolling interest in Optum360° in September 2013. Optum360° also provides revenue cycle management functions for other health care organizations. CommonSpirit's ownership interest in Optum360º was 23% at June 30, 2019.
- Dignity Health contributed the stock of U.S. HealthWorks to Concentra, Inc. in February 2018 to strengthen the access and delivery of expanded occupational care for employees, payors, and patients. Pursuant to the transaction, Dignity Health received a 20.6% interest in the combined entity, Concentra Group Holdings Parent, LLC.

The following table summarizes the financial position and results of operations for the significant health-related activities discussed above, which are accounted for under the equity method, as of and for the 12 months ended June 30, or portion of the periods thereof while held by CommonSpirit (in millions):

	2019			
	Hospitals	**JOCs**	**Other**	**Total**
Total assets	$ 2,646	$ 1,418	$ 5,763	$ 9,827
Total liabilities	1,415	585	2,402	4,402
Total net assets	1,231	833	3,343	5,407
Total operating revenues, net	1,861	957	2,380	5,198
Excess (deficit) of revenues over expenses	(131)	(142)	302	29
Investment at June 30 recorded in ownership interests in health-related activities	270	450	1,397	2,117
Income (loss) recorded in revenue from health-related activities, net	(31)	(63)	105	11

	2018			
	Hospitals	**JOCs**	**Other**	**Total**
Total assets	$ 2,729	$ 1,365	$ 1,310	$ 5,404
Total liabilities	1,334	599	281	2,214
Total net assets	1,395	766	1,029	3,190
Total revenues, net	1,733	927	1,525	4,185
Excess (deficit) of revenues over expenses	(167)	(127)	304	10
Investment at June 30 recorded in ownership interests in health-related activities	311	436	671	1,418
Income (loss) recorded in revenue from health-related activities, net	(15)	(61)	57	(19)

Other than the investments described above, ownership interests totaling $1 billion are not material individually to the consolidated financial statements.

11. GOODWILL

Goodwill is measured as of the effective date of a business combination as the excess of the aggregate of the fair value of consideration transferred over the fair value of the tangible and intangible assets acquired and liabilities assumed.

The changes in the carrying amount of goodwill are as follows (in millions):

	2019	**2018**
Balance at beginning of period	$ 239	$ 232
Addition from acquisitions	3	11
Goodwill divested during the year	-	(4)
Balance at end of period	$ 242	$ 239

12. INTANGIBLE ASSETS, NET

Intangible assets, net, consist of the following at June 30 (in millions):

	2019			
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of Period	Amortization period
Trademarks	$ 555	$ -	$ 555	Indefinite
Trademark agreements	156	(42)	114	120 - 300 months
Noncompete agreements	11	(8)	3	24 months
Certificate of need	13	-	13	Indefinite
Other contracts	39	(10)	29	150 - 168 months
	$ 774	$ (60)	$ 714	

	2018			
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of Period	Amortization period
Trademarks	$ 10	$ -	$ 10	Indefinite
Trademark agreements	161	(35)	126	120 - 300 months
Noncompete agreements	11	(7)	4	60 months
Certificate of need	13	-	13	Indefinite
Other contracts	37	(8)	29	36 - 150 months
	$ 232	$ (50)	$ 182	

The aggregate amortization expense related to intangible assets is $10 million and $9 million for the years ended June 30, 2019 and 2018, respectively, and is recorded in depreciation and amortization on the accompanying consolidated statements of operations and changes in net assets.

Estimated amortization expense related to intangible assets is $9 million in 2020, 2021, 2022 and 2023, $8 million in 2024, and $102 million thereafter.

13. OTHER LONG-TERM ASSETS, NET

Other long-term assets, net, consist of the following at June 30 (in millions):

	2019	2018
Notes receivable, primarily secured	$ 68	$ 52
Other	126	81
Total other long-term assets, net	$ 194	$ 133

14. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following at June 30 (in millions):

	2019	2018
Accrued interest expense	$ 105	$ 76
Due to government agencies	109	118
Capitation claims	82	-
Construction retention and contracts payable	44	-
Liabilities due to medical groups and physicians	71	-
Due to unconsolidated affiliates	116	53
Other	663	554
Total other accrued liabilities	$ 1,190	$ 801

15. DEBT

Notwithstanding the consolidation of the financial statements as of February 1, 2019, as of June 30, 2019, the indebtedness of CHI and Dignity Health remain the separate legal obligations of the respective organizations, until such existing debt is restructured and consolidated into a single credit (the “Debt Consolidation”). The existing debt of CHI upon the affiliation date, the majority of which is evidenced by obligations issued by the Corporation under its Capital Obligation Document (the “COD”), has not been modified, and the Corporation remains the obligor. The existing debt of Dignity Health upon the affiliation date, the majority of which is secured by and subject to the provisions of the Dignity Health Master Trust Indenture (the “Master Trust Indenture”), has not been modified, and the members of the Obligated Group established under the Master Trust Indenture (the “Dignity Health Obligated Group”) remain as the obligors.

Master Trust Indenture – As part of a system-wide corporate financing plan, Dignity Health established the Dignity Health Obligated Group to access the capital markets and make loans to its members. Dignity Health Obligated Group members are jointly and severally liable for the obligations outstanding under the Master Trust Indenture. None of the other CommonSpirit subordinate corporations and subsidiaries have assumed any financial obligation related to payment of debt service on obligations issued under the Master Trust Indenture. The Master Trust Indenture requires, among other things, gross revenue of the Dignity Health Obligated Group pledged as collateral, certain limitations on additional indebtedness, liens on property and dispositions or transfers of assets, and the maintenance of certain financial ratios. The Dignity Health Obligated Group is in compliance with these requirements at June 30, 2019.

Capital Obligation Document – The majority of CHI’s debt is evidenced with obligations issued under the COD and CHI is the sole obligor. Bondholder security resides in both the COD’s unsecured promise by CHI to pay its obligations and the requirement that CHI cause each Participant and Designated Affiliate to pay or otherwise transfer to CHI such amounts as are necessary to make all payments required under the COD when due. Covenants under the COD include a minimum debt service coverage ratio and certain limitations on liens, merger, consolidation, sale and conveyance of CHI’s property. CHI has covenanted under the COD to cause its Participants and Designated Affiliates to comply with certain covenants related to corporate existence, maintenance of insurance and operation of their facilities. CHI is in compliance with these requirements as of June 30, 2019.

CommonSpirit Health MTI – As part of the Debt Consolidation plan and in connection with the issuance and sale of the 2019 tax-exempt and taxable bonds, the debt previously issued by CHI and Dignity Health was consolidated into a single unified credit group and debt structure as of August 21, 2019. See “2019 Financing Activity” for additional information.

As of August 21, 2019, the COD and the Master Trust Indenture were amended and restated, both to be the new CommonSpirit Health Master Trust Indenture (the “CommonSpirit Health MTI”), with CHI and the Dignity Health Obligated Group each obtaining the necessary consents. The CommonSpirit Health MTI has an Obligated Group that is comprised of the former Dignity Health Obligated Group and CHI entities (collectively, the “CommonSpirit Obligated Group”). The CommonSpirit Health Obligated Group represents approximately 92% of consolidated revenues of CommonSpirit as of June 30, 2019.

Debt, net of unamortized debt issuance costs, consists of the following at June 30 (in millions):

	2019	2018
Under master trust indentures and COD:		
Fixed rate debt:		
Fixed rate revenue bonds payable in installments through 2045; interest at 1.88% to 7.0%	$ 4,175	$ 2,926
Fixed rate taxable bonds payable in installments through 2065; interest at 2.6% to 5.3%	2,994	1,790
Total fixed rate debt	7,169	4,716
Variable rate debt:		
Taxable direct placement loans payable in 2019 and 2023; interest set at prevailing market rates (3.29% to 3.32% at June 30, 2019)	353	-
Taxable direct purchase bonds with mandatory tender from 2019 through 2021; interest set at prevailing market rates (3.81% to 4.19% at June 30, 2019)	925	650
Direct purchase bonds payable in installments through 2024; interest set at prevailing market rates (2.53% to 4.43% at June 30, 2019)	922	928
Floating rate notes payable with mandatory tender from 2020 through 2025; interest set at prevailing market rates (2.56% to 3.3% at June 30, 2019)	411	411
Variable rate demand bonds payable in installments through 2047; interest set at prevailing market rates (1.47% to 2.1% at June 30, 2019)	820	97
Auction rate certificates payable in installments through 2042; interest set at prevailing market rates (1.89% to 2.35% at June 30, 2019)	240	-
Bank lines of credit maturing in 2019, 2020 and 2023; interest set at prevailing market rates (2.88% to 3.24% at June 30, 2019)	1,195	250
Commercial paper notes with maturities ranging from 2 to 94 days in 2019; interest set at prevailing market rates (2.65% to 2.9% at June 30, 2019)	881	881
Total variable rate debt	5,747	3,217
Total debt under master trust indentures and COD	12,916	7,933
Other:		
Various notes payable and other debt payable in installments through 2042; interest ranging up to 9.73%	435	480
Capitalized lease obligations	156	113
Total debt	13,507	8,526
Less amounts classified as current	(3,475)	(2,087)
Less demand bonds subject to short-term liquidity arrangements	(820)	(97)
Total long-term debt	$ 9,212	$ 6,342

Scheduled principal debt payments, net of discounts and considering obligations subject to short-term liquidity arrangements as due according to their long-term amortization schedule, for the next five years and thereafter, are as follows (in millions):

	Long-Term Debt Other Than Demand Bonds	Demand Bonds Subject to Short-Term Liquidity Arrangements	Total Long-Term Debt
2020	$ 3,475	$ 97	$ 3,572
2021	169	-	169
2022	175	-	175
2023	1,305	-	1,305
2024	642	-	642
Thereafter	6,921	723	7,644
Total	$ 12,687	$ 820	$ 13,507

***Debt Arrangements* - Fixed Rate Revenue Bonds** – CommonSpirit has fixed rate revenue bonds outstanding, substantially all of which may be redeemed, in whole or in part, prior to the stated maturities without a premium.

Fixed Rate Taxable Bonds – CommonSpirit has taxable fixed rate bonds that are due in November 2019, 2022, 2024, 2042, and 2064, and in August 2023. Early redemption of the debt, in whole or in part, may require a premium depending on market rates.

Taxable Direct Placement Loans – CommonSpirit has nine taxable direct placement loans with six banks at variable interest rates.

Taxable Commercial Paper – CommonSpirit has a commercial paper program that permits the issuance of up to $881 million in aggregate principal amount outstanding, with maturities limited to 270-day periods. As of June 30, 2019, $881 million of commercial paper notes were outstanding. A portion of the notes were refinanced as part of the Debt Consolidation.

Floating Rate Notes – CommonSpirit has floating rate notes ("FRNs") that bear interest at variable rates determined weekly and monthly. These FRNs are subject to mandatory tender on pre-determined dates.

Variable Rate Direct Purchase Bonds – CommonSpirit has variable rate direct purchase bonds placed directly with holders that bear interest at variable rates determined monthly based upon a percentage of the London Inter-bank Offered Rate ("LIBOR") and the Securities Industry and Financial Markets Association ("SIFMA"), plus a spread. These bonds are subject to mandatory tender on pre-determined dates.

Variable Rate Demand Bonds – Variable rate demand bonds ("VRDBs") are remarketed weekly and may be put at the option of the holders. CommonSpirit maintains bank letters of credit of $723 million as credit enhancement for the VRDBs to ensure the availability of funds to purchase any bonds tendered that the remarketing agent is unable to remarket.

Letters of credit to support certain VRDBs of $196 million, $57 million, $90 million, $91 million, $140 million and $150 million expire in October 2019, December 2019, March 2020, June 2021, October 2021, and November 2021, respectively.

CommonSpirit Health has $97 million of additional VRDBs that are self-funded and not supported by letters of credit.

Auction Rate Certificates – CommonSpirit has $240 million of auction rate certificates ("ARCs") that are remarketed weekly. The certificates are insured. Holders of ARCs are required to hold the certificates until the remarketing agent can find a new buyer for any tendered certificates. The ARCs are insured by Assured Guaranty.

Notes Payable to Banks Under Credit Agreements – In 2019, CommonSpirit maintained a $900 million syndicated line of credit facility for working capital, letters of credit, capital expenditures and other general corporate purposes. The amount outstanding under the syndicated credit facility was $296 million as of June 30, 2019. During 2019, the maximum amount outstanding was $306 million. There were no letters of credit issued under this facility as of June 30, 2019. This credit facility expires in June 2023. Outstanding amounts were refinanced as part of the Debt Consolidation.

CommonSpirit maintained a fully drawn $250 million line of credit expiring in July 2020, refinanced as part of the Debt Consolidation, and $365 million of undrawn lines of credit with expiration dates ranging from September 2019 through August 2020 that can be used to support obligations to fund tenders of VRDBs and pay maturing principal of commercial paper, and a $69 million credit facility to support letters of credit expiring in June 2020.

CommonSpirit maintained two lines of credit with separate banks used to advance refund debt. The credit facilities expire in December 2019 and June 2020. The amounts outstanding under these credit facilities was $249 million and $400 million, respectively, as of June 30, 2019. During 2019, the maximum amount outstanding on these lines was $249 million and $400 million, respectively. These two lines of credit were refinanced as part of the Debt Consolidation.

CommonSpirit also maintained a $35 million single-bank line of credit facility for standby letters of credit. Letters of credit issued under this facility were $27 million as of June 30, 2019, but no amounts have been drawn.

2019 Financing Activity – In July 2018, CHI issued $275 million of Series 2018A taxable bonds subject to mandatory tender in August 2021. Proceeds were used to fund the $275 million Series 2013D taxable bonds principal payment due in August 2018. Additionally, in July 2018, CHI extended the mandatory purchase date of the $250 million Series 2017A taxable bonds from August 2018 to July 2021. As a result, CHI classified the Series 2013D and Series 2017A taxable bonds as long-term debt as of June 30, 2018.

In August 2018, CHI issued $200 million of Series 2018B taxable bonds subject to mandatory tender in August 2019. The proceeds were subsequently used to reimburse the funding of the $200 million Series 2016 taxable bonds, which were subject to mandatory tender in September 2018. These bonds were refinanced by the 2019 taxable bonds.

In June 2019, Dignity Health renewed and extended the letter of credit issued in June 2017 to support VRDBs of $91 million to June 2021. This did not change the terms, provisions or classification of the VRDBs.

In February 2019, Dignity Health renewed its $400 million taxable line of credit scheduled to mature from June 2019 to June 2020. This taxable line of credit was refinanced with the August 2019 taxable bonds.

In July 2019, Dignity Health entered into $1.2 billion of bridge loans with three banks to advance refund certain CHI fixed rate bonds using acquisition financing treatment.

In August 2019, CommonSpirit issued $2.5 billion of tax-exempt fixed rate bonds. Proceeds were used to refinance $1.1 billion of the bridge loans entered into in July 2019, refund $1.4 billion of tax-exempt fixed rate bonds that were placed in escrow and the bonds defeased, refund $322 million of commercial paper, and provide $106 million for general working capital purposes. The bonds were sold at a premium and mature in August 2044 and 2049.

In August 2019, CommonSpirit issued $621 million of tax-exempt put bonds. Proceeds included $569 million of new money and were used to refund $161 million of tax-exempt fixed rate bonds, which were placed in escrow, and the bonds were defeased. The bonds were sold at a premium and mature in August 2049, with mandatory purchase dates in August 2024, 2025 and 2026.

In August 2019, CommonSpirit Health issued $3.3 billion of taxable fixed rate bonds at par, with repayments of $770 million, $915 million, $700 million (insured) and $930 million to be made in October 2024, 2029, 2049 (insured) and 2049, respectively. A portion of the proceeds were used to refund $1.5 billion of CHI tax-exempt fixed rate bonds, refinance $945 million of Dignity Health bank lines of credit, refinance $353 million of Dignity Health direct placement variable rate bank loans, refinance $338 million of Dignity Health taxable bonds, refinance $137 million of the bridge loans (see below), refund $41 million of Dignity Health tax-exempt fixed rate bonds, refinance $5 million of commercial paper, and pay cost of issuance expenses. Refunded bonds were placed in escrow and were defeased. The bonds were sold at par and mature in October 2049.

In September 2019, CommonSpirit renewed and extended three letters of credit issued by Dignity Health in October 2015 to support VRDBs of $76 million, $60 million, and $60 million, to October 2022. This did not change the terms, provisions or classification of the VRDBs.

2018 Financing Activity – In August 2017, CHI redeemed $35 million of bonds originally acquired in fiscal year 2016 as part of the acquisition of Trinity Health System. The bond redemption was funded from cash and investments, resulting in a gain on redemption of $0.2 million reflected in the accompanying consolidated statements of operations and changes in net assets.

In October 2017, CHI issued $250 million of Series 2017A variable-rate direct purchase taxable bonds subject to mandatory tender in October 2018. Proceeds were used to pay the $250 million principal payment due on Series 2012 fixed-rate taxable bonds.

In December 2017, CHI issued $334 million of Series 2017B fixed-rate direct purchase exempt bonds subject to mandatory tender in December 2018. Proceeds were used to pay the $333 million bank loan that matured in December 2017.

In March 2018, CHI issued $66 million in commercial paper notes. Proceeds were used to pay $35 million in principal payments, and for general purposes and capital expenditures.

16. DERIVATIVE INSTRUMENTS

CommonSpirit’s derivative instruments include 31 floating-to-fixed rate interest rate swaps as of June 30, 2019. CommonSpirit uses floating-to-fixed interest rate swaps to manage interest rate risk associated with outstanding variable rate debt. Under these floating-to-fixed rate swaps, CommonSpirit receives a percentage of LIBOR ranging from 57% to 100%, plus a spread ranging from 0.13% to 1.43%, and pays a fixed rate. CommonSpirit’s derivative instruments also include five fixed-to-floating interest rate swaps and 16 total return swaps as of June 30, 2019. CommonSpirit uses these fixed-to-floating derivatives to reduce interest expense associated with fixed rate debt and receives a fixed rate and pays a variable rate percentage of SIFMA plus a spread.

The following table shows the outstanding notional amount of derivative instruments measured at fair value, net of credit value adjustments, as reported in the accompanying consolidated balance sheets as of June 30, 2019 and 2018 (in millions):

	Maturity Date of Derivatives	**Interest Rate**	**Notional Amount Outstanding**	**Fair Value**
			2019	
Derivatives not designated as hedges:				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 2,252	$ (454)
Risk participation agreements	2019 - 2025, with extension options	SIFMA plus spread	510	-
Total return swaps	2020 - 2024	SIFMA plus spread	408	-
Total derivative instruments			3,170	(454)
Cash collateral			-	240
Derivative instruments, net			$ 3,170	$ (214)
			2018	
Derivatives not designated as hedges:				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 1,403	$ (207)
Total return swaps	2018-2020	SIFMA plus spread	154	(1)
Total derivative instruments			1,557	(208)
Cash collateral			-	175
Derivative instruments, net			$ 1,557	$ (33)

CHI’s cash collateral balances are netted against the fair value of the swaps, the net amount of which is reflected in derivative instruments in the accompanying consolidated balance sheets, with the fair value of Dignity Health’s swaps.

CHI held $1.4 billion notional amount of interest rate swaps at June 30, 2019, which have a negative fair value of $276 million. CHI posted $240 million of collateral against the fair value of these swaps.

The CHI interest rate swaps mature between 2024 and 2047. CHI has the right to terminate the swaps prior to maturity for any reason. The termination value would be the fair value or the replacement cost of the swaps, depending on the circumstances. All of the derivative agreements have certain early termination triggers caused by an event of default or a termination event. The events of default include failure to make payment when due, failure to give notice of a termination event, failure to comply with or perform obligations under the agreements, bankruptcy or insolvency, and defaults under other agreements (cross-default provision). The termination events include credit ratings dropping below Baa3/BBB- (Moody’s/Standard & Poor’s) by either party on the notional amount of $565 million of interest rate swaps and below Baa2/BBB on a notional amount of $625 million of interest rate swaps.

Based upon CHI’s swap agreements in place as of June 30, 2019, a reduction in CHI’s credit rating to BBB would obligate CHI to post additional cash collateral of $29 million. If CHI’s credit rating were to fall below BBB, the swap counterparties would have the option to require CHI to settle the swap liabilities of $35 million as of June 30, 2019, which are recorded at fair value, net of cash collateral. Generally, it is CHI’s policy that all counterparties have an AA rating or better. The swap agreements generally require CHI to provide collateral if

CHI's liability, determined on a fair value basis, exceeds a specified threshold that varies based upon the rating on CHI's long-term indebtedness.

CHI has total return swaps in the notional amount of $138 million and a negative fair value of $1 million at June 30, 2019.

Of the $889 million notional amount of interest rate swaps held by Dignity Health at June 30, 2019, $160 million are insured and have a negative fair value of $50 million. In the event the insurer is downgraded below A2/A or A3/A- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps if Dignity Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If the insurer is downgraded below the thresholds noted above and Dignity Health is downgraded below Baa3/BBB- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps.

Dignity Health has $729 million of interest rate swaps that are not insured as of June 30, 2019. While Dignity Health has the right to terminate the swaps prior to maturity for any reason, counterparties have various rights to terminate, including swaps in the outstanding notional amount of $100 million at each five-year anniversary date commencing in March 2023 and swaps in the notional amount of $204 million at each five-year anniversary date commencing in September 2023. Swaps in the notional amounts of $60 million and $68 million have mandatory puts in March 2021 and March 2023, respectively. The termination value would be the fair value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps have a negative fair value of $78 million at June 30, 2019. The remaining uninsured interest rate swaps in the notional amount of $297 million have a negative fair value of $50 million as of June 30, 2019.

Dignity Health has floating rate derivatives in the notional amount of $780 million as of June 30, 2019. Risk participation agreements in the notional amount of $510 million have a fair value deemed immaterial as of June 30, 2019. Dignity Health has a total return swap in the notional amount of $270 million. The total return swap has a positive fair value of $1 million at June 30, 2019.

All of Dignity Health's derivative agreements have certain early termination triggers caused by an event of default or a termination event. The events of default include failure to make payment when due, failure to give notice of a termination event, failure to comply with or perform obligations under the agreements, bankruptcy or insolvency, and defaults under other agreements (cross-default provision). Other than the insured swaps described above, the termination events include credit ratings dropping below Baa1/BBB+ (Moody's/Standard & Poor's) by either party on the notional amount of $709 million of swaps and below Baa2/BBB on a notional amount of $800 million, and Dignity Health's cash on hand dropping below 85 days.

As part of the August 2019 Debt Consolidation, all swaps and derivative bank counterparties consented to the CommonSpirit Health MTI.

17. INTEREST EXPENSE, NET

The components of interest expense, net, include the following (in millions):

	2019	2018
Interest and fees on debt	$ 414	$ 321
Capitalized interest expense	(23)	(8)
Interest expense, net	$ 391	$ 313

18. RETIREMENT PROGRAMS

CommonSpirit maintains defined benefit pension plans and other postretirement benefit plans that cover most Dignity Health and CHI employees. Benefits for both types of plans are generally based on age, years of service and employee compensation.

Certain of CHI's plans were frozen in previous years, and benefits earned by employees through that time period remain in the retirement plans, where employees continue to receive interest credits and vesting credits, if applicable.

Actuarial valuations are performed for all of the plans. These valuations are dependent on various assumptions. These assumptions include the discount rate and the expected rate of return on plan assets (for pension), which are important elements of expense and liability measurement. Other assumptions involve demographic factors such as retirement age, mortality, turnover and the rate of compensation increases. CommonSpirit evaluates all assumptions in conjunction with the valuation updates and modifies them as appropriate.

Pension costs and other postretirement benefit costs are allocated over the service period of the employees in the plans. The principle underlying this accounting is that employees render service ratably over the period, and therefore, the effects in the accompanying consolidated statements of operations and changes in net assets follow the same pattern. Net actuarial gains and losses are amortized to expense on a plan-by-plan basis when they exceed the accounting corridor. The accounting corridor is a defined range within which amortization of net gains and losses is not required and is equal to 10% of the greater of the plan assets or benefit obligations. Gains or losses outside of the corridor are subject to amortization over the average employee future service period.

Contributions to the defined benefit pension plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Dignity Health management believes the majority of its plans qualify under a church plan exemption, and as such, are not subject to Employee Retirement Income Security Act ("ERISA") funding requirements. CommonSpirit's funding policy requires that, at a minimum, contributions equal the unfunded normal cost plus amortization of any unfunded actuarial accrued liability. Contributions to these funded plans are anticipated at $227 million in 2020, which exceeds the funding policy minimum contributions.

The accumulated benefit obligation exceeds plan assets for each of the defined benefit plans and postretirement benefit plans for the years ended June 30, 2019 and 2018. The following summarizes the benefit obligations and funded status for the defined benefit pension and postretirement benefit plans (in millions):

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of period	$ 4,960	$ 5,178
Service cost	146	14
Interest cost	286	164
Plan changes/amendments	-	(13)
Actuarial (gain) loss	1,239	(40)
Acquisitions and other	6,494	-
Administrative expenses paid	(12)	(2)
Settlements	(176)	(217)
Benefits paid	(260)	(124)
Benefit obligation at end of period	$ 12,677	$ 4,960
Accumulated benefit obligation	$ 12,235	$ 4,956
Change in plan assets:		
Fair value of plan assets at beginning of period	$ 4,106	$ 4,067
Actual return on plan assets	532	273
Settlements	(176)	(217)
Employer contributions	126	109
Benefits paid	(260)	(124)
Acquisitions and other	4,861	-
Administrative expenses paid	(12)	(2)
Fair value of plan assets at end of period, net	$ 9,177	$ 4,106
Funded status	$ (3,500)	$ (854)

The following table summarizes the amounts recognized in net assets without donor restrictions as of June 30 (in millions):

	2019	2018
Net actuarial loss	$ 2,240	$ 1,215
Prior service credit	(12)	(13)
Amounts in net assets without donor restrictions	$ 2,228	$ 1,202

The settlement component of net periodic pension cost is recognized in the accompanying statements of operations and changes in net assets within special charges and other costs.

The following table summarizes the weighted-average assumptions used to determine benefit obligations as of June 30:

	2019	2018
To determine benefit obligations:		
Discount rate	2.4% - 3.7%	4.1% - 4.3%
Rate of compensation increase	3.8%	N/A
To determine net periodic benefit cost:		
Discount rate	3.2% - 4.3%	3.7% - 4.2%
Expected return on plan assets	4.8% - 7.5%	5.5% - 7.2%
Rate of compensation increase	3.8%	N/A

The following table summarizes the components of net periodic cost (gain) recognized in the accompanying consolidated statements of operations and changes in net assets (in millions):

	2019	2018
Service cost	$ 146	$ 14
Interest cost	286	164
Expected return on plan assets	(425)	(284)
Settlements	60	55
Net prior service credit amortization	(1)	(2)
Net actuarial loss amortization	47	49
Net periodic benefit cost (gain)	$ 113	$ (4)

The amounts above are recorded in salaries and benefits on the accompanying consolidated statements of operations and changes in net assets, other than settlements which are recorded in special charges and other.

The following represents the fair value of plan assets, net, measured on a recurring basis as of June 30 (in millions). See Note 8 for the definition of Levels 1, 2 and 3 in the fair value hierarchy and investments valued using the NAV practical expedient and discussion regarding fair value measurement.

	2019			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets				
Cash and short-term investments	$ 398	$ 33	$ -	$ 431
U.S. government securities	802	53	-	855
U.S. corporate bonds	-	769	-	769
U.S. equity securities	1,986	10	-	1,996
U.S. term loans	-	-	159	159
Foreign corporate bonds	-	119	-	119
Foreign equity securities	1,128	-	-	1,128
Foreign term loans	-	-	38	38
Other	-	67	-	67
Assets measured at fair value	$ 4,314	$ 1,051	$ 197	5,562
Assets at NAV:				
U.S. corporate bonds				596
U.S. equity securities				159
Foreign corporate bonds				100
Foreign equity securities				651
Private equity				1,066
Hedge funds				813
Real estate				347
Total assets				$ 9,294
Liabilities				
Foreign currency exchange contracts	$ -	$ 39	$ -	$ 39
Payable under securities lending program	-	15	-	15
Total liabilities	$ -	$ 54	$ -	$ 54
Other plan assets (liabilities)				
Due from brokers for unsettled investment trades				229
Due to brokers for unsettled investment trades				(292)
Fair value of plan assets, net				$ 9,177

	2018			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets				
Cash and short-term investments	$ 170	$ 54	$ -	$ 224
U.S. government securities	382	41	-	423
U.S. corporate bonds	-	686	-	686
U.S. equity securities	1,059	4	-	1,063
U.S. term loans	-	-	153	153
Foreign corporate bonds	-	117	-	117
Foreign equity securities	682	1	-	683
Foreign term loans	-	-	35	35
Other	2	88	-	90
Assets measured at fair value	$ 2,295	$ 991	$ 188	3,474
Assets at NAV:				
Private equity				406
Real estate				327
				$ 4,207
Liabilities - Foreign currency exchange contracts	$ -	$ 88	$ -	$ 88
Other plan assets (liabilities)				
Due from brokers for unsettled investment trades				49
Due to brokers for unsettled investment trades				(62)
Fair value of plan assets, net				$ 4,106

The following table presents the change in the balance of Level 3 finanical assets in 2019 and 2018 (in millions):

	2019	**2018**
Balance at beginning of period	$ 188	$ 182
Total realized losses, net	(1)	-
Total unrealized losses, net	(2)	(1)
Purchases	12	7
Balance at end of period	$ 197	$ 188

The following table summarizes the weighted-average asset allocations by asset category for the pension plans:

	2019	2018
Cash and cash equivalents	5%	5%
U.S. government securities	9%	10%
U.S. corporate bonds	15%	16%
U.S. equity securities	23%	25%
U.S. term loans	2%	4%
Foreign corporate bonds	2%	3%
Foreign equity securities	19%	16%
Private equity	11%	10%
Other	14%	11%
Total	100%	100%

The asset allocation policy for the pension plans for 2019 and 2018 is as follows: domestic fixed income, 40%; domestic equity, 25%; international equity, 15%; private equity, 6%; hedge funds, 8%; and real estate, 6%.

CommonSpirit's investment strategy for the assets of the pension plans is designed to achieve returns to meet obligations and grow the assets of the portfolios longer term, consistent with a prudent level of risk. The strategy balances the liquidity needs of the pension plans with the long-term return goals necessary to satisfy future obligations. The target asset allocation is diversified across traditional and non-traditional asset classes. Diversification is also achieved through participation in U.S. and non-U.S. markets, market capitalization, and investment manager style and philosophy. The complementary investment styles and approaches used by both traditional and alternative investment managers are aimed at reducing volatility while capturing the equity premium from the capital markets over the long term. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition. Consistent with CommonSpirit's fiduciary responsibilities, the fixed income allocation generally provides for security of principal to meet near-term expenses and obligations. Periodic reviews of the market values and corresponding asset allocation percentages are performed to determine whether a rebalancing of the portfolio is necessary.

CommonSpirit's pension plan portfolio return assumptions for 2019 and 2018 were based on the long-term weighted-average returns of comparative market indices for the asset classes represented in the portfolio and expectations about future returns.

The following benefit payments, which reflect expected future service, are expected to be paid (in millions):

2020	$ 698
2021	629
2022	655
2023	675
2024	689
2025 and thereafter	3,644
Total	$ 6,990

CommonSpirit maintains defined contribution retirement plans for most employees. Employer contributions to those plans of $273 million and $219 million for 2019 and 2018, respectively, included in salaries and benefits in the accompanying consolidated statements of operations and changes in net assets, are primarily based on a percentage of a participant's contribution.

19. SPECIAL CHARGES AND OTHER COSTS

Special charges include costs related to the following activities:

	2019	2018
Impairment on carrying value of long-lived assets	$ 123	$ 14
Changes in business operations	59	53
Pension settlement costs	60	53
Affiliation-related costs	77	21
Total special charges and other costs	$ 319	$ 141

Charges related to changes in business operations include costs incurred periodically to implement reorganization efforts within specific operations in order to align CommonSpirit's operations in the most strategic and cost-effective manner, consisting primarily of consulting and severance costs. Affiliation costs primarily relate to legal, consulting and labor-related costs.

20. INVESTMENT INCOME, NET

Investment income, net, on assets limited as to use, cash equivalents, notes receivable, the CHI Operating Investment Program, and investments are comprised of the following (in millions):

	2019	2018
Interest and dividend income, net	$ 160	$ 144
Net realized gains on sales of securities	290	287
Net unrealized gains on securities	162	12
Investment income, net	$ 612	$ 443

21. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

The following summary encompasses matters related to litigation, regulatory and compliance matters, and developments thereto.

General – The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, the rules governing licensure, accreditation, controlled substances, privacy, government program participation, government reimbursement, antitrust, anti-kickback, prohibited referrals by physicians, false claims, and in the case of tax-exempt organizations, the requirements of tax exemption. Management believes CommonSpirit is materially in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to future governmental interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Certain CommonSpirit entities have been contacted by governmental agencies regarding alleged violations of Medicare practices for certain services. In the opinion of management after consultation with legal counsel, the ultimate outcome of these matters will not have a material adverse effect on CommonSpirit's consolidated financial statements.

In recent years, government activity has increased with respect to investigations and allegations of wrongdoing. In addition, during the course of business, CommonSpirit becomes involved in civil litigation. Management assesses the probable outcome of unresolved litigation and investigations and records contingent liabilities reflecting estimated liability exposure. Following is a discussion of matters of note.

U.S. Department of Justice and OIG Investigations – CommonSpirit and/or its facilities periodically receive notices from governmental agencies, such as the U.S. Department of Justice or the Office of Inspector General (“OIG”), requesting information regarding billing, payment, or other reimbursement matters, or initiating investigations, or indicating the existence of whistleblower litigation. The health care industry in general is experiencing an increase in these activities, as the federal government increases enforcement activities and institutes new programs designed to identify potential irregularities in reimbursement or quality of patient care. Resolution of such matters can result in civil and/or criminal charges, cash payments and/or administrative measures by the entity subject to such investigations. CommonSpirit does not presently have information indicating that pending matters or their resolution will have a material effect on CommonSpirit’s financial statements, taken as a whole. Nevertheless, there can be no assurance that the resolution of matters of these types will not affect the financial condition or operations of CommonSpirit, taken as a whole.

Within this category of activities, in October 2014, Dignity Health completed a civil settlement and entered into a Corporate Integrity Agreement (“CIA”) with the OIG to resolve an investigation into government reimbursement of hospital inpatient stays. The CIA requires, for a five-year period, enhanced compliance program obligations, education and training, and that Dignity Health retain an independent review organization to review the accuracy of certain claims for hospital services furnished to federal health care program beneficiaries.

Pension Plan Litigation – In April 2013, Dignity Health was served with a class action lawsuit filed in the United States District Court for the Northern District of California by a former employee alleging breaches of fiduciary duty and other claims under ERISA in connection with the Dignity Health Pension Plan (“DHPP”). Among other things, the complaint originally alleged that, because Dignity Health is not a church or an association of churches, the DHPP does not qualify as a “church plan”. The complaint also challenged the constitutionality of ERISA’s church plan exemption. Dignity Health and the sponsoring religious orders established the DHPP and determined the DHPP was a church plan that should be exempt from ERISA, including ERISA’s funding requirements, and received private letter rulings from the Internal Revenue Service that confirmed its church plan status. The plaintiff sought to represent a class comprised of participants and beneficiaries of the DHPP as of April 2013, when the complaint was filed.

In July 2014, the District Court ruled that only a church or an association of churches may establish a church plan, the DHPP did not qualify as a church plan since Dignity Health was not a church when the plan was established, and, therefore, DHPP was not exempt from ERISA. Dignity Health appealed the decision. In July 2016, the Ninth Circuit Court of Appeals issued its opinion, which affirmed the District Court’s order and held that a church plan must be established by a church or by an association of churches and must be maintained either by a church or by a church-controlled or church-affiliated organization whose principal purpose or function is to provide benefits to church employees. The Ninth Circuit remanded the case to the District Court for further proceedings.

Dignity Health appealed the decision to the United States Supreme Court, which agreed to hear Dignity Health’s case together with those of two other faith-based health systems facing similar challenges to church plan status.

In June 2017, the Supreme Court issued its unanimous opinion reversing the decision of the Ninth Circuit. The Court concluded that the 1980 amendment to Section 3(33)(C) of ERISA was intended by Congress to expand the types of pension plans that could qualify as church plans to include plans maintained by faith-based organizations such as Dignity Health and regardless of who first established the plans. The decision did not determine whether Dignity Health satisfied the requirements to maintain a church plan. In fact, the Court specifically noted that it was not deciding (1) whether any hospital was sufficiently associated with a church for its pension plan to qualify for the church plan exemption, or (2) whether an internal retirement committee could qualify as a “principal purpose” organization entitled to maintain a church plan. The Supreme Court remanded the case to the Ninth Circuit for further action based on its decision.

Based on the Supreme Court’s decision, the Ninth Circuit returned the case to the District Court to continue the proceedings with regard to the two outstanding questions and other claims that were not decided by the Supreme Court. The plaintiff amended its original complaint in November 2017, and Dignity Health filed a motion to dismiss the case in December 2017. The motion was heard in March 2018. In September 2018, the District Court issued its ruling denying Dignity Health’s motion to dismiss. The decision was primarily based upon the procedural standard that requires the Court to accept the plaintiff’s allegations in the amended complaint as true and does not permit Dignity Health to refute those allegations. As a result, the Court found that the amended complaint was sufficient to withstand dismissal at this stage, but encouraged the parties to further develop the factual record as a basis to consider Dignity Health's objections in the future.

The parties have agreed in principle to resolve the litigation. An unopposed motion for approval of the terms of settlement is currently pending before the court for approval. Management does not believe that the proposed settlement will have a material adverse effect on the financial position or results of operations of the System.

Operating Leases – CommonSpirit leases various equipment and facilities under operating leases. Net rental expense for 2019 and 2018 was $410 million and $329 million, respectively. These amounts are recorded in purchased services and other on the accompanying statements of operations and changes in net assets.

Net future minimum lease payments under non-cancelable operating leases as of June 30 are as follows (in millions):

	2019
2020	$ 331
2021	278
2022	239
2023	211
2024	189
Thereafter	647
Total	$ 1,895

Capital and Purchase Commitments – CommonSpirit has legally committed to fund $1 billion of capital improvements related to certain acquisitions and affiliations, has undertaken various construction and expansion projects that include certain capital commitments, and has entered into various agreements that require certain minimum purchases of goods and services, including management services agreements or information and clinical technology, at levels consistent with normal business requirements. Outstanding capital and purchase commitments were approximately $848 million and $169 million at June 30, 2019, respectively.

22. FUNCTIONAL EXPENSES

CommonSpirit provides healthcare services, including inpatient, outpatient, ambulatory, long-term care and community-based services to individuals within the various geographic areas supported by its facilities. Expenses for these program services represent costs that are controllable by operational leadership. Support services include administration, financial services and purchasing, financial planning and budgeting, information technology, risk management, public relations, human resources, cash, debt and investment management, legal, mission services, and other functions that are supported centrally for all of CommonSpirit and are driven by CommonSpirit leadership. Following is a summary of the program and support services provided for the year ended June 30, 2019:

	Program Services - Healthcare	**Support Services - Management and Administrative**	**Support Services - Fundraising**	**Total Expenses**
Salaries and benefits	$ 9,654	$ 490	$ 17	$ 10,161
Supplies	3,317	20	-	3,337
Purchased services and other	5,323	898	52	6,273
Depreciation and amortization	846	241	-	1,087
Interest expense	375	16	-	391
Total recurring expenses	$ 19,515	$ 1,665	$ 69	$ 21,249

Management and administrative expenses as a percentage of total operating expense was approximately 7.7% in 2018.

23. UNSPONSORED COMMUNITY BENEFIT EXPENSE (UNAUDITED PRO FORMA)

Unsponsored community benefits are programs or activities that provide treatment and/or promote health and healing as a response to identified community needs. These benefits (a) generate a low or negative margin, (b) respond to the needs of special populations, such as persons living in poverty and other disenfranchised persons, (c) supply services or programs that would likely be discontinued, or would need to be provided by another nonprofit or government provider, if the decision was made on a purely financial basis, (d) respond to public health needs, and/or (e) involve education or research that improves overall community health. The following information is presented on a pro forma basis, assuming the operations of Dignity Health and CHI were combined as of July 1, 2018.

Benefits for the Poor include services provided 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 refer to programs in the general communities that CommonSpirit serves, beyond and including those for a target population. Most services for the broader community are aimed at improving the health and welfare of the overall community. Such services include the interest rate differential on below-market-rate loans CommonSpirit provides to nonprofit organizations that promote the total health of their local communities, including the development of affordable housing for low-income persons and families, increasing opportunities for jobs and job training, and expanding access to health care for uninsured and underinsured persons.

Traditional Charity Care is free or discounted health services provided to persons who cannot afford to pay and who meet CommonSpirit's criteria for financial assistance.

Net Community Benefit, excluding the unpaid cost of Medicare, is the total cost incurred after deducting direct offsetting revenue from government programs, patients, and other sources of payment or reimbursement for services provided to program patients. The comparable amount of net community benefit was $2 billion for 2018, and Net Community Benefit, including the unpaid cost of Medicare, was $4 billion for 2018.

Following is a summary of CommonSpirit's community benefits for 2019, in terms of services to the poor and benefits for the broader community, which has been prepared in accordance with Internal Revenue Service Form 990, Schedule H and the CHA publication, *A Guide for Planning and Reporting Community Benefit* (dollars in millions):

	Unaudited Pro Forma			
	Total Benefit Expense	**Direct Offsetting Revenue**	**Net Community Benefit**	**% of Total Expenses**
Benefits for the poor:				
Traditional charity care	$ 317	$ (28)	$ 289	1.4%
Unpaid costs of Medicaid / Medi-Cal	4,550	(3,109)	1,441	6.8%
Other means-tested programs	23	(10)	13	0.1%
Community services:				
Community health services	58	(27)	31	0.1%
Subsidized health services	33	(1)	32	0.2%
Donations and other	52	(2)	50	0.2%
Total community services for the poor	143	(30)	113	0.5%
Total benefits for the poor	5,033	(3,177)	1,856	8.8%
Benefits for the broader community:				
Community services:				
Community health services	103	(4)	99	0.5%
Health professions education	128	(15)	113	0.5%
Subsidized health services	23	(6)	17	0.1%
Research	131	(36)	95	0.4%
Donations and other	7	(1)	6	0.0%
Total benefits for the broader community	392	(62)	330	1.5%
Total Community Benefits	$ 5,425	$ (3,239)	$ 2,186	10.3%
Unpaid costs of Medicare	5,957	(3,708)	2,249	10.6%
Total Community Benefits including unpaid costs of Medicare	$ 11,382	$ (6,947)	$ 4,435	20.9%

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