

CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORTS AND SCHEDULES REQUIRED BY THE  
UNIFORM GUIDANCE

CommonSpirit Health  
Year Ended June 30, 2019  
With Reports of Independent Auditors

Ernst & Young LLP



CommonSpirit Health  
Consolidated Financial Statements and  
Reports and Schedules Required by the Uniform Guidance  
Year Ended June 30, 2019

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## Report of Independent Auditors

The Board of Stewardship Trustees and Management  
CommonSpirit Health

### Report on the Financial Statements

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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.

#### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 4, 2019 on our consideration of CommonSpirit Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CommonSpirit Health's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CommonSpirit Health's internal control over financial reporting and compliance.

October 4, 2019

# COMMONSPIRIT HEALTH

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

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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	<u>13,002</u>	<u>3,731</u>
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	<u>(2,315)</u>	<u>(218)</u>
Assets limited as to use, net	<u>8,062</u>	<u>6,466</u>
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	<u>\$ 40,625</u>	<u>\$ 20,595</u>

(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	<u>9,518</u>	<u>4,756</u>
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	<u>6,104</u>	<u>2,365</u>
Long-term debt, net of current portion	<u>9,212</u>	<u>6,342</u>
Total liabilities	<u>24,834</u>	<u>13,463</u>
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	<u>15,791</u>	<u>7,132</u>
Total liabilities and net assets	<u>\$ 40,625</u>	<u>\$ 20,595</u>

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	<u>20,966</u>	<u>14,982</u>
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	<u>21,249</u>	<u>15,108</u>
Operating loss before special charges and other costs	(283)	(126)
Special charges and other costs	(319)	(141)
Operating loss	<u>(602)</u>	<u>(267)</u>
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	<u>9,616</u>	<u>489</u>
Excess of revenues over expenses	<u>\$ 9,014</u>	<u>\$ 222</u>
Less excess of revenues over expenses attributable to noncontrolling interests	<u>6</u>	<u>28</u>
Excess of revenues over expenses attributable to CommonSpirit Health	<u>\$ 9,008</u>	<u>\$ 194</u>

(Continued)

## COMMONSPIRIT HEALTH

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

	Without Donor Restrictions		With Donor Restrictions	Total Net Assets
	Attributable to CommonSpirit Health	Noncontrolling Interest		
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	<u>\$ 14,428</u>	<u>\$ 486</u>	<u>\$ 877</u>	<u>\$ 15,791</u>

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
	<u>1,488</u>	<u>536</u>
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	<u>409</u>	<u>198</u>
Cash provided by operating activities	<u>1,897</u>	<u>734</u>

(Continued)



# 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	<u>6</u>	<u>(17)</u>
Cash used in investing activities	<u>(417)</u>	<u>(796)</u>
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	<u>(6)</u>	<u>-</u>
Cash used in financing activities	<u>(421)</u>	<u>(238)</u>
Net increase (decrease) in cash and cash equivalents	1,059	(300)
Cash and cash equivalents at beginning of the year	<u>510</u>	<u>810</u>
Cash and cash equivalents at end of the year	<u>\$ 1,569</u>	<u>\$ 510</u>
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	<u>7,519</u>	<u>5,309</u>
Total	<u>\$ 11,599</u>	<u>\$ 5,819</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	<u>\$ 430</u>	<u>\$ 338</u>
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease or note payable	<u>\$ 15</u>	<u>\$ 19</u>
Investments in health-related activities	<u>\$ 17</u>	<u>\$ 11</u>
Accrued purchases of property and equipment	<u>\$ 113</u>	<u>\$ 44</u>

See notes to consolidated financial statements.

# COMMONSPIRIT HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2019 AND 2018

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### 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	<u>\$ 20,595</u>	<u>\$ -</u>	<u>\$ 20,595</u>
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	<u>\$ 13,463</u>	<u>\$ -</u>	<u>\$ 13,463</u>

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	\$	<u>10,002</u>

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.

(in millions)	2019		2018	
	Actual	Pro Forma (a)	Actual	Pro Forma (b)
<b>Operating revenues:</b>				
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	<u>20,966</u>	<u>28,861</u>	<u>14,982</u>	<u>29,204</u>
<b>Operating expenses:</b>				
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	<u>21,249</u>	<u>29,083</u>	<u>15,108</u>	<u>28,788</u>
<b>Operating income (loss) before special charges and other costs</b>				
	(283)	(222)	(126)	416
Special charges and other costs	<u>(319)</u>	<u>(360)</u>	<u>(141)</u>	<u>(172)</u>
Operating gain (loss)	(602)	(582)	(267)	244
<b>Nonoperating income (loss):</b>				
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	<u>9,616</u>	<u>328</u>	<u>489</u>	<u>966</u>
Excess (deficit) of revenues over expenses	<u>\$ 9,014</u>	<u>\$ (254)</u>	<u>\$ 222</u>	<u>\$ 1,210</u>
Less excess of revenues over expenses attributable to noncontrolling interests	<u>6</u>	<u>36</u>	<u>28</u>	<u>84</u>
Excess (deficit) of revenues over expenses attributable to CommonSpirit	<u>\$ 9,008</u>	<u>\$ (290)</u>	<u>\$ 194</u>	<u>\$ 1,126</u>

(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):

<b>Assets</b>	<b>2019</b>	<b>2018</b>
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	<u>\$ 223</u>	<u>\$ 196</u>
<b>Liabilities</b>		
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	<u>\$ 162</u>	<u>\$ 252</u>

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):

	<b>2019</b>	<b>2018</b>
Net patient revenue	\$ 703	\$ 713
Other operating revenue	419	582
Total operating revenues	<u>1,122</u>	<u>1,295</u>
Salaries and benefits	427	440
Purchased services and other	727	917
Depreciation and amortization	3	4
Total operating expenses	<u>1,157</u>	<u>1,361</u>
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	<u>(79)</u>	<u>(793)</u>
Deficit of revenues over expenses attributable to noncontrolling interests	-	(3)
Deficit of revenues over expenses attributable to CommonSpirit Health	<u>\$ (79)</u>	<u>\$ (790)</u>

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
	<u>\$ 19,476</u>	<u>\$ 14,136</u>

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	<u>19,952</u>	<u>14,189</u>
Health plans, accountable care, and other	1,014	793
Total operating revenue	<u>\$ 20,966</u>	<u>\$ 14,982</u>

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	<u>\$ 1,403</u>	<u>\$ 642</u>

## 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	<u>\$ 12,888</u>	<u>\$ 6,684</u>
Assets limited as to use:		
Current	\$ 2,315	\$ 218
Long-term	8,062	6,466
Short-term investments	2,511	-
Total	<u>\$ 12,888</u>	<u>\$ 6,684</u>

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):

	<b>2019</b>			
	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Assets</b>				
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	<u>\$ 3,265</u>	<u>\$ 662</u>	<u>\$ 66</u>	3,993
<b>Assets at NAV:</b>				
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				<u>\$ 7,450</u>
<b>Liabilities</b>				
Derivative instruments	\$ -	\$ 454	\$ -	\$ 454
Other	3	-	74	77
Total liabilities	<u>\$ 3</u>	<u>\$ 454</u>	<u>\$ 74</u>	<u>\$ 531</u>

**2018**

	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Assets</b>				
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
<b>Total assets</b>	<b><u>\$ 554</u></b>	<b><u>\$ 448</u></b>	<b><u>\$ 3</u></b>	<b><u>\$ 1,005</u></b>
<b>Liabilities</b>				
Derivative instruments	\$ -	\$ 208	\$ -	\$ 208
Other	5	-	82	87
<b>Total liabilities</b>	<b><u>\$ 5</u></b>	<b><u>\$ 208</u></b>	<b><u>\$ 82</u></b>	<b><u>\$ 295</u></b>

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):

		<b>As of June 30, 2019</b>		
	<b>NAV</b>	<b>Unfunded</b>	<b>Redemption</b>	<b>Redemption</b>
	<b>Practical</b>	<b>Commitments</b>	<b>Frequency (If</b>	<b>Notice</b>
	<b>Expedient</b>		<b>Currently Eligible)</b>	<b>Period</b>
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	<u>\$ 3,457</u>	<u>\$ 51</u>		

- (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 Frequency	Redemption Notice Period	Redemption Locked Up Until (if applicable)	Redemption Gate % of Account (if applicable)
Total	Subtotal				
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):

	<b>2019</b>			
	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Assets</b>				
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	<u>\$ 2,603</u>	<u>\$ 1,456</u>	<u>\$ 247</u>	4,306
<b>Assets at NAV:</b>				
Hedge funds				524
Real estate				427
Venture capital/private equity				<u>351</u>
Total assets				<u>\$ 5,608</u>
<b>Liabilities - foreign currency exchange contracts</b>				
	<u>\$ -</u>	<u>\$ 220</u>	<u>\$ -</u>	<u>\$ 220</u>

**2018**

	<b>Quoted Prices</b>			
	<b>in Active</b>	<b>Significant</b>	<b>Significant</b>	
	<b>Markets for</b>	<b>Other</b>	<b>Unobservable</b>	
	<b>Identical</b>	<b>Observable</b>	<b>Inputs</b>	
	<b>Instruments</b>	<b>Inputs</b>	<b>Inputs</b>	
	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>	<b>Total</b>
<b>Assets</b>				
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	<u>\$ 3,130</u>	<u>\$ 1,995</u>	<u>\$ 247</u>	<u>5,372</u>
<b>Assets at NAV:</b>				
Hedge funds				523
Real estate				397
Venture capital/private equity				334
Total assets				<u>\$ 6,626</u>
<b>Liabilities - foreign currency exchange contracts</b>				
	<u>\$ -</u>	<u>\$ 208</u>	<u>\$ -</u>	<u>\$ 208</u>

## 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	<u>\$ 15,266</u>	<u>\$ 8,111</u>

## 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 (“Optum360”) 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 Optum360° 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):

	<b>2019</b>			
	<b>Hospitals</b>	<b>JOCs</b>	<b>Other</b>	<b>Total</b>
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
	<b>2018</b>			
	<b>Hospitals</b>	<b>JOCs</b>	<b>Other</b>	<b>Total</b>
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):

	<b>2019</b>	<b>2018</b>
Balance at beginning of period	\$ 239	\$ 232
Addition from acquisitions	3	11
Goodwill divested during the year	-	(4)
Balance at end of period	<u>\$ 242</u>	<u>\$ 239</u>

## 12. INTANGIBLE ASSETS, NET

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

	2019			Amortization period
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of 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
	<u>\$ 774</u>	<u>\$ (60)</u>	<u>\$ 714</u>	

  

	2018			Amortization period
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of 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
	<u>\$ 232</u>	<u>\$ (50)</u>	<u>\$ 182</u>	

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	<u>\$ 194</u>	<u>\$ 133</u>

#### 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	<u>\$ 1,190</u>	<u>\$ 801</u>

#### 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%	<u>2,994</u>	<u>1,790</u>
Total fixed rate debt	<u>7,169</u>	<u>4,716</u>
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)	<u>881</u>	<u>881</u>
Total variable rate debt	<u>5,747</u>	<u>3,217</u>
Total debt under master trust indentures and COD	<u>12,916</u>	<u>7,933</u>
Other:		
Various notes payable and other debt payable in installments through 2042; interest ranging up to 9.73%	435	480
Capitalized lease obligations	<u>156</u>	<u>113</u>
Total debt	<u>13,507</u>	<u>8,526</u>
Less amounts classified as current	(3,475)	(2,087)
Less demand bonds subject to short-term liquidity arrangements	<u>(820)</u>	<u>(97)</u>
Total long-term debt	<u>\$ 9,212</u>	<u>\$ 6,342</u>

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):

	<b>Long-Term Debt Other Than Demand Bonds</b>	<b>Demand Bonds Subject to Short-Term Liquidity Arrangements</b>	<b>Total Long-Term Debt</b>
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	<u>\$ 12,687</u>	<u>\$ 820</u>	<u>\$ 13,507</u>

**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):

	<b>Maturity Date of Derivatives</b>	<b>Interest Rate</b>	<b>Notional Amount Outstanding</b>	<b>Fair Value</b>
<b>2019</b>				
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	<u>408</u>	<u>-</u>
Total derivative instruments			<u>3,170</u>	<u>(454)</u>
Cash collateral			<u>-</u>	<u>240</u>
Derivative instruments, net			<u>\$ 3,170</u>	<u>\$ (214)</u>
<b>2018</b>				
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	<u>154</u>	<u>(1)</u>
Total derivative instruments			<u>1,557</u>	<u>(208)</u>
Cash collateral			<u>-</u>	<u>175</u>
Derivative instruments, net			<u>\$ 1,557</u>	<u>\$ (33)</u>

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	<u>(23)</u>	<u>(8)</u>
Interest expense, net	<u>\$ 391</u>	<u>\$ 313</u>

## 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):

	<b>2019</b>	<b>2018</b>
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	<u>\$ 12,677</u>	<u>\$ 4,960</u>
Accumulated benefit obligation	<u>\$ 12,235</u>	<u>\$ 4,956</u>
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	<u>\$ 9,177</u>	<u>\$ 4,106</u>
Funded status	<u>\$ (3,500)</u>	<u>\$ (854)</u>

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

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

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:

	<b>2019</b>	<b>2018</b>
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):

	<b>2019</b>	<b>2018</b>
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)	<u>\$ 113</u>	<u>\$ (4)</u>

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.

	<b>2019</b>			
	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Assets</b>				
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	<u>\$ 4,314</u>	<u>\$ 1,051</u>	<u>\$ 197</u>	<u>5,562</u>
<b>Assets at NAV:</b>				
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				<u>347</u>
Total assets				<u>\$ 9,294</u>
<b>Liabilities</b>				
Foreign currency exchange contracts	\$ -	\$ 39	\$ -	\$ 39
Payable under securities lending program	-	15	-	15
Total liabilities	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ -</u>	<u>\$ 54</u>
<b>Other plan assets (liabilities)</b>				
Due from brokers for unsettled investment trades				229
Due to brokers for unsettled investment trades				<u>(292)</u>
Fair value of plan assets, net				<u>\$ 9,177</u>

**2018**

	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Assets</b>				
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	<u>2</u>	<u>88</u>	<u>-</u>	<u>90</u>
Assets measured at fair value	<u>\$ 2,295</u>	<u>\$ 991</u>	<u>\$ 188</u>	<u>3,474</u>
<b>Assets at NAV:</b>				
Private equity				406
Real estate				<u>327</u>
				<u>\$ 4,207</u>
<b>Liabilities - Foreign currency exchange contracts</b>				
	<u>\$ -</u>	<u>\$ 88</u>	<u>\$ -</u>	<u>\$ 88</u>
<b>Other plan assets (liabilities)</b>				
Due from brokers for unsettled investment trades				49
Due to brokers for unsettled investment trades				<u>(62)</u>
Fair value of plan assets, net				<u>\$ 4,106</u>

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

	<b>2019</b>	<b>2018</b>
Balance at beginning of period	\$ 188	\$ 182
Total realized losses, net	(1)	-
Total unrealized losses, net	(2)	(1)
Purchases	<u>12</u>	<u>7</u>
Balance at end of period	<u>\$ 197</u>	<u>\$ 188</u>

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

	<b>2019</b>	<b>2018</b>
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	<u>100%</u>	<u>100%</u>

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	<u>3,644</u>
Total	<u>\$ 6,990</u>

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	<u>\$ 319</u>	<u>\$ 141</u>

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	<u>\$ 612</u>	<u>\$ 443</u>

## 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):

	<b>2019</b>
2020	\$ 331
2021	278
2022	239
2023	211
2024	189
Thereafter	647
Total	<u>\$ 1,895</u>

**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:

	<b>Program Services - Healthcare</b>	<b>Support Services - Management and Administrative</b>	<b>Support Services - Fundraising</b>	<b>Total Expenses</b>
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	<u>\$ 19,515</u>	<u>\$ 1,665</u>	<u>\$ 69</u>	<u>\$ 21,249</u>

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)

Un-sponsored 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):

	<b>Unaudited Pro Forma</b>			
	<b>Total Benefit Expense</b>	<b>Direct Offsetting Revenue</b>	<b>Net Community Benefit</b>	<b>% of Total Expenses</b>
<b>Benefits for the poor:</b>				
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%
<b>Community services:</b>				
Community health services	58	(27)	31	0.1%
Subsidized health services	33	(1)	32	0.2%
Donations and other	<u>52</u>	<u>(2)</u>	<u>50</u>	<u>0.2%</u>
Total community services for the poor	<u>143</u>	<u>(30)</u>	<u>113</u>	<u>0.5%</u>
Total benefits for the poor	<u>5,033</u>	<u>(3,177)</u>	<u>1,856</u>	<u>8.8%</u>
<b>Benefits for the broader community:</b>				
<b>Community services:</b>				
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	<u>7</u>	<u>(1)</u>	<u>6</u>	<u>0.0%</u>
Total benefits for the broader community	<u>392</u>	<u>(62)</u>	<u>330</u>	<u>1.5%</u>
Total Community Benefits	<u>\$ 5,425</u>	<u>\$ (3,239)</u>	<u>\$ 2,186</u>	<u>10.3%</u>
Unpaid costs of Medicare	<u>5,957</u>	<u>(3,708)</u>	<u>2,249</u>	<u>10.6%</u>
Total Community Benefits including unpaid costs of Medicare	<u>\$ 11,382</u>	<u>\$ (6,947)</u>	<u>\$ 4,435</u>	<u>20.9%</u>

\* \* \*

# Reports and Schedules Required by the Uniform Guidance

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

The Board of Stewardship Trustees and Management  
CommonSpirit Health

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of CommonSpirit Health, which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 4, 2019.

### **Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

*Ernst + Young LLP*

October 4, 2019



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## Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Stewardship Trustees and Management  
CommonSpirit Health

### **Report on Compliance for Each Major Federal Program**

We have audited CommonSpirit Health's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of CommonSpirit Health's major federal programs for the year ended June 30, 2019. CommonSpirit Health's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

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

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of CommonSpirit Health's compliance.



***Basis for Qualified Opinion on WIC Special Supplemental Nutrition Program for Women, Infants, and Children***

As described in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient, appropriate audit evidence supporting the compliance of CommonSpirit Health with CFDA 10.557 – WIC Special Supplemental Nutrition Program for Women, Infants, and Children as described in Finding 2019-001 – Eligibility, consequently we were unable to determine whether CommonSpirit Health complied with those requirements applicable to that program.

***Qualified Opinion on WIC Special Supplemental Nutrition Program for Women, Infants, and Children***

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, CommonSpirit Health complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 10.557 – WIC Special Supplemental Nutrition Program for Women, Infants, and Children for the year ended June 30, 2019.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, CommonSpirit Health complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs that are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2019.

### *Other Matters*

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs regarding the following:

<b>Finding No.</b>	<b>CFDA No.</b>	<b>Program or Cluster Name</b>	<b>Compliance Requirement</b>
2019-002	84.007, 84.033, 84.063, 84.268	Student Financial Assistance (SFA) Cluster	Special Tests and Provisions – Gramm-Leach-Bliley Act – Student Information Security
2019-003	10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	Procurement and Suspension and Debarment
2019-004	84.007, 84.033, 84.063, 84.268	SFA Cluster	Eligibility
2019-005	84.063, 84.268	SFA Cluster	Special Tests and Provisions – Enrollment Reporting
2019-006	84.268	SFA Cluster	Special Tests and Provisions – Disbursements to or on Behalf of Students
2019-007	84.268	SFA Cluster	Special Tests and Provisions – Borrower Data Transmission and Reconciliation (Direct Loan)
2019-008	84.063	SFA Cluster	Reporting – Common Origination and Disbursement (COD) System
2019-009	93.778	Medicaid Cluster	Allowable Costs/Cost Principles

Our opinion on each major federal program is not modified with respect to these matters.

CommonSpirit Health’s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. CommonSpirit Health’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

We performed audit procedures with respect to the SFA Cluster major federal program related to compliance requirements in Special Test and Provision N9, Gramm-Leach-Bliley Act – Student Information Security as outlined in the OMB *Compliance Supplement* for the year ended June 30, 2019. We determined whether CommonSpirit Health has designated an individual to coordinate the information security program. We determined whether CommonSpirit Health performed a risk assessment that addresses the three required areas noted in 16 CFR 314.4 (b) and whether CommonSpirit Health documented a safeguard for each risk identified from the three required areas to be risk assessed by 16 CFR 314.4 (b). Our audit procedures did not evaluate whether the designated individual that coordinated the information security program is competent to oversee

the program nor whether the individual possessed the adequate authority to carry out those duties. Our audit procedures also did not determine whether the risk assessment sufficiently addressed the required areas, whether the risks identified are the appropriate risks or that the identified risks appear to be a complete list. Further, our audit procedures did not determine whether the documented safeguards have been put in place or that they will effectively mitigate, reduce or even address the identified risks. Our opinion on the SFA Cluster major federal program is not modified with respect to this matter.

### **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the

accompanying schedule of findings and questioned costs and identified in the table below to be material weaknesses.

<b>Finding No.</b>	<b>CFDA No.</b>	<b>Program or Cluster Name</b>	<b>Compliance Requirement</b>
2019-002	84.007, 84.033, 84.063, 84.268	SFA Cluster	Special Tests and Provisions – Gramm-Leach-Bliley Act – Student Information Security
2019-006	84.268	SFA Cluster	Special Tests and Provisions – Disbursements to or on Behalf of Students
2019-007	84.268	SFA Cluster	Special Tests and Provisions – Borrower Data Transmission and Reconciliation (Direct Loan)
2019-008	84.063	SFA Cluster	Reporting – Common Origination and Disbursement (COD) System

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs and identified in the table below to be significant deficiencies.

<b>Finding No.</b>	<b>CFDA No.</b>	<b>Program or Cluster Name</b>	<b>Compliance Requirement</b>
2019-003	10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	Procurement and Suspension and Debarment
2019-004	84.007, 84.033, 84.063, 84.268	SFA Cluster	Eligibility
2019-005	84.063, 84.268	SFA Cluster	Special Tests and Provisions – Enrollment Reporting
2019-009	93.778	Medicaid Cluster	Allowable Costs/Cost Principles

CommonSpirit Health’s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. CommonSpirit Health’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

We have audited the financial statements of CommonSpirit Health as of and for the year ended June 30, 2019, and have issued our report thereon dated October 4, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Ernst + Young LLP*

March 23, 2020

## CommonSpirit Health

### Schedule of Expenditures of Federal Awards

June 30, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
<b>U.S. Department of Agriculture</b>							
WIC Special Supplemental Nutrition Program for Women, Infants, and Children – <i>North County Community Health</i>	10.557	32573	\$ –	\$ –	\$ 93,744	\$ 93,744	\$ –
WIC Special Supplemental Nutrition Program for Women, Infants, and Children – <i>State of Nevada</i>	10.557	T27017956J	–	–	299,249	299,249	–
WIC Special Supplemental Nutrition Program for Women, Infants, and Children – <i>Washington State Department of Health</i>	10.557	HSP23696-0/N22322	–	–	1,761,739	1,761,739	–
<b>Total 10.557 – Pass-Through</b>			–	–	<b>2,154,732</b>	<b>2,154,732</b>	–
Child and Adult Care Food Program – <i>California Department of Aging</i>	10.558	ADU70066F	–	–	14,452	14,452	–
Child and Adult Care Food Program – <i>California Department of Education</i>	10.558	19-3105OA	–	–	77,173	77,173	–
Child and Adult Care Food Program – <i>Iowa Department of Education</i>	10.558	778084/CNP 47 CTR	–	–	30,618	30,618	–
<b>Total 10.558 – Pass-Through</b>			–	–	<b>122,243</b>	<b>122,243</b>	–
<b>Food Distribution Cluster</b>							
Emergency Food Assistance Program (Administrative Costs) – <i>California Department of Social Services</i>	10.568	15-MOU-00144	–	–	121,720	121,720	–
<b>Total Food Distribution Cluster</b>			–	–	<b>121,720</b>	<b>121,720</b>	–
WIC Farmers' Market Nutrition Program (FMNP) – <i>State of Washington</i>	10.572	7WA810WA7	–	–	1,657	1,657	–
Regional Conservation Partnership Program	10.932		–	–	253	253	–
<b>Total U.S. Department of Agriculture</b>			–	–	<b>2,400,605</b>	<b>2,400,605</b>	–

See notes to Schedule of Expenditures of Federal Awards.

CommonSpirit Health

Schedule of Expenditures of Federal Awards (continued)

June 30, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
<b>U.S. Department of Defense</b>							
Military Medical Research and Development	12.420		\$ 825,129	\$ –	\$ –	\$ 825,129	\$ 559,121
Military Medical Research and Development – <i>Carl T. Hayden Medical Research Foundation</i>	12.420	17-0473-BNI (W81XWH1710473)	18,824	–	–	18,824	–
Military Medical Research and Development – <i>University of Arizona</i>	12.420	472811/W81XWH1810313	41,533	–	–	41,533	–
<b>Total 12.420 – Pass-Through</b>			<b>60,357</b>	<b>–</b>	<b>–</b>	<b>60,357</b>	<b>–</b>
<b>Total U.S. Department of Defense</b>			<b>885,486</b>	<b>–</b>	<b>–</b>	<b>885,486</b>	<b>559,121</b>
<b>U.S. Department of Housing and Urban Development</b>							
Supportive Housing for the Elderly	14.157		–	–	725,613	725,613	–
<b>CDBG – Entitlement Grants Cluster</b>							
Community Development Block Grants/Entitlement Grants – <i>Lancaster County Redevelopment Authority</i>	14.218	2017-2181-CDBG-7-25-17	–	–	3,508	3,508	–
<b>Total CDBG – Entitlement Grants Cluster</b>			<b>–</b>	<b>–</b>	<b>3,508</b>	<b>3,508</b>	<b>–</b>
<b>Total U.S. Department of Housing and Urban Development</b>			<b>–</b>	<b>–</b>	<b>729,121</b>	<b>729,121</b>	<b>–</b>
<b>U.S. Department of Justice</b>							
Services for Trafficking Victims	16.320		–	–	85,848	85,848	–
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525		–	–	122,559	122,559	23,760
Crime Victim Assistance – <i>Colorado Division of Criminal Justice</i>	16.575	2018-VA-19-175-00	–	–	180,593	180,593	40,955
Crime Victim Assistance – <i>County of Los Angeles</i>	16.575	SU-KC-2018	–	–	54,275	54,275	–
Crime Victim Assistance – <i>Ohio Attorney General – Crime Victim Section</i>	16.575	2019-VOCA-132136719	–	–	274	274	–
<b>Total 16.575 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>235,142</b>	<b>235,142</b>	<b>40,955</b>

See notes to Schedule of Expenditures of Federal Awards.

CommonSpirit Health

Schedule of Expenditures of Federal Awards (continued)

June 30, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
Crime Victim Assistance/Discretionary Grants	16.582		\$ –	\$ –	\$ 26,690	\$ 26,690	\$ –
Violence Against Women Formula Grant – <i>Colorado Division of Criminal Justice</i>	16.588	20017-WF-AX-0038/ 2016VW-013918-17	–	–	55,522	55,522	–
Violence Against Women Formula Grant – <i>North Dakota Department of Health</i>	16.588	G17.476	–	–	33,283	33,283	–
<b>Total 16.588 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>88,805</b>	<b>88,805</b>	<b>–</b>
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589		–	–	153,864	153,864	39,342
<b>Total U.S. Department of Justice</b>			<b>–</b>	<b>–</b>	<b>712,908</b>	<b>712,908</b>	<b>104,057</b>
<b>U.S. Department of Transportation</b>							
<b>Highway Planning and Construction Cluster</b>							
Highway Planning and Construction – <i>Montana State University</i>	20.205	G142-17-W6349	–	–	39,976	39,976	–
<b>Total Highway Planning and Construction Cluster</b>			<b>–</b>	<b>–</b>	<b>39,976</b>	<b>39,976</b>	<b>–</b>
<b>Transit Services Programs Cluster</b>							
Enhanced Mobility of Seniors and Individuals with Disabilities – <i>Department of Transportation, 5310 Specialized Transit Grants</i>	20.513	64AO18-00684	–	–	74,777	74,777	–
<b>Total Transit Services Programs Cluster</b>			<b>–</b>	<b>–</b>	<b>74,777</b>	<b>74,777</b>	<b>–</b>
<b>Highway Safety Cluster</b>							
State and Community Highway Safety – <i>California Office of Traffic Safety/Rancho Cordova Police Department</i>	20.600	OP19009	–	–	27,204	27,204	–
<b>Total Highway Safety Cluster</b>			<b>–</b>	<b>–</b>	<b>27,204</b>	<b>27,204</b>	<b>–</b>
<b>Total U.S. Department of Transportation</b>			<b>–</b>	<b>–</b>	<b>141,957</b>	<b>141,957</b>	<b>–</b>
<b>U.S. Department of Veterans Affairs</b>							
Post-9/11 Veterans Educational Assistance	64.027		–	–	33,207	33,207	–
<b>Total U.S. Department of Veterans Affairs</b>			<b>–</b>	<b>–</b>	<b>33,207</b>	<b>33,207</b>	<b>–</b>

See notes to Schedule of Expenditures of Federal Awards.



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Schedule of Expenditures of Federal Awards (continued)

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Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
<b>U.S. Department of Education</b>							
Federal Supplemental Educational Opportunity Grants	84.007		\$ –	\$ 77,441	\$ –	\$ 77,441	\$ –
Federal Work-Study Program	84.033		–	23,449	–	23,449	–
Federal Pell Grant Program	84.063		–	2,399,448	–	2,399,448	–
Federal Direct Student Loans	84.268		–	8,309,513	–	8,309,513	–
Rehabilitation Services Vocational Rehabilitation Grants to States – <i>State of Nebraska Vocational Rehabilitation</i>	84.126		–	–	25,000	25,000	–
Special Education – Grants for Infants and Families – <i>North Country Community Health</i>	84.181	75437	–	–	3,239	3,239	–
<b>Total U.S. Department of Education</b>			<b>–</b>	<b>10,809,851</b>	<b>28,239</b>	<b>10,838,090</b>	<b>–</b>
<b>U.S. Department of Health and Human Services</b>							
AIDS Medical Waiver – <i>Department of Health and Human Services – State of California</i>	93.U01	03-76081	–	–	409,612	409,612	–
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services – <i>Area Agency on Aging of West Central Arkansas</i>	93.043		–	–	3,566	3,566	–
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services – <i>Area Agency on Aging – Region 9</i>	93.043		–	–	1,580	1,580	1,580
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services – <i>Land of the Dancing Sky Area Agency on Aging</i>	93.043	314-18-003-913	–	–	800	800	–

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Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services – <i>State of California Department of Aging</i>	93.043	3006-1819-A12	\$ –	\$ –	\$ 8,422	\$ 8,422	\$ –
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services – <i>State of Nevada</i>	93.043	T27017956J	–	–	67,327	67,327	–
<b>Total 93.043 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>81,695</b>	<b>81,695</b>	<b>1,580</b>
<b>Aging Cluster</b>							
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers – <i>Area Agency on Aging of West Central Arkansas</i>	93.044		–	–	46,128	46,128	–
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers – <i>Area Agency on Aging – Region 9</i>	93.044		–	–	68,857	68,857	68,857
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers – <i>State of California Department of Aging – Area 4 Agency on Aging</i>	93.044	1122-19	–	–	39,350	39,350	–
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers – <i>State of California Department of Aging</i>	93.044	3006-1819-A12	–	–	60,087	60,087	–
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers – <i>State of Nevada</i>	93.044	T27017956J	–	–	17,448	17,448	–
<b>Total 93.044 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>231,870</b>	<b>231,870</b>	<b>68,857</b>

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Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
Special Programs for the Aging, Title III, Part C, Nutrition Services – <i>Area Agency on Aging of West Central Arkansas</i>	93.045		\$ –	\$ –	\$ 165,392	\$ 165,392	\$ –
Special Programs for the Aging, Title III, Part C, Nutrition Services – <i>Area Agency on Aging – Region 9</i>	93.045		–	–	95,289	95,289	95,289
Special Programs for the Aging, Title III, Part C, Nutrition Services – <i>State of California Department of Aging</i>	93.045	3006-1819-A12	–	–	180,068	180,068	–
<b>Total 93.045 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>440,749</b>	<b>440,749</b>	<b>95,289</b>
Nutrition Services Incentive Program – <i>Area Agency on Aging of West Central Arkansas</i>	93.053		–	–	76,087	76,087	–
Nutrition Services Incentive Program – <i>Area Agency on Aging – Region 9</i>	93.053		–	–	92,761	92,761	92,761
Nutrition Services Incentive Program – <i>State of California Department of Aging</i>	93.053	3006-1819-A12	–	–	33,922	33,922	–
<b>Total 93.053 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>202,770</b>	<b>202,770</b>	<b>92,761</b>
<b>Total Aging Cluster</b>			<b>–</b>	<b>–</b>	<b>875,389</b>	<b>875,389</b>	<b>256,907</b>
National Family Caregiver Support, Title III, Part E – <i>State of Nevada</i>	93.052	T27017956J	–	–	12,793	12,793	–
Public Health Emergency Preparedness – <i>North Country Community Health</i>	93.069	128026/NU90TP921911-01-00	–	–	10,042	10,042	–
Medicare Enrollment Assistance Program – <i>National Council on Aging, Inc</i>	93.071		–	–	28,563	28,563	–

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Schedule of Expenditures of Federal Awards (continued)

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Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – <i>County of Los Angeles</i>	93.074	H-705558/H-707501	\$ –	\$ –	\$ 157,278	\$ 157,278	\$ –
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – <i>County of Los Angeles and EMSA Homeland</i>	93.074	H-300086	–	–	92,743	92,743	–
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – <i>County of Los Angeles (EMSA)</i>	93.074	300072	–	–	23,005	23,005	–
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – <i>Sacramento County Department of Public Health</i>	93.074	2017-2022 MOU	–	–	25,499	25,499	–
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – <i>Polk County Auditor’s Office</i>	93.074	5887BT13	–	–	19,971	19,971	–
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – <i>SFDPH Emergency Preparedness and Response Branch</i>	93.074	93290	–	–	3,150	3,150	–
<b>Total 93.074 – Pass-Through</b>			–	–	<b>321,646</b>	<b>321,646</b>	–
Healthy Marriage Promotion and Responsible Fatherhood Grants – <i>Goodwill/Easter Seals of Minnesota</i>	93.086		–	–	104,377	104,377	–
Maternal and Child Health Federal Consolidated Programs	93.110		–	–	4,365	4,365	–
Injury Prevention and Control Research and State and Community Based Programs – <i>University of Iowa</i>	93.136	S00624-01	–	–	119,907	119,907	–

See notes to Schedule of Expenditures of Federal Awards.

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### Schedule of Expenditures of Federal Awards (continued)

June 30, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
State Rural Hospital Flexibility Program – <i>Nebraska Department of Health and Human Services</i>	93.241	38602-Y3/38604-Y3/ 45362-Y3/45568-Y3	\$ –	\$ –	\$ 66,709	\$ 66,709	\$ –
State Rural Hospital Flexibility Program – <i>Nebraska Office of Rural Health</i>	93.241	45569-Y3	–	–	13,975	13,975	–
State Rural Hospital Flexibility Program – <i>University of North Dakota</i>	93.241	UND10630	–	–	423	423	–
<b>Total 93.241 – Pass-Through</b>			–	–	<b>81,107</b>	<b>81,107</b>	–
Substance Abuse and Mental Health Services Projects of Regional and National Significance – <i>Iowa Department of Public Health</i>	93.243	588 8 SA123/588 9 SA83 588 9 SA123	–	–	59,213	59,213	–
Substance Abuse and Mental Health Services Projects of Regional and National Significance – <i>King County DCHS</i>	93.243	6049905/6059179	–	–	165,497	165,497	–
<b>Total 93.243 – Pass-Through</b>			–	–	<b>224,710</b>	<b>224,710</b>	–
Advanced Nursing Education Workforce Grant Program – <i>University of Mary</i>	93.247	1 DO9HP29981-01-00	–	–	2,537	2,537	–
Early Hearing Detection and Intervention – <i>North Country Community Health</i>	93.251	12-700-00056	–	–	800	800	–
Immunization Cooperative Agreements – <i>Nebraska Department of Health and Human Services</i>	93.268	47444-Y3	–	–	5,701	5,701	–
Drug-Free Communities Support Program Grants <i>Health Resources and Services</i>	93.276	SPO21427	–	–	81,112	81,112	–
Drug Abuse and Addiction Research Programs	93.279		516,852	–	–	516,852	354,498
<b>Total 93.279</b>			<b>516,852</b>	–	–	<b>516,852</b>	<b>354,498</b>

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June 30, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
Discovery and Applied Research for Technological Innovations to Improve Human Health – <i>Arizona State University</i>	93.286	16-936	\$ 24,571	\$ –	\$ –	\$ 24,571	\$ –
Small Rural Hospital Improvement Grant Program – <i>Kentucky Hospital Research and Education Foundation</i>	93.301		–	–	11,866	11,866	–
Small Rural Hospital Improvement Grant Program – <i>Minnesota Department of Health</i>	93.301	145549	–	–	38,868	38,868	–
Small Rural Hospital Improvement Grant Program – <i>University of North Dakota</i>	93.301	10673/10675/10678/10683 10675/10686/10687/10701	–	–	66,520	66,520	–
<b>Total 93.301 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>117,254</b>	<b>117,254</b>	<b>–</b>
Paralysis Resource Center – <i>Christopher and Dana Reeve Foundation</i>	93.325		–	–	13,540	13,540	–
Research Infrastructure Programs – <i>RxGen, Inc.</i>	93.351	R43OD023025	12,425	–	–	12,425	–
21st Century Cures Act – Beau Biden Cancer Moonshot – <i>Geisinger Clinic</i>	93.353	646018CHI01/646018CHI02	26,301	–	–	26,301	–
Nurse Education, Practice Quality and Retention Grants	93.359		–	–	280,913	280,913	–
Cancer Detection and Diagnosis Research	93.394		327,409	–	–	327,409	73,270
Cancer Detection and Diagnosis Research – <i>University of Washington</i>	93.394	62-8584	54,805	–	–	54,805	–
<b>Total 93.394</b>			<b>382,214</b>	<b>–</b>	<b>–</b>	<b>382,214</b>	<b>73,270</b>

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June 30, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
Cancer Treatment Research	93.395		\$ 886,728	\$ –	\$ –	\$ 886,728	\$ –
Cancer Treatment Research – <i>Brigham and Women’s Hospital, Inc – Alliance</i>	93.395	Alliance	17,252	–	–	17,252	–
Cancer Treatment Research – <i>National Cancer Institute</i>	93.395	SAC-163617	15,250	–	–	15,250	–
Cancer Treatment Research – <i>University of Arizona</i>	93.395	RC105782UAZPH	664	–	–	664	–
<b>Total 93.395 – Pass-Through</b>			<b>33,166</b>	<b>–</b>	<b>–</b>	<b>33,166</b>	<b>–</b>
<b>Total 93.395</b>			<b>919,894</b>	<b>–</b>	<b>–</b>	<b>919,894</b>	<b>–</b>
Cancer Biology Research – <i>Mayo Clinic Arizona</i>	93.396	1U01CA220378-01	32,159	–	–	32,159	–
Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke – <i>State of Nevada</i>	93.426	T27017956J	–	–	113,079	113,079	–
Innovative State and Local Public Health Strategies to prevent and Manage Diabetes and Heart Disease and Stroke – <i>State of Nevada</i>	93.435	T27017956J	–	–	50,339	50,339	–
Promoting Safe and Stable Families – <i>County of Los Angeles</i>	93.556	17-9-46/17-9-61	–	–	430,463	430,463	–
<b>TANF Cluster</b>							
Temporary Assistance for Needy Families – <i>North Country Community Health</i>	93.558	2017G996115	–	–	35,367	35,367	–
<b>Total TANF Cluster</b>			<b>–</b>	<b>–</b>	<b>35,367</b>	<b>35,367</b>	<b>–</b>

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Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
Refugee and Entrant Assistance State/Replacement Designee Administered Programs – <i>Nebraska Department of Health and Human Services – Refugee Resettlement</i>	93.566	94474-26	\$ –	\$ –	\$ 22,717	\$ 22,717	\$ –
Low-Income Home Energy Assistance – <i>Area Agency on Aging – Region 9</i>	93.568		–	–	2,556	2,556	2,556
<b>CCDF Cluster</b>							
Child Care and Development Block Grant – <i>California Department of Education</i>	93.575	CCTR-8084	–	–	58,386	58,386	–
Child Care and Development Block Grant – <i>California Department of Education</i>	93.575	CSPP-8182	–	–	11,954	11,954	–
Child Care and Development Block Grant – <i>California Department of Education</i>	93.575	CFCC-8008	–	–	17,509	17,509	–
<b>Total 93.575 – Pass-Through</b>			–	–	<b>87,849</b>	<b>87,849</b>	–
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – <i>California Department of Education</i>	93.596	CCTR-8084	–	–	127,041	127,041	–
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – <i>California Department of Education</i>	93.596	CSPP-8182	–	–	38,122	38,122	–
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – <i>California Department of Education</i>	93.596	CFCC-8008	–	–	26,005	26,005	–
<b>Total 93.596 – Pass-Through</b>			–	–	<b>191,168</b>	<b>191,168</b>	–
<b>Total CCDF Cluster</b>			–	–	<b>279,017</b>	<b>279,017</b>	–

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Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
Grants to States for Access and Visitation Programs – <i>San Francisco Superior Court</i>	93.597	08-045	\$ –	\$ –	\$ 21,000	\$ 21,000	\$ –
Grants to States for Access and Visitation Programs – <i>California Governor’s Office of Emergency Services</i>	93.597	SP18 01 1343	–	–	25,360	25,360	–
<b>Total 93.597 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>46,360</b>	<b>46,360</b>	<b>–</b>
Head Start	93.600		–	–	1,739,681	1,739,681	–
ACA – State Innovation Models: Funding for Model Design and Model Testing Assistance – <i>Iowa Healthcare Collaborative</i>	93.624	MED-17-027	–	–	57,302	57,302	–
Accountable Health Communities	93.650		498,673	–	–	498,673	260,590
Foster Care Title IV-E – <i>County of Los Angeles</i>	93.658	12-153	–	–	331,416	331,416	–
Social Services Block Grant – <i>Area Agency on Aging of West Central Arkansas</i>	93.667		–	–	19,215	19,215	–
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease, and Stroke (PPHF) – <i>Douglas County Health Department</i>	93.757		–	–	7,500	7,500	–

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<b>Medicaid Cluster</b>							
Medical Assistance Program	93.778		\$ –	\$ –	\$ 449	\$ 449	\$ –
Medical Assistance Program – <i>North Country Community Health</i>	93.778	GRK%134585	–	–	39,747	39,747	–
Medical Assistance Program – <i>Department of Health and Human Services – State of California</i>	93.778	7202400-19-151	–	–	709,299	709,299	–
Medical Assistance Program – <i>California Department of Health Care Services</i>	93.778	MS-1819-25	–	–	145,392	145,392	–
<b>Total 93.778 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>894,438</b>	<b>894,438</b>	<b>–</b>
<b>Total 93.778</b>			<b>–</b>	<b>–</b>	<b>894,887</b>	<b>894,887</b>	<b>–</b>
<b>Total Medicaid Cluster</b>			<b>–</b>	<b>–</b>	<b>894,887</b>	<b>894,887</b>	<b>–</b>
Opioid STR – <i>Colorado Department of Human Services</i>	93.788	IHJA, 20180011123	–	–	120,321	120,321	–
Opioid STR – <i>Iowa Department of Public Health</i>	93.788	588 8 SA20A	–	–	4,879	4,879	–
Opioid STR – <i>Minnesota Department of Health</i>	93.788	131711/3000056646	–	–	144,524	144,524	–
Opioid STR – <i>Ohio Department of Mental Health and Addiction Services</i>	93.788	1900637	–	–	44,840	44,840	–
Opioid STR – <i>State of Nevada</i>	93.788	5H79TI080265-02	–	–	102,071	102,071	–
<b>Total 93.788 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>416,635</b>	<b>416,635</b>	<b>–</b>
Organized Approaches to Increase Colorectal Cancer Screening – <i>Colorado Department of Public Health and Environment</i>	93.800		–	–	671	671	–
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) – <i>Kentucky Hospital Research and Education Foundation</i>	93.815		–	–	29,703	29,703	–

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Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities – <i>Bemidji Hospital Sanford</i>	93.817	U3REP150527	\$ –	\$ –	\$ 3,341	\$ 3,341	\$ –
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities – <i>California Department of Public Health</i>	93.817	15-10668	–	–	49,271	49,271	–
<b>Total 93.817 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>52,612</b>	<b>52,612</b>	<b>–</b>
Cardiovascular Diseases Research – <i>Trustees of the University of Pennsylvania</i>	93.837	576691	25,184	–	–	25,184	–
Cardiovascular Diseases Research – <i>University of Alabama</i>	93.837		7,887	–	–	7,887	–
<b>Total 93.837 – Pass-Through</b>			<b>33,071</b>	<b>–</b>	<b>–</b>	<b>33,071</b>	<b>–</b>
Lung Diseases Research	93.838		63,747	–	–	63,747	–
Lung Diseases Research – <i>The Translational Genomics Research Institute (TGEN)</i>	93.838	BANOVICH-19-02	20,620	–	–	20,620	–
Lung Diseases Research – <i>University of Washington</i>	93.838	UWSC10618/BP033419	8,954	–	–	8,954	–
<b>Total 93.838 – Pass-Through</b>			<b>29,574</b>	<b>–</b>	<b>–</b>	<b>29,574</b>	<b>–</b>
<b>Total 93.838</b>			<b>93,321</b>	<b>–</b>	<b>–</b>	<b>93,321</b>	<b>–</b>
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		326,275	–	–	326,275	101,709
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>Albert Einstein College of Medicine</i>	93.853	311509/2K12MS082223	71,609	–	–	71,609	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>Massachusetts General Hospital</i>	93.853	226396/232828/2017D007376 5U01NS080168-02	50,668	–	–	50,668	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>Mayo Clinic</i>	93.853	5U01NS080168-02	11,083	–	–	11,083	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>Mayo Clinic Jacksonville</i>	93.853	59-3337028	26,160	–	–	26,160	–

See notes to Schedule of Expenditures of Federal Awards.

CommonSpirit Health

Schedule of Expenditures of Federal Awards (continued)

June 30, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>University of Arizona</i>	93.853	305701	\$ 14,334	\$ –	\$ –	\$ 14,334	\$ –
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>University of California</i>	93.853	10290SC/5R01NS099268/8945sc	1,135	–	–	1,135	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>University of Chicago</i>	93.853	U01NS104157	8,173	–	–	8,173	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>University of Cincinnati</i>	93.853	010785-137084/U01NS095869	17,849	–	–	17,849	–
<b>Total 93.853 – Pass-Through</b>			<b>201,011</b>	<b>–</b>	<b>–</b>	<b>201,011</b>	<b>–</b>
<b>Total 93.853</b>			<b>527,286</b>	<b>–</b>	<b>–</b>	<b>527,286</b>	<b>101,709</b>
Allergy and Infectious Diseases Research – <i>Washington University</i>	93.855	WU-16-352	45,344	–	–	45,344	–
Biomedical Research and Research Training – <i>University of Utah</i>	93.859	10039022-01	51,331	–	–	51,331	–
Biomedical Research and Research Training – <i>Arizona State University</i>	93.859	ASUB00000191	16,281	–	–	16,281	–
<b>Total 93.859 – Pass-Through</b>			<b>67,612</b>	<b>–</b>	<b>–</b>	<b>67,612</b>	<b>–</b>
Child Health and Human Development Extramural Research – <i>The Ohio State University</i>	93.865		17,125	–	–	17,125	–

See notes to Schedule of Expenditures of Federal Awards.

CommonSpirit Health

Schedule of Expenditures of Federal Awards (continued)

June 30, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
Aging Research	93.866		\$ 776,817	\$ –	\$ –	\$ 776,817	\$ 321,743
Aging Research – <i>Sun Health Research</i>	93.866	1 P30 AG19610-01	86,805	–	–	86,805	–
Aging Research – <i>University of Iowa</i>	93.866	5U01AG048270-04	54,116	–	–	54,116	–
Aging Research – <i>University of California</i>	93.866	72051217	14,904	–	–	14,904	–
Aging Research – <i>University of Southern California</i>	93.866	84320987/CTAINI301	23,703	–	–	23,703	–
Aging Research – <i>University of Washington</i>	93.866	51568	10,276	–	–	10,276	–
Aging Research – <i>The Roskamp Institute Inc.</i>	93.866	R10638/W81XWH1710638	1,530	–	–	1,530	–
Aging Research – <i>University of Denver</i>	93.866	SC37820-01/R01AG061566	1,000	–	–	1,000	–
<b>Total 93.866 – Pass-Through</b>			<b>192,334</b>	<b>–</b>	<b>–</b>	<b>192,334</b>	<b>–</b>
<b>Total 93.866</b>			<b>969,151</b>	<b>–</b>	<b>–</b>	<b>969,151</b>	<b>321,743</b>
Maternal, Infant and Early Childhood Home Visiting Grant – <i>Colorado Department of Human Services</i>	93.870	18 IHIA 102768/19 IHIA 111854	–	–	990,860	990,860	–
National Bioterrorism Hospital Preparedness Program – <i>Bemidji Hospital Sanford</i>	93.889	H12-888-0553A	–	–	4,674	4,674	–
National Bioterrorism Hospital Preparedness Program – <i>Mark Twain Medical Center Foundation</i>	93.889	Fund 1060	–	–	2,025	2,025	–
National Bioterrorism Hospital Preparedness Program – <i>Research &amp; Education Foundation of Ohio Association</i>	93.889		–	–	1,058	1,058	1,058
National Bioterrorism Hospital Preparedness Program – <i>Tehama County Health Services Agency</i>	93.889	94-6000543	–	–	48,753	48,753	–
National Bioterrorism Hospital Preparedness Program – <i>West Central Minnesota Health Services</i>	93.889		–	–	4,649	4,649	–
<b>Total 93.889 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>61,159</b>	<b>61,159</b>	<b>1,058</b>
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations – <i>Colorado Department of Public Health and Environment</i>	93.898	18 FHLA104402/18 FHLA 110270	–	–	25,308	25,308	–

See notes to Schedule of Expenditures of Federal Awards.

CommonSpirit Health

Schedule of Expenditures of Federal Awards (continued)

June 30, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement – <i>HRSA Office of Rural Health Policy</i>	93.912	G20RH30140	\$ –	\$ –	\$ 130,220	\$ 130,220	\$ –
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement – <i>Monroe Country Hospital</i>	93.912	D04RH31790	–	–	63,521	63,521	–
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement – <i>Oakland Mercy Hospital Foundation</i>	93.912	D06RH31056	–	–	18,115	18,115	–
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement – <i>Sierra Nevada Memorial Hospital Foundation</i>	93.912	D06RH31034	–	–	47,843	47,843	–
<b>Total 93.912– Pass-Through</b>			–	–	<b>259,699</b>	<b>259,699</b>	–
HIV Emergency Relief Project Grants – <i>City and County of San Francisco</i>	93.914	HCPD13/14 / HCPD13/15	–	–	72,502	72,502	–
HIV Emergency Relief Project Grants – <i>County of Los Angeles</i>	93.914	PH-002387	–	–	256,307	256,307	–
HIV Emergency Relief Project Grants – <i>County of Los Angeles</i>	93.914	PH-002375	–	–	175,880	175,880	–
HIV Emergency Relief Project Grants – <i>County of Los Angeles</i>	93.914	PH-002383	–	–	209,561	209,561	–
HIV Emergency Relief Project Grants – <i>County of Los Angeles</i>	93.914	PH-002898	–	–	38,098	38,098	–
<b>Total 93.914 – Pass-Through</b>			–	–	<b>752,348</b>	<b>752,348</b>	–
HIV Care Formula Grants – <i>County of Los Angeles</i>	93.917	H208518	–	–	258,584	258,584	–
HIV Care Formula Grants – <i>State of Nevada</i>	93.917	T27017956	–	–	13,563	13,563	–
<b>Total 93.917 – Pass-Through</b>			–	–	<b>272,147</b>	<b>272,147</b>	–
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		–	–	366,513	366,513	–

See notes to Schedule of Expenditures of Federal Awards.

CommonSpirit Health

Schedule of Expenditures of Federal Awards (continued)

June 30, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Amounts Provided to Subrecipients
Assistance Programs for Chronic Disease Prevention and Control – <i>Aging Resources of Central Iowa</i>	93.945		\$ –	\$ –	\$ 2,400	\$ 2,400	\$ –
Block Grants for Prevention and Treatment of Substance Abuse – <i>Iowa Department of Public Health</i>	93.959	5889PN14B/5889PN15A	–	–	338,357	338,357	–
Maternal and Child Health Services Block Grant to the States – <i>North Country Community Health</i>	93.994	86864/12-700-00056	–	–	36,988	36,988	–
Maternal and Child Health Services Block Grant to the States – <i>State of Nevada</i>	93.994	T27017956J	–	–	22,909	22,909	–
Maternal and Child Health Services Block Grant to the States – <i>University of North Dakota</i>	93.994	G17.507	–	–	32,025	32,025	–
<b>Total 93.994 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>91,922</b>	<b>91,922</b>	<b>–</b>
<b>Total U.S. Department of Health and Human Services</b>			<b>4,165,999</b>	<b>–</b>	<b>10,466,296</b>	<b>14,632,295</b>	<b>1,373,911</b>
<b>Corporation for National and Community Service</b>							
Retired and Senior Volunteer Program	94.002		–	–	49,208	49,208	–
<b>Foster Grandparent/Senior Companion Cluster</b>							
Foster Grandparent Program	94.011		–	–	186,021	186,021	–
Senior Companion Program	94.016		–	–	28,868	28,868	–
<b>Total Foster Grandparent/Senior Companion Cluster</b>			<b>–</b>	<b>–</b>	<b>214,889</b>	<b>214,889</b>	<b>–</b>
<b>Total Corporation for National and Community Service</b>			<b>–</b>	<b>–</b>	<b>264,097</b>	<b>264,097</b>	<b>–</b>
<b>U.S. Department of Homeland Security</b>							
Homeland Security Grant Program – <i>North Dakota Department of Emergency Services</i>	97.067	EMW-2017-SS-00064	–	–	167,141	167,141	–
<b>Total U.S. Department of Homeland Security</b>			<b>–</b>	<b>–</b>	<b>167,141</b>	<b>167,141</b>	<b>–</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 5,051,485</b>	<b>\$ 10,809,851</b>	<b>\$ 14,943,571</b>	<b>\$ 30,804,907</b>	<b>\$ 2,037,089</b>

See notes to Schedule of Expenditures of Federal Awards.

# CommonSpirit Health

## Notes to Schedule of Expenditures of Federal Awards

June 30, 2019

### 1. Basis of Presentation

The schedule of expenditures of federal awards (SEFA) presents expenditures for all federal programs of CommonSpirit Health (CSH) for the year ended June 30, 2019.

In February 2019, CSH was created through the merger of Catholic Health Initiatives (CHI) and Dignity Health. As of the financial statement date (June 30, 2019), the grant programs of each were not integrated and continued to operate within the separate legacy systems (Legacy CHI and Legacy Dignity Health). The SEFA for CSH includes expenditures for Legacy Dignity Health for the five months ended June 30, 2019 and for Legacy CHI for the full fiscal year ended June 30, 2019.

The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). For purposes of the SEFA, federal awards include all federal assistance entered into directly between CSH and the federal government and subawards from nonfederal organizations made under federally sponsored agreements. The SEFA does not include payments received under Medicare and Medicaid reimbursement programs, as these programs are outside the scope of the Uniform Guidance.

### 2. Summary of Significant Accounting Policies

Expenditures on the SEFA are reported on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, the cost principles contained in the Uniform Guidance, 45 CFR Part 75 Appendix IX, *Principles for Determining Costs Applicable to Research and Development Under Grants and Contracts with Hospitals*, and OMB Circular A-122, *Cost Principles for Non-Profit Organizations*.

CSH has elected to continue to use the 10-percent de minimis indirect cost rate for Legacy CHI federal grants entered into by Legacy CHI for various federal grants. Legacy Dignity Health did not elect to use the 10-percent de minimis indirect cost rate prior to the merger and continued to not elect to use the 10-percent de minimis indirect cost rate post-merger.

### 3. Noncash Federal Awards

During the year ended June 30, 2019, CSH did receive nonmonetary assistance for the Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – CFDA 93.074. The nonmonetary assistance is valued at fair market value at the time of receipt.



## CommonSpirit Health

### Notes to Schedule of Expenditures of Federal Awards (continued)

#### **4. Capital Advance Outstanding**

In 1997, Legacy CHI, entered into a capital advance agreement with the U.S. Department of Housing and Urban Development, under Section 202 of the Housing Act of 1959. The unamortized loan balance at July 1, 2018 of \$696,221 is included on the SEFA within expenditures for the Supportive Housing for the Elderly program (CFDA 14.157). The unamortized loan balance at June 30, 2019 is \$661,561.

#### **5. Federal Direct Student Loans**

CSH participates in the Federal Direct Student Loans program (CFDA 84.268), which includes the Federal Stafford Loan and the Federal Parent Loans for Undergraduate Students programs. New loans disbursed during the fiscal year ended June 30, 2019, totaled \$8,309,513. Loans under the Federal Direct Student Loans program are made directly by the federal government to students. New loans made in the fiscal year ended June 30, 2019, relating to this program are represented as current year federal expenditures, whereas the outstanding loan balances are not.

CommonSpirit Health

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

**Section I – Summary of Auditor’s Results**

**Financial statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP (unmodified, qualified, adverse or disclaimer):

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

           **Yes**        X   **No**

Significant deficiency(ies) identified?

           **Yes**        X   **None reported**

Noncompliance material to financial statements noted?

           **Yes**        X   **No**

**Federal awards**

Internal control over major federal programs:

Material weakness(es) identified?

  X   **Yes**                 **No**

Significant deficiency(ies) identified?

  X   **Yes**                 **None reported**

Type of auditor’s report issued on compliance for major federal programs (unmodified, qualified, adverse, or disclaimer):

Unmodified, except for:  
WIC Special Supplemental Nutrition Program for Women, Infants, and Children – Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

  X   **Yes**                 **No**

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section I – Summary of Auditor’s Results (continued)**

Identification of major federal programs:

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children
84.007, 84.033, 84.063, and 84.268	SFA Cluster
93.778	Medicaid Cluster
93.870	Maternal, Infant and Early Childhood Home Visiting Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$ 924,147

Auditee qualified as low-risk auditee?        Yes   X   No

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section II – Financial Statement Findings**

No findings were noted.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs**

**Finding 2019-001 – Eligibility**

Information on the federal program:

U.S. Department of Agriculture  
CFDA 10.557 – WIC Special Supplemental Nutrition Program  
for Women, Infants, and Children  
Passed through Washington State Department of Health –  
Franciscan Medical Group (N22322); Franciscan Medical  
Group (HSP23696-0)  
Passed through North Country Community Health Board –  
St. Joseph’s Area Health Services and Lakewood Health  
Center (32573)  
Passed through State of Nevada - St. Rose Dominican Hospital  
(T27017956J)

Criteria or specific requirement (including statutory, regulatory or other citation):

Scope Limitation – Eligibility; per 2 CFR 200.516(a)(5), the auditor should report a finding when the auditor’s report on compliance is other than unmodified.

Condition:

CommonSpirit Health (CSH) was unable to provide sufficient documentation for Franciscan Medical Group in Washington state, supporting eligibility determinations made for WIC program participants due to the use of a paperless software system required by the State of Washington and the U.S. Department of Agriculture.

Cause:

The paperless software system used for the WIC program at Franciscan Medical Group does not require the retention of records supporting eligibility determination, and such records are not retained.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

Effect:

We were not able to test eligibility compliance or controls over compliance for the WIC program at Franciscan Medical Group resulting in a scope limitation. Due to the scope limitation at Franciscan Medical Group, which accounted for 82% of the WIC expenditures, eligibility was not tested for any WIC location and the scope limitation for eligibility is reported for the WIC program overall.

Questioned costs:

\$0

Context:

Upon the screening of an individual for eligibility for participation in the WIC program, Franciscan Medical Group reviews the support for income, residency, etc., and document the applicant's eligibility in a software program required by the State of Washington and the U.S. Department of Agriculture. Based upon the inputs from screening, the software program indicates whether an individual is eligible for WIC. However, Franciscan Medical Group is not required to and do not retain evidence of what was documented in the software program.

CSH provides the resources, such as staffing, to support the WIC program, including the determination of participant eligibility. CSH does not provide direct benefits to program participants, as the State of Washington is responsible for providing benefits to participants for Franciscan Medical Group.

Identification as a repeat finding, if applicable:

This is a repeat of Finding 2018-001.

Recommendation:

None.

## CommonSpirit Health

### Schedule of Findings and Questioned Costs (continued)

#### Section III – Federal Award Findings and Questioned Costs (continued)

Views of responsible officials:

A scope limitation qualified opinion was issued for Catalog of Federal Domestic Assistance (CFDA) 10.557 – WIC Special Supplemental Nutrition Program for Women, Infants, and Children as the auditors were unable to obtain sufficient documentation supporting the compliance of Franciscan Medical Group regarding eligibility for participants. Franciscan Medical Group use a paperless software system as required by the State of Washington and the U.S. Department of Agriculture. Third-party documentation is reviewed by Franciscan Medical Group at the time the initial eligibility determination of a WIC participant is made. However, due to the paperless system, these records are not retained. The grantor, State of Washington, has been informed of this finding in prior years and has stated that they do not sustain this finding and that no corrective action is required. As a result, no further corrective action will be taken. CSH notes that this issue is isolated to Franciscan Medical Group and does not apply to the other CSH locations that receive funding from the WIC program.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 2019-002 – Special Tests and Provisions – Gramm-Leach-Bliley Act – Student Information Security**

Information on the federal program:

**U.S. Department of Education**  
Office of Federal Student Aid  
SFA Cluster  
CFDA Nos. 84.007, 84.033, 84.063, 84.268  
Mercy College of Health Sciences  
Good Samaritan College of Nursing & Health Science

Criteria or specific requirement (including statutory, regulatory or other citation):

2 CFR 200.303 requires that a non-federal entity must “(a) establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

16 CFR 314.4 (b) requires institutions to “Identify reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of customer information that could result in the unauthorized disclosure, misuse, alteration, destruction or other compromise of such information, and assess the sufficiency of any safeguards in place to control these risks. At a minimum, such a risk assessment should include consideration of risks in each relevant area of your operations, including: (1) Employee training and management; (2) Information systems, including network and software design, as well as information processing, storage, transmission and disposal; and (3) Detecting, preventing and responding to attacks, intrusions, or other systems failures.”



CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

Criteria or specific requirement (including statutory, regulatory or other citation): (continued)

16 CFR 314.4(c) requires institutions to “Design and implement information safeguards to control the risks you identify through risk assessment, and regularly test or otherwise monitor the effectiveness of the safeguards' key controls, systems, and procedures.”

Condition:

The following institutions of higher education (institutions) did not perform a risk assessment that addresses the three required areas specific to the Gramm-Leach-Bliley Act (GLBA), as noted in 16 CFR 314.4(b), which are 1) employee training and management; (2) information systems, including network and software design, as well as information processing, storage, transmission and disposal; and (3) detecting, preventing and responding to attacks, intrusions, or other systems failures:

- Mercy College of Health Sciences
- Good Samaritan College of Nursing & Health Science

Further, since risk assessments specific to GLBA were not completed, the institution did not document safeguards in response to the identified risks as required by 16 CFR 314.4(c).

Further, the institutions identified above do not have internal controls in place around requirements listed in 16 CFR 314.4(b) and (c).

Cause:

The institutions do not have policies and procedures, including internal controls, addressing the requirements of 16 CFR 314.4(b) and (c).

Effect or potential effect:

The absence of policies and procedures could result in the loss or improper storage of student account information.

Questioned costs:

None.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

Context:

We noted Mercy College of Health Sciences performed risk assessments over certain information technology components of the entity; however, the risk assessments did not fully comply with the requirements of the GLBA. Further, Mercy College of Health Sciences provided documentation of safeguards in place related to information security but was not able demonstrate how they responded to risks identified within the organization.

Total federal expenditures for the SFA Cluster were \$7.3 million for Mercy College of Health Sciences and \$2.8 million for Good Samaritan College of Nursing & Health Science for the year ended June 30, 2019, representing 93% of total federal expenditures for the SFA Cluster.

Identification as a repeat finding, if applicable:

This is not a repeat finding.

Recommendation:

We recommend that the institutions perform the required risk assessments and document and implement safeguards responding to identified risks. Management should implement policies and procedures, including internal controls, to ensure that CSH's institutions of higher education are in compliance with 16 CFR 314.4(b) and (c).

Views of responsible officials:

Management agrees with the finding and has developed a plan to correct the finding.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 2019-003 – Procurement and Suspension and Debarment**

Information on the federal program:

U.S. Department of Agriculture  
CFDA 10.557 – WIC Special Supplemental Nutrition Program  
for Women, Infants, and Children  
Passed through State of Nevada - St. Rose Dominican Hospital  
(T27017956J)

Criteria or specific requirement (including statutory, regulatory or other citation):

2 CFR 200.317-326 contains the procurement standards required by Uniform Guidance. Non-federal entities must have written procedures for procurement transactions which include the requirements of the Uniform Guidance.

Condition:

CSH, St. Rose Dominican Hospital, did not have written procurement policies and procedures which conform to the Uniform Guidance.

Cause:

CSH, St. Rose Dominican Hospital did not have effective oversight or internal control over the preparation of written procurement policies and procedures which comply with 2 CFR 200.317-326.

Effect:

CSH, St. Rose Dominican Hospital is noncompliant with the Uniform Guidance Procurement Standards with respect to the absence of written procurement policies and procedures addressing Uniform Guidance requirements.

Questioned costs:

None.

Context:

CSH, St. Rose Dominican Hospital represents approximately 14% of the WIC expenditures for CSH.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

Identification as a repeat finding, if applicable:

This is not a repeat finding.

Recommendation:

We recommend that CSH prepare written procurement policies and procedures which conform and comply with the Uniform Guidance Procurement Standards.

Views of responsible officials:

Management agrees with the finding and has developed a plan to correct the finding.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 2019-004 – Eligibility**

Federal program information:

**U.S. Department of Education**  
Office of Federal Student Aid  
SFA Cluster  
CFDA Nos. 84.007, 84.033, 84.063, 84.268  
Good Samaritan College of Nursing & Health Science

Criteria or specific requirement (including statutory, regulatory or other citation):

2 CFR 200.303 requires that a non-federal entity must “(a) establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

34 CFR 685.203(d)(1) establishes the aggregate limits for subsidized loans. “The aggregate unpaid principal amount of all Direct Subsidized Loans and Subsidized Federal Stafford Loans made to a student but excluding the amount of capitalized interest may not exceed the following: (1) \$23,000 in the case of any student who has not successfully completed a program of study at the undergraduate level.”

Condition:

The Good Samaritan College of Nursing & Health Science disbursed loan funds greater than the aggregate loan limit for 1 of 46 students sampled for testing at this location (25 for internal controls and 21 for compliance).

## CommonSpirit Health

### Schedule of Findings and Questioned Costs (continued)

#### Section III – Federal Award Findings and Questioned Costs (continued)

Cause:

The Good Samaritan College of Nursing & Health Science Financial Aid Department did not use the appropriate Department of Education sources to verify direct loan aggregate limits due to employee turnover. The exception was due to a ‘clean’ Institutional Student Information Record (ISIR) that did not have any comment codes and was approved by the former Financial Aid Director. An updated ISIR was received for the student after the former Financial Aid Director had gone on leave. Temporary employees cleared the error in the financial aid system and allowed the subsidized loan to process despite the student being over the aggregate limit.

Effect:

Failure to comply with this compliance criteria leads to students being awarded loans in excess of the amount for which they are eligible.

Questioned costs:

\$2,963

Context:

The Good Samaritan College of Nursing & Health Science Financial Aid Department did not use the appropriate Department of Education sources to verify direct loan aggregate limits, as applicable, were not exceeded for 1 of 46 students sampled for testing at this location (25 for internal controls and 21 for compliance). Good Samaritan College of Nursing & Health Science disbursed a subsidized loan to a student in the amount of \$2,933 during the fiscal year, which caused the student's aggregate subsidized loan balance to be \$25,963, exceeding the \$23,000 aggregate maximum limit for subsidized loans by \$2,963. Total direct loans for Good Samaritan College of Nursing & Health Science are approximately \$2.2 million, representing 78% of this location's total SFA Cluster federal expenditures of approximately \$2.8 million. Total SFA Cluster federal expenditures for Good Samaritan College of Nursing & Health Science are approximately \$2.8 million, representing 26% of total SFA Cluster federal expenditures of approximately \$10.8 million.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

Identification as a repeat finding, if applicable:

This is not a repeat finding.

Recommendation:

We recommend Good Samaritan College of Nursing & Health Science implement a formal review and approval control over students with direct loans to validate aggregate loan limits have not been exceeded.

Views of responsible officials:

Management agrees with the finding and has developed a plan to correct the finding.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 2019-005 – Special Tests and Provisions – Enrollment Reporting**

Information on the federal program:

**U.S. Department of Education**  
Office of Federal Student Aid  
SFA Cluster  
CFDA Nos. 84.063 and 84.268  
Good Samaritan College of Nursing & Health Science

Criteria or specific requirement (including statutory, regulatory or other citation):

2 CFR 200.303 requires that a non-federal entity must “(a) establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

34 CFR 685.309(b)(2) states that “Unless it expects to submit its next updated enrollment report to the Secretary within the next 60 days, a school must notify the Secretary within 30 days after the date the school discovers that (i) A loan under title IV of the Act was made to or on behalf of a student who was enrolled or accepted for enrollment at the school, and the student has ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended; or (ii) A student who is enrolled at the school and who received a loan under title IV of the Act has changed his or her permanent address.”



## CommonSpirit Health

### Schedule of Findings and Questioned Costs (continued)

#### Section III – Federal Award Findings and Questioned Costs (continued)

Condition:

Good Samaritan College of Nursing & Health Science inaccurately reported enrollment information to the National Student Loan Data System (NSLDS) for 1 of the 21 students sampled at this location. Specifically, this student's enrollment status change was not communicated to the NSLDS within the required time frame of 60 days.

Cause:

The Good Samaritan College of Nursing & Health Science Financial Aid Department did not have effective oversight for review of student enrollment status reports submitted to the National Student Clearinghouse to ensure it was timely received by the NSLDS.

A student status change was not reported to NSLDS within the 60-day limit due to an information system upgrade at the end of the spring 2019 semester combined with a manual error. The information system update incorrectly changed students' status back to 'active'. The Good Samaritan College of Nursing & Health Science Financial Aid Office staff were aware of this and manually evaluated student statuses for correction due to the update; however, this student was missed in the manual review. The student withdrew at the end of the spring 2019 semester. Students are not required to take summer courses, so no evaluation of the student's enrollment status was performed until the fall of 2019, when this error was identified and communicated to the NSLDS (September 2019).

Effect:

Changes in a student's enrollment status were not reported timely to NSLDS. A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to loan holders by the U.S. Department of Education. Enrollment reporting in a timely and accurate manner is critical for the effective management of the programs.

Questioned costs:

None.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

Context:

Total SFA Cluster federal expenditures for Good Samaritan College of Nursing & Health Science are approximately \$2.8 million, representing 26% of total SFA Cluster federal expenditures of approximately \$10.8 million.

Identification as a repeat finding, if applicable:

This is not a repeat finding.

Recommendation:

A more robust control should be implemented to review submitted enrollment reporting status changes to ensure they were received and processed by NSLDS.

Views of responsible officials:

Management agrees with the finding and has developed a plan to correct the finding.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 2019-006 – Special Tests and Provisions – Disbursements to or on Behalf of Students**

Information on the federal program:

**U.S. Department of Education**  
Office of Federal Student Aid  
SFA Cluster  
CFDA No. 84.268  
Good Samaritan College of Nursing & Health Science

Criteria or specific requirement (including statutory, regulatory or other citation):

2 CFR 200.303 requires that a non-federal entity must “(a) establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

34 CFR 685.300(b)(9) requires institutions to “Provide for the implementation of a quality assurance system, as established by the Secretary and developed in consultation with the school, to ensure that the school is complying with program requirements and meeting program objectives.”

Condition:

Good Samaritan College of Nursing & Health Science did not implement a quality assurance system for the direct loan program.

## CommonSpirit Health

### Schedule of Findings and Questioned Costs (continued)

#### Section III – Federal Award Findings and Questioned Costs (continued)

Cause:

Good Samaritan College of Nursing & Health Science had significant employee turnover in the Financial Aid Department during the fiscal year under audit. As a result, certain controls over direct loan program compliance requirements were not operating effectively throughout the fiscal year under audit.

Furthermore, a formal written quality assurance system was not documented, including evidence of periodic monitoring and evaluation.

Effect:

Good Samaritan College of Nursing & Health Science is not in compliance with the requirement of its program participation agreement to implement a quality assurance system.

Questioned costs:

None.

Context:

Total direct loans for Good Samaritan College of Nursing & Health Science was \$2.2 million, representing 20% of total SFA Cluster expenditures of \$10.8 million.

Identification as a repeat finding, if applicable:

This is not a repeat finding.

Recommendation:

Good Samaritan College of Nursing & Health Science should formally document all aspects of its direct loan quality assurance system using the tools provided by the U.S. Department of Education and implement periodic monitoring and evaluation.

Views of responsible officials:

Management agrees with the finding and has developed a plan to correct the finding.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

**Finding 2019-007 – Special Tests and Provisions – Borrower Data Transmission and Reconciliation (Direct Loan)**

Information on the federal program:

**U.S. Department of Education**  
Office of Federal Student Aid  
SFA Cluster  
CFDA No. 84.268  
Good Samaritan College of Nursing & Health Science

Criteria or specific requirement (including statutory, regulatory or other citation):

2 CFR 200.303 requires that a non-federal entity must “(a) establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

Under 34 CFR 685.300(b)(5), the program participation agreement states that a school must agree to “on a monthly basis, reconcile institutional records with Direct Loan funds received from the Secretary and Direct Loan disbursement records submitted to and accepted by the Secretary.”

Condition:

Good Samaritan College of Nursing & Health Science did not have evidence of the direct loan reconciliation occurring for any month in fiscal year 2019. Therefore, we were unable to verify the controls and compliance with the borrower data transmission and reconciliation compliance requirement related to the performance of a monthly reconciliation.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

Cause:

Due to employee turnover, monthly reconciliations that management represented were performed were not retained.

Effect:

Discrepancies between the U.S. Department of Education’s systems and Good Samaritan College of Nursing & Health Science’s internal records may not be timely identified and resolved, reasons for remaining cash balances may not be properly documented, and cash management and disbursement reporting timelines may not be met.

Questioned costs:

None.

Context:

Total direct loans for Good Samaritan College of Nursing & Health Science are approximately \$2.2 million, representing 78% of this location’s SFA Cluster expenditures of approximately \$2.8 million and 20% of total SFA Cluster expenditures of approximately \$10.8 million.

Identification as a repeat finding, if applicable:

This is not a repeat finding.

Recommendation:

Good Samaritan College of Nursing & Health Science should ensure that all monthly direct loan reconciliations are being performed, reviewed and approved, with documentation being retained in the school’s internal records.

Views of responsible officials:

Management agrees with the finding and has developed a plan to correct the finding.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 2019-008 – Reporting – Common Origination and Disbursement (COD) System**

Information on the federal program:

**U.S. Department of Education**  
Office of Federal Student Aid  
SFA Cluster  
CFDA No. 84.063  
Mercy College of Health Sciences  
Good Samaritan College of Nursing & Health Science

Criteria or specific requirement (including statutory, regulatory or other citation):

2 CFR 200.303 requires that a non-federal entity must “(a) establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

OMB No. 1845-0039 requires that institutions receiving Pell grants “submit Pell payment data to the Department of Education through the Common Origination and Disbursement (COD) System. The disbursement record reports the actual disbursement date and the amount of the disbursement.”

## CommonSpirit Health

### Schedule of Findings and Questioned Costs (continued)

#### Section III – Federal Award Findings and Questioned Costs (continued)

Condition:

Good Samaritan College of Nursing & Health Science and Mercy College of Health Sciences did not have evidence of the Pell COD reconciliation occurring for any month in fiscal year 2019.

For compliance testing at Good Samaritan College of Nursing & Health Science, for a sample of 21 students receiving Pell grants, there were 5 instances where the disbursement dates reported in COD were prior to the actual disbursement dates of the funds to the students' accounts. The difference in dates ranged from 7-9 days. In addition, there were 2 instances where the disbursement dates reported in COD were subsequent to the actual disbursement dates of the funds to the students' accounts. The difference in dates ranged from 1-6 days.

For compliance testing at Mercy College of Health Sciences, for a sample of 20 students receiving Pell grants, there were no compliance exceptions.

Cause:

Due to employee turnover at Good Samaritan College of Nursing & Health Science, monthly reconciliations that management represented were performed were not retained.

For the 5 instances of compliance samples where the disbursement dates reported in COD were prior to the actual disbursement dates of the funds to the students' accounts, the Good Samaritan College of Nursing & Health Science disbursement report contained the date the payments were scheduled to be disbursed to the students; however, the disbursement was delayed and the disbursement report to the COD was not updated. For the 2 instances of compliance samples where the disbursement dates reported in COD were subsequent to the actual disbursement dates of the funds to the students' accounts, Good Samaritan College of Nursing & Health Science reported inaccurate disbursement dates to COD.

Mercy College of Health Sciences represented that they perform the reconciliation between their system of record and COD electronically but did not retain evidence of the review of the reconciliation.



CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

Effect:

Inaccurate reporting of data to the COD or the inability to demonstrate the controls surrounding the reconciliation process were in place.

Questioned costs:

None.

Context:

Total Pell grant expenditures for Good Samaritan College of Nursing & Health Science were approximately \$0.6 million, representing 21% of the SFA Cluster expenditures at this location of approximately \$2.8 million and 6% of total SFA Cluster expenditures of approximately \$10.8 million.

Total Pell grant expenditures for Mercy College of Health Sciences were approximately \$1.6 million, representing 22% of the SFA Cluster expenditures at this location of approximately \$7.3 million and 15% of total SFA Cluster expenditures of approximately \$10.8 million.

Identification as a repeat finding, if applicable:

This is not a repeat finding.

Recommendation:

Good Samaritan College of Nursing & Health Science and Mercy College of Health Sciences should ensure that all monthly Pell grant reconciliations are being performed, reviewed and approved, with documentation being retained in the school's internal records. The accuracy of disbursement data should also be validated.

Views of responsible officials:

Management agrees with the finding and has developed a plan to correct the finding.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 2019-009 – Allowable Costs/Cost Principles**

Information on the federal program:

**U.S. Department of Health and Human Services**  
CFDA No. 93.778  
Medical Assistance Program  
Medicaid Cluster  
Passed through Department of Health and Human Services – State of California and California Department of Health Care Services  
Dignity Health Medical Foundation (7202400-19-151)  
Dignity Health Connected Living (MS-1819-25)

Criteria or specific requirement (including statutory, regulatory or other citation):

2 CFR Part 200 Section 200.430 (i) states “Standards for Documentation of Personnel Expenses (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; (ii) be incorporated into the official records of the non-Federal entity; (iii) reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities; (iv) encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity’s written policy; (v) comply with the established accounting policies and practices of the non-Federal entity”

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

Condition:

During our testing over allowable costs/cost principles, we identified eight timecards that were not reviewed and approved. Four of the timecards were related to one individual that is a salaried employee in which a time study was performed but not reviewed or approved and no follow up certification was obtained to validate that the time study was representative of the actual time incurred throughout the quarter.

Cause:

Management did not review and approve timecards to support allowable costs/cost principles.

Effect:

Unallowable and inaccurate payroll expenditures could be charged to the federal program.

Questioned costs:

None.

Context:

We selected a sample of 25 payroll expenditures for internal control testing at Dignity Health Medical Foundation (DHMF). For four of 25 payroll expenditures, timecards were not reviewed and approved in accordance with the practices of DHMF. We selected 25 payroll expenditures for internal control testing at Dignity Health Connected Living (DHCL) noting one individual was represented in the sample five times and under four of these occasions the timecard was not approved. However, a time study was performed for this individual by documenting time for one week each quarter and using that week to represent the timekeeping activity for the quarter. No certification was obtained that the entire quarter was representative of the one-week time study and the time study was not reviewed or approved.

Identification as a repeat finding, if applicable:

This is not a repeat finding.

CommonSpirit Health

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

Recommendation:

We recommend management implement a process to record time charged to federal grants in accordance with 2 CFR Part 200 Section 200.430.

Views of responsible officials:

Management agrees with the finding and has developed a plan to correct the finding.

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**PRIOR YEAR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN UPDATE  
PERIOD ENDED JANUARY 31, 2019**

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**REFERENCE: 2019-001 (SUBRECIPIENT MONITORING)**

**Research and Development Cluster**

(CFDA #: 12.420, 93.279, 93.394, 93.650, 93.853, 93.866)

**Federal Grantor: U.S. Department of Defense and U.S. Department of Health and Human Services**

**Federal Award Numbers:**

**1P1CMS331609-03-00**

**1R01CA221938-01**

**1R01DA043567-01A1**

**5P01AG014449-20**

**5R01AG043375-06**

**5R01NS088648-04**

**5R01CA158079-09**

**5R01CA213158-02**

**5R01DA042749-02**

**W81XWH-15-1-0211**

**W81XWH-17-1-0429**

**Facility: St. Joseph's Hospital and Medical Center**

**Finding:** Dignity Health and Subordinate Corporations (Dignity Health) did not retain evidence of review of subrecipients' Uniform Guidance audits or verify whether subrecipients were required to obtain Uniform Guidance audits.

**Corrective Action Plan:** In fiscal year 2020 Dignity Health implemented the following steps to ensure compliance with subrecipient monitoring.

- Audit Confirmation Survey to Sub-Recipients was modified to include two additional Questions. A) Has New Personnel Been Hired? And if so, has training been provided to ensure that costs being recorded to the Prime Award administered by Dignity Health/St. Joseph's Hospital and Medical Center/BNI are for authorized purposes B) Have Accounting Financial Systems changed recently? Yes or No. If YES, a questionnaire was developed for sub-recipients to fill out on what the changes have been and if the system allows for expense recording by grant/project separately, among other things.
- Research Finance Grants Manager started documenting when the Subrecipient Audit's Report was downloaded from the clearing house website.
- Research Finance Grants Manager reviews the document for any finding related to the R&D program.
- If findings are not pertaining to the sub-award issued by Dignity Health/St. Joseph's Hospital and Medical Center/Barrow Neurological Institute, an email is sent to the Subrecipients Grants Operations Manager/Director asking for what corrective action plan has been taken.
- Once the response is received from the Subrecipient the Research Finance Manager documents whether or not the finding on the Subrecipient requires any adjustments to the pass-through entity's records or any additional monitoring oversight required by Dignity Health.

**Person Responsible:** Tomas Cortez, Manager, Grants Accounting



## Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2019

### **Federal Award Findings and Questioned Costs**

#### **Finding 2018-001**

#### **CFDA No. 10.557 – WIC Special Supplemental Nutrition Program for Women, Infants, and Children**

Scope limitation over providing sufficient documentation to support eligibility determinations for program participants.

#### ***Condition:***

The entity was unable to provide sufficient documentation at St. Clare, Harrison, and Highline in Washington state, supporting eligibility determinations made for WIC program participants due to the use of a paperless software system required by the State of Washington and the U.S. Department of Agriculture.

#### ***Questioned Costs:***

None.

#### ***Auditee Status Update:***

Franciscan Medical Group (FMG) uses a paperless software system as required by the State of Washington and the U.S. Department of Agriculture. Third-party documentation is reviewed by FMG at the time the initial eligibility determination of a WIC participant is made. However, due to the paperless system, these records are not retained. Since FMG follows the paperless system as required by the grantor, no further corrective action will be taken. Additionally, the grantor has stated that they do not sustain this finding and do not expect any further action.



Summary Schedule of Prior Audit Findings (continued)

For the Year Ended June 30, 2019

**Finding 2018-002**

**CFDA No. 93.610 – Healthcare Innovation Awards (HCIA)**

Internal control deficiency and noncompliance over performing risk assessments and monitoring of subrecipients.

***Condition:***

The entity did not perform risk assessments for subrecipients of HCIA funds to evaluate subrecipients' risk of noncompliance with federal regulations and subawards. Additionally, during 2018, the entity did not request subrecipients' 2017 Uniform Guidance audits or verify whether subrecipients were required to obtain Uniform Guidance audits for 2017.

***Questioned Costs:***

None.

***Auditee Status Update:***

This finding has been corrected. The entity issued a Subrecipient Monitoring Policy in June 2019.





CommonSpirit Health

Corrective Action Plan

Year Ended June 30, 2019

**REFERENCE: 2019-001 – Eligibility**

**WIC Special Supplemental Nutrition Program for Women, Infants and Children (CFDA #10.557)**

**Federal Grantor: U.S. Department of Agriculture**

**Pass-Through Grantor: Washington State Department of Health (HSP23696-0)**

**Facility: Franciscan Medical Group**

**Finding:** Scope Limitation – Eligibility; per 2 CFR 200.516(a)(5), the auditor should report a finding when the auditor’s report on compliance is other than unmodified. CommonSpirit Health was unable to provide sufficient documentation for Franciscan Medical Group in Washington State, supporting eligibility determinations made for WIC program participants due to the use of a paperless software system required by the State of Washington and the U.S. Department of Agriculture.

**Corrective Action Plan:** Franciscan Medical Group follows the paperless system as required by the grantor, no further corrective action will be taken. Additionally, the grantor has stated that they do not sustain this finding and do not expect any further action.

**Person Responsible:** Myra Little – Manager WIC Support Services

**Expected Completion:** N/A

**REFERENCE: 2019-002 – Special Tests and Provision – Gramm-Leach-Bliley Act – Student Information Security**

**Student Financial Assistance Cluster (CFDAs #84.007, 84.033, 84.063, 84.268)**

**Federal Grantor: U.S. Department of Education**

**Facility: Good Samaritan College of Nursing and Health Science**

**Mercy College of Health Sciences**

**Finding:** 16 CFR 314.4(c) requires institutions to “Design and implement information safeguards to control the risks you identify through risk assessment, and regularly test or otherwise monitor the effectiveness of the safeguards’ key controls, systems, and procedures. Good Samaritan College of Nursing Education and Health Science and Mercy College of Health Sciences did not perform a risk assessment that addresses the three required areas as noted in 16 CFR 314.4(b), which are 1) employee training and management; (2) information systems, including network and software design, as well as information processing, storage, transmission and disposal; and (3) detecting, preventing and responding to attacks, intrusions, or other systems failures.

**Corrective Action Plan Good Samaritan College of Nursing and Health Science:** The institution will perform the required risk analysis assessments, as well as document and implement safeguards that respond to identified risks. Management will also implement policies and procedures, including internal controls, as recommended to ensure compliance with 16 CFR 314.4 (b) and (c). The results of this formal review process and policy implementation will be documented and reviewed by the Educational Technology Senate, senior management of the College and the internal Ethics and Compliance Senate of the College.



CommonSpirit Health

Corrective Action Plan

Year Ended June 30, 2019

**REFERENCE: 2019-002 – Special Tests and Provision – Gramm-Leach-Bliley Act – Student Information Security (continued)**

**Person Responsible:** Judy Kronenberger – President Good Samaritan College of Nursing and Health Science

**Expected Completion:** June 30, 2020

**Context: Mercy College of Health Sciences:** We noted Mercy College of Health Sciences performed risk assessments over certain information technology components of the entity; however, the risk assessments did not fully comply with the requirements of the Gramm-Leach-Bliley Act. Further, Mercy College of Health Sciences provided documentation of safeguards in place related to information security but was not able demonstrate how they responded to risks identified within the organization.

Total federal expenditures for Mercy College of Health Sciences was \$7.3 million for the year ended June 30, 2019.

**Corrective Action Plan Mercy College of Health Sciences:** The Director of Information Technology for Mercy College of Health Sciences is the employee who has been designated as being responsible for coordinating the information security program for the College. The Director works with CommonSpirit Health subject matter experts, including but not limited to the Divisional Information Security Officer for Iowa and members of the campus community to identify internal and external risks to the security, confidentiality and integrity of data. Before June 30, 2020 the Director shall ensure a College-specific risk assessment is completed. The risk assessment will include, but not be limited to a consideration of the following:

1. Employee training;
2. Information systems; and
3. Prevention, detection and response to system failures.

After the risk assessment has been completed, any necessary safeguards will be developed and implemented to control and mitigate the material risks identified and procedures will be established to regularly test and monitor those safeguards.

Lastly, if the College utilizes service providers who will have access to student data or the systems which process and store student data, the College will only utilize contractors who are capable of maintaining the confidentiality and integrity of the data and the contract with each service provider will require the service provider to implement and maintain appropriate safeguards.

**Person Responsible:** David von Arb – Director of Information Technology – Mercy College of Health Sciences

**Expected Completion:** June 30, 2020



CommonSpirit Health

Corrective Action Plan

Year Ended June 30, 2019

**REFERENCE: 2019-003 – PROCUREMENT AND SUSPENSION DEBARMENT**

**WIC Special Supplemental Nutrition Program for Women, Infants and Children (CFDA #10.557)**

**Federal Grantor: U.S. Department of Agriculture**

**Pass-Through Grantor: State of Nevada (Grantor #T27017956J)**

**Facility: St. Rose Dominican Hospital**

**Finding:** 2 CFR 200.317-326 contains procurement standards required by the Uniform Guidance. Non-Federal entities must have written procedures for procurement transactions which include the requirements of the Uniform Guidance. CommonSpirit Health, St. Rose Dominican Hospital, did not have written procurement policies and procedures which conform to the Uniform Guidance.

**Corrective Action Plan:** CommonSpirit Health is in the process of updating the procurement policy and procedure to comply with the Uniform Guidance requirements of 2 CFR 200.317-326. The policy will be implemented during fiscal year 2020.

**Person Responsible:** Holly Lyman, Director and Richard Lucero, Director of Accounting

**Expected Completion:** June 30, 2020

**REFERENCE: 2019-004 – Eligibility**

**Student Financial Assistance Cluster (CFDAs #84.007, 84.033, 84.063, 84.268)**

**Federal Grantor: U.S. Department of Education**

**Facility: Good Samaritan College of Nursing and Health Science**

**Finding:** 34 CFR 685.203(d)(1) establishes the aggregate limits for subsidized loans. The Good Samaritan College of Nursing and Health Science disbursed loan funds greater than the aggregate loan limit for 1 of 46 students sampled.

**Corrective Action Plan:** The institution will implement a formal review and approval control over the students with direct loans to validate that aggregate loan limits have not been exceeded. The results of this formal review process will be documented and reviewed by senior management and the internal Ethics and Compliance Senate of the College.

**Person Responsible:** Judy Kronenberger – President Good Samaritan College of Nursing and Health Science

**Expected Completion:** June 30, 2020



CommonSpirit Health

Corrective Action Plan

Year Ended June 30, 2019

**REFERENCE: 2019-005 – Special Tests and Provisions – Enrollment Reporting**

**Student Financial Assistance Cluster (CFDAs #84.063, 84.268)**

**Federal Grantor: U.S. Department of Education**

**Facility: Good Samaritan College of Nursing and Health Science**

**Finding:** 34 CFR 685.309(b)(2) states that “Unless it expects to submit its next updated enrollment report to the Secretary within the next 60 days, a school must notify the Secretary within 30 days after the date the school discovers that (i) A loan under title IV of the Act was made to or on behalf of a student who was enrolled or accepted for enrollment at the school, and the student has ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended; or (ii) A student who is enrolled at the school and who received a loan under title IV of the Act has changed his or her permanent address.” Good Samaritan College of Nursing and Health Science inaccurately reported enrollment information to the National Student Loan Data System (NSLDS) for 1 of the 21 students sampled at this location. Specifically, this student’s enrollment status change was not communicated to the NSLDS within the required time frame of 60 days.

**Corrective Action Plan:** The institution will implement a policy and process to ensure the systematic and timely review of enrollment reporting status changes to ensure that this information is accurate and received timely by the NSLDS. The implementation of this policy and process will be documented and reviewed by senior management of the College and the internal Ethics and Compliance Senate of the College.

**Person Responsible:** Judy Kronenberger – President Good Samaritan College of Nursing and Health Science

**Expected Completion:** June 30, 2020

**REFERENCE: 2019-006 – Special Tests and Provisions – Disbursement to or on Behalf of Students**

**Student Financial Assistance Cluster (CFDA #84.268)**

**Federal Grantor: U.S. Department of Education**

**Facility: Good Samaritan College of Nursing and Health Science**

**Finding:** 34 CFR 685.300(b)(9) requires institutions to “Provide for the implementation of a quality assurance system, as established by the Secretary and developed in consultation with the school, to ensure that the school is complying with program requirements and meeting program objectives.” Good Samaritan College of Nursing and Health Science did not implement a quality assurance system for the direct loan program.

**Corrective Action Plan:** The institution will implement a policy and process to formally document all aspects of its Direct Loan Quality Assurance System using the tools provided by the U.S. Department of Education. The implementation of this policy and process will undergo periodic monitoring and evaluation by senior management of the College and the internal Ethics and Compliance Senate of the College.

**Person Responsible:** Judy Kronenberger – President Good Samaritan College of Nursing and Health Science

**Expected Completion:** June 30, 2020



CommonSpirit Health

Corrective Action Plan

Year Ended June 30, 2019

**REFERENCE: 2019-007 – Special Tests and Provisions – Borrower Data Transmission and Reconciliation (Direct Loan)**

**Student Financial Assistance Cluster (CFDA #84.268)**

**Federal Grantor: U.S. Department of Education**

**Facility: Good Samaritan College of Nursing and Health Science**

**Finding:** Under 34 CFR 685.300(b)(5), the program participation agreement states that a school must agree to “on a monthly basis, reconcile institutional records with Direct Loan funds received from the Secretary and Direct Loan disbursement records submitted to and accepted by the Secretary.” Good Samaritan College of Nursing and Health Science did not have evidence of the direct loan reconciliation occurring for any month in fiscal year 2019. Therefore, we were unable to verify the controls and compliance with the borrower data transmission and reconciliation compliance requirement related to the performance of a monthly reconciliation.

**Corrective Action Plan:** The institution will develop a policy and documentation process that ensures all monthly direct loan reconciliations are performed, reviewed and approved timely. Additionally, documentation will be retained in the College’s internal records. The implementation of this policy and process will undergo periodic monitoring and evaluation by senior management of the College and the internal Ethics and Compliance Senate of the College.

**Person Responsible:** Judy Kronenberger – President Good Samaritan College of Nursing and Health Science

**Expected Completion:** June 30, 2020

**REFERENCE: 2019-008 – Reporting – Common Origination and Disbursement (COD) System**

**Student Financial Assistance Cluster (CFDA #84.063)**

**Federal Grantor: U.S. Department of Education**

**Facility: Good Samaritan College of Nursing and Health Science**

**Finding:** OMB No. 1845-0039 requires that institutions receiving Pell grants “submit Pell payment data to the Department of Education through the Common Origination and Disbursement (COD) System...The disbursement record reports the actual disbursement date and the amount of the disbursement.” For a sample of 21 students receiving Pell grants, there were 5 instances where the disbursement dates reported in COD were prior to the actual disbursement dates of the funds to the students’ accounts.

**Corrective Action Plan:** The institution will develop a policy and documentation process that ensures all monthly direct loan reconciliations are performed, reviewed and approved timely. Additionally, documentation will be retained in the College’s internal records. The implementation of this policy and process will undergo periodic monitoring and evaluation, including data validation, by senior management of the College and the internal Ethics and Compliance Senate of the College.

**Person Responsible:** Judy Kronenberger – President Good Samaritan College of Nursing and Health Science

**Expected Completion:** June 30, 2020



CommonSpirit Health

Corrective Action Plan

Year Ended June 30, 2019

**REFERENCE: 2019-009 (ALLOWABLE COSTS/COST PRINCIPLES)**

**Medicaid Cluster: Medical Assistance Program (CFDA #93.778)**

**Federal Grantor: U.S. Department of Health and Human Services**

**Pass-Through Grantor: Department of Health and Human Services State of California and California Department of Health Care Services**

**Facility: Dignity Health Medical Foundation (7202400-19-151)**

**Dignity Health Connected Living (MS-1819-25)**

**Finding:** During the testing of allowable costs/cost principles, eight timecards were identified that were not reviewed and approved. Four of the timecards were related to one individual that is a salaried employee in which a time study was performed but not reviewed and approved and no follow up certification was obtained to validate that the time study was representative of the actual time incurred throughout the quarter.

**Corrective Action Plan Dignity Health Medical Foundation:** The following plan has been implemented at Dignity Health Medical Foundation to address the concerns raised in the FY19 Uniform Guidance audit:

- All Mercy Medical Group Behavioral Health Department leaders will meet with Human Resources to discuss the findings and the Corrective Action Plan.
- All Mercy Medical Group Behavioral Health Department leaders (Supervisors and above) employed by Dignity Health Medical Foundation will review Dignity Health Administrative Policy and Procedure – Timekeeping Policy #120.2.007. This policy requires all employee timecards to be reviewed and approved by the employee’s direct manager. The direct manager is knowledgeable of the program and the time charged to the program.
- The Behavioral Health Executive Director or his designee will conduct a monthly audit of random sample timekeeping records for a period of no less than one-year to ensure compliance with Timekeeping Policy #120.2.007. This policy requires all employee timecards to be reviewed and approved by the employee’s direct manager. The direct manager is knowledgeable of the program and the time charged to the program. Through the monthly audit, the Executive Director will ensure that managers with direct knowledge of the program are reviewing and approving all employee timecards.
- Failure to comply with Dignity Health’s Timekeeping Policy will result in corrective action up to termination consistent with Dignity Health Medical Foundation’s policies and practices. The Timekeeping Policy requires all employee timecards to be reviewed and approved by the employee’s direct manager. The direct manager is knowledgeable of the program and the time charged to the program.

**Person Responsible:** Carter Haynes, Executive Director Behavioral Health

**Corrective Action Plan Dignity Health Connective Living:** Effective immediately, Dignity Health Connected Living will document the time study and any changes needed to an employee’s allocation based on the quarterly time study as well as the employee’s supervisor’s authorization for the change. The quarterly time study will be reviewed by a direct supervisor knowledgeable of the program and time that was charged.

**Person Responsible:** Ray Taylor, Supervisor, Case Management and Jennifer Powell, Executive Director

**Expected Completion:** June 30, 2020

REPORT AND SCHEDULE REQUIRED BY THE  
UNIFORM GUIDANCE

Dignity Health and Subordinate Corporations  
July 1, 2018 to January 31, 2019  
With Report of Independent Auditors

Ernst & Young LLP



Dignity Health and Subordinate Corporations

Report and Schedule Required by the  
Uniform Guidance

July 1, 2018 to January 31, 2019

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# Report Required by the Uniform Guidance



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## Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Management and the Board of Stewardship Trustees  
Dignity Health and Subordinate Corporations

### **Report on Compliance for the Major Federal Program**

We have audited Dignity Health and Subordinate Corporation's (Dignity Health) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on Dignity Health's major federal program for the period of July 1, 2018 to January 31, 2019. Dignity Health's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Dignity Health's major federal program based on our audit of the types of compliance requirements referred to above.

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

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

#### ***Opinion on the Major Federal Program***

In our opinion, Dignity Health complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the period of July 1, 2018 to January 31, 2019.

## Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001 (Research and Development Cluster, M. Subrecipient Monitoring), that we consider to be a significant deficiency.

Dignity Health's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Dignity Health's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



March 23, 2020

# Dignity Health and Subordinate Corporations

## Schedule of Expenditures of Federal Awards

July 1, 2018 to January 31, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
<b>U.S. Department of Agriculture:</b>							
WIC Special Supplemental Nutrition Program for Women, Infants, and Children – <i>State of Nevada</i>	10.557	T27017956J	\$ –	\$ –	\$ 412,101	\$ 412,101	\$ –
Child and Adult Care Food Program – <i>California Department of Education</i>	10.558	19-3105OA	–	–	99,262	99,262	–
Child and Adult Care Food Program – <i>California Department of Aging</i>	10.558	45-5012-1N	–	–	19,327	19,327	–
Child and Adult Care Food Program – <i>California Department of Education</i>	10.558	57-5085-IN	–	–	10,365	10,365	–
<b>Total 10.558 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>128,954</b>	<b>128,954</b>	<b>–</b>
<b>Food Distribution Cluster:</b>							
Emergency Food Assistance Program (Administrative Costs) – <i>California Department of Social Services</i>	10.568	15-MOU-00144	–	–	80,431	80,431	–
<b>Total Food Distribution Cluster</b>			<b>–</b>	<b>–</b>	<b>80,431</b>	<b>80,431</b>	<b>–</b>
<b>Total U.S. Department of Agriculture</b>			<b>–</b>	<b>–</b>	<b>621,486</b>	<b>621,486</b>	<b>–</b>
<b>U.S. Department of Defense:</b>							
Military Medical Research and Development	12.420		1,228,452	–	–	1,228,452	920,374
Military Medical Research and Development – <i>A56 Virginia Commonwealth University</i>	12.420	W81XWH1320095	125,443	–	–	125,443	–
Small Molecules Targeting TDP – <i>University of Arizona</i>	12.420	472811/W81XWH1810313	26,383	–	–	26,383	–
Military Medical Research and Development – <i>Carl T. Hayden Medical Research Foundation</i>	12.420	17-0473-BNI (W81XWH1710473)	24,256	–	–	24,256	–
<b>Total 12.420 – Pass-Through</b>			<b>176,082</b>	<b>–</b>	<b>–</b>	<b>176,082</b>	<b>–</b>
<b>Total U.S. Department of Defense</b>			<b>1,404,534</b>	<b>–</b>	<b>–</b>	<b>1,404,534</b>	<b>920,374</b>

See notes to Schedule of Expenditures of Federal Awards.

Dignity Health and Subordinate Corporations

Schedule of Expenditures of Federal Awards (continued)

July 1, 2018 to January 31, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
<b>U.S. Department of Justice:</b>							
Services for Trafficking Victims	16.320		\$ –	\$ –	\$ 9,026	\$ 9,026	\$ –
Crime Victim Assistance – <i>County of Los Angeles</i>	16.575	SU-KC-2018	–	–	47,255	47,255	–
Crime Victim Assistance/Discretionary Grants	16.582		–	–	2,962	2,962	–
<b>Total U.S. Department of Justice</b>			<b>–</b>	<b>–</b>	<b>59,243</b>	<b>59,243</b>	<b>–</b>
<b>U.S. Department of Transportation:</b>							
<b>Transit Services Programs Cluster:</b>							
Enhanced Mobility of Seniors and Individuals with Disabilities – <i>Department of Transportation, 5310 Specialized Transit Grants</i>	20.513	64AO18-00684	–	–	92,602	92,602	–
<b>Total Transit Services Programs Cluster</b>			<b>–</b>	<b>–</b>	<b>92,602</b>	<b>92,602</b>	<b>–</b>
<b>Highway Safety Cluster:</b>							
State and Community Highway Safety – <i>California Office of Traffic – Traffic Safety through Rancho Cordova Police Department</i>	20.600	OP19009	–	–	21,079	21,079	–
<b>Total Highway Safety Cluster</b>			<b>–</b>	<b>–</b>	<b>21,079</b>	<b>21,079</b>	<b>–</b>
<b>Total U.S. Department of Transportation</b>			<b>–</b>	<b>–</b>	<b>113,681</b>	<b>113,681</b>	<b>–</b>
<b>U.S. Department of National Science Foundation:</b>							
Biological Sciences	47.074		30,653	–	–	30,653	–
<b>Total U.S. Department of National Science Foundation</b>			<b>30,653</b>	<b>–</b>	<b>–</b>	<b>30,653</b>	<b>–</b>

See notes to Schedule of Expenditures of Federal Awards.

## Dignity Health and Subordinate Corporations

### Schedule of Expenditures of Federal Awards (continued)

July 1, 2018 to January 31, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
<b>U.S. Department of Health and Human Services:</b>							
Aids Medical Waiver – <i>Department of Health and Human Services – State of California</i>	93.U01	03-76081	\$ –	\$ –	\$ 611,286	\$ 611,286	\$ –
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services – <i>State of Nevada</i>	93.043	T27017956J	–	–	22,997	22,997	–
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services – <i>State of California Department of Aging</i>	93.043	3006-1819-A12	–	–	9,837	9,837	–
<b>Total 93.043 – Pass-Through</b>			–	–	<b>32,834</b>	<b>32,834</b>	–
<b>Aging Cluster:</b>							
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers – <i>State of California Department of Aging</i>	93.044	3006-1819-A12	–	–	74,349	74,349	–
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers – <i>State of Nevada</i>	93.044	1122-19	–	–	29,093	29,093	–
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers – <i>State of Nevada</i> <i>Area 4 Agency on Aging</i>	93.044	T27017956J	–	–	2,987	2,987	–
<b>Total 93.044 – Pass-Through</b>			–	–	<b>106,429</b>	<b>106,429</b>	–
Special Programs for the Aging, Title III, Part C, Nutrition Services – <i>State of California Department of Aging</i>	93.045	3006-1819-A12	–	–	257,266	257,266	–
Nutrition Services Incentive Program	93.053		–	–	45,865	45,865	–
<b>Total Aging Cluster</b>			–	–	<b>409,560</b>	<b>409,560</b>	–

See notes to Schedule of Expenditures of Federal Awards.

## Dignity Health and Subordinate Corporations

### Schedule of Expenditures of Federal Awards (continued)

July 1, 2018 to January 31, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
National Family Caregiver Support, Title III, Part E – <i>State of Nevada</i>	93.052	T27017956J	\$ –	\$ –	\$ 7,044	\$ 7,044	\$ –
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – <i>County of Los Angeles</i>	93.074	H-705558/H-707438	–	–	174,430	174,430	–
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – <i>County of Los Angeles and EMSA Homeland</i>	93.074	H-300086	–	–	163,417	163,417	–
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – <i>County of Los Angeles</i>	93.074	H-707501	–	–	58,060	58,060	–
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – <i>Sacramento County Department of Public Health</i>	93.074	2017-2022 MOU	–	–	21,099	21,099	–
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – <i>County of Los Angeles (EMSA)</i>	93.074	300072	–	–	12,654	12,654	–
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – <i>San Mateo County (EMSA)</i>	93.074	06-067	–	–	1,644	1,644	–
<b>Total 93.074 – <i>Pass-Through</i></b>			–	–	<b>431,304</b>	<b>431,304</b>	–

See notes to Schedule of Expenditures of Federal Awards.

Dignity Health and Subordinate Corporations

Schedule of Expenditures of Federal Awards (continued)

July 1, 2018 to January 31, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Drug Abuse and Addiction Research Programs	93.279		\$ 387,030	\$ –	\$ –	\$ 387,030	\$ 189,890
Drug Abuse and Addiction Research Programs – <i>Brigham Young University</i>	93.279	14-0400-R0102066	103,672	–	–	103,672	–
<b>Total 93.279</b>			<b>490,702</b>	<b>–</b>	<b>–</b>	<b>490,702</b>	<b>189,890</b>
Discovery and Applied Research for Technological Innovations to Improve Human Health – <i>Arizona State University</i>	93.286	16-936	26,982	–	–	26,982	–
Research Infrastructure Programs – <i>RxGen, Inc.</i>	93.351	R43OD023025	7,559	–	–	7,559	–
Cancer Detection and Diagnosis Research	93.394		540,213	–	–	540,213	178,785
Cancer Treatment Research – <i>Brigham and Women's Hospital, Inc.</i>	93.395	Alliance	18,303	–	–	18,303	–
Cancer Treatment Research – <i>National Cancer Institute</i>	93.395	SAC-163617	3,000	–	–	3,000	–
<b>Total 93.395 – Pass-Through</b>			<b>21,303</b>	<b>–</b>	<b>–</b>	<b>21,303</b>	<b>–</b>
Cancer Biology Research – <i>Mayo Clinic Arizona</i>	93.396	1U01CA220378-01	83,017	–	–	83,017	–
Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke – <i>State of Nevada</i>	93.426	T27017956J	–	–	110,957	110,957	–
Innovative State and Local Public Health Strategies to prevent and Manage Diabetes and Heart Disease and Stroke – <i>State of Nevada</i>	93.435	T27017956J	–	–	2,042	2,042	–
Promoting Safe and Stable Families – <i>County of Los Angeles</i>	93.556	17-9-46	–	–	333,682	333,682	–
Promoting Safe and Stable Families – <i>County of Los Angeles</i>	93.556	17-9-61	–	–	310,233	310,233	–
<b>Total 93.556 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>643,915</b>	<b>643,915</b>	<b>–</b>

See notes to Schedule of Expenditures of Federal Awards.



Dignity Health and Subordinate Corporations

Schedule of Expenditures of Federal Awards (continued)

July 1, 2018 to January 31, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
<b>CCDF Cluster:</b>							
Child Care and Development Block Grant – <i>California Department of Education</i>	93.575	CCTR-8084	\$ –	\$ –	\$ 51,409	\$ 51,409	\$ –
Child Care and Development Block Grant – <i>California Department of Education</i>	93.575	CSPP-8182	–	–	24,966	24,966	–
Child Care and Development Block Grant – <i>California Department of Education</i>	93.575	CFCC-8008	–	–	22,384	22,384	–
<b>Total 93.575 – Pass-Through</b>			–	–	<b>98,759</b>	<b>98,759</b>	–
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – <i>California Department of Education</i>	93.596	CCTR-8084	–	–	111,860	111,860	–
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – <i>California Department of Education</i>	93.596	CSPP-8182	–	–	54,356	54,356	–
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – <i>California Department of Education</i>	93.596	CFCC-8008	–	–	48,693	48,693	–
<b>Total 93.596 – Pass-Through</b>			–	–	<b>214,909</b>	<b>214,909</b>	–
<b>Total CCDF Cluster</b>			–	–	<b>313,668</b>	<b>313,668</b>	–
Grants to States for Access and Visitation Programs – <i>San Francisco Superior Court</i>	93.597	08-020	–	–	99,081	99,081	–
Head Start	93.600		–	–	2,570,460	2,570,460	–
Accountable Health Communities	93.650		715,035	–	–	715,035	318,699

See notes to Schedule of Expenditures of Federal Awards.

## Dignity Health and Subordinate Corporations

### Schedule of Expenditures of Federal Awards (continued)

July 1, 2018 to January 31, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
<b>Medicaid Cluster:</b>							
Medical Assistance Program	93.778		\$ –	\$ –	\$ 131	\$ 131	\$ –
Medical Assistance Program – <i>Department of Health and Human Services – State of California</i>	93.778	7202400-13-151	–	–	922,677	922,677	–
Medical Assistance Program – <i>California Department of Health Care Services</i>	93.778	MS-1819-25	–	–	195,407	195,407	–
<b>Total 93.778 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>1,118,084</b>	<b>1,118,084</b>	<b>–</b>
<b>Total 93.778</b>			<b>–</b>	<b>–</b>	<b>1,118,215</b>	<b>1,118,215</b>	<b>–</b>
<b>Total Medicaid Cluster</b>			<b>–</b>	<b>–</b>	<b>1,118,215</b>	<b>1,118,215</b>	<b>–</b>
Opioid STR – <i>State of Nevada</i>	93.788	T270179561	–	–	115,683	115,683	–
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities – <i>California Department of Public Health</i>	93.817	15-10668	–	–	136,883	136,883	–
Lung Diseases Research	93.838		248,190	–	–	248,190	–
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		489,698	–	–	489,698	56,839
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>Mayo Clinic Jacksonville</i>	93.853	59-3337028	46,775	–	–	46,775	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>Johns Hopkins University</i>	93.853	2002850488	23,557	–	–	23,557	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>Massachusetts General Hospital</i>	93.853	226396	17,877	–	–	17,877	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>University of Arizona</i>	93.853	305701	15,098	–	–	15,098	–

See notes to Schedule of Expenditures of Federal Awards.

Dignity Health and Subordinate Corporations

Schedule of Expenditures of Federal Awards (continued)

July 1, 2018 to January 31, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>Mayo Clinic</i>	93.853	5U01NS080168-02	\$ 13,563	\$ –	\$ –	\$ 13,563	\$ –
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>Massachusetts General Hospital</i>	93.853	232828	11,374	–	–	11,374	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>University of Chicago</i>	93.853	U01NS104157	3,470	–	–	3,470	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>University of Cincinnati</i>	93.853	U01NS095869	3,374	–	–	3,374	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>University of California</i>	93.853	8945sc	855	–	–	855	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>Massachusetts General Hospital</i>	93.853	5R01NS082285-05	835	–	–	835	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>Massachusetts General Hospital</i>	93.853	Insight #2017D007376	116	–	–	116	–
Extramural Research Programs in the Neurosciences and Neurological Disorders – <i>Johns Hopkins University</i>	93.853	4U01NS080824-04	63	–	–	63	–
<b>Total 93.853 – Pass-Through</b>			<b>136,957</b>	<b>–</b>	<b>–</b>	<b>136,957</b>	<b>–</b>
<b>Total 93.853</b>			<b>626,655</b>	<b>–</b>	<b>–</b>	<b>626,655</b>	<b>56,839</b>
Allergy and Infectious Diseases Research – <i>Washington University</i>	93.855	WU-16-352	13,451	–	–	13,451	–
Allergy and Infectious Diseases Research – <i>Vanderbilt University</i>	93.855	VUMC57795	214	–	–	214	–
<b>Total 93.855 – Pass-Through</b>			<b>13,665</b>	<b>–</b>	<b>–</b>	<b>13,665</b>	<b>–</b>
Biomedical Research and Research Training – <i>University of Utah</i>	93.859	10039022-01	65,943	–	–	65,943	–
Biomedical Research and Research Training – <i>Arizona State University</i>	93.859	ASUB00000191/2R01GM107165-05	6,222	–	–	6,222	–
<b>Total 93.859 – Pass-Through</b>			<b>72,165</b>	<b>–</b>	<b>–</b>	<b>72,165</b>	<b>–</b>

See notes to Schedule of Expenditures of Federal Awards.

## Dignity Health and Subordinate Corporations

### Schedule of Expenditures of Federal Awards (continued)

July 1, 2018 to January 31, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Aging Research	93.866		\$ 910,960	\$ –	\$ –	\$ 910,960	\$ 417,960
Aging Research – <i>University of Southern California</i>	93.866	301-84320987 (U19AG024904)	49,263	–	–	49,263	–
Aging Research – <i>University of California</i>	93.866	72051217	43,226	–	–	43,226	–
Aging Research – <i>University of Pittsburgh</i>	93.866	0047610 (127173-5)	211	–	–	211	–
Aging Research – <i>Sun Health Research</i>	93.866	1 P30 AG19610-01	32,497	–	–	32,497	–
Aging Research – <i>University of Washington</i>	93.866	51568	14,791	–	–	14,791	–
<b>Total 93.866 – Pass-Through</b>			<b>139,988</b>	<b>–</b>	<b>–</b>	<b>139,988</b>	<b>–</b>
<b>Total 93.866</b>			<b>1,050,948</b>	<b>–</b>	<b>–</b>	<b>1,050,948</b>	<b>417,960</b>
National Bioterrorism Hospital Preparedness Program – <i>Tehama County Health Services Agency</i>	93.889	94-6000543	–	–	55,550	55,550	–
National Bioterrorism Hospital Preparedness Program – <i>Nevada County Health &amp; Human Services</i>	93.889	94-600526	–	–	8,641	8,641	–
<b>Total 93.889 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>64,191</b>	<b>64,191</b>	<b>–</b>
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement – <i>Sierra Nevada Memorial Hospital Foundation</i>	93.912	D06RH31034	–	–	200,702	200,702	–
HIV Emergency Relief Project Grants – <i>County of Los Angeles</i>	93.914	PH-002387	–	–	391,688	391,688	–
HIV Emergency Relief Project Grants – <i>County of Los Angeles</i>	93.914	PH-002375	–	–	266,519	266,519	–
HIV Emergency Relief Project Grants – <i>County of Los Angeles</i>	93.914	PH-002383	–	–	254,968	254,968	–
HIV Emergency Relief Project Grants – <i>City and County of San Francisco</i>	93.914	HCPD13/14, HCPD13/15	–	–	101,502	101,502	–
HIV Emergency Relief Project Grants – <i>County of Los Angeles</i>	93.914	PH-002898	–	–	53,319	53,319	–
<b>Total 93.914 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>1,067,996</b>	<b>1,067,996</b>	<b>–</b>

See notes to Schedule of Expenditures of Federal Awards.

Dignity Health and Subordinate Corporations

Schedule of Expenditures of Federal Awards (continued)

July 1, 2018 to January 31, 2019

Federal Grantor/Program Title – <i>Pass-Through Grantor</i>	Federal CFDA Number	Pass-Through Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
HIV Care Formula Grants – <i>County of Los Angeles</i>	93.917	H208518	\$ –	\$ –	\$ 342,631	\$ 342,631	\$ –
HIV Care Formula Grants – <i>State of Nevada</i>	93.917	T27017956	–	–	18,372	18,372	–
<b>Total 93.917 – Pass-Through</b>			<b>–</b>	<b>–</b>	<b>361,003</b>	<b>361,003</b>	<b>–</b>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		–	–	486,302	486,302	–
HIV Prevention Activities Health Department Based – <i>County of Los Angeles</i>	93.940	PH-003083	–	–	119,490	119,490	–
Maternal and Child Health Services Block Grant to the States – <i>State of Nevada</i>	93.994	T27017956J	–	–	42,699	42,699	–
<b>Total U.S. Department of Health and Human Services</b>			<b>3,896,434</b>	<b>–</b>	<b>8,945,315</b>	<b>12,841,749</b>	<b>1,162,173</b>
<b>Corporation for National and Community Service:</b>							
Retired and Senior Volunteer Program	94.002		–	–	66,314	66,314	–
<b>Foster Grandparent/Senior Companion Cluster:</b>							
Foster Grandparent Program	94.011		–	–	154,313	154,313	–
Senior Companion Program	94.016		–	–	26,354	26,354	–
<b>Total Foster Grandparent/Senior Companion Cluster</b>			<b>–</b>	<b>–</b>	<b>180,667</b>	<b>180,667</b>	<b>–</b>
<b>Total Corporation for National and Community Service</b>			<b>–</b>	<b>–</b>	<b>246,981</b>	<b>246,981</b>	<b>–</b>
<b>Total Dignity Health</b>			<b>\$ 5,331,621</b>	<b>\$ –</b>	<b>\$ 9,986,706</b>	<b>\$ 15,318,327</b>	<b>\$ 2,082,547</b>

See notes to Schedule of Expenditures of Federal Awards.

# Dignity Health and Subordinate Corporations

## Notes to Schedule of Expenditures of Federal Awards

July 1, 2018 to January 31, 2019

### **1. Summary of Significant Accounting Policies**

#### **Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of Dignity Health and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### **2. Indirect Costs**

Dignity Health does not use the 10 percent de minimis indirect cost rate provided for in the Uniform Guidance.

#### **3. Noncash Federal Awards**

During the period, Dignity Health did receive nonmonetary assistance for the Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements – CFDA 93.074. The nonmonetary assistance is valued at fair market value at the time of receipt.

# Schedule Required by the Uniform Guidance





Dignity Health and Subordinate Corporations

Schedule of Findings and Questioned Costs (continued)

July 1, 2018 to January 31, 2019

**Section II – Federal Award Findings and Questioned Costs**

**Finding 2019-001 – Subrecipient Monitoring**

Information on the federal program:

**U.S. Department of Defense**  
**U.S. Department of Health and Human Services**  
Research and Development Cluster  
CFDA Nos. 12.420, 93.279, 93.394, 93.650, 93.853, 93.866  
Federal Award Numbers:  
1P1CMS331609-03-00  
1R01CA221938-01  
1R01DA043567-01A1  
5P01AG014449-20  
5R01AG043375-06  
5R01NS088648-04  
5R01CA158079-09  
5R01CA213158-02  
5R01DA042749-02  
W81XWH-15-1-0211  
W81XWH-17-1-0429

Criteria or specific requirement (including statutory, regulatory or other citation):

The Uniform Guidance 2 CFR section 200.331 states, “All pass-through entities must:  
(b) Evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraphs (d) and (e) of this section, which may include consideration of such factors as:  
(1) The subrecipient’s prior experience with the same or similar subawards;  
(2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F – Audit Requirements of this part, and the extent to which the same or similar subaward has been audited as a major program;

Dignity Health and Subordinate Corporations

Schedule of Findings and Questioned Costs (continued)

July 1, 2018 to January 31, 2019

**Section II – Federal Award Findings and Questioned Costs (continued)**

Criteria or specific requirement (including statutory, regulatory or other citation): (continued)

- (3) Whether the subrecipient has new personnel or new or substantially changed systems; and
  - (4) The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).
- (d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and the subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:
- (1) Reviewing financial and performance reports required by the pass-through entity.
  - (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.
  - (3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by §200.521 Management decision.
- (f) Verify that every subrecipient is audited as required by Subpart F – Audit Requirements of this part when it is expected that the subrecipient’s Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in §200.501 Audit requirements.
- (g) Consider whether the results of the subrecipient’s audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the pass-through entity’s own records.”

Dignity Health and Subordinate Corporations

Schedule of Findings and Questioned Costs (continued)

July 1, 2018 to January 31, 2019

**Section II – Federal Award Findings and Questioned Costs (continued)**

Condition:

Dignity Health did not retain evidence of review of subrecipient's Uniform Guidance audits or verify whether subrecipient's were required to obtain Uniform Guidance audits.

Cause:

Dignity Health did not have internal controls and policies and procedures in place to retain evidence of review of subrecipient's most recent Uniform Guidance audits.

Effect or potential effect:

Subrecipients may not have Uniform Guidance audits performed, as required, and audit findings of subrecipients may not be properly evaluated for their impact on Dignity Health's compliance with the requirements of its federal award program. Dignity Health may not appropriately modify its ongoing monitoring and risk assessment procedures based on any findings noted in a subrecipients report.

Questioned costs:

None.

Context:

The population of subrecipients for the Research and Development Cluster was 22 subrecipients with expenditures totaling \$2,082,547 during the period, which represented 39% of total Research and Development expenditures. We selected 5 of 22 subrecipients for testing internal controls and compliance for subrecipient monitoring. For each 5 selected subrecipients, Dignity Health did not retain evidence of review of the Uniform Guidance reports.

Identification as a repeat finding, if applicable:

This is not a repeat finding.

Dignity Health and Subordinate Corporations

Schedule of Findings and Questioned Costs (continued)

July 1, 2018 to January 31, 2019

**Section II – Federal Award Findings and Questioned Costs (continued)**

Recommendation:

Dignity Health should implement additional controls over the subrecipient monitoring process. Dignity Health should annually review the Federal Audit Clearinghouse website for its subrecipients' Uniform Guidance audits, document the reviews performed including evaluation and resolution of any findings noted, and maintain this documentation in its grant files. Dignity Health should verify with subrecipients each year whether they are required to have Uniform Guidance audits performed based on federal expenditures for that year. Dignity Health should evaluate if any findings noted in a subrecipient report would warrant modification of the subrecipients risk profile and of Dignity Health's monitoring procedures over the subrecipient.

Views of responsible officials:

Management agrees with the finding and has developed a plan to correct the finding.

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## **SUMMARY SCHEDULE OF CURRENT YEAR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN PERIOD ENDED JANUARY 31, 2019**

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**REFERENCE: 2019-001 (SUBRECIPIENT MONITORING)**

**Research and Development Cluster**

**(CFDA #: 12.420, 93.279, 93.394, 93.650, 93.853, 93.866)**

**Federal Grantor: U.S. Department of Defense and U.S. Department of Health and Human Services**

**Federal Award Numbers:**

**1P1CMS331609-03-00**

**1R01CA221938-01**

**1R01DA043567-01A1**

**5P01AG014449-20**

**5R01AG043375-06**

**5R01NS088648-04**

**5R01CA158079-09**

**5R01CA213158-02**

**5R01DA042749-02**

**W81XWH-15-1-0211**

**W81XWH-17-1-0429**

**Facility: St. Joseph's Hospital and Medical Center**

**Finding:** Dignity Health and Subordinate Corporations (Dignity Health) did not retain evidence of review of subrecipients' Uniform Guidance audits or verify whether subrecipients were required to obtain Uniform Guidance audits.

**Corrective Action Plan:** Dignity Health will take the following steps going forward to ensure compliance with subrecipient monitoring.

- Audit Confirmation Survey to Subrecipients will be modified to include two additional Questions. 1) Has New Personnel Been Hired? And if so, has training been provided to ensure that costs being recorded to the Prime Award administered by Dignity Health/St. Joseph's Hospital and Medical Center/BNI are for authorized purposes 2) Have Accounting Financial Systems changed recently? Yes or No. If YES, a questionnaire will be developed for sub-recipients to fill out on what the changes have been and if the system allows for expense recording by grant/project separately, among other things.
- Research Finance Grants Manager will document when the Subrecipient Audit's Report was downloaded from the clearing house.
- Research Finance Grants Manager will review the document for any finding related to the R&D program.
- If findings are not pertaining to the sub-award issued by Dignity Health/St. Joseph's Hospital and Medical Center/Barrow Neurological Institute, an email will be sent to the Subrecipients Grants Operations Manager/Director asking for what corrective action plan has been taken.
- Once the response is received from the Subrecipient the Research Finance Manager will document whether or not the finding on the Subrecipient will require any adjustments to the pass-through entity's records or any additional monitoring oversight required by Dignity Health.

**Person Responsible:** Tomas Cortez, Manager, Grants Accounting

**Expected Completion:** March 31, 2020