Consolidated Financial Statements, Supplementary Information and Reports on Federal and State Award Programs

CHRISTUS Health
Years Ended June 30, 2019 and 2018
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

CHRISTUS Health

Consolidated Financial Statements, Supplementary Information and Reports on Federal and State Award Programs

Years Ended June 30, 2019 and 2018

Contents

Ernst & Young LLP
One Victory Park
Suite 2000
2323 Victory Avenue
Dallas, TX 75219

Tel: +1 214 969 8000
Fax: +1 214 969 8587
ey.com

Report of Independent Auditors

The Board of Directors and Management
CHRISTUS Health

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of CHRISTUS 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CHRISTUS Health as of June 30, 2019 and 2018, and the results of its consolidated operations and changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of compensation information as required by the Louisiana Revised Statute 24: 513A(1)(a)(3) and schedule of expenditures of federal and state awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Texas *Uniform Grant Management Standards* are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of compensation information and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 2, 2019, on our consideration of CHRISTUS 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 CHRISTUS 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 CHRISTUS Health's internal control over financial reporting and compliance.

Ernst + Young LLP

October 2, 2019

CHRISTUS Health

Consolidated Balance Sheets

	June 30	
	2019	**2018**
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 578,621**	$ 398,086
Short-term investments and equity in managed funds	**755,192**	691,407
Assets whose use is limited or restricted, required for current liabilities	**65,872**	64,869
Patient accounts receivable, net of allowance for doubtful accounts of $426,732 at June 30, 2018	**534,190**	525,316
Notes and other receivables	**208,861**	201,740
Inventories	**110,402**	112,448
Other current assets	**103,449**	84,389
Total current assets	**2,356,587**	2,078,255
Assets whose use is limited or restricted, less current portion	**797,632**	751,947
Property and equipment, net of accumulated depreciation	**2,725,526**	2,582,819
Other assets:		
Investments in unconsolidated organizations	**234,059**	200,059
Goodwill and intangible assets, net	**163,233**	163,275
Beneficial interest in supporting organizations	**107,355**	103,398
Other assets, including notes receivable from related-party	**232,015**	175,405
Total other assets	**736,662**	642,137
Total assets	**$ 6,616,407**	$ 6,055,158

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	June 30	
	2019	**2018**
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 669,456**	$ 641,628
Accrued employee compensation and benefits	**221,741**	279,603
Current portion of long-term debt	**41,116**	51,359
Total current liabilities	**932,313**	972,590
Long-term debt, less current portion	**1,607,209**	1,246,875
Accrued pension benefits	**153,673**	109,868
Derivative financial instruments	**126,772**	86,120
Other long-term obligations – including self-funded liabilities, less current portion	**250,178**	237,537
Total liabilities	**3,070,145**	2,652,990
Net assets		
Net assets without donor restrictions:		
Attributable to CHRISTUS Health	**3,007,092**	2,963,671
Attributable to non-controlling interest	**332,804**	238,122
Total net assets without donor restriction	**3,339,896**	3,201,793
Net assets with donor restrictions	**206,366**	200,375
Total net assets	**3,546,262**	3,402,168
Total liabilities and net assets	**$ 6,616,407**	$ 6,055,158

See accompanying notes.

CHRISTUS Health

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended June 30	
	2019	**2018**
	(In Thousands)	
Revenues:		
Patient service revenue (net of contractual allowances and discounts)		$ 5,338,351
Provision for bad debts		(540,390)
Net patient service revenue	**$ 5,047,880**	4,797,961
Premium revenue	**285,338**	297,553
Inherent contribution from business combination	**–**	15,000
Other revenue including gain on contribution to joint ventures	**228,126**	264,111
Total revenues	**5,561,344**	5,374,625
Expenses:		
Employee compensation and benefits	**2,495,519**	2,434,927
Services and other	**1,687,916**	1,613,721
Supplies	**951,817**	925,311
Depreciation and amortization	**230,951**	234,168
Interest	**53,230**	43,233
Total expenses	**5,419,433**	5,251,360
Operating income	**141,911**	123,265
Nonoperating investment gain, net	**6,423**	52,750
Other nonoperating loss, including loss on extinguishment of debt	**(21,889)**	(1,605)
Revenues in excess of expenses	**126,445**	174,410
Less revenues in excess of expenses attributable to non-controlling interests	**35,923**	32,401
Revenues in excess of expenses attributable to CHRISTUS Health	**$ 90,522**	$ 142,009

CHRISTUS Health

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended June 30 2019	2018
	(In Thousands)	
Net assets without donor restrictions:		
Revenues in excess of expenses attributable to CHRISTUS Health	**$ 90,522**	$ 142,009
Unrealized gain on investments	**1,008**	2,235
Change in pension liabilities	**(61,183)**	41,204
Change in non-controlling interest	**94,682**	36,267
Net assets released from restrictions for capital and other	**13,074**	(20,480)
Changes in net assets without donor restrictions	**138,103**	201,235
Net assets with donor restrictions:		
Net change in beneficial interests	**4,734**	15,303
Contributions	**11,471**	20,264
Unrealized gain on investments	**589**	606
Net assets released from restrictions and other	**(10,803)**	(11,699)
Changes in net assets with donor restrictions	**5,991**	24,474
Change in net assets	**144,094**	225,709
Net assets – beginning of fiscal year	**3,402,168**	3,176,459
Net assets – end of fiscal year	**$ 3,546,262**	$ 3,402,168

See accompanying notes.

CHRISTUS Health

Consolidated Statements of Cash Flows

	Year Ended June 30 2019	2018
	(In Thousands)	
Operating activities		
Change in net assets	**$ 144,094**	$ 225,709
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Inherent contribution from business combination	**–**	(15,000)
Net gain on contribution to joint ventures	**–**	(36,340)
Change in beneficial interests	**2,053**	(15,303)
Change in pension liabilities recognized in net assets	**61,183**	(41,204)
Contributions of net assets with donor restrictions	**(11,471)**	(20,264)
Distributions to, acquisitions and sale of non-controlling interest, net	**(52,609)**	5,939
Distributions from investments in unconsolidated organizations	**6,771**	9,601
Equity in losses of unconsolidated organizations	**3,364**	10,601
Unrealized investment (gain) loss	**(16,188)**	21,790
Depreciation and amortization	**230,951**	234,168
Amortization of premiums, discounts, and deferred financing costs	**1,055**	1,123
Provision for uncollectible accounts	**–**	540,390
Change in derivative fair value	**40,200**	(29,640)
Loss on extinguishment of debt	**20,348**	–
Gain on disposal of property and equipment	**(1,391)**	(333)
Foreign currency translation adjustment	**(4,709)**	11,675
Changes in operating assets and liabilities, net of acquisitions:		
Increase in net patient accounts receivable	**(8,874)**	(558,696)
Increase in investments and assets whose use is limited or restricted	**(16,300)**	(174,697)
(Increase) decrease in notes and other receivables	**(7,121)**	5,271
(Increase) decrease in other current assets and inventories	**(17,014)**	13,157
(Decrease) increase in accounts payable, accrued expenses, and accrued employee compensation and benefits	**(29,957)**	50,084
Decrease in other long-term liabilities	**(4,362)**	(11,210)
Net cash provided by operating activities	**340,023**	226,821
Investing activities		
Purchases of property and equipment	**(363,173)**	(418,400)
Proceeds from sale or disposal of property and equipment	**65**	–
Proceeds from sale of majority interest in operating activities	**–**	24,756
Purchases of or contributions to investments in unconsolidated organizations	**(38,652)**	(52,934)
Notes issued to related parties	**–**	(11,630)
Increase in other than trading investments and assets limited as to use	**(77,985)**	–
(Increase) decrease in other assets	**(44,315)**	32,223
Acquisitions of health care entities, net of cash acquired	**–**	(45,328)
Net cash used in investing activities	**(524,060)**	(471,313)

CHRISTUS Health

Consolidated Statements of Cash Flows (continued)

	Year Ended June 30	
	2019	**2018**
	(In Thousands)	
Financing activities		
Contributions of net assets with donor restrictions	**$ 11,471**	$ 20,264
Purchases and sales of non-controlling interests	**33,229**	–
Proceeds from issuance of new debt, net of issuance costs	**943,572**	164,078
Payments on long-term debt including deposits into escrow for defeasance	**(615,656)**	(49,534)
Distributions to and acquisitions of non-controlling interest, net	**(8,044)**	(20,489)
Net cash provided by financing activities	**364,572**	114,319
Net increase (decrease) in cash and cash equivalents	**180,535**	(130,173)
Cash and cash equivalents – beginning of fiscal year	**398,086**	528,259
Cash and cash equivalents – end of fiscal year	**$ 578,621**	$ 398,086
Noncash investing and financing transactions		
Capital lease and debt obligations incurred for property and equipment	**$ 772**	$ 20,541
Notes issued in exchange for non-controlling interests in consolidated organizations	**$ 27,424**	$ –
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (net of amount capitalized)	**$ 42,150**	$ 37,246

See accompanying notes.

1. Mission, Vision, and Organization of CHRISTUS Health

CHRISTUS Health was incorporated as a Texas nonprofit corporation on December 15, 1998. CHRISTUS is sponsored by the Congregation of the Sisters of Charity of the Incarnate Word of Houston, Texas; the Congregation of the Sisters of Charity of the Incarnate Word of San Antonio, Texas; and the Congregation of the Sisters of the Holy Family of Nazareth. CHRISTUS Health together with each affiliated entity for which CHRISTUS Health holds, directly or indirectly, at least a majority membership, ownership or other controlling interest are collectively referred to in these consolidated financial statements as "CHRISTUS" or "the System."

The mission of CHRISTUS is to extend the healing ministry of Jesus Christ. The Gospel values underlying the mission statement challenge CHRISTUS to make choices that respond to the economically disadvantaged and the underserved with health care needs. The growth and development of CHRISTUS are determined by the health care needs of the communities that CHRISTUS serves, its available resources, and the interrelationship of those serving and those being served. Responsible stewardship mandates that CHRISTUS searches out new, effective means to deliver quality health care and to promote wholeness in the human person.

The vision of CHRISTUS is to be a leader, a partner, and an advocate in the creation of innovative health and wellness solutions that improve the lives of individuals and communities so that all may experience God's healing presence and love.

The consolidated financial statements reflect the results of operations of CHRISTUS Health and its affiliated market-based organizations and other related entities, including but not limited to hospital foundations, professional office buildings, management services organizations, physician groups, outpatient surgery centers, diagnostic imaging companies, urgent care centers, a collection agency, self-insurance trusts, an offshore captive insurance company, health plans, and integrated community health networks, each of which is considered a CHRISTUS ministry.

CHRISTUS entities control or own, directly or indirectly, or manage various nonprofit and for-profit corporations and other organizations that currently operate domestically in the states of Texas, Louisiana, and New Mexico, and internationally in Grand Cayman, Mexico, Chile and Colombia.

CHRISTUS Health and certain affiliated nonprofit corporations are generally exempt from federal income taxes under Section 501(a) of the Internal Revenue Code, as organizations described in Section 501(c)(3).

2. Community Health

In accordance with its mission and philosophy, the System commits significant resources to improving the health of the communities it serves. In support of its mission, the System provides programs and services for entire communities, with a special consideration for those who are poor and underserved.

CHRISTUS and various hospital participants have elected to provide health care services to the indigent population both directly to patients as charity services and by providing financial support to one another for certain community benefit efforts provided throughout the year with the goal being to reach a previously discussed equitable distribution of the cost of care to the low-income and needy populations in the communities they service.

Programs and Services for the Poor and Underserved

These programs and services represent the financial commitment to serve those who have inadequate resources and/or are uninsured or underinsured. Services are offered with the conviction that health care is a basic human right and all deserve access. The categories included as programs and services for the poor and the underserved are as follows:

Charity Care – In accordance with the Catholic Health Association (CHA) guidelines, charity care represents the unpaid costs of free or discounted health services provided to persons who cannot afford to pay and who meet the organization's criteria for financial assistance. Traditional charity care is defined by the state of Texas as the unreimbursed costs of providing, funding, or otherwise financially supporting the health care services provided to a person with income at or below 200% of the federal poverty level. Charity care services provided to these patients are not reported as revenue in the consolidated statements of operations and changes in net assets, as there is no expectation of payment. The amount of traditional charity care provided, determined on the basis of cost, estimated using the applicable cost to charge ratios of the hospital participants, excluding the provision for bad debts in 2018, was $328,352,000 and $268,435,000 for the fiscal years ended June 30, 2019 and 2018, respectively.

Unpaid Costs of Medicaid and Other Public Programs for the Indigent – This category represents the cost of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of any payments received from all sources.

2. Community Health (continued)

Community Services for the Poor and Underserved – This category represents the unpaid cost of services provided for which a patient is not billed or for which a fee has been assessed that recovers only a portion of the cost of the rendered service. This category includes services to those in need through community health programs. The programs cover a broad spectrum of services, including community health centers, immunizations for children and seniors, Meals on Wheels, transportation services, home repair projects, and a variety of other social services. These programs may also seek justice for the vulnerable and work to bring about changes in political and economic systems.

Community Services Provided for the Broader Community – This category represents the unpaid cost of services provided for the benefit of the entire community. The majority of these expenditures are for graduate medical education programs, either through CHRISTUS-sponsored or affiliated programs. Other benefits for the broader community include health promotion and wellness programs, health screenings, newsletters, and radio or television programs intended for health education. These programs are not intended to be financially self-supporting.

Education and Research – This category represents the direct costs associated with medical education and other health professional educational programs in excess of governmental payments.

Other Community Services – This category represents leadership activities, community planning, and advocacy.

3. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of all entities of the System (see Note 1). All significant inter-entity transactions and accounts have been eliminated in consolidation.

3. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with United States generally accepted accounting principles (U.S. GAAP) requires management of the System to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The System 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 service revenues, which include contractual allowances and the provision for bad debt; estimates for reimbursement under the upper payment limit, disproportionate share and Medicaid 1115 waiver programs; reserves for losses and expenses related to health care professional and general liabilities; accruals for claims incurred but not yet reported and for risk sharing liabilities related to the System's health plan; determination of fair values of certain financial instruments; determination of fair value of certain goodwill and long-lived assets, including assets acquired; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ materially from these estimates.

Cash Equivalents and Investments

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less.

The System's investment portfolio is classified as trading, with unrealized gains and losses included in revenues in excess of expenses. Certain investments held by the System's foundations are classified as other than trading, with unrealized gains and losses included in changes in net assets. Investments in equity securities and funds with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments also include equity investments in managed funds structured as limited liability corporations or partnerships. Equity investments in managed funds are accounted for under the fair value method if held within the System's foundations or captive insurer, or under the equity method if held by another System entity. Investment income or loss (including equity investment earnings (losses) on equity investments in managed funds; realized and unrealized gains and losses, computed on the average-cost basis of the security at the time of sale; and interest and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law.

3. Summary of Significant Accounting Policies (continued)

Investment income earned on assets held by trustees under bond indenture agreements, assets held by foundations, assets deposited in trust funds for self-insurance purposes, holdings in healthcare-related investment funds, and funds held by insurance subsidiaries in accordance with industry practices are included in other revenue in the consolidated statements of operations and changes in net assets.

Derivative Financial Instruments

The System utilizes interest rate swaps to mitigate interest rate exposures. Changes in the fair value of the System's interest rate swaps are recorded as a component of nonoperating investment gain in the accompanying consolidated statements of operations and changes in net assets. The expense or income representing the net of the payments made and received under the swap agreements is also recorded as a component of nonoperating investment gain.

Inventories

The System values inventories, which consist principally of medical supplies and pharmaceuticals, at the lower of cost (first-in, first-out or weighted average cost valuation method) or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at historical cost or, if donated, impaired, or acquired in a business transaction, at fair value at the time of donation, impairment, or acquisition. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged against operations.

Depreciation is calculated and recorded over the estimated useful life of each class of depreciable assets using the straight-line method. The *American Hospital Association – Estimated Useful Lives of Depreciable Hospital Assets* is used as a general guide in establishing depreciable lives. Amortization of capital leases and impairment losses related to long-lived assets are included in depreciation expense.

3. Summary of Significant Accounting Policies (continued)

Asset Impairment

The System periodically evaluates the carrying value of its operating long-lived assets and assets held for sale for impairment when indicators of impairment are identified. These evaluations are primarily based on the estimated recoverability of the assets' carrying value. Impairment write-downs are recognized as a reduction in operating income for the operating long-lived assets and as a reduction in nonoperating gain for the assets held for sale at the time the impairment is identified. There were no material impairment losses recognized in fiscal years 2019 or 2018.

Investments in Unconsolidated Organizations

The System has investments in certain organizations for which it does not have a majority ownership interest or control, and therefore, these organizations are not consolidated. Generally, these investments are recorded using the equity method of accounting for those organizations in which the System owns greater than 20% and has significant influence over the organization. The cost method of accounting is used for organizations in which the System owns 20% or less (see additional discussion in Note 8). Equity losses of $3,364,000 and $10,601,000 for the fiscal years ended June 30, 2019 and 2018, respectively, are reflected in other revenue in the consolidated statements of operations.

Non-Controlling Interests in Consolidated Subsidiaries

The System attributed revenues in excess of expenses of $35,923,000 and $32,401,000 for the fiscal years ended June 30, 2019 and 2018, respectively, to the non-controlling interests based on the contractual terms of joint ventures and the ownership percentage of the non-controlling interests in certain of the consolidated subsidiaries. These amounts are reflected in net assets without donor restrictions in the consolidated balance sheets, net of distributions.

Goodwill and Intangible Assets

Goodwill and intangible assets recorded in connection with acquisitions completed by the System are accounted for under Accounting Standards Codification (ASC) 350, *Intangibles – Goodwill and Other*. The System records goodwill as the excess of the purchase price over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. Indefinite-lived

3. Summary of Significant Accounting Policies (continued)

intangible assets consist entirely of a trade name asset recorded in connection with the Trinity Mother Frances Health System acquisition in fiscal year 2016. Finite-lived intangible assets consist primarily of noncompete assets generated from prior business combinations and minimum revenue guarantees offered to various non-employed physicians throughout the System.

The changes in the carrying amounts of goodwill and intangible assets as of June 30 are as follows (in thousands):

	Goodwill	Indefinite-Lived Asset	Finite-Lived Assets
Balance at July 1, 2017	$ 78,745	$ 46,000	$ 7,923
Assets acquired	30,544	–	6,299
Amortization	–	–	(5,621)
Currency translation and other adjustments	(479)	–	(136)
Balance at June 30, 2018	108,810	46,000	8,465
Assets acquired	**1,396**	**–**	**4,798**
Amortization	**–**	**–**	**(4,441)**
Currency translation and other adjustments	**(1,795)**	**–**	**–**
Balance at June 30, 2019	**$ 108,411**	**$ 46,000**	**$ 8,822**

Goodwill is tested at least annually for impairment at the reporting unit level on April 1 of each year. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Additional impairment assessments may be performed on an interim basis if the System encounters events or changes in circumstances that would indicate that it is more likely than not that the carrying value has been impaired. The System has determined that its reporting units are the various geographically located affiliates.

For goodwill impairment tests, the System may elect to perform a qualitative assessment of each reporting unit to determine whether facts and circumstances support a determination that the reporting unit's fair value is greater than its carrying value. If the qualitative analysis is not conclusive, or if the System elects to proceed directly with quantitative testing, the fair values of the reporting units are determined and compared to the aggregate carrying values. A quantitative assessment is performed for reporting units if the qualitative analysis is not conclusive or if impairment is indicated.

3. Summary of Significant Accounting Policies (continued)

If required, the System follows a two-step, fair value-based process using a discounted cash flow income method, a guideline public company method, and a mergers and acquisitions method to determine if an impairment of goodwill exists. This analysis requires judgments and estimates about the weighted average cost of capital, risk factors, and forecasted operating margins. The first step compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities of the reporting unit to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and a charge to impairment expense. Judgments and assumptions are inherent in the System's estimates used to determine the fair value of its reporting units and are consistent with what the System believes would be utilized by the primary market participant. The use of alternative judgments and assumptions could result in the recognition of different impairment charges in the System's consolidated financial statements.

As a result of the quantitative and qualitative assessments for both the fiscal years ended June 30, 2019 and 2018, no impairment losses were recorded.

Indefinite-lived intangible assets are also tested annually for impairment on April 1 of each year, by comparing the fair value of the asset with its carrying amount. The System also considers facts and circumstances surrounding the asset on an annual basis to determine if an indefinite life continues to be appropriate. For indefinite-lived intangible asset impairment tests, the System also may elect to perform a qualitative assessment to determine whether facts and circumstances support a conclusion that it is more likely than not that the asset is not impaired. If the qualitative analysis is not conclusive, or if the System elects to proceed directly with quantitative testing, the fair values of the intangible assets are determined and compared to their carrying amounts. No impairment losses on indefinite-lived intangible assets were recognized in fiscal years 2019 and 2018.

Finite-lived intangible assets are tested for impairment whenever indicators of impairment are identified. An impairment loss is recognized if the intangible asset is not recoverable and its carrying amount exceeds its fair value. No impairment losses on finite-lived intangible assets were recognized in fiscal years 2019 and 2018.

3. Summary of Significant Accounting Policies (continued)

Deferred Financing Costs

Deferred financing costs, net of accumulated amortization, included as a reduction of long-term debt at June 30, 2019 and 2018, are $10,209,000 and $7,905,000, respectively, which are being amortized using the effective interest method over the terms of the indebtedness to which they relate. Amortization expense recognized for fiscal years 2019 and 2018 was $1,055,000 and $1,123,000, respectively.

Net Assets with Donor Restrictions

Net assets with donor restrictions reflect the portion of the System's net assets whose use is subject to donor imposed restrictions. Donor imposed restrictions may be temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. These include the System's beneficial interest in the net assets of affiliated and financially interrelated organizations, whose use has been limited by grant agreements and donors to a specific time period or purpose. Other donor imposed restrictions are perpetual in nature, where the assets have been restricted by donors to be maintained by the System in perpetuity.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or the condition has been met. The 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 accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as other revenue in the accompanying consolidated financial statements.

3. Summary of Significant Accounting Policies (continued)

Patient Accounts Receivable, Estimated Payables to Third-Party Payors, and Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from established rates. Patient accounts receivable and patient service revenue are reported at amounts that reflect the consideration to which CHRISTUS expects to be entitled for providing patient care. Estimated retroactive adjustments under reimbursement agreements with third-party payors are included in patient service revenue and estimated third-party payor settlements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Premium Revenue and Associated Costs

Premium revenue largely represents revenues derived under capitated arrangements with third parties. In return for these premiums, CHRISTUS is responsible for providing essentially all health care services to enrolled participants. The System contracts with the Department of Defense (DOD) to treat TRICARE patients through a US Family Health Plan. Premium revenue recognized under the contract with the DOD was 45.9% and 44.5% of total premium revenue at June 30, 2019 and 2018, respectively.

Premium revenues are also generated by the System's health maintenance organization, CHIP and STAR programs, Medicare Advantage plans, and for individual coverage on federal and state-based health exchanges. Premium revenue for individual coverage on the federal and state-based exchanges, Medicare Advantage, and the CHIP and STAR programs were 54.1% and 55.5% of total premium revenue for the fiscal years ended June 30, 2019 and 2018, respectively. The exchanges revenues are subject to risk-sharing provisions as outlined in federal regulations. Additionally, a significant portion of these premiums are subsidized through the federal government's advance premium tax credit provisions. The purpose of the risk-sharing provisions is to transfer funds from health plans with lower risk to health plans with higher risk within the same state. Risk adjustment assessments and distributions are computed based on a health plan's risk score versus the overall market risk score. Included in net premium revenues for individual coverage on federal and state-based health exchanges is a reserve for risk-sharing assessments of $22,661,000 and $5,221,000 as of June 30, 2019 and 2018, respectively. Ultimate settlement could differ significantly from this estimate.

3. Summary of Significant Accounting Policies (continued)

Costs for providing services through these contracts were $214,401,000 and $242,693,000 for the fiscal years ended June 30, 2019 and 2018, respectively, and are included as operating expenses in the accompanying consolidated financial statements. At June 30, 2019 and 2018, the System has accrued expenses for incurred but not reported claims based upon actuarial evaluations of claims experience. These estimates are continually reviewed and adjusted as necessary as experience develops or as new information becomes known; such adjustments are included in current operations. The System maintains stop-loss insurance coverage to limit exposure for certain catastrophic claims.

Other Revenue

Other revenue is derived from services other than providing health care services or coverage to patients, residents, or enrollees. This revenue typically includes investment income from all funds held by foundations, bond trustees, malpractice funds, or other miscellaneous investment activities; fees for providing management services under the terms of management agreements with certain of the System's joint ventures and related party joint venture partners; rental of health care facility space; sales of medical and pharmaceutical supplies to employees, physicians, and others; proceeds from sales of cafeteria meals and guest trays to employees, medical staff, and visitors; and proceeds from sales at gift shops and other retail activities or other service facilities operated by the health care organization.

Income Taxes

The authoritative guidance in ASC 740, *Income Taxes*, creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under the requirements of this guidance, tax-exempt organizations could be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. CHRISTUS has interests in various taxable entities, including investments in Mexico and Chile. These interests may give rise to U.S. and international tax exposures. CHRISTUS intends to utilize foreign earnings in foreign operations for an indefinite period of time in order to continue investing all earnings into the continued maintenance and expansion of these operations abroad as part of the System's mission. If these amounts were distributed to the United States, in the form of dividends or otherwise, the System would be subject

3. Summary of Significant Accounting Policies (continued)

to additional U.S. income taxes. Determination of the amount of unrecognized deferred income tax liabilities on these earnings is not practicable because such liability, if any, depends on circumstances existing if and when remittance occurs. There are no material unrecorded tax liabilities as of June 30, 2019 and 2018.

At June 30, 2019 and 2018, CHRISTUS has operating loss carryforwards of $372,537,000 and $337,887,000, which result in deferred tax assets of $79,431,000 and $71,558,000, respectively. CHRISTUS has provided a valuation allowance of the same amount, as it is more likely than not that the deferred tax assets will not be realized.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The provisions of the Act do not have a material tax effect on the System's consolidated financial statements. The Act reduces the U.S. federal corporate tax rate from 35% to 21%. For tax-exempt entities, the Act also requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income, pay an excise tax on remuneration above certain thresholds that is paid to certain executives by the organizations, and report income or loss from unrelated business activities on an activity-by-activity basis, among other provisions. Certain regulatory guidance provides for a measurement period of up to one year during which accounting for the tax effects of the Act may be completed. The System will continue to evaluate the impact of the Act and may record adjustments as additional information and guidance is released by the IRS.

Business Combinations

CHRISTUS accounts for all transactions that represent business combinations in which it obtains control of the acquired entity using the acquisition method of accounting, where the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired entity are recognized and measured at their fair values on the date the System obtains control of the acquiree. Such fair values that are not finalized for reporting periods following the acquisition date are estimated and recorded as provisional amounts. Adjustments to these provisional amounts during the measurement period (defined as the date through which all information required to identify and measure the consideration transferred, the assets acquired, the liabilities assumed and any non-controlling interests has been obtained, limited to one year from the acquisition date) are recorded in the period in which the final amounts are determined. Goodwill is determined as the excess of the purchase price over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. An inherent contribution is recorded if the fair value of identifiable assets and liabilities acquired exceed the consideration conveyed.

3. Summary of Significant Accounting Policies (continued)

Performance Indicator

The performance indicator is revenues in excess of expenses, which includes all changes in net assets without donor restrictions other than changes in the pension liability funded status, changes in non-controlling interests, net assets released from restrictions for property acquisitions, unrealized gains and losses on certain investments held by the System's foundations and insurance captive, cumulative effect of changes in accounting principles, discontinued operations, contributions of property and equipment, and other changes not required to be included within the performance indicator under U.S. GAAP.

Operating and Nonoperating Activities

CHRISTUS' primary mission is to meet the health care needs in its market areas through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, physician services, and other health care services. Activities directly associated with furthering this purpose are considered to be operating activities. Earnings from the investment activities of the offshore captive, community foundations, and holdings in healthcare-specific investment funds are also classified as operating activities as such earnings support the operations of those organizations. Other activities that result in gains or losses peripheral to CHRISTUS' primary mission are considered to be nonoperating. Nonoperating activities include all other investment earnings, gains or losses from bond defeasance, and net interest cost and changes in fair value of interest rate swaps.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. In connection with the System's adoption of ASU 2016-14, the System reclassified $182,770,000 in temporarily restricted net assets and $17,605,000 in permanently restricted net assets to net assets without donor restrictions as of June 30, 2018. The System reclassified certain functional expense classifications for the year ended June 30, 2018 to conform to the current year presentation. These reclassifications resulted in an increase in general and administrative expenses of $202,742,000 and decreases in physician services and health care services of $176,957,000 and $25,785,000, respectively. There was no change in total expenses.

3. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, enacting ASC 606, *Revenue from Contracts with Customers* (ASU 2014-09 or ASC 606), to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize 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. CHRISTUS has evaluated the requirements of the new standard to ensure processes have been put in place to collect the necessary information to implement the standard, which became effective for CHRISTUS on July 1, 2018. The System used a modified retrospective method of application to adopt ASU 2014-09 on July 1, 2018. The System applied the standard to contracts not completed as of the date of adoption. The adoption of ASU 2014-09 changed the presentation of revenue related to uninsured and underinsured patients, but did not materially affect the amount of net patient revenue recognized for these patients. Under ASU 2014-09, estimated uncollectible amounts due from these patients are generally considered implicit price concessions, presented as a direct reduction to patient service revenue, and not presented separately as provision for bad debts. Similarly, the related receivables from these patients are presented net of estimated allowances for implicit price concessions, and the separate presentation of an allowance for bad debts has been eliminated.

The System adopted certain practical expedients in connection with the adoption of ASU 2014-09. The System used the portfolio approach in its evaluation of net patient service revenue, wherein contracts with similar characteristics were grouped and evaluated as a portfolio of like contracts. The portfolios consist of major payor classes for inpatient revenue and major payor classes and types of services provided for outpatient revenue. Based on historical collection trends and other analyses, CHRISTUS believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used. In addition, the System has elected to apply the practical expedient to not adjust the estimated transaction price for the effects of a significant financing component, because CHRISTUS expects that the period between the time the service is provided to a patient and payment is received will be one year or less. The System has also elected to apply the practical expedient to expense all incremental contract acquisition costs, as those would generally have been amortized over a period less than one year. CHRISTUS also assessed the impact of the new standard on various

3. Summary of Significant Accounting Policies (continued)

reimbursement programs that represent variable consideration and concluded that accounting for these programs under the new standard is substantially consistent with the current accounting practices, although industry guidance is continuing to develop. These include supplemental state Medicaid programs, disproportionate share payments and settlements with third-party payors. While the adoption of ASU 2014-09 has an effect on the presentation of patient service revenue in the consolidated statements of operations and changes in net assets and impacts certain disclosures, the System did not note a material impact to the consolidated financial position, results of operations or cash flows.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as an update to ASC 958, *Not-for-Profit Entities*. This update makes several improvements to current reporting requirements that address complexities in the use of the currently required three classes of net assets and enhance required disclosures related to donor restrictions of net assets. The System adopted the guidance in ASU 2016-14 on June 30, 2019, using a retrospective approach. As a result of adoption of ASU 2016-14, CHRISTUS has reported two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) within the June 30, 2019 and 2018, consolidated financial statements, and has also added additional liquidity and functional expense disclosures.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The System adopted the guidance in ASU 2018-15 on July 1, 2018, using a retrospective approach. Adoption of ASU 2018-15 did not materially impact the System's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments,* as an update to ASC 230, *Statement of Cash Flows*. This update provides clarification on specific cash flow classification issues. The System adopted the guidance in ASU 2016-15 on June 30, 2019, using a retrospective approach. As a result of the adoption of ASU 2016-15, CHRISTUS has reported distributions from investments in unconsolidated organization in the operating section of the consolidated statement of cash flows.

3. Summary of Significant Accounting Policies (continued)

Pending Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, enacting ASC 842, *Leases*, which requires a lessee to recognize a right-of-use asset and a lease liability for both operating and finance leases, whereas previous U.S. GAAP required the asset and liability be recognized only for capital leases. The amendment also requires qualitative and specific quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. ASU 2016-02 became effective for the System on July 1, 2019. The adoption of this update is expected to result in a significant increase in right-of-use assets and lease liabilities on the consolidated financial statements. CHRISTUS is still evaluating the amount of this impact as well as any impact on the financing transaction discussed in Note 12.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, as an update to ASC 230, *Statement of Cash Flows*. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The updated guidance will be effective for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The new guidance should be applied on a retrospective basis. The updated guidance will result in a change in the cash flow statement to include restricted cash and restricted cash equivalents. CHRISTUS is currently evaluating the impact of this pronouncement on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, as an update to ASC 350, *Intangibles – Goodwill and Other*. This update eliminates step 2 of the goodwill impairment test, which required an entity to determine the fair value of individual assets and liabilities of the reporting unit. Under this updated guidance, the impairment amount will be determined using the step 1 comparison of fair value to carrying value. The updated guidance will be effective for the annual and any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. CHRISTUS is currently evaluating the impact of this pronouncement on the consolidated financial statements.

3. Summary of Significant Accounting Policies (continued)

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This update changes the presentation requirements of net periodic pension and postretirement benefit costs in the statement of operations and changes in net assets by requiring the service cost component to be presented as part of compensation expense and the remaining components to be presented separately from the service cost component and outside a subtotal of income from operations. The updated guidance is effective for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The new guidance should be applied on a retrospective basis, and early adoption is permitted. The updated guidance will affect the classification of expense within the System's consolidated statement of operations and changes in net assets. CHRISTUS is currently evaluating the impact of this pronouncement on the consolidated financial statements.

4. Revenue Recognition

Patient Service Revenue

CHRISTUS recognizes patient service revenue in the period in which performance obligations under its contracts are satisfied by transferring services to patients. The System measures the performance obligation for inpatient services from admission to the System facility to the point when it is no longer required to provide services to the patient, which is generally at the time of discharge. Performance obligations for inpatient services are satisfied over time during the patients' stay at the applicable facility. For in-house patients, revenue is recognized based on the amount of actual charges incurred as of the end of the reporting period, reduced by an estimate of contractual adjustments based on a combination of negotiated rates and historical experience for the payor class. Performance obligations for outpatient services are generally satisfied on the date of the outpatient visit. Bills to patients and third-party payors are generally sent within a few days or weeks of the inpatient discharge or outpatient visit.

Patient service revenue is reported at amounts that reflect the consideration to which CHRISTUS expects to be entitled for providing patient care. The System's patients include those covered under Medicare, Medicaid, managed care health plans and commercial insurance companies, as well as uninsured patients. The System has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates

4. Revenue Recognition (continued)

per discharge, discounts from established charges, and negotiated daily rates. Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient diagnosis-related group classification system that is based on clinical, diagnostic, and other factors. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid under cost reimbursement methodologies, prospectively determined rates per discharge, and prospectively determined or negotiated rates.

The transaction price for each patient is based on the gross charges for services provided, reduced by contractual adjustments and discounts determined based on contractual or negotiated rates as described above. For uninsured and certain underinsured patients, the transaction price is further reduced by implicit price concessions, estimated using historical collection percentages, which reduce the amount of revenue recognized to amounts the System expects to collect.

Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated and recorded in the period the related services are rendered and adjusted in future periods as final settlements are determined. At June 30, 2019 and 2018, the System has estimated third-party settlements, net, of $61,183,000 and $42,928,000, respectively, recorded in accounts payable and accrued expenses in the consolidated financial statements. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Patient service revenue includes variable consideration for these retroactive revenue adjustments resulting from the settlement of audits, reviews and investigations using the most likely outcome method. For fiscal years 2019 and 2018, revenue increased $13,146,965 and $12,498,000, respectively, related to changes in estimates for cost report reopenings, appeals, and tentative and final cost report settlements on filed cost reports, of which some are still subject to audit, additional reopening, and/or appeal.

The transaction price for patient services provided depends greatly upon the System's payor mix, as collections on gross charges can vary significantly, depending on a patient's insurance coverage, or lack thereof, and the extent of amounts due from patients for co-pays, co-insurance and deductibles. Various factors affect collection trends within each major class of payors. These include general economic conditions, including unemployment rates, which may influence the number of uninsured and underinsured patients; regulatory changes that affect reimbursement rates

4. Revenue Recognition (continued)

from governmental programs such as Medicare and Medicaid; and ongoing contract negotiations with managed care health plans and commercial insurance providers. In addition, estimates of implicit price concessions offered to uninsured patients or related to co-pays, co-insurance and deductibles of patients with insurance are subject to change as historical collection and write-off experience is analyzed on a monthly basis. These changes are recorded as adjustments to the transaction price in the period in which the estimates are revised. Subsequent adjustments that are determined to be the result of an adverse change in the patient's or the payor's ability to pay are recognized as bad debt expense, which is recorded as a component of other operating expenses in the accompanying consolidated statements of operations and changes in net assets. Bad debt expense for year ended June 30, 2019, was not material for the System. Prior to the adoption of ASC 606, the System recorded an allowance for doubtful accounts that was based on expected net collections, after contractual adjustments, primarily from patients. Bad debt expense for the year ended June 30, 2018, was $540,390,000.

The following table summarizes the amount of net patient service revenue recognized by payor, net of the provision for bad debts in 2018, during the years ended June 30, 2019 and 2018 (in thousands):

	2019	% of Total	2018	% of Total
Domestic operations:				
Medicare	**$ 1,754,497**	**35%**	$ 1,710,249	36%
Medicaid	**888,520**	**18**	876,293	18
Managed care	**1,803,120**	**36**	1,589,275	33
Self-pay	**116,961**	**2**	120,068	3
Other	**202,536**	**4**	238,532	5
Subtotal domestic operations	**4,765,634**	**94**	4,534,417	95
International operations:				
Mexico payors	**282,246**	**6**	263,544	5
Net patient service revenue	**$ 5,047,880**	**100%**	$ 4,797,961	100%

The System also receives payments through state supplemental payment programs, which includes Disproportionate Share (DSH) payments in multiple states, 1115(b) Waiver Program (Waiver Program) payments in the state of Texas, and Network Access Improvement Program (NAIP) payments in the state of Texas.

4. Revenue Recognition (continued)

Federal law permits state Medicaid programs to make DSH payments to hospitals that serve a disproportionately large number of Medicaid and low-income patients. These funds are not tied to specific services for Medicaid-eligible patients. The federal government distributes federal Medicaid DSH funds to each state based on a statutory formula. Revenue under the DSH programs is recognized as a component of net patient service revenue over the benefit period when information is received from the states regarding the amount and timing of DSH payments to be received for the applicable period. CHRISTUS believes that its performance obligations are generally satisfied ratably over the applicable period and recognizes revenue on a monthly basis. The System recorded $122,667,000 and $131,539,000 in net patient service revenue during fiscal years 2019 and 2018, respectively, related to the DSH program.

In December 2011, the Centers for Medicare and Medicaid Services (CMS) approved the Waiver Program submitted by the Texas Health and Human Services Commission (HHSC). The Waiver Program provides supplemental payments to hospitals through two pools: Uncompensated CarePool (UC) and the Delivery System Reform Incentive Pool (DSRIP). Both pools replace the former Upper Payment Limit program in Texas. Payments under the Waiver Program are determined in each demonstration year, which aligns with the federal fiscal year. The Waiver Program was scheduled to expire on September 30, 2016; however, CMS approved a 15-month extension that ended December 31, 2017. On December 21, 2017, CMS approved a five-year renewal of the Waiver Program that expires on September 30, 2022. September 30, 2018 marked the completion of the seventh demonstration year.

CMS extended the DSRIP funding pool for four years with the dollar amount of the pool declining each year beginning in the ninth demonstration year until it reaches $0 in the eleventh demonstration year. Additionally, on January 19, 2018, CMS approved the DSRIP protocols, which cover the requirements for participation in DSRIP for demonstration years seven and eight. The System participates in 13 measure bundles as outlined in the protocols. The UC funding pool was extended for the full five-year period, with the level of funding subject to special terms and conditions. The UC funding pool disbursement methodology is being revised as part of the extension; however, the disbursement methodology will remain unchanged for demonstrations years seven and eight.

4. Revenue Recognition (continued)

HHSC provides all Texas hospitals the DSH and UC tools for each demonstration year, which are used to determine qualification for payment under the programs. The 2017 tools have been finalized by HHSC and were used by HHSC in modeling both DSH and UC payments for the sixth demonstration year ended September 30, 2017. Additionally, the 2018 DSH and UC tools have been completed and were used in finalizing DSH and UC payments for the seventh demonstration year that ends September 30, 2018.

Revenue under the waiver program is recognized as a component of net patient service revenue over the applicable demonstration year. CHRISTUS believes that its performance obligations for UC payments are generally satisfied ratably over the applicable period and recognizes revenue on a monthly basis. Performance obligations for DSRIP payments are satisfied based on the status of the selected projects and revenue is recognized ratably for projects that are on track to achieve the required metrics. The System recorded $348,262,000 and $318,917,000 in net patient service revenue during fiscal years 2019 and 2018, respectively, related to the Waiver Program. Given the complexity of the ultimate determination of payment due to the System under the Waiver Program, amounts recorded are based on estimates made by management with the assistance of various consultants. As a result, it is at least a possibility that recorded amounts may change by a material amount at the completion of each demonstration year. Such changes are included in the period in which revisions are made. Of the amount recorded in fiscal year 2019 and 2018, approximately $153,454,000 and $85,202,000, respectively, is related to prior demonstration years, and was recognized as amounts earned under the Waiver Program when the actual payments were finalized.

In 2018, the System began participating in the NAIP, which is a joint federal and state of Texas Medicaid program, administered by CMS and HHSC, for Medicaid members enrolled in a managed care organization. Since 2018, CMS has characterized NAIP as a pass-through payment, whereby the State directs Medicaid managed care organizations to pay specific hospitals in specific amounts. Per federal regulations, the statewide NAIP amounts are subject to the required pass-through phase down through federal fiscal year 2027. Revenue from the NAIP program is recognized as a component of net patient service revenue over the benefit period. CHRISTUS recognizes revenue on a monthly basis. In fiscal years 2019 and 2018, the System recorded net patient service revenue of $13,042,000 and $15,431,000, respectively, related to the NAIP program.

4. Revenue Recognition (continued)

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, participation requirements of government health care programs, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Termination of the System's participation in the Medicare or Medicaid programs could have a material impact on the consolidated financial statements.

In addition, government agencies may review the System's compliance with various payment regulations and conduct audits under CMS's Recovery Audit Contractor (RAC), as well as other programs. The RAC program has been made permanent and was required to be expanded broadly to health care providers pursuant to the Tax Relief and Health Care Act of 2006. The results of the enhanced medical necessity reviews and the RAC program audits could have an adverse effect on the System's consolidated financial statements. To the extent these reviews result in an adverse finding, the System may appeal the adverse finding, though it may incur significant legal expense.

Charity Care

The System provides care to many patients who cannot afford to pay and who meet the System's criteria for financial assistance. Charity care services provided to these patients are not reported as patient service revenue, as there is no expectation of payment, and therefore contracts with these patients do not exist. CHRISTUS estimates the cost of providing charity care using the applicable cost to charge ratios of the hospital participants.

4. Revenue Recognition (continued)

Patient Accounts Receivable

The System grants credit without collateral to its patients, most of whom are local residents of the geographies of the various System health care centers and are insured under third-party payor agreements. The mix of accounts receivable, net of applicable allowances, from patients and third-party payors at June 30 was as follows:

	2019	2018
Medicare	**32%**	32%
Medicaid	**10**	9
Managed care organizations	**38**	39
Self-pay	**5**	6
Others	**15**	14
	100%	100%

The System adopted ASC 606 during fiscal year 2019. As a result of that adoption, estimated uncollectible amounts due from these patients are generally considered implicit price concessions, presented as a direct reduction to patient service revenue, and not presented separately as provision for bad debts. The provision for bad debts is determined considering historical experience, trends in health care coverage, and other collection indicators. A summary of the activity in the System's allowance for doubtful accounts is as follows (in thousands):

	Balance at Beginning of Year	Provision for Bad Debts	Accounts Written Off, Net of Recoveries	Balance at End of Year
Fiscal year ended June 30, 2018	$ 310,089	$ 540,390	$ (423,747)	$ 426,732

4. Revenue Recognition (continued)

Premium Revenue

The System earns premium revenue from two primary sources: revenues generated by the System's health maintenance organization, and revenues generated under contract with the Department of Defense to administer a Uniformed Services Family Health Plan (USFHP). CHRISTUS concluded that premium revenues generated by its health maintenance organization are within the scope of ASC 944, *Financial Services—Insurance*, and are therefore not within the scope of ASC 606. However, USFHP premium revenues were determined to be within the scope of ASC 606. These premiums are primarily derived through capitated arrangements, whereby CHRISTUS earns a negotiated fee per member per month. In return for these premiums, CHRISTUS is responsible for administering covered benefits. Revenue under this contract is recognized on a monthly basis, subject to provisions for retrospective adjustments based primarily on the results of membership audits. USFHP premium revenue represents approximately $131,000,000, or 46%, and $132,333,000, or 45% of the total premium revenue recognized during the years ended June 30, 2019 and 2018, respectively.

Other Revenue

CHRISTUS earns other revenue from management and license fees, memberships, and point of sale transactions, such as cafeterias and gift shops, which are subject to the provisions of ASC 606. Management and license fee contracts include variable consideration as the fees are not fixed but are based on a percentage of revenue. CHRISTUS recognizes revenue when the uncertainty is resolved, which is generally on a monthly basis as actual revenues are known or can be reasonably estimated. CHRISTUS also evaluates the collectability of each of its management and license fee contracts and applies a constraint, if necessary, to avoid future reversals of revenue. Membership revenues relate primarily to fitness centers operated by various hospitals throughout the System, and are recognized ratably over the membership period. Revenues from point of sale transactions are recognized as incurred. Other revenues subject to ASC 606 represent approximately $113,730,000, or about 49%, of total other revenue during the year ended June 30, 2019. The System's other revenue also includes unrestricted donation revenue, rental income, and gains arising from inherent contributions in business combinations and contributions to joint ventures that are not within the scope of ASC 606.

5. Cash and Investments

Total cash and investments for the System at June 30, including assets whose use is limited, are as follows (in thousands):

	2019	2018
Cash and cash equivalents	**$ 790,985**	$ 551,184
Certificates of deposit	**56,614**	55,238
Domestic equities	**112,788**	98,665
International equities	**22,234**	24,180
Fixed-income securities	**273,234**	201,689
U.S. government securities	**230,065**	315,156
Mutual funds and exchange-traded funds:		
Domestic equity funds	**76,908**	58,383
International equity funds	**88,503**	72,578
Fixed-income funds	**175,774**	154,521
Risk parity, blended and other funds	**58,773**	43,088
Equity investments in managed funds:		
Fixed-income funds	**80,891**	135,084
Hedge funds	**203,454**	171,911
Private equity, real estate, and other	**27,094**	24,632
	$ 2,197,317	$ 1,906,309

The System's investments are subject to various types of risks, as explained below.

Fixed Income

This investment class includes investments in various fixed-income instruments that include investment-grade and high-yield domestic and international bonds, preferred stocks, mortgage pools, master limited partnership units, and bonds issued by U.S. government agencies. The fixed-income investments are exposed to various kinds and levels of risk, including interest rate risk, credit risk, foreign exchange risk, and liquidity risk.

5. Cash and Investments (continued)

Equities

This investment class consists primarily of common and preferred equity securities of domestic and foreign companies. These securities trade through the major public domestic and international exchanges. The equity securities investments are exposed to various risks, including market risk, individual security risk, foreign exchange risk, and, for common equity of companies with a small market capitalization, liquidity risk.

Mutual Funds and Exchange-Traded Funds

This investment class includes investments in mutual funds, exchange-traded funds, common collective trust funds, and other similar investment funds that generally hold investments in marketable debt and equity securities. Investments in mutual funds, exchange-traded funds, common collective trust funds, and similar funds in this category are exposed to various risks, including market risk and risks associated with the specific securities held within the funds. Certain funds within this category are valued based on amounts reported to the System by the fund managers, generally in the form of net asset value (NAV) per share or an equivalent measure.

Equity Investments in Managed Funds

Equity investments in managed funds include investments in limited liability partnerships or corporations and other alternative investments. The System's equity investments in managed funds are recorded based on the System's share of the underlying value of marketable securities and nonmarketable interests held by these funds as reported to the System by the fund managers, generally in the form of NAV or an equivalent measure. The underlying securities in managed funds could include marketable debt and equity securities, nonmarketable securities, derivative instruments, or any other investment securities determined at the discretion of the fund managers. These investments are recorded at amounts confirmed by fund managers, and there can be no assurance such reported amounts will ultimately be realized.

These funds are invested with external investment managers who invest primarily in various categories, including fixed income, long and short equity positions, managed futures, emerging markets, distressed enterprises, arbitrage, risk parity, private equity, and real estate positions.

5. Cash and Investments (continued)

These investments are domestic and international in nature, are illiquid, and returns may not be realized for a period of several years after the investments are made. The risks associated with these investments are numerous, resulting in a greater likelihood of losing invested capital. The risks include the following:

Non-Regulation Risk – Some of these funds are not required to register with the Securities and Exchange Commission (SEC) and are not subject to regulatory controls.

Managerial Risk – Fund managers may fail to produce the intended returns and are not subject to oversight.

Minimal Liquidity – Many funds impose lockup periods that prevent investors from redeeming their shares or impose penalties to redeem.

Limited Transparency – As unregistered investment vehicles, funds are not required to disclose the holdings in their portfolios to investors.

Investment Strategy Risk – The funds often employ sophisticated, risky investment strategies; are speculative; and may use leverage, which could result in volatile returns.

At June 30, 2019, the System had commitments to fund equity investments in private equity funds totaling $16,614,380, excluding commitments to fund equity investments in private equity funds held by the CHRISTUS Health Cash Balance Plan (the Cash Balance Plan – see Note 11).

5. Cash and Investments (continued)

Assets whose use is limited or restricted consisted of the following at June 30 (in thousands):

	2019	2018
Assets whose use is limited or restricted, required for current bond indenture and self-insurance liabilities	**$ 65,872**	$ 64,869
Other investments, internally designated for capital expansion and other purposes	**457,991**	457,868
Under bond indenture agreement – held by trustee	**125,447**	60,629
Under liability retention and self-insurance funding arrangement – held by trustee	**20,514**	19,363
Under Emerald Assurance funding arrangements	**116,517**	130,451
Restricted cash and investments	**77,163**	83,636
Total assets whose use is limited or restricted	**$ 863,504**	$ 816,816

Restricted cash and investments relate primarily to investments required to be maintained in perpetuity under the System's endowments, or to cash and investments restricted by donors for the acquisition of capital assets. Investment returns and gains for assets limited as to use, cash equivalents, and other unrestricted investments consisted of the following for the fiscal years ended June 30 (in thousands):

	2019	2018
Operating interest and dividend income	**$ 12,352**	$ 11,742
Operating gain, realized and unrealized	**5,830**	2,556
Equity investment gain on managed funds	**2,293**	13,693
Total operating investment income	**20,475**	27,991
Nonoperating interest and dividend income	**23,292**	12,698
Nonoperating gain, realized and unrealized	**22,520**	13,559
Equity investment gain on managed funds	**7,543**	7,051
Net swap agreement activity	**(46,932)**	19,442
Total nonoperating investment gain	**6,423**	52,750
Total investment gain	**$ 26,898**	$ 80,741

6. Fair Value Measurements

The three-level valuation hierarchy for disclosure of fair value measurements is based on the transparency of inputs to the valuation of an asset or liability as of the reporting date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities at the reporting date.
- Level 2 – Inputs to the valuation methodology other than quoted market prices included in Level 1 that are observable for the asset or liability. Level 2 pricing inputs include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. There were no significant transfers between levels during the fiscal years ended June 30, 2019 and 2018.

6. Fair Value Measurements (continued)

The following tables present the financial instruments carried at fair value as of June 30 (in thousands) by the valuation hierarchy (as described above):

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investments:				
Cash and cash equivalents	$ 790,985	$ –	$ –	$ 790,985
Certificates of deposit	–	56,614	–	56,614
Domestic equities	112,788	–	–	112,788
International equities	22,234	–	–	22,234
Fixed-income securities	–	273,234	–	273,234
U.S. government securities	–	230,065	–	230,065
Mutual and exchange-traded funds:				
Domestic equity funds	31,053	–	–	31,053
International equity funds	76,603	–	–	76,603
Fixed-income funds	90,455	–	–	90,455
Risk parity, blended and other funds	58,773	–	–	58,773
	$ 1,182,891	$ 559,913	$ –	$ 1,742,804
Investments measured at net asset value or equivalent:				
Equity funds				57,755
Fixed-income funds				115,124
Hedge funds				57,420
Private equity, real estate and other funds				1,684
Total assets at fair value				$ 1,974,787
Liabilities				
Interest rate swap agreements	$ –	$ 126,772	$ –	$ 126,772
Total liabilities at fair value	$ –	$ 126,772	$ –	$ 126,772

6. Fair Value Measurements (continued)

	2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	$ 551,184	$ –	$ –	$ 551,184
Certificates of deposit	–	55,238	–	55,238
Domestic equities	98,665	–	–	98,665
International equities	24,180	–	–	24,180
Fixed-income securities	–	201,689	–	201,689
U.S. government securities	–	315,156	–	315,156
Mutual and exchange-traded funds:				
Domestic equity funds	48,380	–	–	48,380
International equity funds	72,578	–	–	72,578
Fixed-income funds	76,304	–	–	76,304
Risk parity, blended and other funds	43,088	–	–	43,088
	$ 914,379	$ 572,083	$ –	$ 1,486,462
Investments measured at net asset value or equivalent:				
Equity funds				10,003
Fixed-income funds				115,485
Hedge funds				55,490
Private equity, real estate and other funds				1,847
Total assets at fair value				$ 1,669,287
Liabilities				
Interest rate swap agreements	$ –	$ 86,120	$ –	$ 86,120
Total liabilities at fair value	$ –	$ 86,120	$ –	$ 86,120

The tables above include equity investments in managed funds held within the System's foundations and captive insurer. Remaining equity investments in managed funds held by other System entities of $222,390,000 and $237,022,000 at June 30, 2019 and 2018, respectively, are not included in this table since they are accounted for using the equity method of accounting.

6. Fair Value Measurements (continued)

The valuation methodologies used for instruments measured at fair value as presented in the tables above are as follows:

- *Investments* – Investments valued at quoted prices available in an active market are classified within Level 1 of the valuation hierarchy. Investments valued based on evaluated bid prices provided by third-party pricing services, where quoted market prices are not available, are classified within Level 2 of the valuation hierarchy. Investments measured at fair value using net asset value per share or its equivalent as a practical expedient are not categorized within the fair value hierarchy. These investments consist of hedge funds, commodity funds, common collective trust funds, private equity funds, real estate funds, and some equity and fixed income funds.

- *Interest rate swap agreements* – Interest rate swap agreements are valued using third-party models that use observable market conditions as their input and are classified within Level 2 of the valuation hierarchy.

At June 30, 2019 and 2018, the System's financial instruments included cash and cash equivalents, accounts receivable, assets limited as to use, accounts payable and accrued expenses, estimated third-party payor settlements, and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments, except for long-term debt, approximate their fair values due to their short-term nature.

The System's fixed-rate debt is enhanced with bond insurance. The estimated fair value of the fixed-rate debt, if it were not enhanced by insurance, is $1,150,556,000 compared to its carrying value of $1,010,371,000 at June 30, 2019. This fair value is based on a combination of quoted market prices for identical securities when available, a Level 1 input, and quoted market prices for similarly rated health care revenue bond issues, a Level 2 input.

At June 30, 2019, the System has several issuances of variable-rate demand bonds outstanding totaling $223,015,000. The System's continued participation in these debt programs depends on its ability to extend or replace the existing credit facilities supporting the respective standby purchase agreements. If these credit facilities are not available, the System will likely refund these outstanding series with available funds or funds derived from fixed-rate series proceeds. It is not practicable to estimate the fair value of the variable-rate demand bonds separate from the value supported by the credit facilities.

7. Property and Equipment

Property and equipment at June 30 consisted of the following (in thousands):

	2019	2018
Land	**$ 219,788**	$ 217,263
Land improvements	**88,085**	87,826
Buildings and fixed equipment	**3,471,335**	3,034,139
Major movable equipment	**1,582,602**	1,769,006
Accumulated depreciation	**(2,782,890)**	(2,828,302)
	2,578,920	2,279,932
Construction-in-progress (estimated cost to complete is $175,400 and $309,000 at June 30, 2019 and 2018, respectively)	**146,606**	302,887
Total	**$ 2,725,526**	$ 2,582,819

Depreciation expense for the System for fiscal years 2019 and 2018 totaled $227,273,000 and $231,150,000, respectively. The total includes impairment losses of $1,297,000 and $0 in fiscal years 2019 and 2018, respectively.

Assets capitalized under capital leases as reflected in the accompanying consolidated balance sheets included $117,836,000 of buildings and fixed equipment and $27,436,000 of major moveable equipment as of June 30, 2019, and $94,482,000 of buildings and fixed equipment and $49,855,000 of major moveable equipment as of June 30, 2018. The accumulated depreciation related to assets under capital leases was $66,390,000 and $65,483,000 as of June 30, 2019 and 2018, respectively. Depreciation of assets under capital leases is included in depreciation expense.

8. Investments in Unconsolidated Organizations

The System has investments in unconsolidated organizations of $234,059,000 and $200,059,000 at June 30, 2019 and 2018, respectively. Differences between the carrying amounts of the System's investments and the underlying equity in the net assets of the investees total $74,467,000 and $52,962,000 at June 30, 2019 and 2018, respectively. These differences are attributed to the excess fair value over book value of intangible assets at the investee level, and are being reduced as an adjustment to equity earnings over the life of the related contracts. The following table summarizes the investments in unconsolidated organizations as of June 30, 2019 and 2018 (in thousands):

Investee	Accounting Policy	2019	2018
U.C. CHRISTUS Salud SpA	Equity method	$ **172,802**	$ 135,108
Sinergia Global en Salud SAS	Equity method	–	4,993
Coomeva Medicina Prepagada	Cost method	**11,457**	11,457
Southwest Post-Acute Care Partnership	Equity method	**17,815**	17,133
HealthSouth Rehabilitation Hospital	Equity method	**11,078**	11,674
CS/USP Surgery Centers, L.P.	Equity method	**6,856**	6,752
Other	Equity method	**14,051**	12,942
Total		$ **234,059**	$ 200,059

U.C. CHRISTUS Salud SpA (Formerly Salud U.C. SpA and Inversiones San Carlos, SpA)

In fiscal 2014, CHRISTUS entered into various transactions to obtain non-controlling interests in certain health care operations in Chile. As a result of these transactions, CHRISTUS obtained a 40% ownership interest in Salud U.C. SpA (Salud U.C.) and a 50% ownership interest in Inversiones San Carlos, SpA (San Carlos), which are operated and controlled by Pontifica Universidad Catolica de Chile (PUC). In May 2016, CHRISTUS and PUC executed new operating agreements that described a series of transactions under which the operations of these entities would be reorganized into one legal entity, owned 50% by CHRISTUS and 50% by PUC. In June 2018, these transactions were completed, and the operations of Salud U.C. and San Carlos were reorganized into U.C. CHRISTUS Salud SpA (CHRISTUS Salud). Note 18 has additional discussion of the System's international operations.

8. Investments in Unconsolidated Organizations (continued)

During 2019 and 2018, CHRISTUS made additional capital contributions to CHRISTUS Salud and its predecessor entities of $33,659,000 and $14,560,000, respectively. In addition, as contemplated under the operating agreements, certain loans from CHRISTUS to San Carlos, which together with accrued interest totaled $25,526,000, were converted to capital contributions in 2018. The System's share of income (losses) from the operations for the fiscal years ended June 30, 2019 and 2018 was $4,035,000 and $(370,000), respectively.

Sinergia Global en Salud SAS and Coomeva Medicina Prepagada

Effective June 14, 2016, CHRISTUS signed definitive agreements with Cooperativa Medica del Valle y de Profesionales de Colombia (Coomeva) in Colombia to invest in certain of Coomeva's health care operations. In September 2016, CHRISTUS closed on various transactions outlined in the definitive agreements and paid $10,741,000 to obtain a 21% non-controlling ownership interest in Sinergia Global en Salud SAS (Sinergia) and $11,457,000 to obtain a 10% non-controlling ownership interest in Coomeva Medicina Prepagada (MP). In September 2017 and March 2017, CHRISTUS paid an additional $9,231,000 and $5,087,000, respectively, to increase its ownership interest in Sinergia to 50%. During 2019, CHRISTUS and Coomeva also contributed an additional $10,476,000 each as part of a capital call that did not affect ownership percentages. Note 18 has additional discussion of the System's international operations.

The System's investment in Sinergia is accounted for under the equity method of accounting because CHRISTUS can exercise significant influence over Sinergia's operations. The System's investment in MP is accounted for under the cost method because CHRISTUS does not exercise significant influence over MP's operations. The System's recorded investment in Sinergia was $16,885,000 at June 30, 2019, prior to the consideration of impairment. This compares to a carrying amount of $4,993,000 as of June 30, 2018. During fiscal year 2019, CHRISTUS performed a review for impairment and concluded the investment was not recoverable. The System recorded an impairment of $16,885,000 resulting in a carrying value of the investment in Sinergia of $0 at June 30, 2019. During the fiscal years ended June 30, 2019 and 2018, CHRISTUS reported losses from its equity method investment in Sinergia of $20,630,000 and $21,727,000, respectively, inclusive of impairment charges. Dividends of $911,000 and $1,145,000 were declared by MP and recorded as other revenue during the fiscal years ended June 30, 2019 and 2018, respectively.

8. Investments in Unconsolidated Organizations (continued)

Southwest Post-Acute Care Partnership

Effective September 1, 2017, CHRISTUS Continuing Care contributed substantially all of the assets of its long-term acute care hospitals and home care business to a newly formed entity, Southwest Post-Acute Care Partnership, LLC (Southwest Partnership), in exchange for cash proceeds and a 40% non-controlling interest in Southwest Partnership. The System recorded a gain on the transaction of $36,340,000, equal to the fair value of the cash proceeds and non-controlling interest in Southwest Partnership, less the carrying value of the contributed assets, and which is recorded as other revenue including gain on contribution to joint ventures in the accompanying consolidated financial statements. The System's recorded investment was $17,815,000 and $17,133,000 at June 30, 2019 and 2018, respectively. The System recorded its share of income (losses) from operations during the fiscal years ended June 30, 2019 and 2018 of $682,000 and $(1,669,000), respectively.

HealthSouth Rehabilitation Hospital

CHRISTUS Trinity Mother Frances Health System owns 50% of HealthSouth Rehabilitation Hospital – Tyler d/b/a/ Trinity Mother Frances Rehabilitation Hospital (HealthSouth). Because CHRISTUS can exercise significant influence over the operations of HealthSouth, but does not control HealthSouth, this investment is accounted for using the equity method of accounting. The System's recorded investment was $11,078,000 and $11,674,000 at June 30, 2019 and 2018, respectively. The System recorded its share of income from operations during the fiscal years ended June 30, 2019 and 2018 of $4,844,000 and $5,387,000, respectively.

CS/USP Surgery Centers, L.P.

CHRISTUS Spohn Health System Corporation has a 50% ownership interest in a Texas limited liability partnership with United Surgical Partners International, Inc. for the purpose of owning and operating ambulatory surgery centers in Corpus Christi, Texas. The venture consists of two surgery centers near the campus of Spohn Shoreline, Corpus Christi Outpatient Surgery and SurgiCare, and one endoscopy center. CHRISTUS' recorded investment, accounted for under the equity method, was $6,856,000 and $6,752,000 at June 30, 2019 and 2018, respectively. The System recorded its share of income from operations during the fiscal years ended June 30, 2019 and 2018 of $1,391,000 and $1,085,000, respectively.

CHRISTUS and its affiliates hold immaterial investments in other unconsolidated subsidiaries. No other single investment balance exceeded $5,000,000 at both June 30, 2019 and 2018.

9. Long-Term Debt

Long-term debt at June 30 consisted of the following (in thousands):

	2019	2018
Obligations issued under the CHRISTUS Health Master Trust Indenture:		
Revenue bonds, in variable-rate demand mode, with weighted average interest rates of 1.59% and 1.15% in fiscal years 2019 and 2018, respectively, due in annual installments through July 1, 2047 (Series 2008C and 2009B)	$ **223,015**	$ 225,885
Revenue bonds, in auction mode, with weighted average interest rates of 1.89% and 1.39% in fiscal years 2019 and 2018, respectively, due in annual installments through July 1, 2031	**137,700**	154,700
Revenue bonds, in fixed-rate mode, bearing interest from 4.50% to 5.25%, due in annual installments through July 1, 2048	**597,640**	313,450
Direct-placement notes due in annual installments through July 1, 2041	**102,125**	109,842
Tax-exempt bank note due in annual installments through July 1, 2039	**57,105**	57,105
Taxable bonds due as a balloon payment on July 1, 2028	**339,536**	–
Obligations issued under The Good Shepherd Hospital, Inc. Master Trust Indenture:		
Revenue bonds, in fixed-rate mode, bearing interest from 3.82% to 5.25%, due in annual installments through July 1, 2042	–	58,970
Direct-placement note due in annual installments through October 1, 2029	–	69,200
Bank line of credit	–	150,000
Other notes and capital lease obligations	**157,721**	178,998
	1,614,842	1,318,150
Premiums and (discounts), net, on long-term debt	**43,692**	(12,011)
Unamortized deferred financing costs	**(10,209)**	(7,905)
	1,648,325	1,298,234
Less current portion	**(41,116)**	(51,359)
Total	$ **1,607,209**	$ 1,246,875

9. Long-Term Debt (continued)

According to the terms of the CHRISTUS Health Master Trust Indenture (CHRISTUS MTI), the CHRISTUS Health Obligated Group (Obligated Group) consists of CHRISTUS and the following entities: CHRISTUS Spohn Health System, CHRISTUS Health Southeast Texas, CHRISTUS Santa Rosa Health Care Corporation, CHRISTUS Health Ark-La-Tex, CHRISTUS Health Northern Louisiana, CHRISTUS Health Central Louisiana, Mother Frances Hospital Regional Healthcare Center and, effective October 30, 2018, The Good Shepherd Hospital, Inc., CHRISTUS Good Shepherd Medical Center, and Good Shepherd Health System, Inc. Certain entities of CHRISTUS that are otherwise included in the consolidated financial statements of CHRISTUS are excluded from the Obligated Group. As of June 30, 2019, these entities include, but are not limited to, certain CHRISTUS Good Shepherd Health System entities; CHRISTUS Health Southwestern Louisiana; CHRISTUS Hopkins Health Alliance; certain entities within CHRISTUS Trinity Mother Frances Health System (TMF); CHRISTUS Health Liability Retention Trust; Emerald Assurance; CHRISTUS St. Vincent Regional Medical Center; CHRISTUS Physician Group; CHRISTUS Continuing Care; CHRISTUS Health Gulf Coast; CHRISTUS Muguerza, S.A. de C.V.; CHRISTUS Health Strategic Growth; Amatista Financing Company, Ltd.; CHRISTUS Health Latin America; CHRISTUS Health Chile SpA; and various partnerships and philanthropic foundations.

Under the provisions of the CHRISTUS MTI, the obligations of CHRISTUS and the other members of the Obligated Group are secured by a pledge of gross revenues. Additionally, each member of the Obligated Group has undertaken certain covenants, including the following: to ensure the payment of debt service; to ensure the payment of taxes and other claims; to deliver compliance statement(s); to preserve corporate existence; to maintain books and records subject to inspection by the Master Trustee; to maintain insurance; to conform to defined lien limitations; to establish adequate service rates; to maintain a sufficient debt service coverage and indebtedness ratio; to maintain a required aggregate amount of unrestricted cash and investments; and to adhere to certain defined conditions with respect to consolidation, merger, conveyance, or transfer and admission or withdrawal of Obligated Group members pursuant to the CHRISTUS MTI, insurer, and letter of credit bank agreements.

CHRISTUS has letter of credit bank agreements on Series 2008C and 2009B variable-rate demand bonds. The Series 2008C-1 bonds have an outstanding amount of $41,435,000 and are supported by a line of credit provided by Sumitomo Mitsui Banking Corporation, acting through its New York branch, that expires on September 21, 2020. The 2008C-2 bonds have an outstanding amount of $38,305,000 and are supported by a letter of credit provided by The Bank of New York Mellon

9. Long-Term Debt (continued)

that expires on June 23, 2021. The 2008C-3 bonds have an outstanding amount of $41,030,000, and the 2008C-4 bonds have an outstanding amount of $38,440,000. The 2008C-3 and 2008C-4 bonds are supported by a letter of credit provided by Bank of Montreal, acting through its Chicago branch, that expires on April 25, 2022. The Series 2009B variable-rate demand bonds have an outstanding amount of $63,805,000 and are supported by a letter of credit provided by The Bank of New York Mellon that expires on January 31, 2022.

On October 30, 2018, CHRISTUS issued the Series 2018A-E bonds, consisting of $560,385,000 of tax-exempt revenue and refunding bonds, and $339,536,000 of taxable revenue and refunding bonds (the Series 2018 Bonds). The Series 2018 Bonds are fixed rate obligations, comprised of both serial and term bonds carrying interest rates ranging from 4.0% to 5.0% and maturing in various amounts through fiscal year 2049. Proceeds of the Series 2018 Bonds were used, in part, to defease and/or repay $305,090,000 of outstanding bonds and refund the Sumitomo line of credit (discussed below), and CHRISTUS recorded a loss on the extinguishment of this debt of $18,166,000, which is included in other nonoperating loss on the consolidated statement of operations.

In connection with the bond issuance, The Good Shepherd Hospital, Inc., CHRISTUS Good Shepherd Medical Center, and Good Shepherd Health System, Inc. were added to the CHRISTUS Health Obligated Group.

On April 2, 2019, CHRISTUS issued the Series 2019A bonds, consisting of $50,520,000 of tax-exempt revenue and refunding bonds. The Series 2019A bonds are fixed-rate obligations, comprised of serial and term bonds carrying interest rates of 5% and maturing in various amounts through fiscal year 2049. Proceeds of the Series 2019 Bonds were used to defease a portion of the Series 2009A bonds and CHRISTUS recorded a loss on the extinguishment of this debt of $2,182,000, which is included in other nonoperating loss on the consolidated statement of operations.

Other notes and capital lease obligations were $157,721,000 and $328,998,000 as of June 30, 2019 and 2018, respectively. Other notes account for $40,033,000 and $204,412,000 of that balance as of June 30, 2019 and 2018, respectively. In fiscal 2018, the System entered into a line of credit with Sumitomo Mitsui Banking Corporation – New York Operations for $150,000,000. The line of credit carries a variable interest rate equal to the one-month LIBOR plus 0.625%, and terminates on October 30, 2019. At June 30, 2019 and 2018, CHRISTUS had $0 and $150,000,000,

9. Long-Term Debt (continued)

respectively, drawn against the line of credit. The remaining other notes include various notes issued primarily to purchase equipment. Capital lease obligations account for $117,688,000 and $124,586,000 of that balance as of June 30, 2019 and 2018, respectively, and include various building and equipment leases.

Principal payments for all long-term debt for the next five years and thereafter are as follows (in thousands):

2020	$ 41,116
2021	37,020
2022	39,386
2023	32,694
2024	29,770
Thereafter	1,434,856
Total debt	$ 1,614,842

10. Derivative Financial Instruments

The System's derivative instruments consist primarily of interest rate swap contracts between the System and third parties (counterparties), which provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate. These swaps expose the System to market risk and credit risk. Credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the System's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degrees of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their derivative positions in the context of their blended cost of capital. As of June 2019 and 2018, CHRISTUS has interest rate swap agreements to manage interest rate risk exposure, not designated as hedging instruments, with a total notional amount of $902,685,000 and $912,035,000, respectively.

10. Derivative Financial Instruments (continued)

The following tables summarize the fair value at June 30, 2019 and 2018, and the income (loss) recorded related to the System's derivative instruments as of and for the fiscal years ended June 30, 2019 and 2018 (in thousands):

					Fair Value		Change in Fair Value		(Paid) Received	
Counterparty	Description	Termination Date	Agreements	Notional Amount	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Interest Rate Swaps										
Merrill Lynch	Var. basis	2021-2023	6	$ 470,000	$ **1,703**	$ 2,818	$ **(1,115)**	$ 3,238	$ **1,249**	$ 217
Wells Fargo	Fixed payor	2031	1	153,425	**(18,287)**	(13,363)	**(4,924)**	7,308	**(2,553)**	(3,569)
Citigroup*	Fixed payor	2047	2	166,100	**(65,715)**	(45,473)	**(20,242)**	11,345	**(3,251)**	(4,095)
Citigroup*	Fixed payor	2047	1	113,160	**(44,473)**	(30,554)	**(13,919)**	7,697	**(2,177)**	(2,751)
			10	$ 902,685	**$(126,772)**	$ (86,572)	$ **(40,200)**	$ 29,588	$ **(6,732)**	$(10,198)
Other Derivative Contracts										
BBVA	Currency Put/Call	2018	2	15,000	–	452	–	52	–	–
Total			2	$ 917,685	$ **(126,772)**	$ (86,120)	$ **(40,200)**	$ 29,640	$ **(6,732)**	$ (10,198)

*Insured by MBIA

CHRISTUS is required to post collateral for negative valuations on each of its swaps according to the terms of (1) the swap insurance agreements, where applicable and (2) the agreement with each counterparty. CHRISTUS has complied with this requirement. At June 30, 2019 and 2018, no collateral was posted. The System does not anticipate nonperformance by its counterparties.

The fair value of these derivative instruments was a liability of $126,772,000 and $86,120,000 at June 30, 2019 and 2018, respectively. The change in value of $(40,200,000) and $29,640,000 for the fiscal years ended June 30, 2019 and 2018, respectively, is combined with the payments, net of receipts, made under the agreements of $6,732,000 and $10,198,000 for the fiscal years ended June 30, 2019 and 2018, respectively. This total is included in nonoperating investment gain, net, in the consolidated statements of operations and changes in net assets.

11. Employee Benefit Plans

Defined Benefit Plans

Cash Balance Plan

The System has established a noncontributory, defined benefit retirement plan that operates as a cash balance plan and covers substantially all CHRISTUS employees who had met age and service requirements as of December 31, 2012. On October 23, 2012, the CHRISTUS board approved the closing of the plan to new participants, effective January 1, 2013.

11. Employee Benefit Plans (continued)

The plan benefits are calculated based on a cash balance formula wherein participants earn an annual accrual based on compensation and participation account balances accrue interest at a rate that tracks ten-year treasury notes; the maximum rate is 8%. On January 29, 2019, the CHRISTUS board approved a plan amendment to freeze the Cash Balance Plan effective July 1, 2019. As a result of this amendment, the projected benefit obligation increased by approximately $37,849,000 which will be amortized as a component of net periodic benefit cost over its actuarially determined life.

Mother Frances Hospital Defined Benefit Pension Plan

The System administers the Mother Frances Hospital Defined Benefit Pension Plan (TMF Plan), which covers all employees who meet the eligibility requirements. The plan was frozen as of December 31, 2009.

The measurement date for the cash balance plan and the TMF Plan (collectively, the Defined Benefit Plans) is June 30. Components of net periodic benefit cost (credit), recorded as a component of employee compensation and benefits, for the fiscal years ended June 30, consisted of the following (in thousands):

	Cash Balance Plan		TMF Plan	
	2019	**2018**	**2019**	**2018**
Service cost	**$ 13,871**	$ 16,293	**$ –**	$ –
Interest cost	**34,201**	29,041	**6,500**	6,446
Expected return on assets	**(50,013)**	(48,974)	**(7,192)**	(7,391)
Amortization of prior service credit	**(10,798)**	(11,884)	**–**	–
Recognized net actuarial loss (gain)	**13,411**	19,463	**(223)**	(12)
Curtailment credit	**(1,016)**	–	**–**	–
Settlement credit	**–**	–	**–**	(3,559)
Net periodic benefit (credit) cost	**$ (344)**	$ 3,939	**$ (915)**	$ (4,516)

CHRISTUS uses a full yield curve "spot rate" approach that applies the specific spot rates along the yield curve to the plans' projected cash flows in order to estimate the service and interest cost components of net periodic benefit cost (credit).

11. Employee Benefit Plans (continued)

During fiscal year 2018, the TMF Plan activity included a settlement credit as a result of lump sum windows offered to vested, terminated participants. The lump sum was offered in two different windows, which resulted in two separate settlement credits and re-measurements of the benefit obligation. During fiscal 2019, the Cash Balance Plan includes a curtailment credit recorded in connection with a remeasurement of plan liabilities resulting from the decision to amend and freeze the plan.

The following table sets forth the changes in benefit obligation, changes in plan assets, and funded status of the Defined Benefit Plans measured as of June 30 (in thousands):

	Cash Balance Plan		TMF Plan	
	2019	**2018**	**2019**	**2018**
Changes in benefit obligation				
Benefit obligation – beginning of year	**$ 934,896**	$ 946,634	**$ 168,042**	$ 224,615
Service cost	**13,871**	16,293	**–**	–
Interest cost	**34,201**	29,041	**6,500**	6,446
Plan amendments	**37,849**	–	**–**	–
Actuarial loss (gain)	**5,233**	(6,253)	**14,939**	(18,534)
Liability gain due to curtailment	**(2,044)**	–	**–**	–
Benefits paid	**(48,817)**	(50,819)	**(6,538)**	(44,485)
Benefit obligation – end of year	**$ 975,189**	$ 934,896	**$ 182,943**	$ 168,042

11. Employee Benefit Plans (continued)

	Cash Balance Plan		TMF Plan	
	2019	**2018**	**2019**	**2018**
Changes in plan assets				
Fair value of plan assets – beginning of year	**$ 858,386**	$ 839,357	**$ 135,996**	$ 163,028
Actual return on plan assets	**42,065**	60,248	**8,439**	8,453
Employer contributions	**7,000**	9,600	**9,000**	9,000
Benefits paid	**(48,817)**	(50,819)	**(6,538)**	(44,485)
Fair value of plan assets – end of year	**$ 858,634**	$ 858,386	**$ 146,897**	$ 135,996
Funded status	**$ (116,555)**	$ (76,510)	**$ (36,046)**	$ (32,046)
Amounts recognized in net assets without donor restrictions:				
Unrecognized net actuarial loss (gain)	**$ 191,644**	$ 193,918	**$ (10,042)**	$ (23,957)
Unrecognized prior service cost (credit)	**37,753**	(11,910)	**–**	–
Total recognized in net assets without donor restrictions	**$ 229,397**	$ 182,008	**$ (10,042)**	$ (23,957)

Amounts recognized in net assets without donor restrictions expected to be recognized in net periodic benefit (credit) cost for the Defined Benefit Plans during fiscal 2019 are $3,999,000.

11. Employee Benefit Plans (continued)

The following table represents the changes to the Defined Benefit Plans' assets and projected benefit obligation recognized in net assets without donor restrictions for the fiscal years ended June 30 (in thousands):

	Cash Balance Plan		TMF Plan	
	2019	2018	**2019**	2018
Net actuarial loss (gain)	**$ 13,181**	$ (17,527)	**$ 13,692**	$ (19,596)
Plan amendments	**37,849**	–	–	–
Amortization of net actuarial (loss) gain	**(13,411)**	(19,463)	**223**	12
Amortization of prior service credit	**10,798**	11,884	–	–
Curtailment	**(1,028)**	–	–	3,559
Total changes recognized in net assets without donor restrictions	**$ 47,389**	$ (25,106)	**$ 13,915**	$ (16,025)

11. Employee Benefit Plans (continued)

As of June 30, 2019 and 2018, the Defined Benefit Plans had accumulated benefit obligations of $1,158,132,000 and $1,100,848,000, respectively. Assumptions used to determine benefit obligations and net periodic benefit (credit) cost for the fiscal years were as follows:

	Cash Balance Plan		TMF Plan	
	2019	**2018**	**2019**	**2018**
Benefit obligations:				
Discount rate	**3.45%**	4.17%	**3.62%**	4.25%
Rate of compensation increase	**N/A**	3.71	**N/A**	N/A
Net periodic benefit (credit) cost:				
Discount rate[1, 2]	**4.17**[2] **3.70**[2]	3.78	**4.25**	3.97[1] 3.89[1] 4.13[1]
Expected long-term return on plan assets	**6.00**	6.00	**5.25**	5.25
Rate of compensation increase	**3.71**	3.71	**N/A**	N/A

[1] The discount rate for the TMF Plan for fiscal 2018 was reset at the time of the re-measurements of the benefit obligation resulting from the settlements associated with the lump sum option offered to terminated, vested participants.

[2] The discount rate for the Cash Balance Plan for fiscal 2019 was reset at the time of the re-measurement of the benefit obligation resulting from the decision to freeze the plan.

Investment Policy and Asset Allocations

CHRISTUS Health Cash Balance Plan

The investment objective with regard to the plan assets is one of long-term capital appreciation and generation of a stream of current income. This balanced approach is expected to earn long-term total returns, consisting of capital appreciation and current income, which are commensurate with the expected rate of return used by the plans.

11. Employee Benefit Plans (continued)

The investment policies and strategies for the assets of the cash balance plan incorporate a well-diversified approach that is expected to generate long-term returns from capital appreciation and a growing stream of current income. This approach recognizes that assets are exposed to risk and the market value of the plan assets may fluctuate from year to year. Risk tolerance is determined based on the plan's financial stability and the ability to withstand return volatility. In developing the expected return on plan assets, the System evaluates the historical performance of total plan assets, the relative weighting of plan assets, interest rates, economic indicators, and industry forecasts. In line with the investment return objective and risk parameters, the mix of assets includes a diversified portfolio of equity, fixed income, and alternative investments. Equity investments include international stocks and a blend of domestic growth and value stocks of various sizes of capitalization. The aggregate asset allocation is rebalanced as needed, but not less than on an annual basis.

The asset allocations for the cash balance plan at June 30, by asset category, are detailed below (in thousands).

	2019	2018
Cash and cash equivalents	**$ 112,672**	$ 106,170
Domestic equities	**49,676**	44,701
International equities	**24,261**	25,570
Fixed-income securities	**21,966**	–
Mutual funds and exchange-traded funds:		
Domestic equity funds	**38,849**	35,150
International equity funds	**52,935**	54,160
Fixed-income funds	**68,542**	64,235
Risk parity, blended and other funds	**21,804**	–
Equity investments in managed funds:		
Fixed-income funds	**205,363**	320,048
Hedge funds	**107,920**	57,230
Private equity, real estate, and other	**154,143**	150,809
Other	**503**	313
Total	**$ 858,634**	$ 858,386

11. Employee Benefit Plans (continued)

The target allocation of plan assets by asset category for the cash balance plan is as follows as of June 30:

	2019	2018
Allocation of plan assets by asset category:		
Cash and cash equivalents	**–%**	–%
Equity securities and equity funds	**15**	15
Fixed-income securities and fixed-income funds	**30**	30
Equity investments in managed funds *(Note 5)*	**55**	55
Total	**100%**	100%

The value of the plan assets measured at fair value on a recurring basis was determined using the valuation inputs described in Note 6 and categorized at June 30, 2019, as follows (in thousands):

	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investments:				
Cash and cash equivalents	**$ 112,672**	**$ –**	**$ –**	**$ 112,672**
Domestic equities	**49,676**	**–**	**–**	**49,676**
International equities	**24,261**	**–**	**–**	**24,261**
Fixed-income securities	**–**	**13,724**	**–**	**13,724**
U.S. Government securities	**–**	**8,242**	**–**	**8,242**
Mutual funds and exchange-traded funds:				
Domestic equity funds	**38,849**	**–**	**–**	**38,849**
International equity funds	**52,935**	**–**	**–**	**52,935**
Fixed-income funds	**68,542**	**–**	**–**	**68,542**
Risk parity, blended and other funds	**21,804**	**–**	**–**	**21,804**
Other	**503**	**–**	**–**	**503**
	$ 369,242	**$ 21,966**	**$ –**	**391,208**
Investments measured at net asset value or equivalent:				
Fixed-income funds				**205,363**
Hedge funds				**107,920**
Private equity, real estate, and other funds				**154,143**
Total assets at fair value				**$ 858,634**

11. Employee Benefit Plans (continued)

The value of the plan assets measured at fair value on a recurring basis was determined using the valuation inputs described in Note 6 and categorized at June 30, 2018, as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	$ 106,170	$ –	$ –	$ 106,170
Domestic equities	44,701	–	–	44,701
International equities	25,570	–	–	25,570
Mutual funds and exchange-traded funds:				
Domestic equity funds	35,150	–	–	35,150
International equity funds	54,160	–	–	54,160
Fixed-income funds	64,235	–	–	64,235
Other	313	–	–	313
	$ 330,299	$ –	$ –	330,299
Investments measured at net asset value or equivalent:				
Fixed-income funds				320,048
Hedge funds				57,230
Private equity, real estate, and other funds				150,809
Total assets at fair value				$ 858,386

The cash balance plan has $66,873,000 of funding commitments to purchase private equity, real estate and other funds as of June 30, 2019.

TMF Plan

Until March 1, 2018, assets of the TMF Plan were held in the Texas Hospital Association Retirement Trust (THART) for member hospitals, which invests plan assets for the plans of its participating hospitals. On March 1, 2018, the assets of the TMF Plan were moved from THART to a new investment custodian. TMF Plan assets are now managed directly by CHRISTUS, and the method for establishing asset mix targets is consistent with that described above for the cash balance plan.

11. Employee Benefit Plans (continued)

The target asset mix is as follows as of June 30:

	2019	2018
Equity securities	**33%**	33%
Alternative investments	**30**	30
Fixed-income securities	**35**	35
Cash and cash equivalents	**2**	2
	100%	100%

The value of the plan assets measured at fair value on a recurring basis was determined using the valuation inputs described in Note 6 and categorized at June 30, 2019, as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	**$ 28,078**	**$ –**	**$ –**	**$ 28,078**
Domestic equities	**4,059**	**–**	**–**	**4,059**
International equities	**549**	**–**	**–**	**549**
Fixed-income securities	**–**	**11,230**	**–**	**11,230**
U.S. Government securities	**–**	**8,954**	**–**	**8,954**
Mutual funds and exchange-traded funds:				
Domestic equity funds	**19,698**	**–**	**–**	**19,698**
International equity funds	**10,693**	**–**	**–**	**10,693**
Fixed-income funds	**29,967**	**–**	**–**	**29,967**
Risk parity, blended and other funds	**4,143**	**–**	**–**	**4,143**
	$ 97,187	**$ 20,184**	**$ –**	**117,371**
Investments measured at net asset value or equivalent:				
Fixed-income funds				**14,534**
Hedge funds				**14,992**
Total assets at fair value				**$ 146,897**

11. Employee Benefit Plans (continued)

The value of the plan assets measured at fair value on a recurring basis was determined using the valuation inputs described in Note 6 and categorized at June 30, 2018, as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	$ 32,916	$ –	$ –	$ 32,916
Mutual funds and exchange-traded funds:				
Domestic equity funds	32,091	–	–	32,091
International equity funds	15,714	–	–	15,714
Fixed-income funds	51,258	–	–	51,258
	$ 131,979	$ –	$ –	131,979
Investments measured at net asset value or equivalent:				
Hedge funds				4,017
Total assets at fair value				$ 135,996

Contributions

In fiscal year 2020, CHRISTUS expects to contribute $12,400,000 to the Defined Benefit Plans based on asset values for the plan year beginning January 1, 2017. Contributions to the cash balance plan of $7,000,000 and $9,600,000 were made for plan years beginning January 1, 2019 and 2018, respectively, and contributions to the TMF Plan of $9,000,000 were made during fiscal years 2019 and 2018.

11. Employee Benefit Plans (continued)

Benefit Payments

The following benefit payments, which reflect expected future service and expected benefit payments for services previously rendered, are expected to be paid as follows (in thousands):

	Cash Balance Plan	TMF Plan
2020	$ 60,439	$ 7,496
2021	60,039	7,842
2022	59,964	8,137
2023	61,250	8,394
2024	61,708	8,672
Years 2025–29	290,010	46,533

Defined Contribution Plans

The System has a defined contribution plan (the Matched Savings Plan) covering eligible CHRISTUS employees. Annual employee contributions are limited to 50% of compensation, up to Internal Revenue Service dollar limits. The System will match 50% of employee contributions, not to exceed 6% of annual compensation. Employer contributions vest to the employee over a five-year period. For the fiscal years ended June 30, 2019 and 2018, expenses attributable to the Matched Savings Plan amounted to $20,573,000 and $21,928,000, respectively. In connection with the decision to freeze the Cash Balance Plan, effective July 1, 2019, the Matched Savings Plan was amended to increase the System's match from 50% to 67% of employee contributions, not to exceed 6% of annual compensation. Additionally, the amendment changed the vesting schedule to a 3-year cliff vesting rather than 20% vesting each year over a 5 year period.

Other Defined Benefit and Defined Contribution Plans

In addition to the CHRISTUS Cash Balance Plan and the TMF Plan, CHRISTUS also participates in various defined benefit plans for executives that have been frozen or curtailed. The net benefit credit and net benefit obligation under these plans was not material to the consolidated financial statements for the fiscal years ended June 30, 2019 and 2018. These plans are unfunded.

11. Employee Benefit Plans (continued)

In addition to the Matched Savings Plan, CHRISTUS also participates in other defined contribution plans which are not material to the consolidated financial statements for the fiscal years ended June 30,2019 and 2018.

12. Self-Funded Liabilities

The System self-funds and self-insures for primary professional and general liability, workers' compensation and Texas occupational injury, directors' and officers' liability, employment practices liability, property and employee medical benefits. A wholly owned, captive insurance company, Emerald Assurance Cayman Ltd. (Emerald), is used to fund primary professional and general liability, property, directors' and officers' liability, and employment practices liability. Policies written provide coverage for professional liability with primary limits in the amount of $10,000,000 per claim with no aggregate plus $10,000,000 excess per claim with an aggregate of $10,000,000 for the fiscal years 2019 and 2018. For general liability, policies written provide coverage with primary limits in the amount of $2,000,000 per claim for fiscal years 2019 and 2018. Additionally, the System internally sets aside funds for workers' compensation, Texas occupational injury program, and employee medical benefits based on actuarial analyses.

Prior to fiscal year 2018, TMF, which was acquired by the System on May 1, 2016, maintained a separate insurance program covering all coverages, except directors' and officers' liability, employment practices liability, property insurance and occupational injury (workers' compensation program). TMF's directors' and officers' liability, employment practices liability and property insurance coverages were merged into the System program on May 1, 2016. TMF's occupational injury (workers' compensation program) was merged with the CHRISTUS program on January 1, 2017. TMF was self-insured for the first $3,000,000 of each medical malpractice claim and funded a health care liability trust for payment of malpractice losses and expenses. The estimated self-funded losses include expected claim payments, including settlement costs for reported claims and an actuarial determination of expected losses related to claims that have been incurred but not reported. TMF was also a Texas Certified Self-Insurer for workers' compensation and sets aside funds for workers' compensation and employee medical benefits for claims occurring up until January 1, 2017. Commercial insurance policies cover other risk exposures, including ambulance and auto liability; aviation liability; cyber liability; and excess professional, general and workers' compensation liability. Effective July 1, 2017, any claims for all TMF coverages except professional liability for physicians employed by CHRISTUS Trinity Clinic were covered through the System risk finance program. The CHRISTUS Trinity Clinic employed physicians continue to be covered under the TMF health care liability trust.

12. Self-Funded Liabilities (continued)

The assets of the captive insurance company, internally designated funds, and the estimated liability for losses are reported in the consolidated balance sheets. Investment income from the assets and the provision for estimated self-funded losses and administrative costs are reported in the accompanying consolidated statements of operations and changes in net assets. The estimated self-funded losses include expected claim payments, including settlement costs for reported claims and an actuarial determination of expected losses related to claims that have been incurred but not reported.

Emerald was incorporated in the Cayman Islands on June 27, 2003, and operates subject to the provisions of the Companies Law (2003 Revision) of the Cayman Islands. Emerald was granted an Unrestricted Class "B" Insurer's license on June 30, 2003 (reclassified to a Class B(i) license on September 21, 2015), which it holds subject to the provisions of the Insurance Law (2003 Revision) of the Cayman Islands. As a Cayman Islands company, Emerald is exempt from local income, profits, and capital gains taxes until July 29, 2023. No such taxes are currently levied in the Cayman Islands.

13. Commitments and Contingencies

Operating Leases

The System leases various equipment and facilities under noncancelable operating leases expiring at various dates through May 20, 2045. Total rental expense in fiscal years 2019 and 2018 for all operating leases was $77,142,000 and $75,703,000, respectively.

The System's leases have varying terms, which may include renewal or purchase options and escalation clauses that are factored into determining minimum lease payments. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2019 that have initial or remaining lease terms in excess of one year (in thousands):

2020	$ 48,278
2021	43,762
2022	38,089
2023	32,219
2024	24,774
Thereafter	52,453
Total	$ 239,576

13. Commitments and Contingencies (continued)

Financing Transaction

Certain real estate and medical office buildings acquired from Good Shepherd Health System were part of a sale-leaseback transaction that is being accounted for as a financing transaction due to continuing involvement based on certain contingencies in the agreements, which precluded the de-recognition of the assets when the transaction closed. The terms of the lease agreements range from 10 to 15 years, and lease payments are allocated between interest and a reduction of the financing obligation based on the applicable interest rate. The System's financing obligation is recorded as a component of current and other noncurrent liabilities totaling $63,774,000 and $64,902,000 at June 30, 2019 and 2018, respectively. The System is depreciating the assets over their remaining useful lives in accordance with the System's policy, and the net book value of these assets is approximately $57,455,000 and $61,383,000 at June 30, 2019 and 2018, respectively. The System recognized interest expense of $4,633,000 and $4,710,000 pertaining to these agreements for the fiscal years ended June 30, 2019 and 2018, respectively.

Capital Commitments

The System has committed to fund $700,000,000 in capital expenditures related to the acquisition of Trinity Mother Frances Health System in May 2016. The commitment is to be funded over a period of up to seven years from funds generated by the operations of Trinity Mother Frances Health System and other resources. The System reports the expenditures as of April 30 of each year to Covenant Corporation, an external organization established at the time of the purchase. As of April 30, 2019, the System had expended $358,626,000 toward the commitment.

Other Contingencies

From time to time, the System is subject to litigation in the ordinary course of operations. Management is not aware of any pending or threatened litigation that would have a material effect on the System's consolidated financial statements.

Health care is a highly regulated industry. The System has a compliance program and various internal policies and procedures that are designed to ensure compliance with applicable federal, state and local laws and regulations and reduce potential exposure to fines, penalties, repayment obligations and other sanctions for violations of such laws and regulations. As a result of the

13. Commitments and Contingencies (continued)

System's compliance, internal audit and other operational activities, from time to time the System identifies instances in which it has a repayment or self-disclosure obligation. In addition, the System may incur repayment obligations or be subject to penalties as a result of audits and investigations by governmental agencies and contractors or commercial payors.

Because the government's present regulatory and enforcement efforts are widespread across the health care industry and may vary from region to region, the impact of such activities on the System is difficult to predict with certainty. The dynamic regulatory environment, political climate, and the effectiveness of the System's compliance efforts are all factors that may affect the resolution of regulatory, enforcement and payor issues involving System entities. The System has implemented, and continually works to enhance, various policies and procedures to ensure compliance with applicable legal requirements. However, there can be no assurance that the System's compliance program or other measures will be able to reduce or eliminate all potential exposure for alleged or actual noncompliance with applicable laws and regulations or commercial payor requirements.

14. Functional Expenses

The System's primary activities involve providing general healthcare services to its patients. Expenses related to providing these services at June 30 are as follows (in thousands):

	2019			
	Healthcare Services	**Physician Services**	**General and Administrative**	**Total**
Employee compensation and benefits	**$ 1,656,833**	**$ 455,474**	**$ 383,212**	**$ 2,495,519**
Services and other	**1,200,167**	**84,643**	**403,106**	**1,687,916**
Supplies	**919,804**	**18,266**	**13,747**	**951,817**
Depreciation and amortization	**179,130**	**4,946**	**46,875**	**230,951**
Interest	**16,061**	**848**	**36,321**	**53,230**
Total expenses	**$ 3,971,995**	**$ 564,177**	**$ 883,261**	**$ 5,419,433**

14. Functional Expenses (continued)

	2018			
	Healthcare Services	**Physician Services**	**General and Administrative**	**Total**
Employee compensation and benefits	$ 1,719,534	$ 445,194	$ 270,199	$ 2,434,927
Services and other	1,167,329	81,011	365,381	1,613,721
Supplies	891,716	19,428	14,167	925,311
Depreciation and amortization	178,534	5,345	50,289	234,168
Interest	18,064	762	24,407	43,233
Total expenses	$ 3,975,177	$ 551,740	$ 724,443	$ 5,251,360

15. Liquidity

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following as of June 30, 2019 (in thousands):

Cash and cash equivalents	$ 578,621
Short-term investments and equity in managed funds	755,192
Patient accounts receivable	534,190
Total	$ 1,868,003

CHRISTUS has the ability to structure its financial assets to be available as its general expenditures and other obligations come due. Cash in excess of daily requirements is invested in short-term investments. CHRISTUS also maintains a $150,000,000 line of credit as discussed in Note 9. As of June 30, 2019, $150,000,000 remained available on that line of credit.

16. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30 are restricted for the following purposes (in thousands):

	2019	2018
Health care services	**$ 115,278**	$ 109,219
Purchase of equipment/capital improvement	**39,185**	38,254
Indigent care	**300**	285
Health education	**2,813**	3,793
Community outreach	**12,762**	14,524
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as operating income)	**8,488**	9,486
Endowment requiring income to be added to original gift	**1,046**	613
Other	**26,494**	24,201
Total	**$ 206,366**	$ 200,375

17. Changes in Consolidated Net Assets Without Donor Restrictions

Changes in consolidated net assets without donor restrictions that are attributable to the System and the non-controlling interests in subsidiaries are as follows (in thousands):

	Controlling Interest	Non-Controlling Interests	Total
Balance, July 1, 2017	$ 2,798,703	$ 201,855	$ 3,000,558
Revenues in excess of expenses	142,009	32,401	174,410
Distributions	–	(9,388)	(9,388)
Acquisition of non-controlling interest	(10,327)	(774)	(11,101)
Non-controlling interests from business combinations	–	14,550	14,550
Change in pension liabilities	41,204	–	41,204
Other activities	(7,918)	(522)	(8,440)
Balance, June 30, 2018	2,963,671	238,122	3,201,793
Revenues in excess of expenses	**90,522**	**35,923**	**126,445**
Distributions	**–**	**(8,044)**	**(8,044)**
Net assets acquired from sale of non-controlling interests	**2,967**	**57,686**	**60,653**
Change in pension liabilities	**(61,183)**	**–**	**(61,183)**
Other activities	**11,115**	**9,117**	**20,232**
Balance, June 30, 2019	**$ 3,007,092**	**$ 332,804**	**$ 3,339,896**

18. International Operations

CHRISTUS Muguerza

At June 30, 2019, the System owns an 87.3% interest in CHRISTUS Muguerza, S.A. de C.V. (CHRISTUS Muguerza), headquartered in Monterrey, Mexico. CHRISTUS Muguerza is a private health care system and is subject to taxes in accordance with the regulations of the Republic of Mexico. The financial statements of CHRISTUS Muguerza are presented in accordance with U.S. GAAP and are included in CHRISTUS' consolidated financial statements. CHRISTUS Muguerza has net assets of $158,199,000 and $125,136,000 at June 30, 2019 and 2018, respectively.

18. International Operations (continued)

In November 2012, the System and certain non-controlling interest holders entered into a revised shareholders' agreement, whereby the non-controlling interest holders of CHRISTUS Muguerza have a series of put options through December 31, 2028. These options will require the System to acquire shares, subject to an annual cap of either $3,500,000 or $2,000,000, depending on the year, at a formula price as defined. At June 30, 2019 and 2018the System had $6,209,000 and $5,788,000, respectively, recorded as net assets without donor restrictions attributable to non-controlling interest to reflect such obligation to the non-controlling interest holders in connection with the agreement.

By purchasing 1,182,327 shares put forth by the non-controlling shareholders in accordance with the agreement during 2019, the System increased its ownership interest in CHRISTUS Muguerza from 86.6% to 87.3% for cash consideration of $1,959,000. During 2018, the System increased its ownership interest in CHRISTUS Muguerza from 85.6% to 86.6% for cash consideration of $2,000,000.

Chile Operations

CHRISTUS' joint venture with PUC, CHRISTUS Salud, owns and operates an integrated health network consisting of an acute care hospital, health clinics, urgent care centers, family health centers, and lab and radiology services in Santiago, Chile. In addition to the operations of the joint venture, CHRISTUS manages the operations of PUC's health network. PUC is owned by the Catholic Church and operates one of the largest health systems in Chile for medical care and teaching.

Concurrently with the formation of the joint venture, CHRISTUS and PUC executed management and license agreements, under which CHRISTUS provides management services and licenses its trade name and certain other intellectual property to PUC's primary hospital. CHRISTUS and CHRISTUS Salud also entered into management and license agreements under which CHRISTUS provides management services and licenses its trade name and certain other intellectual property to all of the joint venture operations. The initial term of these agreements is 25 years. CHRISTUS recorded other revenue related to the management and license fee agreements of $10,660,000 and $18,399,000 during the fiscal years ended June 30, 2019 and 2018, respectively. CHRISTUS is committed to make additional capital contributions to CHRISTUS Salud at various times over the next five years. Specific amounts of additional capital contributions may vary but are expected to be no less than $61,000,000. The investment in CHRISTUS Salud is treated as an equity method investment. Discussion of the investment and earnings is in Note 8.

18. International Operations (continued)

During fiscal years 2015 through 2018, Amatista Financing Company, Ltd (Amatista), a wholly owned subsidiary of CHRISTUS, executed various loan agreements with PUC (PUC Loans), a related party and as of June 30, 2019, has loaned PUC a total of $70,000,000 under the terms of those agreements. In July 2018, the first $30,000,000 in notes, together with accrued interest, were repaid. The remaining notes carry an interest rate of 3.17% per annum. Of the remaining notes, $20,000,000 matures in August 2021, and $20,000,000 matures in March 2022. At June 30, 2019 and 2018, accrued interest related to the PUC Loans was $309,000 and $4,508,000, respectively. The PUC Loans are reported within other noncurrent assets in the accompanying consolidated balance sheets.

Colombia Operations

Effective June 14, 2016, CHRISTUS Health Colombia S.A.S. and CHRISTUS Rendimiento, wholly owned subsidiaries of CHRISTUS, signed definitive agreements with Coomeva in Colombia. In September 2016, CHRISTUS closed on various transactions outlined in the definitive agreements, resulting in CHRISTUS obtaining a non-controlling ownership interest in Sinergia and MP. Sinergia is a healthcare provider that owns and operates hospitals, outpatient clinics, and home care services. MP owns and operates a private insurance company and ambulance services. Discussion of the investments and related earnings on those investments is in Note 8.

In addition to these investments, in September 2016 CHRISTUS executed a loan with Coomeva EPS, an affiliate of Coomeva, for $2,578,000. Coomeva EPS is a health insurance company that contracts with the Colombian government. The loan is convertible into equity securities of Coomeva EPS and carries a put option that CHRISTUS can exercise upon the occurrence of certain triggering events prior to conversion.

As part of the definitive agreements, CHRISTUS also entered into management agreements with Coomeva affiliates and earns a management fee for services provided under those agreements. During fiscal year 2019, CHRISTUS has applied a constraint against these management fees and revenue will be recognized once uncertainty regarding collectability has been resolved. During the fiscal years ended June 30, 2019 and 2018, CHRISTUS recorded $725,000 and $3,155,000, respectively, in management fee revenue under these agreements which is classified as other revenue in the accompanying consolidated financial statements.

19. Significant Events

Business Combinations

Lake Area Medical Center

Effective July 1, 2017, CHRISTUS closed on a transaction with Community Health Systems, Inc. (CHS), in which CHRISTUS paid approximately $30,000,000 plus working capital and other adjustments to acquire Lake Area Medical Center (LAMC), together with certain related businesses including physician clinic operations. LAMC is a full-service acute care hospital located in Lake Charles, Louisiana. The transaction was accounted for using the acquisition method of accounting.

In accordance with ASC 958-805, *Not-for-Profit Entities,* CHRISTUS recognized an inherent contribution as the excess of the acquisition-date fair values of the assets acquired and liabilities assumed over the consideration transferred. The fair values assigned are preliminary and subject to change as valuation activities are finalized and are summarized as follows (in thousands):

Consideration transferred	$ 31,329
Fair values of assets acquired and liabilities assumed:	
Cash and investments	4
Patient accounts receivable, net	281
Other current assets	2,258
Property and equipment, net	30,982
Other noncurrent assets	594
Accounts payable, accrued and other current liabilities	(1,162)
Other liabilities	(1,483)
Total fair values of assets acquired and liabilities assumed	31,474
Inherent contribution	$ 145

CHRISTUS also incurred $220,000 in transaction costs associated with the LAMC acquisition, which were expensed as a reduction of the inherent contribution, reducing the net gain recognized to zero.

For the period from July 1, 2017 through June 30, 2018, total operating revenue and revenues in excess (deficit) of expenses attributable to LAMC were $68,412,000 and $(884,000), respectively. For the fiscal year ended June 30, 2019, total operating revenue and revenues in excess (deficit) of expenses attributable to LAMC were $69,004,000 and $(6,927,000), respectively.

19. Significant Events (continued)

Imperial Calcasieu Surgical Center

Effective August 1, 2017, CHRISTUS closed on a transaction with Imperial Calcasieu Surgery Center, LLC (ICSC), in which CHRISTUS paid $15,144,000 to acquire a 51% majority ownership in ICSC, an outpatient surgical center, and $4,896,000 to acquire land previously owned by ICSC. Acquisition costs related to this transaction, which were recorded as other expenses, were immaterial.

The purchase was allocated to the fair values of the assets acquired and liabilities assumed as of the acquisition date, with the remaining amount recorded as goodwill, as summarized in the table below (in thousands):

Consideration transferred:	
Cash consideration	$ 15,144
Fair value of non-controlling interest	14,550
Total consideration transferred	29,694
Fair values of assets acquired and liabilities assumed:	
Cash	1,141
Other current assets and liabilities, net	612
Property and equipment	700
Other liabilities	(21)
Total fair values of assets acquired and liabilities assumed	2,432
Goodwill	$ 27,262

For the period from August 1, 2017 through June 30, 2018, total operating revenue and revenues in excess of expenses attributable to ICSC were $13,194,000 and $2,930,000, respectively. For the fiscal year ended June 30, 2019, total operating revenue and revenues in excess of expenses attributable to ICSC were $16,769,000 and $3,892,000, respectively.

19. Significant Events (continued)

Pro Forma Financial Information

Had the acquisition of Imperial occurred as of July 1, 2017, the unaudited pro forma total operating revenue and revenues in excess of expenses before the effect of non-controlling interest of CHRISTUS would have been $5,375,824,000 and $174,673,000, respectively, for the fiscal year ended June 30, 2018. In calculating these unaudited pro forma numbers, the effects of the inherent contribution and related transaction costs have been excluded, and the effects of incremental depreciation resulting from recording acquired long-lived assets have been included.

Sale of Non-controlling Interest

Effective September 1, 2018, CHRISTUS and Ochsner Clinic Foundation (Ochsner) executed a membership interest purchase agreement, whereby Ochsner acquired a 40% non-controlling membership interest in CHRISTUS Health Southwest Louisiana (SWLA) for $59,329,000, subject to certain working capital and other adjustments. The purchase price was paid with $35,000,000 in cash and the remaining amount in the form of a five-year promissory note. CHRISTUS and Ochsner also executed a Clinic Services Agreement, under which Ochsner will manage SWLA's physician clinics and physician-employee medical practices. In connection with this transaction, SWLA was removed from the CHRISTUS Health Obligated Group.

Sale of Controlling Interest

Long-Term Acute Care

On August 1, 2017, CHRISTUS Continuing Care executed an asset contribution agreement, under which CHRISTUS contributed substantially all of the assets of its long-term acute care hospitals to a newly formed entity, Southwest Partnership, a joint venture between CHRISTUS Continuing Care and various subsidiaries of The LHC Group. The contribution was made in exchange for $4,506,000 cash proceeds and a 7.28% non-controlling interest in Southwest Partnership. This retained interest was valued at $3,004,000 based on the results of an independent valuation of the business value of Southwest Partnership using a discounted cash flow model. The transaction closed on September 1, 2017, and CHRISTUS recorded a gain from the sale of $3,436,000, which is included in other revenue including gain on contribution to joint ventures.

19. Significant Events (continued)

Home Care

On August 1, 2017, CHRISTUS Continuing Care executed an asset contribution agreement, under which CHRISTUS contributed substantially all of the assets of its home care business to Southwest Partnership.

The contribution was made in exchange for $20,250,000 cash proceeds and a 32.72% non-controlling interest in Southwest Partnership. This retained interest was valued at $13,500,000, based on the results of an independent valuation of the business value of Southwest Partnership using a discounted cash flow model. The transaction closed on September 1, 2017, and CHRISTUS recorded a gain from the sale of $32,904,000, which is included in other revenue including gain on contribution to joint ventures.

20. Subsequent Events

The System evaluated events and transactions occurring subsequent to June 30, 2019 through October 2, 2019, the date of issuance of the consolidated financial statements. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.

Supplementary Information

Building a better working world

Ernst & Young LLP
One Victory Park
Suite 2000
2323 Victory Avenue
Dallas, TX 75219

Tel: +1 214 969 8000
Fax: +1 214 969 8587
ey.com

Report of Independent Auditors on Supplementary Information

The Board of Directors
CHRISTUS Health

We have audited the consolidated financial statements of CHRISTUS Health as of and for the year ended June 30, 2019, and have issued our report thereon dated October 2, 2019, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The financial information of the Combined Group and Non-Combined Group are presented for the purposes of additional analysis and are not required parts of the financial statements. Such information is the responsibility of management and was derived from and relates directly to those 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The accompanying community benefit information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management. The information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Ernst & Young LLP

October 2, 2019

CHRISTUS Health

Community Benefit (Unaudited)

CHRISTUS Health (CHRISTUS or the System) complies with the Catholic Health Association's (CHA) *A Guide for Planning and Reporting Community Benefits* (2008) and the state of Texas reporting requirements. CHA guidelines have adopted the instructions for IRS Form 990, Schedule H, *Hospitals*.

Following is a summary of the System's quantifiable costs of community benefits provided for the fiscal years ended June 30 (in thousands):

	2019	2018
	(Unaudited)	
Programs and services for the poor and underserved:		
Charity care at unpaid cost	**$ 328,352**	$ 268,435
Unpaid cost of Medicaid and other public programs	**158,189**	92,222
Community services for the poor and underserved	**54,979**	41,043
Total programs and services for the poor and underserved	**541,520**	401,700
Community services for the broader community:		
Education and research	**9,354**	5,772
Other community services	**21,416**	14,750
Total community services for the broader community	**30,770**	20,522
Total community benefits	**$ 572,290**	$ 422,222

The totals are calculated following CHA guidelines and adhere to the IRS Form 990, Schedule H methodology. CHRISTUS has multiple reporting requirements of charity care and community benefit, which vary based on the definitional and timing requirements of each requesting organization. For comparability, the unpaid cost of Medicaid and other public programs total for fiscal year 2018 has been updated to reflect the change in methodology effective for fiscal year 2019 reporting.

In addition to the community benefits reported above, the state of Texas requires that the unpaid costs of Medicare and other government-sponsored programs be reported. For the fiscal years ended June 30, 2019 and 2018, the unpaid costs of these programs were $199,839,000 and $145,110,000, respectively. The unpaid costs of the Medicare program represent the cost of providing services to primarily elderly beneficiaries of the Medicare program, in excess of governmental and managed care contract payments. The unpaid costs of other government-sponsored programs represent the cost for providing health care services to the beneficiaries of the Department of Defense civilian care, included as per the state of Texas guidelines.

Supplementary Information –
Federal and State Awards

CHRISTUS Health

Schedule of Compensation Information

Years Ended June 30, 2019 and 2018

Chief Executive Officer: Ernie Sadau

None of the Chief Executive Officer's compensation was paid from public funds received by CHRISTUS Health.

CHRISTUS Health

Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2019

Federal Grantor/State Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number/State Contract Number	Research and Development Cluster	Other Federal/State Expenditures	Total Federal/State Expenditures	Amounts Provided to Subrecipients	Location
Federal Awards							
U.S. Department of Agriculture							
Indirect Awards:							
Pass-through from the Texas Department of State Health Services:							
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2017-049848-001-FY18	$ –	$ 305,062	$ 305,062	$ 52,890	CHRISTUS Santa Rosa Health System
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2017-049848-001-FY19	–	842,956	842,956	140,000	CHRISTUS Santa Rosa Health System
Total WIC Special Supplemental Nutrition Program for Women, Infants, and Children			–	1,148,018	1,148,018	192,890	
Total U.S. Department of Agriculture			–	1,148,018	1,148,018	192,890	
U.S. Department of Justice							
Indirect Awards:							
Pass-through from the New Mexico Crime Victims Reparation Commission:							
Crime Victim Assistance	16.575	2019-VA-714	–	7,728	7,728	–	CHRISTUS St. Vincent Regional Medical Center
Pass-through from the Texas Office of the Governor:							
Crime Victim Assistance	16.575	3282201	–	125,813	125,813	–	CHRISTUS Santa Rosa Health System
Crime Victim Assistance	16.575	3282202	–	110,738	110,738	–	CHRISTUS Santa Rosa Health System
Total Crime Victim Assistance			–	244,279	244,279	–	
Total U.S. Department of Justice			–	244,279	244,279	–	
U.S. Department of Health and Human Services							
Direct Awards:							
Accountable Health Communities	93.650	1P1CMS331603-02-01	–	417,772	417,772	–	CHRISTUS Santa Rosa Health System
Accountable Health Communities	93.650	1P1CMS331603-03-00	–	71,250	71,250	–	CHRISTUS Santa Rosa Health System
Direct Awards Total			–	489,022	489,022	–	
Indirect Awards:							
Pass-through the Texas Department of State Health Services:							
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	529-17-0023-00032A	–	9,707	9,707	–	CHRISTUS Health Ark-La-Tex
Pass-through the New Mexico Department of Health:							
Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354	19-665-0300-21777	–	100,000	100,000	–	CHRISTUS St .Vincent Regional Medical Center
Pass-through Fred Hutchinson Cancer Research Center:							
Cancer Detection and Diagnosis Research	93.394	5UM1CA182883-05	68,891	–	68,891	–	CHRISTUS Santa Rosa Health System
Pass-through Oregon Health and Science University:							
Cancer Treatment Research	93.395	5U10CA180888-05	65,124	–	65,124	–	CHRISTUS Santa Rosa Health System
Pass-through the Louisiana Hospital Association:							
National Bioterrorism Hospital Preparedness Program	93.889	72-0489377	–	130,416	130,416	–	CHRISTUS Health Central Louisiana
National Bioterrorism Hospital Preparedness Program	93.889	72-0489377	–	23,836	23,836	–	CHRISTUS Health Southwest Louisiana
Pass-through the Piney Woods Regional Advisory Council Trauma Service Area G:							
National Bioterrorism Hospital Preparedness Program	93.889	75-2603041	–	1,834	1,834	–	CHRISTUS Trinity Mother Frances Health System
Total National Bioterrorism Hospital Preparedness Program			–	156,086	156,086	–	
Pass-through LSU Health Science Center New Orleans:							
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	PH-18-111-016	25,800	–	25,800	–	CHRISTUS Health Central Louisiana
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	PH-19-111-007	12,900	–	12,900	–	CHRISTUS Health Central Louisiana
Total Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations			38,700	–	38,700	–	

CHRISTUS Health

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number/State Contract Number	Research and Development Cluster	Other Federal/State Expenditures	Total Federal/State Expenditures	Amounts Provided to Subrecipients	Location
Federal Awards (continued)							
Pass-through the Texas Department of State Health Services:							
Maternal and Child Health Services Block Grant to the States	93.994	2015-047847-002	$ –	$ 201,524	$ 201,524	$ –	CHRISTUS Santa Rosa Health System
Maternal and Child Health Services Block Grant to the States	93.994	HHS000043600005	–	87,885	87,885	–	CHRISTUS Santa Rosa Health System
Maternal and Child Health Services Block Grant to the States	93.994	2015-047846-002	–	13,517	13,517	–	CHRISTUS Health Southeast Texas
Maternal and Child Health Services Block Grant to the States	93.994	2015-047849-002	–	3,780	3,780	–	CHRISTUS Trinity Mother Frances Health System
Maternal and Child Health Services Block Grant to the States	93.994	2016-003977-FY18	–	14,906	14,906	–	CHRISTUS Trinity Mother Frances Health System
Maternal and Child Health Services Block Grant to the States	93.994	2016-003977-FY19	–	53,090	53,090	–	CHRISTUS Trinity Mother Frances Health System
Total Maternal and Child Health Services Block Grant to the States			–	374,702	374,702	–	
Pass-through the University of Michigan:							
National Institutes of Health – Various Studies	93.RD	SUBK00005107	1,850	–	1,850	–	CHRISTUS Spohn Health System
National Institutes of Health – Various Studies	93.RD	SUBK00005107-Amendment 3	7,821	–	7,821	–	CHRISTUS Spohn Health System
Total National Institutes of Health			9,671	–	9,671	–	
Total U.S. Department of Health and Human Services			182,386	1,129,517	1,311,903	–	
U.S. Department of Homeland Security							
Indirect Awards:							
Pass-through from the Texas Department of Public Safety:							
Disaster Grants – Public Assistance (Presidentially Declared Disasters):	97.036	4332DRTXP0000001	–	1,569,055	1,569,055	–	CHRISTUS Health
Total Disaster Grants – Public Assistance (Presidentially Declared Disasters)			–	1,569,055	1,569,055	–	
Pass-through the Calcasieu Parish Police Jury:							
Homeland Security Grant Program	97.067	EMW-2017-SS-00058-S01	–	8,617	8,617	–	CHRISTUS Health Southwest Louisiana
Total U.S. Department of Homeland Security			–	1,577,672	1,577,672	–	
Total Expenditures of Federal Awards			$ 182,386	$ 4,099,486	$ 4,281,872	$ 192,890	
State Awards							
Texas							
Graduate Medical Education Program:							
Direct Awards (Texas Higher Education Coordinating Board):							
Family Practice Residency Program:							
Family Practice Residency Program Operational Grant		THECB 21640	$ –	$ 182,227	$ 182,227	$ –	CHRISTUS Santa Rosa Health System
Family Practice Residency Program – Primary Care		THECB 21628	–	67,491	67,491	67,491	CHRISTUS Health Ark-La-Tex
Family Practice Residency Program Operational Grant		THECB 21621	–	236,220	236,220	–	CHRISTUS Spohn Health System
Family Medicine Residents Rural Rotation		THECB Various Physicians	–	2,500	2,500	–	CHRISTUS Spohn Health System
Total Family Practice Residency Program			–	488,438	488,438	67,491	
Graduate Medical Education Expansion Program:							
Graduate Medical Education Expansion Program – Pediatrics		THECB 19700	–	2,475,000	2,475,000	2,475,000	CHRISTUS Santa Rosa Health System
Graduate Medical Education Expansion Program – Family Medicine		THECB 19703	–	450,000	450,000	–	CHRISTUS Santa Rosa Health System
Graduate Medical Education Expansion Program – Emergency Medicine		THECB 19702	–	450,000	450,000	–	CHRISTUS Spohn Health System
Total Graduate Medical Expansion Education Program			–	3,375,000	3,375,000	2,475,000	
Total Graduate Medical Education Program			–	3,863,438	3,863,438	2,542,491	

CHRISTUS Health

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number/State Contract Number	Research and Development Cluster	Other Federal/State Expenditures	Total Federal/State Expenditures	Amounts Provided to Subrecipients	Location
State Awards (continued)							
Direct Awards (Texas Department of State Health Services):							
Texas Breast and Cervical Cancer Program		529-17-0023-00032A	$ –	$ 5,808	$ 5,808	$ –	CHRISTUS Health Ark-La-Tex
Total Texas Breast and Cervical Cancer Program			–	5,808	5,808	–	
Total Expenditures of State Awards – Texas			–	3,869,246	3,869,246	2,542,491	
Arkansas							
Direct Awards (Arkansas Department of Health):							
Arkansas Department of Health Trauma Designation Sustaining Grant		4600042571	–	135,000	135,000	–	CHRISTUS Health Ark-La-Tex
Arkansas Department of Health Advanced Stroke and Life Support Grant		4600042202	–	4,478	4,478	–	CHRISTUS Health Ark-La-Tex
Total Expenditures of State Awards – Arkansas			–	139,478	139,478	–	
Louisiana							
Pass-through the State of Louisiana:							
Facility Planning and Control		FP&C Project No. 01-107-13-03, Part B	–	13,457	13,457	–	CHRISTUS Health Southwest Louisiana
Total Expenditures of State Awards – Louisiana			–	13,457	13,457	–	
Total Expenditures of State Awards			$ –	$ 4,022,181	$ 4,022,181	$ 2,542,491	
Total Expenditures of Federal and State Awards			$ 182,386	$ 8,121,667	$ 8,304,053	$ 2,735,381	

See accompanying notes to schedule of expenditures of federal and state awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal and state award activity of CHRISTUS Health under programs of the federal and state governments for the year ended June 30, 2019. 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) and the State of Texas *Uniform Grant Management Standards* (UGMS). Because the Schedule presents only a selected portion of the operations of CHRISTUS Health, it is not intended to and does not present the financial position, results of operations, changes in net assets, or cash flows of CHRISTUS Health.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. 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 the State of Texas UGMS, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

CHRISTUS Health has negotiated multiple indirect cost rates for consolidated entities that have been eligible to negotiate a federal indirect cost rate with the Department of Health and Human Services (DHHS). However, not all awards presented in the Schedule include indirect expenses. Allowable indirect costs for each award are determined by the related terms and conditions developed by the awarding agency for each program. CHRISTUS Health has not elected to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

3. Nature of Activities

CHRISTUS Health receives various grants to cover costs of specified programs. Final determination of eligibility of costs will be made by the grantors. Should any costs be found ineligible, CHRISTUS Health will be responsible for reimbursing the grantors for these amounts.

3. Nature of Activities (continued)

Additionally, expenditures incurred for various programs may exceed the amounts awarded from the respective pass-through entity or agency. The amounts reported on the Schedule are limited to the award amounts. Amounts in excess of this amount are paid out of non-federal and non-state sources.

4. Disaster Grants – Public Assistance (Presidentially Declared Disasters)

For the Federal Emergency Management Agency (FEMA), Department of Homeland Security's (DHS) Disaster Grants – Public Assistance (Presidentially Declared disasters) (CFDA 97.036), non-federal entities must record expenditures on the Schedule when (1) FEMA has approved the non-Federal entity's project worksheet (PW), and (2) the non-Federal entity has incurred the eligible expenditures. Federal awards expended in years subsequent to the fiscal year in which the PW is approved are to be recorded on the non-Federal entity's Schedule in those subsequent years.

In fiscal year 2019, CHRISTUS Health received approval from the Texas Department of Public Safety for eighteen PW's related to the reimbursement of eligible costs of $1,569,055 incurred in previous fiscal years. These previous years' expenditures are included on the Schedule in the current year in accordance with guidance provided by DHS.

Ernst & Young LLP
One Victory Park
Suite 2000
2323 Victory Avenue
Dallas, TX 75219

Tel: +1 214 969 8000
Fax: +1 214 969 8587
ey.com

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 Directors and Management
CHRISTUS 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 CHRISTUS Health, which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 2, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered CHRISTUS 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of CHRISTUS Health's internal control. Accordingly, we do not express an opinion on the effectiveness of CHRISTUS 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether CHRISTUS Health's consolidated 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 2, 2019

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Ernst & Young LLP
One Victory Park
Suite 2000
2323 Victory Avenue
Dallas, TX 75219

Tel: +1 214 969 8000
Fax: +1 214 969 8587
ey.com

Report of Independent Auditors on Compliance for Each Major Federal and State Program and Report on Internal Control Over Compliance Required by the Uniform Guidance and State of Texas Uniform Grant Management Standards

The Board of Directors and Management
CHRISTUS Health

Report on Compliance for Each Major Federal and State Program

We have audited CHRISTUS 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 CHRISTUS Health's major federal programs and the types of compliance requirements described in the State of Texas *Uniform Grant Management Standards* (UGMS) that could have a direct and material effect on each of CHRISTUS Health's major state programs for the year ended June 30, 2019. CHRISTUS Health's major federal and state 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 and state statutes, regulations and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of CHRISTUS Health's major federal and state 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), and the State of Texas UGMS. Those standards, the Uniform Guidance and the State of Texas UGMS 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 or state program occurred. An audit includes examining, on a test basis, evidence about CHRISTUS 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 each major federal and state program. However, our audit does not provide a legal determination of CHRISTUS Health's compliance.

Opinion on Each Major Federal and State Program

In our opinion, CHRISTUS 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 major federal and state programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of CHRISTUS 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 CHRISTUS Health's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state 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 or state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and State of Texas UGMS, 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 CHRISTUS 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 or state 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 or state 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 or state 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 and State of Texas UGMS. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

October 2, 2019

CHRISTUS Health

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	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 programs:		
Material weakness(es) identified?	______ yes	x no
Significant deficiency(ies) identified?	______ yes	x none reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	______ yes	x no

State Awards

Internal control over major programs:		
Material weakness(es) identified?	______ yes	x no
Significant deficiency(ies) identified?	______ yes	x none reported
Type of auditor's report issued on compliance for major state programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Part IV of the State of Texas Uniform Grant Management Standards?	______ yes	x no

Section I – Summary of Auditor's Results (continued)

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B federal programs: $750,000

Auditee qualified as low-risk auditee? x yes ____ no

Identification of major state programs:

CFDA Number(s)	Name of State Program or Cluster
N/A	Graduate Medical Education Program

Dollar threshold used to distinguish between Type A and Type B state programs: $300,000

Auditee qualified as low-risk auditee? x yes ____ no

Section II – Financial Statement Findings

No findings were noted.

Section III – Federal Award Findings and Questioned Costs

No findings were noted.

Section IV – State Award Findings and Questioned Costs

No findings were noted.

EY | Assurance | Tax | Transactions | Advisory

CHRISTUS Health

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2019

No findings were noted in 2018 or 2017.

919 Hidden Ridge | Irving | TX 75038-3813
Tel 469.282.2000
www.christushealth.org

CHRISTUS Health

Summary Schedule of Prior Audit Findings State of Louisiana

Year Ended June 30, 2019

No findings were noted in 2018 or 2017.

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