This document is dated May 30, 2019

UNAUDITED PRO FORMA QUARTERLY REPORT

For the three and nine-month periods ended
March 31, 2019

CommonSpirit Health

The information in this report
has been provided by
CommonSpirit Health

COMMONSPIRIT HEALTH AND ITS AFFILIATES AND SUBORDINATE CORPORATIONS

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COMMONSPIRIT HEALTH AND ITS AFFILIATES AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED PRO FORMA CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2019 AND JUNE 30, 2018
(In millions)

	As of March 31, 2019	As of June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 903	$ 1,441
Short-term investments	2,498	2,564
Collateral held under securities lending program	45	30
Assets limited as to use	1,722	1,652
Patient accounts receivable, net of allowance for doubtful accounts of $1,424 at June 30, 2018	4,105	3,816
Broker receivables for unsettled investment trades	102	19
Provider fee receivable	1,256	1,017
Assets of discontinued operations and held for sale	128	196
Other current assets	1,462	1,287
Total current assets	12,221	12,022
Assets limited as to use:		
Board-designated assets (including $0 and $97 of assets loaned under securities lending program at March 31, 2019 and June 30, 2018, respectively) for:		
Capital projects and other	7,617	8,130
Held for self-insured claims	1,479	1,596
Under bond indenture agreements for debt service	4	45
Donor-restricted	871	862
Other	302	228
Less amount required to meet current obligations	(1,722)	(1,652)
Net assets limited as to use	8,551	9,209
Property and equipment, net	12,952	12,915
Ownership interests in health-related activities	3,679	3,531
Goodwill	506	504
Intangible assets, net	233	211
Other long-term assets, net	252	273
Total assets	$ 38,394	$ 38,665

(Continued)

COMMONSPIRIT HEALTH AND ITS AFFILIATES AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED PRO FORMA CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2019 AND JUNE 30, 2018
(In millions)

	As of March 31, 2019	As of June 30, 2018
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$ 3,055	$ 2,814
Demand bonds subject to short-term liquidity arrangements, excluding current maturities	820	841
Accounts payable	1,382	1,326
Payable under securities lending program	45	30
Accrued salaries and benefits	1,227	1,312
Self-insured reserves and claims	105	105
Pension and other postretirement benefit liabilities	267	244
Broker payables for unsettled investment trades	5	11
Liabilities of discontinued operations and held for sale	198	252
Derivative instruments	153	133
Provider fee and CHFT grant payables	319	332
Other accrued liabilities	1,159	1,187
Total current liabilities	8,735	8,587
Other liabilities:		
Self-insured reserves and claims	1,235	1,280
Pension and other postretirement benefit liabilities	2,055	2,008
Other	1,128	1,190
Total other liabilities	4,418	4,478
Long-term debt, net of current portion	9,780	10,066
Total liabilities	22,933	23,131
Net assets:		
Without donor restrictions - attributable to CommonSpirit Health	14,069	14,146
Without donor restrictions - noncontrolling interests	523	531
With donor restrictions	869	857
Total net assets	15,461	15,534
Total liabilities and net assets	$ 38,394	$ 38,665

(Concluded)

See notes to condensed proforma consolidated financial statements.

COMMONSPIRIT HEALTH AND ITS AFFILIATES AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND NINE-MONTH PERIODS ENDED MARCH 31, 2019 AND 2018
(In millions)

	Three-Month Periods Ended March 31, 2019	Three-Month Periods Ended March 31, 2018	Nine-Month Periods Ended March 31, 2019	Nine-Month Periods Ended March 31, 2018
Unrestricted revenues and other support:				
Patient revenue, net of contractual allowances and discounts		$ 6,930		$ 21,311
Provision for bad debts		(311)		(979)
Net patient revenue	$ 6,711	6,619	$ 19,895	20,332
Premium revenue	245	248	786	683
Revenue from health-related activities, net	36	54	80	106
Other operating revenue	249	377	760	908
Contributions	17	17	44	48
Total unrestricted revenues and other support	7,258	7,315	21,565	22,077
Expenses:				
Salaries and benefits	3,598	3,542	10,581	10,602
Supplies	1,134	1,113	3,382	3,319
Purchased services and other	2,094	2,027	6,244	6,247
Depreciation and amortization	360	353	1,059	1,088
Interest expense, net	120	120	369	349
Special charges	52	16	126	58
Total expenses	7,358	7,171	21,761	21,663
Operating income (loss)	(100)	144	(196)	414
Other income (loss):				
Investment income, net	666	64	296	764
Income tax (expense) credit	(7)	(25)	(21)	7
Change in market value and cash payments of interest rate swaps	(49)	51	(80)	54
Other	3	-	(3)	8
Total other income, net	613	90	192	833
Excess (deficit) of revenues over expenses	$ 513	$ 234	$ (4)	$ 1,247
Less excess of revenues over expenses attributable to noncontrolling interests	13	21	47	64
Excess (deficit) of revenues over expenses attributable to CommonSpirit Health	$ 500	$ 213	$ (51)	$ 1,183

(Continued)

COMMONSPIRIT HEALTH AND ITS AFFILIATES AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND NINE-MONTH PERIODS ENDED MARCH 31, 2019 AND 2018
(In millions)

	Three-Month Periods Ended March 31, 2019	Three-Month Periods Ended March 31, 2018	Nine-Month Periods Ended March 31, 2019	Nine-Month Periods Ended March 31, 2018
Net assets without donor restrictions attributable to CommonSpirit Health:				
Excess (deficit) of revenues over expenses attributable to CommonSpirit Health	$ 500	$ 213	$ (51)	$ 1,183
Net assets released from restrictions used for purchase of property and equipment	8	36	23	59
Change in funded status of pension and other postretirement benefit plans	-	-	-	(4)
Loss from discontinued operations, net	(23)	(11)	(58)	(666)
Change in net assets of unconsolidated equity method investments	8	1	9	14
Changes in ownership interests	1	13	4	(93)
Change in accumulated unrealized derivative gains, net	1	1	2	2
Funds donated from unconsolidated sources for purchase of property and equipment	6	4	9	8
Other	(4)	(28)	(15)	(19)
Increase (decrease) in net assets without donor restrictions attributable to CommonSpirit Health	497	229	(77)	484
Net assets without donor restrictions attributable to noncontrolling interests:				
Excess of revenues over expenses attributable to noncontrolling interests	13	21	47	64
Change in ownership interest and other, net	(12)	(28)	(55)	(113)
Increase (decrease) in net assets without donor restrictions attributable to noncontrolling interests	1	(7)	(8)	(49)
Net assets with donor restrictions:				
Contributions	18	21	70	66
Net realized and unrealized gains on investments	13	1	4	11
Net assets released from restrictions	(18)	(19)	(51)	(53)
Change in interest in net assets of unconsolidated foundations	3	5	(8)	16
Other	(3)	(9)	(3)	(9)
Increase (decrease) in net assets with donor restrictions	13	(1)	12	31
Increase (decrease) in net assets	511	221	(73)	466
Net assets, beginning of period	14,950	14,979	15,534	14,734
Net assets, end of period	$ 15,461	$ 15,200	$ 15,461	$ 15,200

(Concluded)

See notes to condensed proforma consolidated financial statements.

COMMONSPIRIT HEALTH AND ITS AFFILIATES AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE-MONTH PERIODS ENDED MARCH 31, 2019 AND 2018

(In millions)

	Nine-Month Periods Ended March 31, 2019	Nine-Month Periods Ended March 31, 2018
Cash flows from operating activities:		
Change in net assets	$ (73)	$ 466
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization, including discontinued operations	1,060	1,090
Ownership interests in health-related activities:		
Changes in equity of unconsolidated entities	(93)	(116)
Purchase of noncontrolling interest	2	155
Loss, net, on deconsolidation of subsidiary	-	319
Gain, net, on disposal of assets	(9)	(131)
Asset impairment of discontinued operations	-	272
Restricted contributions	(70)	(66)
Change in net realized and unrealized gains on investments	(147)	(328)
Change in fair value of swaps	49	(94)
Changes in certain assets and liabilities:		
Accounts receivable, net	(289)	(297)
Accounts payable	69	(89)
Self-insured reserves and claims	(53)	11
Accrued salaries and benefits	(91)	8
Pension and other postretirement liabilities	72	(122)
Provider fee-related receivables and payables	(252)	(216)
Estimated receivables from/payables to third-party payors, net	(38)	6
Other accrued liabilities	26	(343)
Prepaid and other current assets	(195)	(108)
Other, net	(34)	(27)
Cash provided by (used in) operating activities	(66)	390
Cash flows from investing activities:		
Net sales of investments	856	91
Cash proceeds on disposal of assets	13	567
Investments in health-related activities	(111)	(132)
Cash distributions from health-related activities	50	52
Additions to operating property and equipment	(1,106)	(767)
Increase in securities lending collateral	(14)	(6)
Other, net	(78)	(65)
Cash used in investing activities	(390)	(260)

(Continued)

COMMONSPIRIT HEALTH AND ITS AFFILIATES AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE-MONTH PERIODS ENDED MARCH 31, 2019 AND 2018
(In millions)

	Nine-Month Periods Ended March 31, 2019	Nine-Month Periods Ended March 31, 2018
Cash flows from financing activities:		
Borrowings	625	1,063
Repayments	(699)	(1,231)
Increase in payable under securities lending program	14	6
Swaps cash collateral (posted) received	(32)	71
Restricted contributions	70	66
Distributions to noncontrolling interests	(58)	(28)
Purchase of noncontrolling interests	(2)	(155)
Cash used in financing activities	(82)	(208)
Net decrease in cash and cash equivalents	(538)	(78)
Cash and cash equivalents at beginning of the year	1,441	1,392
Cash and cash equivalents at end of the year	$ 903	$ 1,314
Components of cash and cash equivalents and investments at end of period:		
Cash and cash equivalents	903	1,314
Short-term investments	2,498	2,469
Board-designated assets for capital projects and other	7,617	7,810
Total	$ 11,018	$ 11,593
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 383	$ 387
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease or note payable	$ 12	$ 11
Investments in health-related activities	$ -	$ 238
Accrued purchases of property and equipment	$ 128	$ 107
Broker receivables for unsettled investment trades	$ 102	$ 26
Broker payables for unsettled investment trades	$ 5	$ 2

(Concluded)

See notes to condensed proforma consolidated financial statements.

CommonSpirit Health and its Affiliates and Subordinate Corporations
Notes to Unaudited Condensed Pro Forma Consolidated Financial Statements

1. ORGANIZATION

On February 1, 2019, Catholic Health Initiatives ("CHI") and Dignity Health aligned their respective ministries to form a single, Catholic, nonprofit health system, CommonSpirit Health. CommonSpirit Health is a Colorado nonprofit corporation, sponsored by Catholic Health Care Federation, a public juridic person. CommonSpirit Health owns and/or operates health care facilities in 21 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations which are exempt from federal and state income taxes. These organizations provide services that span the continuum of care, including hospitals and clinics, academic health centers, major teaching hospitals, and critical access facilities, as well as community health service organizations, accredited nursing colleges, home health agencies, and living communities. Health care services include inpatient, outpatient, subacute, and home health care services, as well as physician services. The accompanying condensed pro forma consolidated financial statements include CommonSpirit Health, its subordinate corporations, subsidiaries and controlled corporations (together "CommonSpirit").

2. BASIS OF PRESENTATION

The affiliation between CHI and Dignity Health qualified for acquisition accounting treatment with CHI as the acquirer of Dignity Health. The initial accounting for the acquisition is not complete, pending the determination of the fair value of certain assets acquired and liabilities assumed. The resulting contribution from the affiliation will be reported as contributions from affiliations within other income (loss) on the statements of operations and changes in net assets.

To present the financial results on a consistent basis, the unaudited condensed pro forma consolidated financial information of CommonSpirit as of March 31, 2019 and June 30, 2018, and for the three and nine-month periods ended March 31, 2019 and 2018, has been derived by CommonSpirit management from the results of CHI and Dignity Health assuming that operations of the two organizations were combined as of July 1, 2017. Acquisition-related adjustments effective as of the date of acquisition of February 1, 2019, have been excluded from the pro forma results.

The condensed pro forma consolidated financial statements of CommonSpirit as of March 31, 2019, and for the three and nine-month periods ended March 31, 2019 and 2018, should be read in conjunction with the audited financial statements of CHI and Dignity Health as of and for the year ended June 30, 2018. Certain footnotes and disclosures that are required in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted as they substantially duplicate the disclosures contained in the annual financial statements.

CommonSpirit management is responsible for the accompanying condensed pro forma consolidated financial statements. These condensed pro forma consolidated financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of financial position and operating results in accordance with GAAP, other than the application of purchase accounting treatment. Certain estimates and assumptions are made that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expenses for the periods presented. Actual results could differ from estimates.

Operating results for the three and nine-month periods ended March 31, 2019, are not necessarily indicative of the results that may be expected for any future period or for a full fiscal year as revenues, expenses, assets, and liabilities can vary during each quarter of the year.

Certain reclassifications and changes in presentation were made in the condensed pro forma consolidated financial statements for the year ended June 30, 2018, and for the three and nine-month periods ended March 31, 2018, to conform to the presentation for the three and nine-month periods ended March 31, 2019. As previously presented, CommonSpirit classified net assets with no donor imposed restriction as unrestricted. Such net assets are reported herein as net assets without donor restrictions. Also, as previously presented, CommonSpirit classified net assets with donor imposed restrictions as either temporarily restricted or permanently restricted. Such net assets are reported herein as net assets with donor restrictions.

In preparing the accompanying condensed pro forma consolidated financial statements, management of CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal quarter and May 30, 2019, the date the condensed pro forma consolidated financial statements were issued. See Note 2.

2. ACQUISITIONS, DIVESTITURES AND SIGNIFICANT TRANSACTIONS

Acquisitions – In June 2018, Dignity Health acquired the remaining 49.9% interest in AGH Phoenix, LLC ("AGH"), which owns two hospitals in Arizona, for cash and other consideration of $21 million.

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

Dispositions – In April 2019, CHI sold the commercial insurance operations of QualChoice Health, Inc. ("QualChoice Health") in the state of Arkansas for gross proceeds of $46 million. Additionally, insurance reserves of $61 million were released in March 2019, and are reflected as cash and cash equivalents on the condensed pro forma consolidated balance sheets as of March 31, 2019.

In May 2017, CHI approved a plan to sell or otherwise dispose of certain entities of Jewish Hospital and St. Mary's Healthcare, Inc. ("JHSMH"). In 2018, CHI entered into a non-binding letter of intent for the sale of JHSMH. In December 2018, CHI entered into a further non-binding proposal letter to negotiate a definitive agreement for the sale of the JHSMH acute care operations and anticipates closing on the sale during 2019.

In January 2019, CHI sold QualChoice Health's Medicare Advantage health insurance operations in the state of Washington. The purchase price is contingent upon future increases in the number of lives covered by the Medicare Advantage plans acquired, and upon maintaining a specified Centers for Medicare & Medicaid Services ("CMS") Star Rating as published annually in October 2018 and 2019.

In February 2018, Dignity Health effected an agreement to combine its wholly-owned subsidiary, U.S. HealthWorks ("USHW"), with Concentra, Inc. to strengthen the access and delivery of expanded occupational care for employees, payors, and patients. Dignity Health contributed the stock of USHW in exchange for cash consideration of $505 million and a 20% ownership interest in the combined entity, Concentra Group Holdings Parent, LLC ("CGHP"). CommonSpirit accounts for its ownership in CGHP under the equity method.

In January 2018, CHI effected an agreement with Premier Health Partners ("Premier"), an Ohio nonprofit corporation operating various hospitals in southwest Ohio, to reorganize and restructure the existing joint operating agreement with Premier. The agreement provided that CHI transfer ownership of Good Samaritan-Dayton ("Dayton") to Premier in exchange for a 22% interest in Premier. No gain or loss was recognized upon the exchange as the net book value of Dayton was equal to the fair value of the interest received in Premier of $325.4 million.

In July 2017, in accordance with an agreement entered into in December 2016 between KentuckyOne Health and University Medical Center ("UMC"), UMC took over the management of its assets and CHI ceased consolidating the UMC operations as part of KentuckyOne Health. The transaction resulted in a loss on deconsolidation of $319 million during the nine-month period ended March 31, 2018, reflected in discontinued operations in the condensed pro forma consolidated statement of operations and changes in net assets.

Discontinued Operations and Assets and Liabilities Held for Sale - The operations of JHSMH and QualChoice Health are reflected as discontinued operations, with their respective assets and liabilities reflected as held for sale.

A summary of major classes of assets and liabilities of discontinued operations and held for sale is presented below (in millions):

	As of March 31, 2019	As of June 30, 2018
Other accounts receivable	$ 43	$ 24
Inventory	16	17
Investments held for insurance purposes	49	127
Property and equipment, net	7	7
Other assets	11	14
Total assets held for sale from discontinued operations	126	189
Other long-term assets held for sale from continuing operations	2	7
Total assets of discontinued operations and held for sale	$ 128	$ 196
Accrued salaries and benefits	$ 36	$ 42
Accounts payable	52	66
Debt	-	9
Self-insured reserves and claims	73	91
Other accrued liabilities	33	37
Total liabilities held for sale from discontinued operations	194	245
Other long-term liabilities held for sale from continuing operations	4	7
Total liabilities of discontinued operations and held for sale	$ 198	$ 252

As of March 31, 2019, and June 30, 2018, other long-term assets classified as held for sale from continuing operations represent real estate and other assets that are scheduled to be sold in 2019, measured at the lower of their carrying amount or fair value less cost to sell.

Loss from discontinued operations is reported in the accompanying condensed pro forma consolidated statements of operations and changes in net assets, and summarized as follows (in millions):

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2019	2018	2019	2018
Net patient revenue	$ 175	183	$ 532	544
Other operating revenue	99	152	391	429
Total unrestricted revenues and other support	274	335	923	973
Salaries and benefits	107	110	320	334
Purchased services and medical claims	107	157	409	473
Depreciation and amortization	1	1	3	3
Restructuring, impairment and other losses	5	4	21	606
Other expenses	78	71	229	219
Total expenses	298	343	982	1,635
Operating loss	(24)	(8)	(59)	(662)
Other income (loss)	1	(3)	1	(4)
Deficit of revenues over expenses attributable to CommonSpirit Health	$ (23)	$ (11)	$ (58)	$ (666)

For the nine-month period ended March 31, 2018, discontinued operations included an impairment charge of $272 million for JHSMH and a $319 million loss on deconsolidation of UMC.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Sub Topic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract ("ASU 2018-15")*, which 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 (and hosting arrangements that include an internal use software license). The guidance is effective for CommonSpirit for the annual period beginning July 1, 2021, and interim periods beginning July 1, 2022. CommonSpirit is in the process of determining the potential impact on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07")*, which requires employers to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, and the other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside of income from operations. The guidance is effective for CommonSpirit for the annual period beginning July 1, 2019, and interim periods beginning July 1, 2020. CommonSpirit is in the process of determining the potential impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities ("ASU 2016-14")*, which requires changes in presentation and disclosures to help not-for-profit entities provide more relevant information about their resources to donors, grantors, creditors, and other issues. CommonSpirit adopted the guidance as of July 1, 2018. CommonSpirit has adjusted the presentation of the condensed pro forma consolidated financial statements retrospectively for all periods presented.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842) ("ASU 2016-02")*, which affects any entity that enters into a lease (as that term is defined in ASU 2016-02), with some specified scope exceptions. The main difference between the guidance in ASU 2016-02 and previous guidance is the recognition of lease assets and lease liabilities by lessees for certain leases classified as operating leases under current guidance. The guidance is effective for CommonSpirit as of July 1, 2019. CommonSpirit is in the process of determining the potential impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers ("ASU 2014-09")*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires expanded disclosures about revenue recognition. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance, as amended by ASU 2015-14, *Revenue From Contracts with Customers ("Topic 606")*, was adopted by CommonSpirit effective July 1, 2018.

CommonSpirit applied the modified retrospective method of transition when adopting Topic 606. The most significant impact of adopting the new standard is in the presentation in the condensed pro forma consolidated statement of operations and changes in net assets where virtually all of the provision for bad debts is now considered an implicit price concession in determining the consideration CommonSpirit expects to be paid, and is therefore recorded as a direct reduction of patient revenue instead of being presented as a separate line item. In addition, upon adoption of Topic 606, the allowance for doubtful accounts as of July 1, 2018, was reclassified as a component of net patient accounts receivable. Other than these changes in presentation, the adoption of Topic 606 did not have a material impact on the consolidated results of operations for the three and nine-month periods ended March 31, 2019, and CommonSpirit does not expect it to have a material impact on its consolidated results of operations on a prospective basis. The adoption of the new standard also results in expanded disclosures. See Note 4.

4. NET PATIENT REVENUE AND PREMIUM REVENUE

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

Performance obligations are generally provided over a period less than one year. As such, CommonSpirit has elected to apply the optional exemption provided in Topic 606 and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

CommonSpirit determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with CommonSpirit's financial assistance policy, and implicit price concessions provided to uninsured and underinsured patients. CommonSpirit determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. CommonSpirit determines its estimate of implicit price concessions based on its historical collection experience with these classes of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Subsequent changes to estimates of the transaction price are generally recorded as adjustments to net patient revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in a third-party payor's ability to pay are recorded as bad debt expense in purchased services and other in the condensed pro forma consolidated statement of operations and changes in net assets. Bad debt expense for the three and nine-month periods ended March 31, 2019, was not significant.

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

> Medicare: Payments for inpatient services are generally made on a prospectively determined rate based on clinical diagnosis. Certain facilities receive cost-based reimbursement. Hospital outpatient services are generally paid based on prospectively determined rates. Physician services are paid based upon established fee schedules.
>
> Medicaid: Payments for inpatient services are generally made on a prospectively determined rate based on clinical diagnosis or on a per case or per diem basis. Hospital outpatient services and physician services are paid based upon established fee schedules, a cost basis reimbursement methodology, or discounts from established charges.
>
> Commercial: Payments for inpatient and outpatient services provided to patients covered under commercial insurance policies are paid using a variety of payment methodologies, including per diem and case rates.
>
> Self-pay and Other: Payment agreements with uninsured or underinsured patients along with other responsible entities, including institutions, other hospitals and other government payors, are based on a variety of payment methodologies.

Net patient revenue by payor for the three and nine-month periods ended March 31, 2019, is comprised of the following (in millions):

	Three-Months Ended	Nine-Months Ended
	March 31, 2019	
Medicare	$ 2,306	$ 6,622
Medicaid	1,175	3,421
Commercial	2,834	8,589
Self-pay and other	396	1,263
	$ 6,711	$ 19,895

Premium revenue covers amounts received on a per member per month basis for enrollees in various Medicare, Medicaid and commercial health plans. The performance obligations under these agreements are satisfied through the passage of time as CommonSpirit stands ready to provide services.

5. CALIFORNIA PROVIDER FEE PROGRAMS

Net patient revenue includes $232 million and $223 million related to supplemental Medi-Cal payments provided under the California provider fee programs during the three-month periods ended March 31, 2019 and 2018, respectively, and $697 million and $1 billion for the nine-month periods ended March 31, 2019 and 2018, respectively. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds. CommonSpirit recorded $120 million and $107 million in such fees in purchased services and other expense during the three-month periods ended March 31, 2019 and 2018, respectively, and $361 million and $520 million during the nine-month periods ended March 31, 2019 and 2018, respectively. Grant expense related to the California Health Foundation and Trust was recognized in connection with the California provider fee programs resulting in $4 million recorded in purchased services and other expense during the three-month periods ended March 31, 2019 and 2018, and $12 million and $21 million during the nine-month periods ended March 31, 2019 and 2018, respectively. Total net income recognized was $108 million and $112 million during the three-month periods ended March 31, 2019 and 2018, respectively, and $324 million and $552 million during the nine-month periods ended March 31, 2019 and 2018, respectively.

California's participation in provider fee programs, as authorized under federal regulations, was made permanent by the passage of Proposition 52, an initiative on the November 2016 ballot. The first iteration of the hospital provider fee program under the permanent legislation covering the period from January 1, 2017 to June 30, 2019, was approved by CMS in December 2017. Accordingly, the activity under this program related to January 1, 2017, through December 31, 2017, was recorded in December 2017. Activity after January 1, 2018, is recorded on a current basis.

6. SELF-INSURANCE PLANS

CommonSpirit maintains self-insurance programs for workers' compensation benefits for employees and for hospital professional and general liability risks. Self-insurance expense decreased $12 million and $0 million during the three-month periods ended March 31, 2019 and 2018, respectively, and decreased $43 million and $61 million for the nine-month periods ended March 31, 2019 and 2018, respectively, related to revisions to prior years' actuarially estimated liabilities. The expenses and related adjustments are recorded in salaries and benefits for workers' compensation benefits and in purchased services and other for professional and general liability risks in the accompanying condensed pro forma consolidated statements of operations and changes in net assets.

7. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

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

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

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

CHI's investment portfolio is held directly by CHI and by the CHI Operating Investment Program, L.P. (the "Program"). The majority of all CHI long-term investments are held in the Program. The Program is structured under a Limited Partnership Agreement with CHI as managing general partner and numerous limited partners, most sponsored by CHI. The partnership provides a vehicle whereby virtually all entities associated with CHI, as well as certain other unrelated entities, can optimize investment returns while managing investment risk. Entities participating in the Program that are not consolidated in the accompanying condensed pro forma consolidated financial statements have the ability to direct their invested amounts and liquidate and/or withdraw their interest without penalty as soon as practicable based on market conditions but within 180 days of notification. The Limited Partnership Agreement permits a simple-majority vote of the noncontrolling limited partners to terminate the partnership. Accordingly, CHI recognizes only the utilized portion of Program assets attributable to CHI and its direct Affiliates in which it has sole corporate membership or ownership. CHI accounts for its ownership in the Program under the equity method. As such, these investments are excluded from the scope of fair value measurements.

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

The following represents assets and liabilities measured at fair value on a recurring basis and certain other assets accounted for under the equity method as of March 31, 2019 and June 30, 2018 (in millions):

	March 31, 2019				
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**NAV Practical Expedient**	**Total Balance**
Assets					
Cash and cash equivalents	$ 394	$ 71	$ -	$ -	$ 465
U.S. government securities	820	119	-	-	939
U.S. corporate bonds	75	180	-	464	719
U.S. equity securities	1,122	5	-	219	1,346
Foreign government securities	-	63	-	-	63
Foreign corporate bonds	-	1	-	135	136
Foreign equity securities	650	1	-	662	1,313
Asset-backed securities	1	7	-	-	8
Structured debt	-	24	2	-	26
Private equity	-	-	60	564	624
Multi-strategy hedge funds	-	89	1	1,061	1,151
Real estate	11	1	-	236	248
Collateral held under securities lending program	-	45	-	-	45
Other fund investments	57	-	-	-	57
Total assets	$ 3,130	$ 606	$ 63	$ 3,341	$ 7,140
Liabilities					
Derivative instruments	$ -	$ 389	$ -	$ -	$ 389
Other	3	-	74	-	77
Total liabilities	$ 3	$ 389	$ 74	$ -	$ 466

	June 30, 2018				
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV Practical Expedient	Total Balance
Assets					
Cash and cash equivalents	$ 723	$ 10	$ -	$ -	$ 733
U.S. government securities	1,065	32	-	-	1,097
U.S. corporate bonds	81	323	-	454	858
U.S. equity securities	1,063	6	-	344	1,413
Foreign government securities	-	88	-	-	88
Foreign corporate bonds	1	1	-	112	114
Foreign equity securities	523	1	-	547	1,071
Asset-backed securities	-	130	-	-	130
Structured debt	-	29	2	-	31
Private equity	-	-	49	476	525
Multi-strategy hedge funds	-	-	1	989	990
Real estate	10	-	-	194	204
Collateral held under securities lending program	-	30	-	-	30
Derivative instruments	-	1	-	-	1
Other fund investments	7	-	-	-	7
Total assets	$ 3,473	$ 651	$ 52	$ 3,116	$ 7,292
Liabilities					
Derivative instruments	$ -	$ 340	$ -	$ -	$ 340
Other	6	-	81	-	87
Total liabilities	$ 6	$ 340	$ 81	$ -	$ 427

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

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

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

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

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

The fair value of collateral held under securities lending program is classified as Level 2. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include non-cash collateral of $56 million and $72 million as of March 31, 2019 and June 30, 2018, respectively.

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

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

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

The following table presents the change in the balance of Level 3 financial assets for the three and nine-month periods ended March 31, 2019 and 2018 (in millions):

	Three-Month Periods Ended March 31,		**Nine-Month Periods Ended March 31,**	
	2019	**2018**	**2019**	**2018**
Balance at beginning of period	$ 52	$ 33	$ 52	$ 45
Total unrealized gains (losses), net, included in excess (deficit) of revenues over expenses	10	1	10	(11)
Purchases, net	1	1	1	1
Balance at end of period	$ 63	$ 35	$ 63	$ 35

The following table and explanations identify attributes relating to the nature and risk of investments for which fair value is determined using a calculated NAV as of March 31, 2019 and June 30, 2018 (in millions):

As of March 31, 2019

		Fair Value	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
NAV Practical Expedient					
Private equity	(1)	$ 564	$ -	-	-
Multi-strategy hedge funds	(2)	1,061	-	Monthly, Quarterly, Semi-Annually, Annually	5 - 120 days
Real estate fund	(3)	236	10	Quarterly	90 days
Commingled funds - debt securities	(4)	599	41	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	881	-	Daily, Bi-Monthly, Monthly, Quarterly	1 - 90 days
Total NAV Practical Expedient		$ 3,341	$ 51		

As of June 30, 2018

		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
NAV Practical Expedient					
Private equity	(1)	$ 476	$ 455	-	-
Multi-strategy hedge funds	(2)	989	-	Monthly, Quarterly, Semi-Annually, Annually	5 - 120 days
Real estate fund	(3)	194	15	Quarterly	90 days
Commingled funds - debt securities	(4)	566	192	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	891	-	Daily, Bi-Monthly, Monthly, Quarterly	1 - 120 days
Total NAV Practical Expedient		$ 3,116	$ 662		

(1) This category includes private equity funds that specialize in providing capital to a variety of investment groups, including but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at March 31, 2019, to be over the next 11 years.

(2) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term risk adjusted absolute returns. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. The following table reflects the various redemption frequencies, notice periods, and any applicable lock-up periods or gates to redemption as of March 31, 2019:

Percentage of the Value of Category (2)		Redemption Frequency	Redemption Notice Period	Redemption Locked Up Until (if applicable)	Redemption Gate % of Account (if applicable)
Total	Subtotal				
17.9%	12.8%	Annually	60 days	2 years	up to 25.0 - 50.0%
	1.4%	Annually	75 days	-	-
	3.7%	Annually	90 days	-	-
0.2%	0.2%	Semi-Annually	75 days	-	-
54.7%	10.4%	Quarterly	30 - 45 days	2 years	up to 20.0%
	31.8%	Quarterly	60 - 65 days	1 year	up to 12.5% - 25.0%
	12.5%	Quarterly	90 days	-	up to 12.5% - 25.0%
27.2%	9.8%	Monthly	5 - 20 days	-	-
	8.4%	Monthly	30 - 45 days	-	up to 16.7%
	9.0%	Monthly	60 - 120 days	-	up to 20.0%

(3) This category includes investments in real estate funds that invest primarily in institutional quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts. Investments representing 18.0 percent of the value of investments in this category do not

have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at March 31, 2019, to be over the next 6 years.

(4) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets. Also included in this category are commingled fixed income funds that provide capital in a variety of mezzanine debt, distressed debt and other special debt securities situations. Investments representing approximately 8.0 percent of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at March 31, 2019, to be over the next 6 years.

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

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

8. INTANGIBLE ASSETS, NET

Intangible assets reported in the condensed pro forma consolidated balance sheets consist primarily of amounts for managed care contracts, trade names, management agreements, noncompete agreements, and other contracts related to certain business combinations accounted for under the acquisition method. Certain intangible assets have indefinite lives, and others are amortized over estimated useful lives ranging up to 25 years using the straight-line method. The aggregate amount of amortization expense related to intangible assets subject to amortization is $3 million for the three-month periods ended March 31, 2019 and 2018, and $10 million and $12 million for the nine-month periods ended March 31, 2019 and 2018, respectively.

9. GOODWILL

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

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

	As of March 31, 2019	As of June 30, 2018
Balance at beginning of period	$ 504	$ 822
Addition from acquisitions	2	69
Goodwill divested during the period	-	(387)
Balance at end of period	$ 506	$ 504

10. DEBT

Notwithstanding the consolidation of the financial statements as of February 1, 2019, the indebtedness of CHI and Dignity Health remain the separate legal obligations of the respective organizations, until such existing debt is restructured and consolidated into a single credit.

In February 2019, Dignity Health renewed the $400 million taxable line of credit scheduled to mature in June 2019, to June 2020.

In January 2019, Dignity Health drew $100 million on its syndicated line of credit for working capital purposes.

In December 2018, Dignity Health renewed the $250 million taxable line of credit scheduled to mature in December 2018, as discussed below, to December 2019.

In October 2018, Dignity Health renewed the letter of credit scheduled to expire in October 2018 to October 2021. The letter of credit is used to support variable rate demand bonds ("VRDBs") of $140 million. This did not change the terms, provisions or classification of the VRDBs.

In September 2018, Dignity Health renewed the $169 million direct placement loan which was scheduled to mature in September 2018, to September 2023.

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

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

In July 2018, Dignity Health defeased $21 million in aggregate outstanding principal amount of the California Health Facilities Financing Authority 1988 Series C VRDBs. The defeasance was financed with a draw on the syndicated line of credit. The letter of credit supporting this series of VRDBs was cancelled in conjunction with the defeasance of the bonds.

In December 2017, Dignity Health renewed the $250 million taxable line of credit scheduled to mature in December 2017, to December 2018.

In September 2017, Dignity Health drew $150 million on its syndicated line of credit for general working capital purposes. The $150 million draw was repaid in November 2017.

11. DERIVATIVE INSTRUMENTS

The following table shows the outstanding notional amount of CommonSpirit's derivative instruments measured at fair value, net of credit value adjustments, as reported in the condensed pro forma consolidated balance sheets as of March 31, 2019 and June 30, 2018 (in millions):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			March 31, 2019	
Derivatives not designated as hedges				
Interest rate swaps	2024 - 2047	3.2% - 3.4%	$ 2,176	$ (389)
Risk participation agreements	2019 - 2025, with extension options	SIFMA plus spread	510	-
Total return swap	2019 - 2024	SIFMA plus spread	417	-
Total derivative instruments			$ 3,103	$ (389)
			June 30, 2018	
Derivatives not designated as hedges				
Interest rate swaps	2024 - 2047	3.2% - 3.4%	$ 2,311	$ (340)
Risk participation agreements	2019 - 2025, with extension options	SIFMA plus spread	510	-
Total return swaps	2018 - 2024	SIFMA plus spread	424	-
Total derivative instruments			$ 3,245	$ (340)

Changes in fair value of CommonSpirit's derivative instruments have been recorded for the three and nine-month periods ended March 31, 2019 and 2018, as follows (in millions):

	Three-Month Periods Ended March 31, 2019	2018
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:		
Interest rate swaps - amortization	$ (1)	$ (1)
Gain (loss) recognized in change in market value and cash payments of interest rate swaps:		
Changes in fair value of non-hedged derivatives	(36)	63
Amortization of amounts in net assets without donor restrictions- interest rate swaps	(1)	(1)
Total	$ (37)	$ 62

	Nine-Month Periods Ended March 31, 2019	2018
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:		
Interest rate swaps - amortization	$ (2)	$ (2)
Gain (loss) recognized in change in market value and cash payments of interest rate swaps:		
Changes in fair value of non-hedged derivatives	11	94
Amortization of amounts in net assets without donor restrictions- interest rate swaps	(2)	(2)
Total	$ 9	$ 92

Of the amounts classified in net assets without donor restrictions as of March 31, 2019, CommonSpirit anticipates reclassifying approximately $3 million of additional non-cash losses from net assets without donor restrictions into interest expense, net, in the next twelve months. Amounts in net assets without donor restrictions are being amortized into earnings as the interest payments being economically hedged are made.

CHI's cash collateral balances are netted against the fair value of the swaps, the net amount of which is reflected in other liabilities in the accompanying condensed pro forma consolidated balance sheets. The fair value of Dignity Health's swaps is recorded in derivative instruments. Dignity Health, under the terms of its Master Trust Indenture, is prohibited from posting collateral on derivative instruments.

Of the $1.3 billion notional amount of interest rate swaps held by CHI at March 31, 2019, $839 million are not insured and have a negative fair value of $130 million. Swap collateral of $112 million was posted and netted against the fair value of these uninsured swaps. The remaining $448 million notional amount of interest rate swaps held by CHI have a negative fair value of $108 million and swap collateral of $96 million was posted and netted against the fair value of these swaps.

The CHI interest rate swaps mature at various years between 2024 and 2047, with $14 million notional maturing in May 2024. CHI has the right to terminate the swaps prior to maturity for any reason. The termination value would be the fair value or the replacement cost of the swaps, depending on the circumstances. All of the derivative agreements have certain early termination triggers caused by an event of default or a termination event. The events of default include failure to make payment when due, failure to give notice of a termination event, failure to comply with or perform obligations under the agreements, bankruptcy or insolvency, and defaults under other agreements (cross-default provision). The termination events include credit ratings dropping below Baa3/BBB-

(Moody's/Standard & Poor's) by either party on the notional amount of $538 million of interest rate swaps and below Baa2/BBB on a notional amount of $646 million of interest rate swaps.

Based upon CHI’s swap agreements in place as of March 31, 2019, a reduction in CHI’s credit rating to BBB would obligate CHI to post additional cash collateral of $29 million. If CHI’s credit rating were to fall below BBB, the swap counterparties would have the option to require CHI to settle the swap liabilities at the recorded fair value, which was $32 million as of March 31, 2019. Generally, it is CHI’s policy that all counterparties have an AA rating or better. The swap agreements generally require CHI to provide collateral if CHI’s liability, determined on a fair value basis, exceeds a specified threshold that varies based upon the rating on CHI’s long-term indebtedness.

CHI has total return swaps in the notional amount of $147 million and a negative fair value of $1 million at March 31, 2019.

Of the $889 million notional amount of interest rate swaps held by Dignity Health at March 31, 2019, $160 million are insured and have a negative fair value of $43 million at March 31, 2019. In the event the insurer, Assured Guaranty, is downgraded below A2/A or A3/A- (Moody’s/Standard and Poor’s), the counterparties have the right to terminate the swaps if Dignity Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If the insurer is downgraded below the thresholds noted above and Dignity Health is downgraded below Baa3/BBB- (Moody’s/Standard and Poor’s), the counterparties have the right to terminate the swaps.

Dignity Health had $729 million of interest rate swaps that are not insured as of March 31, 2019. While Dignity Health has the right to terminate the swaps prior to maturity for any reason, counterparties have various rights to terminate, including swaps in the outstanding notional amount of $100 million at each five-year anniversary date commencing in March 2023 and swaps in the notional amount of $204 million at each five-year anniversary date commencing in September 2023. Swaps in the notional amount of $60 million and swaps in the notional amount of $68 million have mandatory puts in March 2021 and March 2023, respectively. The termination value would be the fair market value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps have a negative fair value of $67 million at March 31, 2019. The remaining uninsured interest rate swaps in the notional amount of $297 million have a negative fair value of $43 million as of March 31, 2019.

Dignity Health had floating rate derivatives in the notional amount of $780 million as of March 31, 2019. Risk participation agreements in the notional amount of $510 million have a fair value deemed immaterial as of March 31, 2019. Dignity Health has a total return swap in the notional amount of $270. The total return swap has a positive fair value of $1 million at March 31, 2019.

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

12. INTEREST EXPENSE, NET

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

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2019	2018	2019	2018
Interest and fees on debt and other	$ 129	$ 123	$ 389	$ 359
Capitalized interest expense	(9)	(3)	(20)	(10)
Interest expense, net	$ 120	$ 120	$ 369	$ 349

13. INVESTMENT INCOME, NET

Investment income, net, on assets limited as to use, cash equivalents, collateral held under securities lending program, notes receivable, and investments, is comprised of the following (in millions):

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2019	2018	2019	2018
Interest and dividend income	$ 48	$ 48	$ 178	$ 159
Net realized gains on sales of securities	131	110	347	313
Net unrealized gains (losses) on securities	495	(89)	(206)	311
Other, net of capitalized investment income	(8)	(5)	(23)	(19)
Investment income, net	$ 666	$ 64	$ 296	$ 764

14. RETIREMENT PROGRAMS

Total expense for all CommonSpirit retirement and postretirement plans was $147 million and $146 million for the three-month periods ended March 31, 2019 and 2018, respectively, and $342 million and $335 million for the nine-month periods ended March 31, 2019 and 2018, respectively. Such amounts are included in salaries and benefits expense in the condensed pro forma consolidated statements of operations and changes in net assets.

15. SPECIAL CHARGES

Special charges relate to consulting, legal, severance and other costs related to the following:

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2019	2018	2019	2018
Changes in business operations	$ 15	$ 7	$ 35	$ 29
Affiliation related costs	37	9	89	27
Other	-	-	2	2
Special charges from continuing operations	$ 52	$ 16	$ 126	$ 58
Special charges from discontinued operations	$ 5	$ 4	$ 21	$ 606

16. COMMITMENTS AND CONTINGENT LIABILITIES

The following summary encompasses matters previously disclosed in CHI's and Dignity Health's audited financial statements, as well as additional developments since the date of those financial statements, related to litigation, regulatory and compliance matters.

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

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

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

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

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

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

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

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

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

While Dignity Health believes its position will ultimately prevail, there can be no assurance about the final resolution of this matter and, under certain circumstances, a negative final and non-appealable ruling against Dignity Health may have a material adverse effect on the financial condition or operations of Dignity Health, taken as a whole.

CommonSpirit Health and its Affiliates and Subordinate Corporations
Management Discussion and Analysis of Financial Condition and Results of Operations

Overview

CommonSpirit is a Colorado not-for-profit corporation exempt from federal and state income taxes. CommonSpirit is committed to creating healthier communities, delivering exceptional patient care, and ensuring every person has access to quality health care. With its national office in Chicago, and a team of approximately 150,000 employees and 25,000 physicians and advanced practice clinicians, CommonSpirit operates 142 hospitals and more than 700 care sites across 21 states.

Results of Operations

Three Months Ended March 31, 2019 and 2018

For the three-month period ended March 31, 2019, CommonSpirit recorded an operating loss of $100 million compared to an operating gain of $144 million for the same period in the prior year. The results of operations for the three-month period ended March 31, 2019, are primarily related to the following:

- Net patient and premium revenues increased $89 million, or 1.3%, over the same period in the prior year, primarily due to rate increases, higher acuity, and the addition of the AGH facilities, offset by increases in implicit price concessions and no longer consolidating USHW.
- Net patient and premium revenue per adjusted admission increased 2.4% compared to the same period in the prior year, primarily due to rate increases and higher acuity, offset by increases in implicit price concessions and softer commercial payor mix. Adjusted admissions decreased 1.1% compared to the same period in the prior year, primarily due to revenues from USHW no longer consolidated in the current year.
- Salaries and benefits increased $56 million, or 1.6%, over the same period in the prior year, primarily due to staffing for higher volumes, wage increases, lower productivity, and increases in pension cost.
- Supplies increased $21 million, or 1.9%, compared to the same period in the prior year, primarily due to the decline in value of CommonSpirit's investment in the stock of a third party group purchasing organization (recorded as supply expense) and increased pharmaceutical costs.
- Purchased services and other increased $67 million, or 3.3%, compared to the same period in the prior year, primarily due to increased medical fees, repairs and maintenance costs, and additional costs related to the consolidation of the AGH facilities, partially offset by no longer consolidating expenses for USHW and decreases in consulting costs.
- Investment income, net, was $666 million during the three-month period ended March 31, 2019, compared to income of $64 million during the same period in the prior year. Net realized gains of $131 million in the current year were higher than net realized gains of $110 million in the same period in the prior year. Net unrealized gains were $495 million in the current year, compared to net unrealized losses of $89 million during the same period in the prior year.
- Non-cash market adjustments on swaps, net, were $40 million unfavorable compared to $62 million favorable in the same period in the prior year.
- Net income tax expense of $7 million was recorded during the three-month period ended March 31, 2019, compared to net income tax expense of $25 million in the same period in the prior year, primarily due to tax expense recorded in the prior year related to the gain on the USHW transaction.

Nine Months Ended March 31, 2019 and 2018

For the nine-month period ended March 31, 2019, CommonSpirit recorded an operating loss of $196 million compared to a gain of $414 million for the same period in the prior year. The results of operations for the nine-month period ended March 31, 2019, are primarily related to the following:

- Related to the California provider fee programs, CommonSpirit recognized net income of $324 million pertaining to the nine-months ended March 31, 2019. For the same period in the prior year, the net provider fee income recognized was $552 million, which included catch-up pertaining to January through June 2017.
- Net patient and premium revenues decreased $334 million, or 1.6%, over the same period in the prior year. Excluding California provider fee program revenues, net patient and premium revenues increased $62 million, or 0.3%, primarily due to rate increases and the addition of the AGH facilities, offset by no longer consolidating revenues from Dayton and USHW and increased implicit price concessions.
- Net patient and premium revenue per adjusted admission increased 0.7% compared to the same period in the prior year, primarily due to rate increases and higher acuity, offset by increased implicit price concessions and softer commercial payor mix. Adjusted admissions decreased 2.3% compared to the same period in the prior year, primarily due to revenues from Dayton and USHW no longer consolidated in the current year.
- Other revenue decreased $148 million, or 16.3%, over the same period in the prior year, primarily due to a $121 million gain recorded in the prior year for the USHW transaction.
- Salaries and benefits decreased $21 million, or 0.2%, over the same period in the prior year, primarily due to no longer consolidating expenses for USHW and Dayton offset by staffing for higher volumes and wage increases.
- Supplies increased $63 million, or 1.9%, compared to the same period in the prior year, primarily due to price increases for surgical implants and pharmaceuticals, partially offset by no longer consolidating expenses for USHW and the appreciation of CommonSpirit's investment in the stock of a third party group purchasing organization (recorded as negative supply expense).
- Excluding the California provider fee program costs, purchased services and other increased $165 million, or 2.9%, primarily due to increased medical fees, out of network and subcapitation costs, and the consolidation of the AGH facilities, partially offset by no longer consolidating expenses for USHW and Dayton.
- Investment income, net, was $296 million during the nine-month period ended March 31, 2019, compared to income of $764 million during the same period in the prior year. Net realized gains of $347 million in the current year were higher than net realized gains of $313 million in the same period in the prior year. Net unrealized losses were $206 million in the current year, compared to net unrealized gains of $311 million during the same period in the prior year.
- Non-cash market adjustments on swaps, recorded in interest expense, net, were $53 million unfavorable compared to $92 million favorable in the same period in the prior year.
- Net income tax expense of $21 million was recorded during the nine-month period ended March 31, 2019, compared to net income tax credits of $7 million in the same period in the prior year. The prior year credit reflects the changes in the tax law adopted in December 2017, offset by the tax expense on the USHW transaction in February 2018.

Capital Resources

Cash used in operating activities totaled $66 million for the nine-month period ended March 31, 2019, compared to cash provided by operating activities of $390 million for the same period in the prior year. Significant activity for the nine-month period ended March 31, 2019, includes the following:

- California provider fee-related receivables, net of payables, increased $252 million during the nine-month period ended March 31, 2019, compared to $216 million during the same period in the prior year.
- Accrued salaries and benefits decreased $91 million during the nine-month period ended March 31, 2019, compared to $8 million during the same period in the prior year.
- Accounts payable increased $69 million during the nine-month period ended March 31, 2019, compared to a decrease of $89 million during the same period in the prior year.

- Other accrued liabilities increased $26 million during the nine-month period ended March 31, 2019, compared to a decrease of $343 million during the same period in the prior year.

Cash used in investing activities totaled $390 million for the nine-month period ended March 31, 2019, compared to $260 million for the same period in the prior year, primarily due to the following:

- Net sales of investments were $856 million during the nine-month period ended March 31, 2019, compared to net sales of $91 million during the same period in the prior year.
- Capital expenditures were $1 billion during the nine-month period ended March 31, 2019, compared to $767 million during the same period in the prior year. Such capital expenditures primarily relate to expansion and renovation of existing facilities, equipment and systems additions and replacements, and various other capital improvements.

Cash used in financing activities totaled $82 million for the nine-month period ended March 31, 2019, compared to $208 million for the same period in the prior year, primarily due to the following:

- Net debt repayments of $74 million during the nine-month period ended March 31, 2019, compared to $168 million during the same period in the prior year.
- $150 million purchase of noncontrolling interest of KentuckyOne Health during the nine-month period ended March 31, 2018.

CommonSpirit's debt-to-capitalization ratio was 48.3% as of March 31, 2019 and June 30, 2018.

CommonSpirit's operating EBITDA (EBITDA before special charges) decreased to $1 billion during the nine-month period ended March 31, 2019, compared to $2 billion for the same period in the prior year. The operating EBITDA margin percentage decreased to 6.3% from 8.6% for the same period in the prior year.

Business Strategy

Alignment to Create CommonSpirit

Effective February 1, 2019, Dignity Health and CHI closed a transaction to align their respective ministries into a single, Catholic, nonprofit health system, CommonSpirit. The alignment will create a stronger operational and financial foundation to deliver exceptional patient care, champion wellness, and drive innovation that offers access wherever people seek services – inpatient, outpatient and through virtual care settings. The new health system's name is CommonSpirit.

CommonSpirit will focus on achieving success in five key areas:

- Expanding clinical expertise across the system in primary, acute, and specialty care, and focusing on care for patients with chronic and complex conditions;
- Accelerating the shift toward providing services outside of hospitals to homes, the community, and online;
- Investing in technologies that make care more convenient and personal;
- Addressing the underlying causes of poor health and advocating for policies that improve health outcomes for the most vulnerable members of our communities; and
- Retaining and recruiting a highly-skilled and dedicated workforce where people embrace service to others and experience a personal and professional fulfillment in their work.

CommonSpirit is committed to creating healthier communities, delivering exceptional patient care, and ensuring every person has access to quality health care. With its national office in Chicago and a team of approximately 150,000 employees and 25,000 physicians and advanced practice clinicians, CommonSpirit operates 142 hospitals and more than 700 care sites across 21 states. Dignity Health and CHI previously announced that the new ministry will retain the names of local facilities and services in the communities where they are located. In fiscal 2018, Dignity Health and CHI had combined revenues of $29.2 billion and provided $4.2 billion in charity care, community benefit, and unreimbursed government programs.

At closing, the indebtedness and obligations of Dignity Health remain solely those of Dignity Health, secured by and subject to the provisions of its Master Trust Indenture, and the indebtedness and obligations of CHI remain solely those of CHI, secured by and subject to the provisions of its Capital Obligation Document, until the organizations can be consolidated into a single credit.

Additional information is available at commonspirit.org.

Forward Looking Statements

Certain of the discussions in this document may include “forward-looking statements” which involve known and unknown risks and uncertainties inherent in the operation of health care facilities. Actual actions or results may differ materially from those discussed above, and past or current trends may not continue. Specific factors that might cause such differences include competition from other health care facilities in the service areas of CommonSpirit, federal and state regulation of health care providers, staffing shortages, organized labor initiatives and reimbursement policies of the state and federal governments and managed care organizations. In particular, statements preceded by, followed by or that include the word “believes,” “estimates,” “expects,” “anticipates,” “plans,” “intends,” “scheduled,” or other similar expressions are or may constitute forward-looking statements.

CommonSpirit Health and its Affiliates and Subordinate Corporations

Unaudited Pro Forma Consolidated Operating Statistics

($ in millions)	Three-Month Periods Ended March 31, 2019	Three-Month Periods Ended March 31, 2018	Nine-Month Periods Ended March 31, 2019	Nine-Month Periods Ended March 31, 2018
Financial Performance:				
Operating income (loss)	$ (100)	$ 144	$ (196)	$ 414
Margin %	(1.4%)	2.0%	(0.9%)	1.9%
EBITDA	$ 380	$ 617	$ 1,232	$ 1,851
Margin %	5.2%	8.4%	5.7%	8.4%
Operating EBITDA (EBITDA before special charges)	$ 432	$ 633	$ 1,358	$ 1,909
Margin %	6.0%	8.7%	6.3%	8.6%
Excess (deficit) of revenues over expenses attributable to CommonSpirit Health	$ 500	$ 213	$ (51)	$ 1,183
Margin %	6.3%	2.9%	(0.2%)	5.2%
Uncompensated Care:				
Charity care, at customary charges	$ 321	$ 383	$ 1,048	$ 1,153
Charity care, at cost	$ 80	$ 98	$ 267	$ 305
Charity care, at cost, as a percentage of total expenses	1.1%	1.4%	1.2%	1.4%
Implicit price concession	$ 514	$ -	$ 1,415	$ -
Bad debt at customary charges	$ -	$ 311	$ -	$ 979
Productivity:				
Salaries, wages and benefits as a % of net patient and premium revenue	51.7%	51.6%	51.2%	50.4%
Supply expense as a % of net patient and premium revenue	16.3%	16.2%	16.4%	15.8%
Purchased services as a % of net patient and premium revenue	30.1%	29.5%	30.2%	29.7%
Capital expense as a % of net patient and premium revenue	6.9%	6.9%	6.9%	6.8%
Operations:				
Acute admissions	210,758	214,828	625,951	646,247
Adjusted admissions	407,843	412,474	1,227,661	1,255,961
Acute inpatient days	992,284	1,000,275	2,860,302	2,917,757
Adjusted patient days	1,920,194	1,920,546	5,609,834	5,670,571
Acute average length of stay	4.71	4.66	4.57	4.51
Gross outpatient revenue as a % of total gross patient services revenue	48.3%	47.9%	49.0%	48.5%
Number of FTEs	126,883	127,166	125,940	127,431
FTEs per adjusted occupied bed	5.42	5.36	5.59	5.48