This document is dated February 18, 2020

UNAUDITED PRO FORMA QUARTERLY REPORT

For the Three and Six-Month Periods Ended
December 31, 2019 and 2018

The information in this report
has been provided by
CommonSpirit Health

COMMONSPIRIT HEALTH

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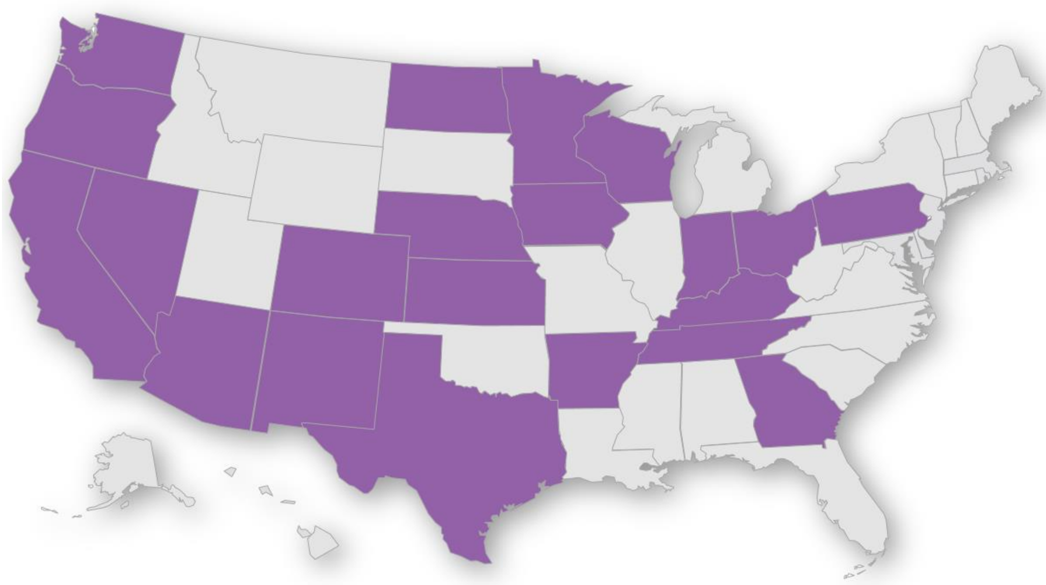
Management Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

CommonSpirit Health owns and operates health care facilities in 21 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations that are exempt from federal and state income taxes. With its national office in Chicago, and a team of approximately 150,000 employees and 25,000 physicians and advanced practice clinicians, CommonSpirit Health is comprised of 137 hospitals, including academic health centers, major teaching hospitals, and critical access facilities; community health services organizations; accredited nursing colleges; home health agencies; living communities; a medical foundation and other affiliated medical groups; and other facilities and services that span the inpatient and outpatient continuum of care. The accompanying unaudited condensed pro forma consolidated financial statements include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit", or the "System").



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.

To present the financial results herein on a consistent basis, pro forma consolidated financial information of CommonSpirit for the three and six-month periods ended December 31, 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, 2018.

CommonSpirit has presented its operating results for the three and six-month periods ending December 31, 2019 and 2018 (pro forma), in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and on a non-GAAP basis for EBITDA (earnings before interest, tax, depreciation and amortization, and nonoperating income), operating revenues and expenses adjusted to include unrecorded FY20 California provider fee program revenues and expenses as the program has not yet been approved by the Centers for Medicare and Medicaid ("CMS"), and to present pro forma results for the three and six-month period ended December 31, 2018, as noted above. The non-GAAP financial measures are in addition to, not a substitute for, measures of financial performance prepared in accordance with GAAP.

CommonSpirit believes that its presentation of non-GAAP financial measures provides useful supplementary information to and facilitates additional analysis by investors. CommonSpirit uses certain non-GAAP financial measures to enhance an investor's overall understanding of the financial performance and prospects for the future of CommonSpirit's ongoing business activities by facilitating comparisons of results of ongoing business operations among current, past and future periods.

Financial Highlights and Summary

CommonSpirit's EBITDA (earnings before interest, tax, depreciation and amortization, and nonoperating income) increased to $528 million during the three-month period ended December 31, 2019, from $389 million during the same period in the prior year. EBITDA decreased to $773 million during the six-month period ended December 31, 2019, from $804 million during the same period in the prior year. The EBITDA margin for the three-month period ended December 31, 2019, increased to 7.1% from 5.4% for same period in the prior year. For the six-month period ended December 31, 2019, the EBITDA margin decreased to 5.3% from 5.6% for the same period in the prior year. Including the California provider fee income not yet approved and recorded in FY20, EBITDA during the three and six-month periods ended December 31, 2019, would be $636 million and $989 million, respectively, or a margin of 8.3% and 6.6%, respectively.

For the three and six-month periods ended December 31, 2019, CommonSpirit's volumes on an adjusted admission basis were favorable to the same periods in the prior year by 1.9% and 2.1%, respectively. Adjusted patient days for the three and six-month periods ended December 31, 2019, were higher than the same periods in the prior year by 0.9% and 1.5%, respectively, and the average general acute length of stay (ALOS) of 4.47 for both the three and six-month periods ended December 31, 2019, was slightly lower than the same periods in the prior year of 4.52 and 4.50, respectively.

Key Indicators Financial Summary						
	Three-Month Periods Ended December 31,			Six-Month Periods Ended December 31,		
($ in millions)	2019	2018**	Change	2019	2018**	Change
As Recorded						
EBITDA	$ 528	$ 389	$ 139	$ 773	$ 804	$ (31)
Margin %	7.1%	5.4%	1.7%	5.3%	5.6%	(0.3%)
Operating income (loss)	$ 40	$ (87)	$ 127	$ (187)	$ (144)	$ (43)
Margin %	0.5%	(1.2%)	1.7%	(1.3%)	(1.0%)	(0.3%)
Excess (deficit) of revenues over expenses	$ 579	$ (724)	$ 1,303	$ 320	$ (518)	$ 838
Margin %	7.3%	(10.8%)	18.1%	2.1%	(3.7%)	5.8%
As Adjusted *						
EBITDA	$636	$ 389	$ 247	$ 989	$ 804	$ 185
Margin %	8.3%	5.4%	2.9%	6.6%	5.6%	0.9%
Operating income (loss)	$ 148	$ (87)	$ 235	$ 29	$ (144)	$ 173
Margin %	1.9%	(1.2%)	3.1%	0.2%	(1.0%)	1.2%
Excess (deficit) of revenues over expenses	$ 687	$ (724)	$ 1,411	$ 536	$ (518)	$ 1,054
Margin %	8.4%	(10.8%)	19.2%	3.4%	(3.7%)	7.1%

* *2019 amounts adjusted to include the FY20 California Provider Fee Program not yet recorded.*

** *Pro forma results assuming the operations of CHI and Dignity Health were combined as of July 1, 2018.*

Results of Operations

Three and Six-Month Periods Ended December 31, 2019 and 2018 (Pro Forma)

For the three and six-month periods ended December 31, 2019, CommonSpirit recorded operating income of $40 million and an operating loss of $187 million, respectively, compared to losses of $87 million and $144 million, respectively, for the same periods in the prior year.

CommonSpirit recorded favorable true-ups of $82 million in net patient revenues related to the prior California provider fee program, which expired June 30, 2019, during the three and six-month periods ended December 31, 2019. No amounts have been recorded during the three and six-month periods ended December 31, 2019, related to the new program beginning July 1, 2019, pending CMS approval. The State has submitted the State Plan Amendment and CMS approval is anticipated in the spring of 2020. During the same periods in the prior year, $232 million and $465 million of net patient revenue and $124 million and $249 million, respectively, of purchased services and other expense were recorded for this program, for net income of $108 million and $216 million, respectively. The unrecorded FY20 California provider fee net income is expected to be similar to the FY19 amounts.

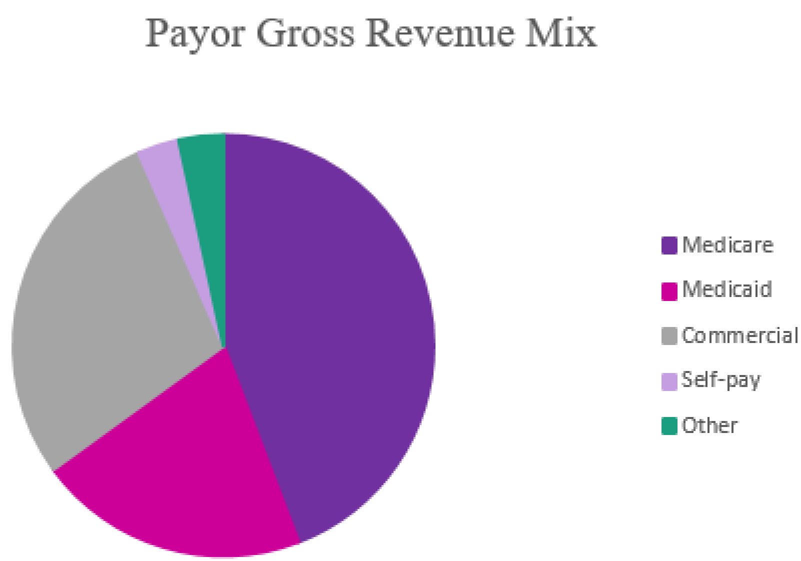
Operating Revenues and Volume Trends

Net patient and premium revenues increased $130 million, or 1.9%, over the same period in the prior year for the three-month period ending December 31, 2019, and $200 million, or 1.5%, over the same period in the prior year for the six-month period ending December 31, 2019. Including unrecorded provider fee program revenues, net patient and premium revenues increased $362 million and $665 million, or 5.2% and 4.8%, respectively, over the same periods in the prior year for the three and six-month periods ended December 31, 2019, with net patient and premium revenue per adjusted admission increasing 3.2% and 2.7%, respectively, compared to the same periods in the prior year. The increase is primarily due to stable payor mix and favorable rate variances, offset by increased charity care and implicit price concessions.

Adjusted admissions increased 1.9% and 2.1% compared to the same period in the prior year for the three and six-month periods ended December 31, 2019, respectively.

Volumes	Three-Month Periods Ended December 31, 2019	Three-Month Periods Ended December 31, 2018*	Change	Six-Month Periods Ended December 31, 2019	Six-Month Periods Ended December 31, 2018*	Change
Acute admissions	208,321	207,628	693	416,444	415,193	1,251
Adjusted admissions	418,286	410,372	7,914	837,597	820,103	17,494
Acute inpatient days	931,957	938,733	(6,776)	1,862,568	1,868,018	(5,450)
Adjusted patient days	1,871,269	1,855,384	15,885	3,746,197	3,689,770	56,427
Acute average length of stay	4.47	4.52	(0.05)	4.47	4.50	(0.03)
Outpatient visits	6,631,794	6,370,773	261,021	13,197,486	12,559,206	638,280
ED Visits	977,680	1,000,724	(23,044)	1,968,983	2,000,300	(31,317)
Gross outpatient revenue as a % of total gross patient services revenue	50.2%	49.4%	0.8%	50.3%	49.4%	0.9%

The following chart represents the payor gross revenue mix for consolidated operations for the six-month period ended December 31, 2019:



All other operating revenues increased $99 million and $127 million, or 35.4% and 21.9%, over the same periods in the prior year for the three and six-month periods ended December 31, 2019, respectively, primarily due to favorable joint venture results, a $16 million gain on the sale of real estate in Texas, and higher rental revenues.

Operating Revenues						
	Three-Month Periods Ended December 31,			**Six-Month Periods Ended December 31,**		
($ in millions)	**2019**	**2018****	**Change**	**2019**	**2018****	**Change**
As Recorded						
Net patient and premium revenues	$ 7,083	$ 6,953	$ 130	$ 13,926	$ 13,726	$ 200
All other operating revenues	379	280	99	708	581	127
Total operating revenues	$ 7,462	$ 7,233	$ 229	$ 14,634	$ 14,307	$ 327
As Adjusted*						
Net patient and premium revenues	$ 7,315	$ 6,953	$ 362	$ 14,391	$ 13,726	$ 665
All other operating revenues	379	280	99	708	581	127
Total operating revenues	$ 7,694	$ 7,233	$ 461	$ 15,099	$ 14,307	$ 792

* *2019 amounts adjusted to include the FY20 Californbia Provider Fee Program not yet recorded.*
** *Pro forma results assuming the operations of CHI and Dignity Health were combined as of July 1, 2018.*

Uncompensated Care				
	Three-Month Periods Ended December 31,		**Six-Month Periods Ended December 31,**	
($ in millions)	**2019**	**2018***	**2019**	**2018***
Charity care, at customary charges	$ 620	$ 370	$ 1,087	$ 728
Charity care, at cost	$ 151	$ 96	$ 267	$ 188
Charity care, at cost, as a percentage of total expenses	2.0%	1.3%	1.8%	1.3%
Implicit price concessions	$ 348	$ 459	$ 809	$ 901

* *Pro forma results assuming the operations of CHI and Dignity Health were combined as of July 1, 2018.*

Operating Expenses

Salaries and benefits increased $136 million and $304 million, or 3.8% and 4.3%, over the same periods in the prior year, for the three and six-month periods ended December 31, 2019, respectively, with salaries and benefits per adjusted admission increasing 1.9% and 2.1%, respectively, primarily due to wage increases and an increase in the cost of employee health coverage.

Supplies decreased $2 million, or 0.2%, during the three-month period ended December 31, 2019, compared to the same period in the prior year, but increased $96 million, or 4.3%, during the six-month period ended December 31, 2019, compared to the same period in the prior year. The year-to-date increase is primarily due to increased volume and higher acuity, which impacted pharmaceutical and supply costs, and general inflation.

Purchased services and other decreased $26 million and $9 million, or 1.3% and 0.2%, during the three and six-month periods ended December 31, 2019, respectively, compared to the same periods in the prior year. Including unrecorded provider fee program costs, purchased services and other increased $98 million and $240 million, or 4.7% and 5.8%, respectively, primarily due to increased medical fees, EPIC go-live support costs, repairs and maintenance costs, lease expenses, out of network and sub-capitation expenses, and higher self-insured professional liability costs.

Special charges and other costs, primarily related to the affiliation between CHI and Dignity Health, decreased $18 million and $33 million, or 43.9% and 44.6% during the three and six-month periods ended December 31, 2019, respectively, compared to the same periods in the prior year.

Expense Management and Productivity

	Three-Month Periods Ended December 31,			Six-Month Periods Ended December 31,		
	2019	2019	2018	2019	2019	2018
	As Recorded	As Adjusted*	Pro Forma**	As Recorded	As Adjusted*	Pro Forma**
Expense Management:						
Supply expense as a % of net patient and premium revenue	16.5%	16.0%	16.9%	16.9%	16.3%	16.4%
Purchased services and other as a % of net patient and premium revenue	28.9%	29.7%	29.8%	29.7%	30.5%	30.2%
Capital expense as a % of net patient and premium revenue	6.9%	6.7%	6.8%	6.9%	6.7%	6.9%
Non-capital cost per adjusted admission	16,579	16,876	16,679	16,548	16,845	16,464
Productivity:						
Salaries, wages and benefits as a % of net patient and premium revenue	52.1%	50.5%	51.1%	52.7%	51.0%	51.2%
Number of FTEs	126,858		126,024	126,669		125,479
FTEs per adjusted admission	25.39		25.67	25.33		25.56

* *Adjusted to include the FY20 California Provider Fee Program not yet recorded.*

** *Pro forma results assuming the operations of CHI and Dignity Health were combined as of July 1, 2018.*

Operating Expenses

($ in millions)	Three-Month Periods Ended December 31, 2019	2019	2018	Change	
	As Recorded	As Adjusted*	Pro Forma **	As Recorded Compared to Pro Forma	As Adjusted Compared to Pro Forma
Salaries and benefits	$ 3,692	$ 3,692	$ 3,556	$ 136	$ 136
Supplies	1,172	1,172	1,174	(2)	(2)
Purchased services and other	2,047	2,171	2,073	(26)	98
Depreciation and amortization	370	370	350	20	20
Interest expense, net	118	118	126	(8)	(8)
Special charges	23	23	41	(18)	(18)
Total operating expenses	$ 7,422	$ 7,546	$ 7,320	$ 102	$ 226

* *Adjusted to include the FY20 California Provider Fee Program not yet recorded.*

** *Pro forma results assuming the operations of CHI and Dignity Health were combined as of July 1, 2018.*

Operating Expenses					
	Six-Month Periods Ended December 31,				
($ in millions)	**2019**	**2019**	**2018**	**Change**	
	As Recorded	**As Adjusted***	**Pro Forma ** **	**As Recorded Compared to Pro Forma**	**As Adjusted Compared to Pro Forma**
Salaries and benefits	$ 7,334	$ 7,334	$ 7,030	$ 304	$ 304
Supplies	2,351	2,351	2,255	96	96
Purchased services and other	4,135	4,384	4,144	(9)	240
Depreciation and amortization	729	729	699	30	30
Interest expense, net	231	231	249	(18)	(18)
Special charges	41	41	74	(33)	(33)
Total operating expenses	$ 14,821	$ 15,070	$ 14,451	$ 370	$ 619

* *Adjusted to include the FY20 California Provider Fee Program not yet recorded.*

** *Pro forma results assuming the operations of CHI and Dignity Health were combined as of July 1, 2018.*

Nonoperating Results

Investment income, net, was $463 million and $562 million during the three and six-month periods ended December 31, 2019, respectively, compared to net losses of $599 million and $371 million during the same periods in the prior year, respectively. Net realized gains were $103 million and $199 million during the three and six-month periods in the current year, respectively, compared to $59 million and $215 million during the same periods in the prior year, respectively. Net unrealized gains were $310 million and $259 million during the three and six-month periods in the current year, respectively, compared to net unrealized losses of $728 million and $701 million during the same periods in the prior year, respectively.

CommonSpirit recorded a loss on early extinguishment of debt of $112 million during the six-month period ended December 31, 2019, related to the debt restructuring in August 2019.

The change in market value and cash payments of interest rate swaps was $50 million favorable during the three-month period ended December 31, 2019, but $12 million unfavorable during the six-month period ended December 31, 2019, compared to unfavorable results of $53 million and $31 million during the same periods in the prior year, respectively.

Nonoperating Results						
	Three-Month Periods Ended December 31,			**Six-Month Periods Ended December 31,**		
($ in millions)	**2019**	**2018***	**Change**	**2019**	**2018***	**Change**
Investment income (loss), net	$ 463	$ (599)	$ 1,062	$ 562	$ (371)	$ 933
Loss on early extinguishment of debt	-	-	-	(112)	-	(112)
Income tax expense	(15)	(6)	(9)	(19)	(14)	(5)
Change in fair value and cash payments of interest rate swaps	50	(53)	103	(12)	(31)	19
Contribution from business combinations	8	-	8	27	-	27
Other components of net periodic postretirement costs	30	23	7	59	48	11
Other	3	(2)	5	2	(6)	8
Total nonoperating income (loss), net	$ 539	$ (637)	$ 1,176	$ 507	$ (374)	$ 881

** Pro forma results assuming the operations of CHI and Dignity Health were combined as of July 1, 2018.*

Operating Revenues by Division

The following tables present operating revenues by Division for the three and six-month periods ended December 31, 2019 and 2018 (pro forma):

Division Operating Revenues

($ in millions)	Three-Month Periods Ended December 31, 2019 As Reported	2019 As Adjusted*	2018 Pro Forma**	Change As Recorded Compared to Pro Forma	Change As Adjusted Compared to Pro Forma
Southeast	$ 871	$ 871	$ 845	$ 26	$ 26
Southwest	648	736	723	(75)	13
Pacific Northwest	770	770	710	60	60
Greater Sacramento	687	728	698	(11)	30
Colorado	644	644	618	26	26
Arizona	649	649	615	34	34
Texas	618	618	600	18	18
Central California	503	557	494	9	63
Northern California	507	533	502	5	31
Midwest	625	625	606	19	19
Central Coast	341	364	340	1	24
Iowa	281	281	265	16	16
Fargo	109	109	109	-	-
National Business Lines***	100	100	97	3	3
Other	5	5	14	(9)	(9)
Subtotal Divisions	7,358	7,590	7,236	122	354
Corporate Services	104	104	(3)	107	107
CommonSpirit Total	$ 7,462	$ 7,694	$ 7,233	$ 229	$ 461

* *Adjusted to include the FY20 California Provider Fee Program not yet recorded.*

** *Pro forma results assuming the operations of CHI and Dignity Health were combined as of July 1, 2018.*

*** *Includes Home Care and Senior Living Business Lines.*

Division Operating Revenues

($ in millions)	Six-Month Periods Ended December 31, 2019 As Reported	2019 As Adjusted*	2018 Pro Forma**	Change As Recorded Compared to Pro Forma	Change As Adjusted Compared to Pro Forma
Southeast	$ 1,731	$ 1,731	$ 1,674	$ 57	$ 57
Southwest	1,308	1,484	1,458	(150)	26
Pacific Northwest	1,509	1,509	1,410	99	99
Greater Sacramento	1,372	1,454	1,395	(23)	59
Colorado	1,263	1,263	1,232	31	31
Arizona	1,246	1,246	1,157	89	89
Texas	1,198	1,198	1,181	17	17
Central California	1,006	1,113	979	27	134
Northern California	1,012	1,065	995	17	70
Midwest	1,229	1,229	1,173	56	56
Central Coast	674	721	663	11	58
Iowa	547	547	523	24	24
Fargo	218	218	214	4	4
National Business Lines***	197	197	191	6	6
Other	11	11	26	(15)	(15)
Subtotal Divisions	14,521	14,986	14,271	250	715
Corporate Services	113	113	36	77	77
CommonSpirit Total	$ 14,634	$ 15,099	$ 14,307	$ 327	$ 792

* *Adjusted to include the FY20 California Provider Fee Program not yet recorded.*

** *Pro forma results assuming the operations of CHI and Dignity Health were combined as of July 1, 2018.*

*** *Includes Home Care and Senior Living Business Lines.*

CommonSpirit same store adjusted admissions increased 2.0% year over year with stable payor mix. Following are the significant division performance drivers related to operating revenues compared to prior year for the six-month period ended December 31, 2019:

Revenues for the Central California Division increased primarily due to a 4.0% increase in adjusted admissions and 5.9% favorable surgical volume. The increase in the Pacific Northwest Division is driven by favorable contract rate increases, improved payor mix and an increase in inpatient and outpatient volume levels. The Greater Sacramento Division reported a 0.9% increase in adjusted admissions, favorable length-of-stay, and a 1.8% increase in surgical volume. The Colorado Division reported favorable revenue and a 1.8% increase in adjusted admissions. The Arizona Division reported a 7.1% increase in adjusted admissions, improved payor mix, and a 2.1% increase in surgical volume. The Northern California Division reported a 2.1% increase in adjusted admissions, and a 3.8% increase in surgical volume, partially offset by an unfavorable change in payor mix. The Central Coast Division reported an increase in surgical volume of 1.3% and improved outpatient visits. The Texas Division’s operating revenues increased year over year primarily due to a $16 million gain on the sale of real estate and the acquisition of College Station Medical Center in August 2019, offset by unfavorable shifts in payor and service mix.

Balance Sheet Metrics

The following table provides key balance sheet metrics for CommonSpirit:

Key Balance Sheet Metrics ($ in millions)	December 31, 2019	June 30, 2019	Change
Consolidated Balance Sheet Summary			
Total assets	$ 42,749	$ 40,625	$ 2,124
Total liabilities	$ 26,603	$ 24,834	$ 1,769
Total net assets	$ 16,146	$ 15,791	$ 355
Financial Position Ratios			
Total cash and unrestricted investments	$ 11,720	$ 11,599	$ 121
Days cash on hand	153	152	1
Total debt	$ 14,242	$ 13,507	$ 735
Debt to capitalization	49.2%	48.4%	0.8%

Liquidity

Cash and unrestricted investments were $11.7 billion at December 31, 2019, and $11.6 billion at June 30, 2019.

Liquidity and Capital Resources ($ in millions)	December 31, 2019	June 30, 2019	Change
Cash	$ 1,360	$ 1,569	$ (209)
Short-term investments	2,733	2,511	222
Designated for capital projects and other	7,627	7,519	108
Total	$ 11,720	$ 11,599	$ 121

Capital Resources

Cash used in operating activities totaled $155 million for the six-month period ended December 31, 2019, compared to cash provided of $566 million for the same period in the prior year. Significant activity for the six-month period ended December 31, 2019, includes the following:

- California provider fee-related receivables, net of payables, decreased $73 million during the six-month period ended December 31, 2019, compared to an increase of $65 million during the same period in the prior year.
- Accounts receivable, net, increased $341 million during the six-month period ended December 31, 2019, compared to an increase of $139 million during the same period in the prior year.
- Broker payables, net of receivables, decreased $97 million during the six-month period ended December 31, 2019, compared to an increase of $6 million during the same period in the prior year.
- Accrued salaries and benefits decreased $117 million during the six-month period ended December 31, 2019, compared to a decrease of $79 million during the same period in the prior year.
- Accounts payable decreased $65 million during the six-month period ended December 31, 2019, compared to a decrease of $12 million during the same period in the prior year.
- Other accrued liabilities increased $8 million during the six-month period ended December 31, 2019, compared to an increase of $113 million during the same period in the prior year.

Cash used in investing activities totaled $551 million for the six-month period ended December 31, 2019, compared to $610 million for the same period in the prior year, primarily due to the following:

- Capital expenditures were $637 million during the six-month period ended December 31, 2019, compared to $651 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.
- Proceeds from the sale of assets were $79 million during the six-month period ended December 31, 2019, compared to $19 million during the same period in the prior year, primarily related to land and other asset sales in the Texas Division.
- Cash distributions from health-related activities were $71 million during the six-month period ended December 31, 2019, compared to $33 million during the same period in the prior year.

Cash provided by financing activities totaled $497 million for the six-month period ended December 31, 2019, compared to cash used in financing activities of $175 million for the same period in the prior year, primarily due to the following:

- Net debt borrowings of $661 million during the six-month period ended December 31, 2019, compared to repayments of $129 million during the same period in the prior year, in connection with the August 2019 financing.
- Debt extinguishment costs of $112 million during the six-month period ended December 31, 2019, related to the August 2019 financing.

Debt Consolidation

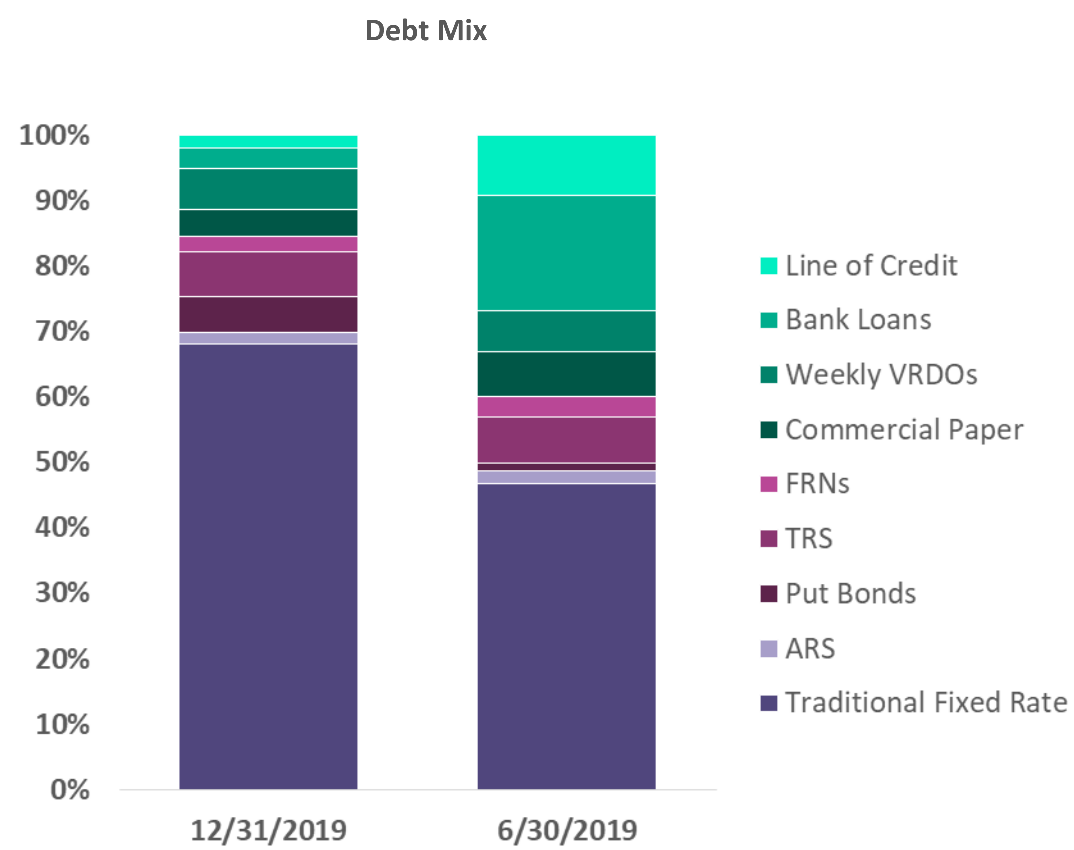
As part of a debt consolidation plan, the debt previously issued by CHI and Dignity Health was consolidated into a single unified credit group and debt structure in August 2019 in connection with the issuance and sale of the 2019 tax-exempt and taxable bonds.

With this consolidation, CHI's Capital Obligation Document and Dignity Health's Master Trust Indenture were amended and restated, both to be the new CommonSpirit Health Master Trust Indenture (the "CommonSpirit Health MTI"), with CHI and the Dignity Health Obligated Group each obtaining the necessary consents. The CommonSpirit Health MTI has an Obligated Group that is comprised of the former Dignity Health Obligated Group and CHI entities (collectively, the "CommonSpirit Obligated Group"). The CommonSpirit Health Obligated Group represents approximately 89% of consolidated revenues of CommonSpirit as of December 31, 2019.

Benefits from the debt restructuring include the following:

- Created a unified credit structure for CommonSpirit that enables further streamlining of the organization, and allows for efficiencies in financial reporting, debt management and investor relations
- Captured net present value savings on the tax-exempt bond restructurings of approximately $330 million
- Achieved a True Interest Cost of 3.58% on the transaction
- Generated a five-year cash flow window on principal payments for the organization providing upfront cash flow savings of $1.4 billion
- Refinanced $3.3 billion of short-term maturities to reduce event and near-term put risk, including $2.8 billion of bank debt
- Provided $600 million of cash to the balance sheet for reimbursement of prior capital expenditures

The chart below depicts the debt mix of CommonSpirit before and after the debt restructuring:



Strategic Vision

CommonSpirit's strategic vision centers around transforming health care in the United States by (i) committing to building healthier communities, (ii) advocating for those who are poor and vulnerable, and (iii) innovating how and where healing can happen in order to extend care beyond traditional settings. This strategic vision reflects and expands on CommonSpirit's founding mission by combining the strengths of CHI and Dignity Health (the "Historical Organizations") and broadening their commitment to serve the common good.

CommonSpirit is implementing its strategic vision through five transformative strategies:

Advocate for Healthy Populations: represent diverse populations across the United States as a leader in advancing the shift from sick care to well care.

Coordinate and Customize Care: take a coordinated, systemic and customizable approach to serve those with acute, chronic and complex conditions.

Address Unique Needs of the Communities it Serves: create a continuum of health, wellness and social services for vulnerable populations.

Enhance Consumer Engagement: provide more personalized care through digitalization, innovation and research in order to make care more efficient and convenient for the consumer.

Inspire the CommonSpirit Workforce: CommonSpirit's employees and clinicians form the core of its mission delivery. CommonSpirit intends to inspire a culture of excellence amongst all of its employees and clinicians, where people embrace service to others and experience a personal and professional fulfillment in their work.

Integrated Operating Company

CommonSpirit is organized under a single operating company model that facilitates identifying, standardizing and scaling best practices across the System. The System is led by an executive leadership team, responsible for System-wide operations and long-term planning, supported by thirteen operating divisions (each, a "Division") overseen by regional executives. Centralized management and decision-making are expected to allow CommonSpirit to deploy the most effective clinical and operational practices of the Historical Organizations efficiently across the System.

At the corporate level, common services and practices include centralized financial services and purchasing, a single corporate financial planning model, budget and capital allocation processes, and centralized cash, debt and investment management. Other functions that are, or will be, coordinated centrally, with varying degrees of local implementation, include clinical quality and patient safety, managed care strategies and contracting, strategic innovation and partnerships, community health strategies, marketing management, advocacy and communications. System-wide performance metrics have been established, utilizing standardized data sources, and are being used to track a range of metrics in clinical quality and patient experience, growth, engagement, financial performance, service to the community, and other areas.

Since CommonSpirit was created, Lloyd H. Dean and Kevin E. Lofton have served together in the Office of the CEO, each with separate and distinct responsibilities, as CommonSpirit transitioned from two leading health ministries into a new, national health organization. This structure was developed to facilitate creation of a new culture of excellence and service, a new model for delivering care, and a new team of caregivers - all while honoring the legacies of both CHI and Dignity Health. As CommonSpirit approached the first anniversary of creation, CEO Kevin E. Lofton announced his retirement as of June 30, 2020. Beginning July 1, 2020, Lloyd H. Dean will serve as CommonSpirit's sole CEO. CommonSpirit is confident that under Lloyd's leadership, it will be well positioned to transform how it delivers care across the 21 states it serves.

Realization of Synergy Goals

Management believes that the realization of financial goals and synergies will strengthen CommonSpirit's financial platform, to ensure sustainability and generate additional capital capacity to invest in transformative strategies. The long-term financial goals of CommonSpirit include achievement of an eight percent operating EBITDA margin, achieving and maintaining days' cash on hand of 150 days and maintaining debt to capitalization of 45 percent or less. Management's goal is to achieve these metrics by the end of fiscal year 2023, though no assurances can be provided as to either the timing or the achievement of these goals. To support these long-term financial goals, CommonSpirit has identified approximately $2 billion in merger-related synergies and performance excellence over the next four years.

Within this $2 billion synergy and performance excellence goal, management believes it can achieve approximately $1 billion in savings related to the types of opportunities associated with any large scale health care merger. Each functional area has a goal related to these improvements and has developed, or is in the process of developing, a detailed work plan. Some of these improvements are being implemented within one or two fiscal years, while others will require standardization of approach before the full savings can be achieved. As there is essentially no overlap in geographic footprint between CHI and Dignity Health, the majority of synergy opportunities are in support functions that do not directly address patient care and/or can be delivered virtually. Examples of these types of opportunities include the selection of a group purchasing organization partner, consolidating vendors through a competitive bidding process in the areas of audits, supply chain, insurance brokerage, external legal services, and marketing services; and consolidating support operations such as data centers, finance and system offices.

Management has also set a goal of approximately $1 billion of savings related to performance excellence initiatives within the hospital and physician enterprise. CommonSpirit believes that by applying best practices, cost reductions and/or efficiency improvements can be achieved in a range of areas, including revenue cycle operations, productivity, care coordination, hospital ancillary and support services, and the physician enterprise. Each of these functions has detailed work plans supporting these efforts.

During the first six months of FY20, the organization has made progress toward its performance excellence goals in several areas. Some examples of best practices implemented include consistent denial management and clinical documentation practices; deployment of standardized labor management practices and monitoring mechanisms; and standardized physician staffing templates, resulting in improved productivity for the physician enterprise. Additionally, improvements made that will drive longer-term benefits include: continued optimization of the 340B pharmacy program management; insourcing of several support functions, including clinical engineering and environmental and food services; and ongoing rationalization of IT applications, infrastructure, and services.

Each member of the Executive Leadership Team is responsible for several integration teams. Each team has improvement goals tied to the current calendar year, current fiscal year, and for each year through fiscal year 2023, and a detailed tracking mechanism has been established both for the merger-enabled synergies and the performance excellence initiatives to measure against the established goals.

Growth is also a priority for CommonSpirit in addition to achievement of synergies. Growth goals are focused across the continuum of care, from inpatient to ambulatory and virtual services. The System has identified a number of existing capabilities within each of the Historical Organizations that can be scaled rapidly across the System to accelerate performance excellence and value capture. Some examples of initiatives that are expected to drive growth or improve costs or efficiency include: scaling digital capabilities such as video visits and telehealth; expanding centralized precision sales and marketing activities that drive commercial volume; expanding home-based healthcare to manage length of stay and avoid costly readmissions; and scaling community health initiatives that address the social determinants of health. Housing, access to food, transportation and mental health and social services, when appropriately coordinated, drive efficiency through provision of services in appropriate, cost effective settings to help reduce emergency room utilization and/or preventable hospitalizations.

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six-Month Periods Ended December 31, 2019 and 2018

COMMONSPIRIT HEALTH

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COMMONSPIRIT HEALTH

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2019 AND JUNE 30, 2019
(In millions)

	As of December 31, 2019 (Unaudited)	As of June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 1,360	$ 1,569
Short-term investments	2,733	2,511
Assets limited as to use	1,226	2,315
Patient accounts receivable, net	3,951	3,726
Broker receivables for unsettled investment trades	209	291
Provider fee receivable	746	964
Assets held for sale	-	223
Other current assets	1,657	1,403
Total current assets	11,882	13,002
Assets limited as to use:		
Designated assets for:		
Capital projects and other	7,627	7,519
Held for self-insurance claims	1,610	1,551
Under bond indenture agreements for debt service	7	31
Donor-restricted	908	879
Other	505	397
Less amount required to meet current obligations	(1,226)	(2,315)
Assets limited as to use, net	9,431	8,062
Property and equipment, net	15,171	15,266
Right of use operating lease assets	1,853	-
Ownership interests in health-related activities	3,240	3,145
Goodwill	275	242
Intangible assets, net	707	714
Other long-term assets, net	190	194
Total assets	$ 42,749	$ 40,625

(Continued)

COMMONSPIRIT HEALTH

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2019 AND JUNE 30, 2019
(In millions)

Liabilities and Net Assets	As of December 31, 2019 (Unaudited)	As of June 30, 2019
Current liabilities:		
Current portion of long-term debt	$ 1,225	$ 3,475
Demand bonds subject to short-term liquidity arrangements	820	820
Accounts payable	1,309	1,362
Accrued salaries and benefits	1,338	1,348
Self-insured reserves and claims	364	423
Broker payables for unsettled investment trades	225	403
Liabilities held for sale	-	162
Provider fee payables	186	335
Right of use operating lease liabilities	242	-
Other accrued liabilities	1,128	1,190
Total current liabilities	6,837	9,518
Other liabilities - long-term:		
Self-insured reserves and claims	1,101	1,104
Pension and other postretirement liabilities	3,669	3,692
Derivative instruments	187	214
Right of use operating lease liabilities	1,758	-
Other	854	1,094
Total other liabilities - long-term	7,569	6,104
Long-term debt, net of current portion	12,197	9,212
Total liabilities	26,603	24,834
Net assets:		
Without donor restrictions - attributable to CommonSpirit Health	14,707	14,428
Without donor restrictions - noncontrolling interests	525	486
With donor restrictions	914	877
Total net assets	16,146	15,791
Total liabilities and net assets	$ 42,749	$ 40,625

See notes to unaudited condensed pro forma consolidated financial statements.

COMMONSPIRIT HEALTH

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

	Three-Month Periods Ended December 31, 2019	Three-Month Periods Ended December 31, 2018 (Pro Forma)	Six-Month Periods Ended December 31, 2019	Six-Month Periods Ended December 31, 2018 (Pro Forma)
Operating revenues:				
Net patient revenue	$ 6,796	$ 6,686	$ 13,358	$ 13,184
Premium revenue	287	267	568	542
Revenue from health-related activities, net	58	1	88	44
Other operating revenue	301	266	586	511
Contributions	20	13	34	26
Total operating revenues	7,462	7,233	14,634	14,307
Operating expenses:				
Salaries and benefits	3,692	3,556	7,334	7,030
Supplies	1,172	1,174	2,351	2,255
Purchased services and other	2,047	2,073	4,135	4,144
Depreciation and amortization	370	350	729	699
Interest expense, net	118	126	231	249
Special charges	23	41	41	74
Total operating expenses	7,422	7,320	14,821	14,451
Operating income (loss)	40	(87)	(187)	(144)
Nonoperating income (loss):				
Investment income (loss), net	463	(599)	562	(371)
Loss on early extinguishment of debt	-	-	(112)	-
Income tax expense	(15)	(6)	(19)	(14)
Change in fair value and cash payments of interest rate swaps	50	(53)	(12)	(31)
Contribution from business combination	8	-	27	-
Other components of net periodic postretirement costs	30	23	59	48
Other	3	(2)	2	(6)
Total nonoperating income (loss), net	539	(637)	507	(374)
Excess (deficit) of revenues over expenses	$ 579	$ (724)	$ 320	$ (518)
Less excess of revenues over expenses attributable to noncontrolling interests	35	18	61	33
Excess (deficit) of revenues over expenses attributable to CommonSpirit Health	$ 544	$ (742)	$ 259	$ (551)

(Continued)

COMMONSPIRIT HEALTH

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

	Without Donor Restrictions			
	Attributable to CommonSpirit Health	Noncontrolling Interests	With Donor Restrictions	Total Net Assets
Balance, September 30, 2018 (pro forma)	$ 14,318	$ 529	$ 876	$ 15,723
Excess (deficit) of revenues over expenses	(742)	18	-	(724)
Contributions	-	-	28	28
Net assets released from restrictions for capital	7	-	(7)	-
Net assets released from restrictions for operations and other	-	-	(9)	(9)
Loss from discontinued operations, net	(5)	-	-	(5)
Other	(5)	(26)	(32)	(63)
Decrease in net assets	(745)	(8)	(20)	(773)
Balance, December 31, 2018 (pro forma)	$ 13,573	$ 521	$ 856	$ 14,950
Balance, September 30, 2019	$ 14,245	$ 495	$ 880	$ 15,620
Excess of revenues over expenses	544	35	-	579
Cumulative transition adjustment	13	-	-	13
Contributions	-	-	43	43
Net assets released from restrictions for capital	12	-	(12)	-
Net assets released from restrictions for operations and other	-	-	(12)	(12)
Loss from discontinued operations, net	(127)	-	-	(127)
Other	20	(5)	15	30
Increase in net assets	462	30	34	526
Balance, December 31, 2019	$ 14,707	$ 525	$ 914	$ 16,146

(Continued)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2019 AND 2018

(In millions)

	Without Donor Restrictions			
	Attributable to CommonSpirit Health	Noncontrolling Interests	With Donor Restrictions	Total Net Assets
Balance, June 30, 2018 (pro forma)	$ 14,146	$ 531	$ 857	$ 15,534
Excess (deficit) of revenues over expenses	(551)	33	-	(518)
Contributions	-	-	52	52
Net assets released from restrictions for capital	15	-	(15)	-
Net assets released from restrictions for operations and other	-	-	(19)	(19)
Loss from discontinued operations, net	(35)	-	-	(35)
Other	(2)	(43)	(19)	(64)
Decrease in net assets	(573)	(10)	(1)	(584)
Balance, December 31, 2018 (pro forma)	$ 13,573	$ 521	$ 856	$ 14,950
Balance, June 30, 2019	$ 14,428	$ 486	$ 877	$ 15,791
Excess of revenues over expenses	259	61	-	320
Cumulative transition adjustment	151	-	-	151
Contributions	-	-	56	56
Net assets released from restrictions for capital	19	-	(19)	-
Net assets released from restrictions for operations and other	-	-	(23)	(23)
Loss from discontinued operations, net	(164)	-	-	(164)
Other	14	(22)	23	15
Increase in net assets	279	39	37	355
Balance, December 31, 2019	$ 14,707	$ 525	$ 914	$ 16,146

See notes to unaudited condensed pro forma consolidated financial statements.

COMMONSPIRIT HEALTH

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

	Six-Month Periods Ended December 31, 2019	Six-Month Periods Ended December 31, 2018 (Pro Forma)
Cash flows from operating activities:		
Change in net assets	$ 355	$ (584)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Loss on early extinguishment of debt	112	-
Depreciation and amortization	729	699
Health-related activities:		
Changes in equity of unconsolidated entities	(88)	(44)
Contribution from business combination	(27)	-
Net (gain) loss on disposal of assets	70	(9)
Noncash impact of change in accounting principle	(151)	-
Change in fair value of swaps	(6)	12
Change in funded status of pension and other postretirement benefit plans	(15)	(89)
Pension cash contributions	(19)	(10)
Changes in certain assets and liabilities:		
Accounts receivable, net	(341)	(139)
Accounts payable	(65)	(12)
Self-insured reserves and claims	(8)	(20)
Accrued salaries and benefits	(117)	(79)
Changes in broker receivables/payables for unsettled investment trades	(97)	6
Provider fee assets and liabilities	73	(65)
Other accrued liabilities	8	113
Prepaid and other current assets	(139)	(136)
Other, net	(5)	16
Cash provided by (used in) operating activities before net change in investments and assets limited as to use	269	(341)
Net (increase) decrease in investments and assets limited as to use	(424)	907
Cash provided by (used in) operating activities	(155)	566
Cash flows from investing activities:		
Purchases of property and equipment	(637)	(651)
Investments in health-related activities	(93)	(78)
Business acquisitions, net of cash acquired	(12)	(8)
Proceeds from asset sales	79	19
Cash distributions from health-related activities	71	33
Other, net	41	75
Cash used in investing activities	(551)	(610)

(Continued)

COMMONSPIRIT HEALTH

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

	Six-Month Periods Ended December 31, 2019	2018 (Pro Forma)
Cash flows from financing activities:		
Borrowings	8,100	498
Repayments	(7,439)	(627)
Debt extinguishment costs	(112)	-
Swaps cash collateral posted	(21)	(2)
Distributions to noncontrolling interests	(31)	(42)
Purchase of noncontrolling interests	-	(2)
Cash provided by (used in) financing activities	497	(175)
Net decrease in cash and cash equivalents	(209)	(219)
Cash and cash equivalents at beginning of the period	1,569	1,441
Cash and cash equivalents at end of the period	$ 1,360	$ 1,222
Components of cash and cash equivalents and investments at end of the period:		
Cash and cash equivalents	1,360	1,222
Short-term investments	2,733	2,637
Designated assets for capital projects and other	7,627	7,304
Total	$ 11,720	$ 11,163
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 195	$ 254
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through finance lease or note payable	$ 53	$ 6
Investments in health-related activities	$ 41	$ 51
Accrued purchases of property and equipment	$ 120	$ 149

See notes to unaudited condensed pro forma consolidated financial statements.

CommonSpirit Health
Notes to Unaudited Condensed Pro Forma Consolidated Financial Statements

1. ORGANIZATION

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

CommonSpirit Health owns and operates health care facilities in 21 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations that are exempt from federal and state income taxes. CommonSpirit Health is comprised of 137 hospitals, including academic health centers, major teaching hospitals, and critical access facilities, community health services organizations, accredited nursing colleges, home health agencies, living communities, a medical foundation and other affiliated medical groups, and other facilities and services that span the inpatient and outpatient continuum of care. CommonSpirit Health also has offshore and onshore captive insurance companies. The accompanying unaudited condensed pro forma consolidated financial statements include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit").

2. BASIS OF PRESENTATION

The unaudited condensed pro forma consolidated financial statements of CommonSpirit as of December 31, 2019, and for the three and six-month periods ended December 31, 2019 and 2018, should be read in conjunction with the audited financial statements of CommonSpirit as of and for the year ended June 30, 2019. 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.

Due to the circumstances of the business combination between CHI and Dignity Health, through the alignment under CHCF, the transaction qualified for acquisition accounting with CommonSpirit Health as the accounting acquirer of Dignity Health. The affiliation was accounted for as an acquisition under Accounting Standards Codification ("ASC") 958-805, *Not-for-Profit Entities – Business Combinations,* resulting in the recognition of a contribution of the excess of assets over liabilities of Dignity Health assumed by CommonSpirit of $10 billion.

To present the financial results on a consistent basis, the unaudited condensed pro forma consolidated financial information of CommonSpirit for the three and six-month period ended December 31, 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, 2018. Otherwise, these unaudited 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.

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. CommonSpirit management is responsible for the accompanying unaudited condensed pro forma consolidated financial statements.

Operating results for the three and six-month periods ended December 31, 2019 and 2018, 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 unaudited condensed pro forma consolidated financial statements for the three and six-month periods ended December 31, 2018, to conform to the presentation for the three and six-month periods ended December 31, 2019. As previously presented, CommonSpirit classified other components of net periodic postretirement costs as salaries and benefits. Additionally, as a result of the affiliation between CHI and Dignity Health, changes in presentation on the unaudited condensed pro forma consolidated statement of operations and changes in net assets were made in part to separately present balances that became material to CommponSpirit. Other accounts were combined as they were no longer material to the results of CommonSpirit.

In preparing the accompanying unaudited condensed pro forma consolidated financial statements, management of CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal quarter and February 18, 2020, the date the unaudited condensed pro forma consolidated financial statements were issued.

3. ACQUISITIONS, DIVESTITURES AND SIGNIFICANT TRANSACTIONS

Affiliation of CHI and Dignity Health – On February 1, 2019, CHI and Dignity Health effected a business combination as discussed in Note 1. Due to the circumstances of the business combination between CHI and Dignity Health, through the alignment under CHCF, the transaction qualified for acquisition accounting with CommonSpirit as the accounting acquirer of Dignity Health. No cash consideration was involved in the affiliation. As a result of the affiliation, a contribution of the excess of assets over liabilities of Dignity Health assumed by CommonSpirit of $10 billion was recognized. Of this amount, $9.2 billion was reported as a contribution from business combination within other income (loss) in the consolidated statements of operations and changes in net assets, and $235 million and $559 million were recorded as contribution from business combination for noncontrolling interest and net assets with donor restrictions, respectively, in the consolidated statements of operations and changes in net assets. There were no adjustments to the fair values of assets acquired or liabilities assumed during the three and six-month period ended December 31, 2019.

Acquisitions – In August 2019, a consolidated subsidiary of CommonSpirit, St Joseph Health in Texas, acquired the assets of College Station Medical Center ("CSMC"). CSMC includes a 167-bed hospital, is a licensed Level III Trauma center, and has accredited services which include joint replacement, chest pain, stroke, and sleep specialty services. The transaction resulted in the recognition of a $19 million gain, recorded as contribution from business combination in nonoperating income on the accompanying consolidated statements of operations and changes in net assets, calculated as the fair value of the excess of identifiable assets acquired over liabilities assumed, determined based on Level 3 inputs, including estimated future cash flows and probability weighted performance assumptions.

Dispositions – In November 2019, CommonSpirit completed its divestiture of the acute care operations of Jewish Hospital and St. Mary's Healthcare, Inc. ("JHSMH") to the University of Louisville. The divestiture resulted in a total loss of $121 million, of which $114 million is reflected in loss from discontinued operations, net, in the accompanying consolidated statements operations and changes in net assets as of December 31, 2019, and $7 million is reflected in other operating revenue in the accompanying consolidated statements of operations and changes in net assets for the three and six-month periods ended December 31, 2019. Included in the loss and as part of the divestiture agreement, CommonSpirit committed to quarterly support payments to the University of Louisville over a four year period, totaling $40 million. The future commitment is reflected in other liabilities, long-term in the accompanying condensed consolidated balance sheet.

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.

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.

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

	As of December 31, 2019	As of June 30, 2019
Patient accounts receivable, net	$ -	$ 124
Held for self-insurance claims	-	47
Other current assets	-	43
Property and equipment, net	-	9
Total assets held for sale	$ -	$ 223
Accounts payable	$ -	$ 58
Accrued salaries and benefits	-	43
Other accrued liabilities	-	20
Self-insured reserves and claims	-	7
Other long-term liabilities	-	34
Total liabilities held for sale	$ -	$ 162

Operating results of discontinued operations are reported in the accompanying consolidated statements of operations and changes in net assets, and are summarized as follows (in millions):

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2019	2018	2019	2018
Net patient revenue	$ 61	$ 181	$ 222	$ 357
Other operating revenue	(41)	145	(27)	292
Total operating revenues	20	326	195	649
Salaries and benefits	73	108	178	214
Purchased services and other	70	218	173	454
Depreciation and amortization	-	1	1	2
Special charges	6	4	10	14
Total operating expenses	149	331	362	684
Operating loss	(129)	(5)	(167)	(35)
Nonoperating income	2	-	3	-
Deficit of revenues over expenses attributable to CommonSpirit Health	$ (127)	$ (5)	$ (164)	$ (35)

4. 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 elected to early adopt this guidance prospectively beginning July 1, 2019. The adoption did not have a material impact on the accompanying 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 periodic benefit cost are required to be presented in the income statement separately from the service cost component and outside of income from operations. CommonSpirit elected to early adopt this guidance beginning July 1, 2019, applying the presentation requirements retrospectively. See Note 15.

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 prior guidance. CommonSpirit adopted ASU 2016-02 effective July 1, 2019, using the modified retrospective approach. Prior period financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. CommonSpirit has elected the transition practical expedient package to carryforward historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. CommonSpirit recognized a $151 million cumulative effect transition adjustment increase to net assets without donor restrictions related to the adoption of ASU 2016-02. See Note 12.

5. 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.

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 six-month periods ended December 31, 2019 and 2018, 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 per 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 is comprised of the following (in millions):

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2019	2018 (Pro Forma)	2019	2018 (Pro Forma)
Government	$ 3,237	$ 3,292	$ 6,480	$ 6,562
Contracted	3,040	2,941	5,877	5,646
Self-pay and other	519	453	1,001	976
	$ 6,796	$ 6,686	$ 13,358	$ 13,184

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.

6. CALIFORNIA PROVIDER FEE PROGRAMS

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. The program covering July 1, 2019, through December 31, 2021, has not yet been approved by CMS, and therefore, no amounts have been recognized for the program during the three and six-month periods ended December 31, 2019.

Net patient revenue includes $82 million and $232 million related to supplemental Medi-Cal payments provided under the prior California provider fee program during the three-month periods ended December 31, 2019 and 2018, respectively, and $82 million and $465 million for the six-month periods ended December 31, 2019 and 2018, respectively. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds. CommonSpirit recorded $0 million and $124 million in such fees and other expenses in purchased services and other expense during the three-month periods ended December 31, 2019 and 2018, respectively, and $0 million and $249 million during the six-month periods ended December 31, 2019 and 2018, respectively. Total net income recognized was $82 million and $108 million during the three-month periods ended December 31, 2019 and 2018, respectively, and $82 million and $216 million during the six-month periods ended December 31, 2019 and 2018, respectively.

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.

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

	December 31, 2019			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance**
Assets				
Cash and short-term investments	$ 505	$ 36	$ -	$ 541
U.S. government securities	791	190	-	981
U.S. corporate bonds	67	546	-	613
U.S. equity securities	1,071	6	-	1,077
Foreign equity securities	770	2	-	772
Private equity	-	-	61	61
Other investments	71	99	3	173
Assets measured at fair value	$ 3,275	$ 879	$ 64	$ 4,218
Assets at NAV:				
U.S. corporate bonds				433
U.S. equity securities				199
Foreign corporate bonds				98
Foreign equity securities				721
Private equity				623
Hedge funds				1,203
Real estate				262
Total assets				$ 7,757
Liabilities				
Derivative instruments	$ -	$ 448	$ -	$ 448
Other	4	-	84	88
Total liabilities	$ 4	$ 448	$ 84	$ 536

	June 30, 2019			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets				
Cash and short-term investments	$ 630	$ 67	$ -	$ 697
U.S. government securities	727	116	-	843
U.S. corporate bonds	71	440	-	511
U.S. equity securities	1,147	12	-	1,159
Foreign equity securities	629	2	-	631
Private equity	-	-	65	65
Other investments	61	25	1	87
Assets measured at fair value	$ 3,265	$ 662	$ 66	$ 3,993
Assets at NAV:				
U.S. corporate bonds				430
U.S. equity securities				213
Foreign corporate bonds				153
Foreign equity securities				671
Private equity				578
Hedge funds				1,179
Real estate				233
Total assets				$ 7,450
Liabilities				
Derivative instruments	$ -	$ 454	$ -	$ 454
Other	3	-	74	77
Total liabilities	$ 3	$ 454	$ 74	$ 531

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

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

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

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

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

The fair value of collateral held under securities lending program is classified as Level 2. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include non-cash collateral of $65 million and $54 million as of December 31, 2019, and June 30, 2019, respectively.

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

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

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

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 (in millions):

As of December 31, 2019

		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
NAV Practical Expedient					
Private equity	(1)	$ 623	$ 280	-	-
Multi-strategy hedge funds	(2)	1,203	-	Weekly, Monthly, Quarterly, Semi-Annually, Annually	3 - 90 days
Real estate fund	(3)	262	20	Quarterly	90 days
Commingled funds - debt securities	(4)	531	37	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	920	-	Daily, Monthly, Quarterly	1 - 30 days
Total		$ 3,539	$ 337		

As of June 30, 2019

		NAV Practical Expedient	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
NAV Practical Expedient					
Private equity	(1)	$ 578	$ 292	-	-
Multi-strategy hedge funds	(2)	1,179	-	Monthly, Quarterly, Semi-annually, Annually	5 - 120 days
Real estate fund	(3)	233	10	Quarterly	90 days
Commingled funds - debt securities	(4)	583	41	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	884	-	Daily, Monthly, Quarterly	1 - 120 days
Total		$ 3,457	$ 343		

(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 December 31, 2019, to be over the next 10 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 December 31, 2019:

Percentage of the Value of Category (2)			Redemption	Redemption	Redemption
Total	Subtotal	Redemption Frequency	Notice Period	Locked Up Until (if applicable)	Gate % of Account (if applicable)
13.8%	12.7%	Annually	60 days	2 years	up to 25.0% - 50.0%
	1.1%	Annually	75 days	-	-
0.3%	0.2%	Semi-Annually	60 days	2 years	-
	0.1%	Semi-Annually	75 days	-	-
42.6%	8.7%	Quarterly	30 - 45 days	2 years	-
	22.6%	Quarterly	60 - 65 days	1 year	up to 25.0%
	11.3%	Quarterly	90 days	-	up to 12.5% - 25.0%
37.1%	13.5%	Monthly	5 days	-	-
	18.4%	Monthly	30 - 45 days	-	up to 16.7%
	5.2%	Monthly	90 days	-	up to 20.0%
6.2%	6.2%	Weekly	3 days	-	-

(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 13% 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 December 31, 2019, to be over the next six years.

(4) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets. Also included in this category are commingled fixed income funds that provide capital in a variety of mezzanine debt, distressed debt and other special debt securities situations. Investments representing approximately 9% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at December 31, 2019, to be over the next six years.

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

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

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

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

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

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

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

The following represents assets and liabilities of the Program in its entirety, of which CHI holds 89% as of December 31, 2019, and June 30, 2019, measured at fair value or at the NAV practical expedient on a recurring basis and certain other assets accounted for under the equity method (in millions):

	December 31, 2019			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Cash and short-term investments	$ 257	$ 105	$ 2	$ 364
U.S. government securities	117	16	-	133
U.S. corporate bonds	5	357	-	362
U.S. equity securities	2,267	972	-	3,239
Foreign corporate bonds	-	72	-	72
Term loans	-	-	242	242
Foreign currency exchange contracts	-	127	-	127
Assets measured at fair value	$ 2,646	$ 1,649	$ 244	4,539
Assets at NAV:				
Hedge funds				382
Real estate				388
Venture capital/private equity				397
Total assets				$ 5,706
Liabilities - foreign currency exchange contracts	$ -	$ 127	$ -	$ 127

	June 30, 2019			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Cash and short-term investments	$ 321	$ 79	$ -	$ 400
U.S. government securities	80	8	-	88
U.S. corporate bonds	5	323	-	328
U.S. equity securities	2,159	802	-	2,961
Foreign corporate bonds	-	64	-	64
Term loans	-	-	245	245
Foreign currency exchange contracts	-	220	-	220
Assets measured at fair value	$ 2,565	$ 1,496	$ 245	4,306
Assets at NAV:				
Hedge funds				524
Real estate				427
Venture capital/private equity				351
Total assets				$ 5,608
Liabilities - foreign currency exchange contracts	$ -	$ 220	$ -	$ 220

8. INTANGIBLE ASSETS, NET

Intangible assets reported in the accompanying 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 $1 million and $3 million for the three-month periods ended December 31, 2019 and 2018, respectively, and $3 million and $6 million for the six-month periods ended December 31, 2019 and 2018, respectively.

	As of December 31, 2019			
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of Period	Amortization period
Trademark	$ 555	$ -	$ 555	Indefinite
Trademark arrangements	156	(46)	110	120 - 300 months
Noncompete agreements	16	(8)	8	24 months
Certificate of need	13	-	13	Indefinite
Other	24	(3)	21	150 - 168 months
	$ 764	$ (57)	$ 707	

	As of June 30, 2019			
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of Period	Amortization period
Trademark	$ 555	$ -	$ 555	Indefinite
Trademark arrangements	156	(42)	114	120 - 300 months
Noncompete agreements	11	(8)	3	24 months
Certificate of need	13	-	13	Indefinite
Other	39	(10)	29	150 - 168 months
	$ 774	$ (60)	$ 714	

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 December 31, 2019	As of June 30, 2019
Balance at beginning of period	$ 242	$ 239
Addition from acquisitions	33	3
Balance at end of period	$ 275	$ 242

10. DEBT

As of August 2019, the indebtedness of CHI and Dignity Health was consolidated into a single unified credit group with the issuance and sale of the 2019 tax-exempt and taxable bonds. The Capital Obligation Document (the "COD") issued by CHI and the Dignity Health Master Trust Indenture (the "Master Trust Indenture") were amended and restated; both are now the new CommonSpirit Master Trust Indenture (the "CommonSpirit Health MTI").

2020 Financing Activity – In July 2019, Dignity Health entered into $1.2 billion of bridge loans with three banks to advance refund certain CHI fixed rate bonds using acquisition financing treatment.

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

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

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

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

In November 2019, CommonSpirit renewed and extended a letter of credit issued by Dignity Health in December 2015 to support VRDBs of $57 million to December 2023. This did not change the terms, provisions or classification of the VRDBs.

In December 2019, CommonSpirit renewed a $65 million line of credit used to support its self- liquidity program scheduled to mature in December 2019, to December 2020.

2019 Financing Activity – In July 2018, CHI issued $275 million of Series 2018A taxable bonds subject to mandatory tender in August 2021. Proceeds were used to fund the $275 million Series 2013D taxable bonds principal payment due in August 2018. The bonds were refinanced with proceeds from the August 2019 bond financing.

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. The bonds were refinanced with proceeds from the August 2019 bond financing.

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. This draw on the syndicated line of credit was refinanced with proceeds from the August 2019 bond financing.

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. The bonds were refinanced with proceeds from the August 2019 bond financing.

In September 2018, Dignity Health renewed a $169 million direct placement loan which was scheduled to mature in September 2018, to September 2023. The loan was refinanced with proceeds from the August 2019 bond financing.

In October 2018, the letter of credit scheduled to expire in October 2018 to support VRDBs of $140 million was extended to October 2021. This did not change the terms, provisions or classification of the VRDBs.

In December 2018, Dignity Health renewed the $250 million taxable line of credit scheduled to mature in December 2018, to December 2019. This line of credit was paid off in August 2019 from the CommonSpirit bond issue.

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

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

11. DERIVATIVE INSTRUMENTS

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

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	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			December 31, 2019	
Derivatives not designated as hedges				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 2,228	$ (448)
Risk participation agreements	2022 - 2025	SIFMA plus spread	510	-
Total return swap	2020 - 2024	SIFMA plus spread	399	-
Total derivative instruments			3,137	(448)
Cash collateral			-	261
Derivative instruments, net			$ 3,137	$ (187)
			June 30, 2019	
Derivatives not designated as hedges				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 2,252	$ (454)
Risk participation agreements	2019 - 2025, with extension options	SIFMA plus spread	510	-
Total return swaps	2020 - 2024	SIFMA plus spread	408	-
Total derivative instruments			3,170	(454)
Cash collateral			-	240
Derivative instruments, net			$ 3,170	$ (214)

CHI held $1.4 billion notional amount of interest rate swaps at December 31, 2019, which have a negative fair value of $273 million. CHI posted $261 million of collateral against the fair value of these swaps.

The CHI interest rate swaps mature between 2024 and 2047. CHI has the right to terminate the swaps prior to maturity for any reason. The termination value would be the fair value or the replacement cost of the swaps, depending on the circumstances. All of the derivative agreements have certain early termination triggers caused by an event of default or a termination event. The events of default include failure to make payment when due, failure to give notice of a termination event, failure to comply with or perform obligations under the agreements, bankruptcy or insolvency, and defaults under other agreements (cross-default provision). The termination events include credit ratings dropping below Baa3/BBB- (Moody’s/Standard & Poor’s) by either party on the notional amount of $563 million of interest rate swaps and below Baa2/BBB on a notional amount of $613 million of interest rate swaps.

Based upon CHI’s swap agreements in place as of December 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 of $11 million as of December 31, 2019, which are recorded at fair value, net of cash collateral. Generally, it is CHI’s policy that all counterparties have an AA rating or better. The swap agreements generally require CHI to provide collateral if CHI’s liability, determined on a fair value basis, exceeds a specified threshold that varies based upon the rating on CHI's long-term indebtedness.

CHI has total return swaps in the notional amount of $129 million and a negative fair value of $1 million at December 31, 2019.

Of the $871 million notional amount of interest rate swaps held by Dignity Health at December 31, 2019, $160 million are insured and have a negative fair value of $52 million. In the event the insurer is downgraded below A2/A or A3/A- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps if Dignity Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If the insurer is downgraded below the thresholds noted above and Dignity Health is downgraded below Baa3/BBB- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps.

Dignity Health has $711 million of interest rate swaps that are not insured as of December 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 $194 million at each five-year anniversary date commencing in September 2023. Swaps in the notional amounts of $60 million and $68 million have mandatory puts in March 2021 and March 2023, respectively. The termination value would be the fair value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps have a negative fair value of $76 million at December 31, 2019. The remaining uninsured interest rate swaps in the notional amount of $289 million have a negative fair value of $47 million as of December 31, 2019.

Dignity Health has floating rate derivatives in the notional amount of $780 million as of December 31, 2019. Risk participation agreements in the notional amount of $510 million have a fair value deemed immaterial as of December 31, 2019. Dignity Health has a total return swap in the notional amount of $270 million. The total return swap has a positive fair value of $1 million at December 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 $699 million of swaps and below Baa2/BBB on a notional amount of $792 million, and Dignity Health's cash on hand dropping below 85 days.

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

12. LEASES

CommonSpirit enters into operating and finance leases primarily for buildings and equipment and determines if an arrangement is a lease at inception of the contract. For leases with terms greater than 12 months, CommonSpirit records the related right-of-use asset ("ROU") and liability at the present value of lease payments over the contract term using a risk free interest rate. CommonSpirit does not separate contract lease and non-lease components except for a class of underlying assets related to supply agreements which include associated equipment. Certain building lease agreements require CommonSpirit to pay maintenance, repairs, property taxes and insurance costs, which are variable amounts based on actual costs incurred during each applicable period. Such costs are not included in the determination of the ROU asset or lease liability. Variable lease costs also include escalating rent payments that are not fixed at commencement but are based on an index that is determined in future periods over the lease term based on changes in the Consumer Price Index or other measure of cost inflation. Certain leases include one or more options to renew the lease at the end of the initial term, with renewal terms that generally extend the lease at the then market rate of rental payment. Certain leases also include an option to buy the underlying asset at or a short time prior to the termination of the lease. All such options are at CommonSpirit's discretion and are evaluated at the commencement of the lease, with only those that are reasonably certain of exercise included in determining the appropriate lease term.

The components of lease cost and rent expense for the three and six-month periods ended December 31, 2019, are as follows (in millions):

	Three-Month Period Ended December 31, 2019	Six-Month Period Ended December 31, 2019
Operating lease cost:		
Operating lease cost	$ 96	$ 194
Short-term rent expense	4	9
Variable lease cost	29	59
Sublease income	(1)	(2)
Total operating lease cost	$ 128	$ 260
Finance lease cost:		
Amortization of right-of-use assets	$ 5	$ 19
Interest on finance lease liabilities	2	4
Total finance lease cost	$ 7	$ 23

Following is supplemental balance sheet information related to leases as of December 31, 2019 (in millions):

Lease Type	**Balance Sheet Classification**	
Operating Leases:		
Operating lease ROU assets	Right of use operating lease assets	$ 1,853
Operating lease obligations - current	Current liabilities: Right of use operating lease liabilities	242
Operating lease obligations - long-term	Other liabilities: Right of use operating lease liabilities	1,758
Finance Leases:		
Finance lease ROU assets	Property and equipment, net	$ 165
Current finance lease liabilities	Current portion of long-term debt	31
Long-term finance lease liabilities	Long-term debt, net of current portion	201

Supplemental cash flow and other information related to leases is as follows:

	Three-Month Period Ended December 31, 2019	Six-Month Period Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 88	$ 180
Operating cash flows from finance leases	3	4
Financing cash flows from finance leases	23	47
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 35	$ 50
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 4	$ 4
Weighted-average remaining lease term:		
Operating leases		9 years
Finance leases		12 years
Weighted-average discount rate:		
Operating leases		2.1%
Finance leases		4.5%

Commitments related to noncancellable operating and finance lease for each of the next five years and thereafter as of December 31, 2019, are as follows:

	Operating	Finance	Total
2020 (remaining 6 months)	$ 166	$ 20	$ 186
2021	303	44	347
2022	263	31	294
2023	233	28	261
2024	209	27	236
Thereafter	1,068	144	1,212
Total minimum future lease payments	2,242	294	2,536
Less: Imputed interest	(242)	(62)	(304)
Total lease liabilities	2,000	232	2,232
Less: Current portion	(242)	(31)	(273)
Long-term liabilities	$ 1,758	$ 201	$ 1,959

Commitments related to noncancellable operating and finance lease liabilities at June 30, 2019, prior to the adoption of ASU 2016-02, were as follows:

	Operating	Finance	Total
2020	$ 331	$ 18	$ 349
2021	278	21	299
2022	239	8	247
2023	211	8	219
2024	189	7	196
Thereafter	647	94	741
Total minimum future lease payments	$ 1,895	$ 156	$ 2,051

13. INTEREST EXPENSE, NET

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

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2019	2018 (Pro Forma)	2019	2018 (Pro Forma)
Interest and fees on debt and other	$ 126	$ 131	$ 247	$ 260
Capitalized interest expense	(8)	(5)	(16)	(11)
Interest expense, net	$ 118	$ 126	$ 231	$ 249

14. 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 December 31,		Six-Month Periods Ended December 31,	
	2019	2018 (Pro Forma)	2019	2018 (Pro Forma)
Interest and dividend income	$ 61	$ 77	$ 121	$ 130
Net realized gains on sales of securities	103	59	199	215
Net unrealized gains (losses) on securities	310	(728)	259	(701)
Other, net of capitalized investment income	(11)	(7)	(17)	(15)
Investment income, net	$ 463	$ (599)	$ 562	$ (371)

15. RETIREMENT PROGRAMS

Total expense for all CommonSpirit retirement and postretirement plans was $145 million and $141 million for the three-month periods ended December 31, 2019 and 2018, respectively, and $292 million and $282 million for the six-month periods ended December 31, 2019 and 2018, respectively. The service cost component of $176 million and $164 million for the three-month periods ended December 31, 2019 and 2018, respectively, and $351 million and $330 million for the six-month periods ended December 31, 2019 and 2018, respectively, is included in salaries and benefits expense in the accompanying consolidated statements of operations and changes in net assets. Other nonservice costs were retrospectively adjusted due to the adoption of ASU 2017-07, to present $23 million and $48 million of net benefit credits in other components of net periodic postretirement costs in nonoperating income (loss), which were previously recognized in salaries and benefits in operating expenses, for the three and six-month period ended December 31, 2018, respectively. Such net credits for the three and six-month period ended December 31, 2019, were $30 million and $59 million, respectively.

16. SPECIAL CHARGES

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

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2019	2018 (Pro Forma)	2019	2018 (Pro Forma)
Affiliation related costs	$ 27	$ 23	$ 40	$ 49
Impairment on carrying value of long-lived assets	1	2	1	2
Change in business operations	(5)	16	-	23
Special charges	$ 23	$ 41	$ 41	$ 74

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

17. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

U.S. Department of Justice and OIG Investigations – CommonSpirit 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 or criminal charges, cash payments 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. The five-year period ended on October 29, 2019 and Dignity Health has been released from any further obligations related to the CIA.

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

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

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

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

Based on the Supreme Court's decision, the Ninth Circuit returned the case to the District Court to continue the proceedings with regard to the two outstanding questions and other claims that were not decided by the Supreme Court. The plaintiff amended its original complaint in November 2017, and Dignity Health filed a motion to dismiss the case in December 2017. The motion was heard in March 2018. In September 2018, the District Court issued its ruling denying Dignity Health's motion to dismiss. The decision was primarily based upon the procedural standard that requires the Court to accept the plaintiff's allegations in the amended complaint as true and does not permit Dignity Health to refute those allegations. As a result, the Court found that the amended complaint was sufficient to withstand dismissal at this stage, but encouraged the parties to further develop the factual record as a basis to consider Dignity Health's objections in the future. The parties have agreed in principle to resolve the litigation and are awaiting court review and approval of the terms of settlement. Management does not believe that the proposed settlement will have a material adverse effect on the financial position or results of operations of CommonSpirit.

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