This document is dated October 2, 2020

UNAUDITED PRO FORMA ANNUAL REPORT

For the Years Ended June 30, 2020 and 2019

The information in this report
has been provided by
CommonSpirit Health

COMMONSPIRIT HEALTH

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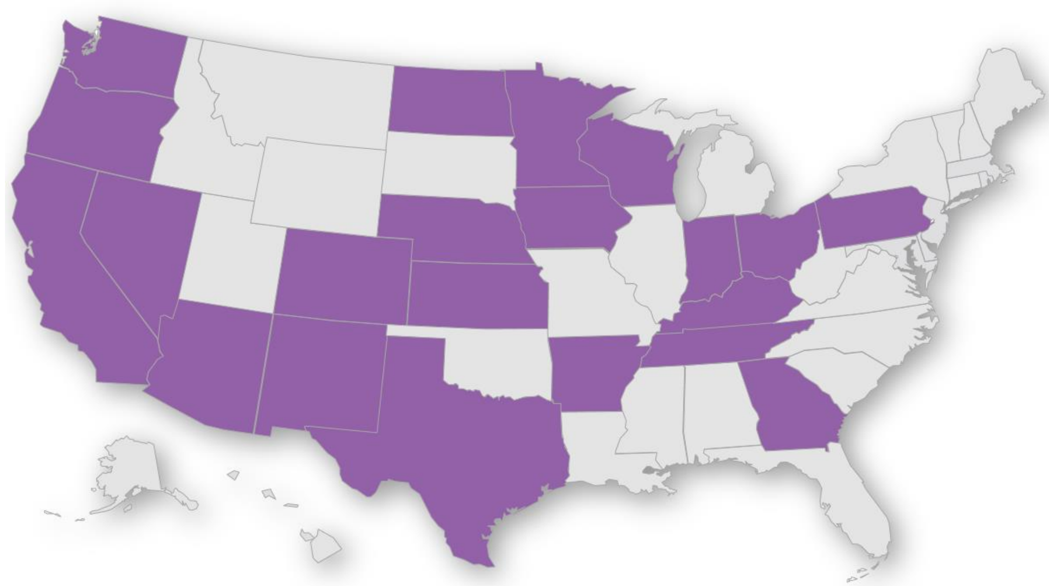
Management Discussion and Analysis of Financial Condition and Results of Operations

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 146,000 employees and over 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 that are preceded by, followed by or 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 year ended June 30, 2019, 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 years ended June 30, 2020 and 2019 (pro forma), in accordance with accounting principles generally accepted in the United States of America ("GAAP") and on a non-GAAP basis for EBITDA (earnings before interest, tax, depreciation and amortization, and nonoperating income). 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.

COVID-19 Pandemic – Preparedness and Impact on Operations

In December 2019, a novel strain of coronavirus, known as COVID-19, was first detected. The virus spread worldwide and in March 2020 was declared a pandemic by the World Health Organization. The Centers for Disease Control and Prevention confirmed the first case in the United States in February 2020, and with the rapid spread across all 50 states, the United States government passed new laws designed to help the nation respond to this pandemic.

In January 2020, when COVID-19 was first presenting, CommonSpirit convened a multidisciplinary national COVID-19 Task Force. This group coordinated clinical and operational readiness across our entire System to identify and resolve emerging issues within CommonSpirit's acute care and non-acute care sites. The team is continuously assessing the readiness at CommonSpirit's acute care and ambulatory care facilities with standard, updated protocols and algorithms for screening, triaging, testing, and isolating patients with actual or potential cases of COVID-19.

CommonSpirit continues to adapt to the challenges presented by the pandemic, updating practices, procedures, guidelines, and recommendations following the most current guidance of the CDC, state health, local public health, and other federal agencies. CommonSpirit has added additional training and continues to closely monitor supplies, especially personal protective equipment and ventilators. Additionally, to increase access to care, CommonSpirit expanded access to a range of virtual health options for our clinicians and patients and opened a reference lab in Arizona to process COVID-19 tests for the System's non-urgent on-site patient testing within 36 hours, with the ability to process as many as 70,000 tests in the lab each week.

CommonSpirit has made significant preparations to safely identify and treat patients with COVID-19 across the System. Some divisions, particularly in Southern California, Central California, Arizona, and Texas, have seen higher numbers of admitted patients diagnosed with COVID-19 than other CommonSpirit divisions, but 67% fewer patients are currently in CommonSpirit facilities than were during the peak in mid-July. CommonSpirit is redistributing supplies between divisions as needed in the short-term and using its strong relations with vendors to ensure ongoing availability of supplies.

Although it varies significantly by division, beginning the middle of March, the COVID-19 pandemic caused up to a 40% slowdown in volumes. As communities heeded guidelines to avoid hospitals for non-emergent issues, appointment volume, especially for specialty practices, fell and emergency department volume declined. However, at the same time, CommonSpirit expanded access to virtual care options for our clinicians and providers, and began promoting virtual visits as a first option for any patient seeking care. This activity, combined with the reduction in admitted patients diagnosed with COVID-19, has allowed volumes to improve over the last couple of months of the fiscal year and are now much closer to pre-pandemic levels.

Due to additional training and preparation needed for COVID-19, additional resources to staff patient entrances to screen staff and visitors, and higher staffing levels for COVID-19 patients, staff flexing did not cover the financial impact of the lower volumes at the beginning of the pandemic. As management has learned more regarding the trajectory of the pandemic in each geography, efforts to manage productivity through flex time and furlough and other methods are being utilized as appropriate to return to more reasonable levels of productivity. Also, additional expenses have been incurred since early March, including equipment such as ventilators, personal protective equipment, and laptops and IT support for employees required to work from home during shelter-in-place orders.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") provides stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. Through June 30, 2020, CommonSpirit has received approximately $1.1 billion under the

CARES Act in the form of grants as reimbursement through the Public Health and Social Services Emergency Fund for lost revenues attributable to COVID-19. These payments are recorded as other operating revenues, as earned. As of June 30, 2020, $826 million has been recorded in other operating revenues in the consolidated statements of operations and changes in net assets.

These funds are not required to be repaid upon attestation and compliance with certain terms and conditions. CommonSpirit also received $2.6 billion in funds under the Medicare Accelerated and Advance Payment Program. These payments are advances that will be recouped by withholding future Medicare fee-for-service payments for claims until such time as the full accelerated payment has been recouped and, as such, will be recorded in other accrued liabilities-current. As of June 30, 2020, the terms and conditions in effect prescribed that any outstanding balance remaining after 12 months from the date of receipt must be repaid or may be subject to interest. As of October 1, 2020, the terms and conditions have been revised whereby recoupment is extended to 29 months from date of receipt, at which time remaining unpaid amounts are subject to interest of 4%.

CommonSpirit is also applying for reimbursement for qualifying expenses under the Federal Emergency Management Agency Disaster Relief Fund and anticipates deferring approximately $410 million of employer payroll taxes to December 2021 and 2022, pursuant to the Paycheck Protection Program and Health Care Enhancement Act. Through June 30, 2020, CommonSpirit has deferred $140 million in employer payroll taxes, recorded in other accrued liabilities – long-term.

While the aid received from the programs above provides much needed assistance during this crisis, CommonSpirit is unable to assess the extent to which the amounts and benefits received, or to be received, will offset the long-term changes in volumes, payor mix, service mix, or care sites arising from the COVID-19 pandemic.

The following table illustrates the detail of the CARES Act funding by division.

CARES Act Funding

	Year Ended June 30, 2020			
($ in millions)	Other Operating Revenue	Deferred Revenue (Liability)	Total CARES Act Grants	Medicare Advances
Southeast	$ 102	$ 40	$ 142	$ 356
Colorado	81	4	85	189
Pacific Northwest	77	10	87	245
Arizona	76	2	78	190
Midwest	73	33	106	250
Greater Sacramento	70	4	74	220
Texas	69	16	85	204
Southwest	64	59	123	207
Northern California	55	13	68	262
Central California	49	8	57	180
Central Coast	25	-	25	166
Fargo	23	29	52	48
Iowa	20	4	24	101
National Business Lines*	7	4	11	27
Subtotal Divisions	791	226	1,017	2,645
Corporate Services	35	-	35	-
CommonSpirit Total	$ 826	$ 226	$ 1,052	$ 2,645

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

CommonSpirit experienced a reduction in EBITDA for the periods of March-June 2020 of approximately $1.3 billion, compared to the pre-COVID run rate, due to the impact of COVID-19. Approximately 62% of the lost EBITDA has been recognized through CARES Act funding through June 2020, with approximately $500M of lost EBITDA remaining to be regained.

Trend COVID-19 Impact							
					February	Years Ended	
					Pre-COVID	June 30,	June 30,
($ in millions)	March	April	May	June	Run Rate	2020	2019
Total operating revenues	$ 2,190	$ 2,201	$ 2,178	$ 2,760	$ 2,518	$ 29,579	$ 28,861
Net patient and premium revenues	$ 2,113	$ 1,616	$ 1,945	$ 2,410	$ 2,400	$ 27,365	$ 27,604
EBITDA after CARES Act	$ (175)	$ 25	$ (28)	$ 290	$ 153	$ 1,436	$ 1,298
EBITDA %	-8.0%	1.1%	-1.3%	10.5%	6.1%	4.9%	4.5%
EBITDA before CARES Act	$ (175)	$ (480)	$ (136)	$ 77	$ 153	$ 610	$ 1,298
EBITDA %	-8.0%	-28.3%	-6.6%	3.0%	6.1%	2.1%	4.5%
CARES Act revenue	$ -	$ 505	$ 108	$ 213	$ -	$ 826	$ -
Adjusted Admissions	116,367	85,005	106,319	120,529	138,977	1,539,180	1,640,581
Actual volume vs. Pre-COVID	-16.3%	-38.8%	-23.5%	-13.3%	-	-	-

Financial Highlights and Summary

CommonSpirit's EBITDA (earnings before interest, tax, depreciation and amortization, and nonoperating income) increased to $1.4 billion during the year ended June 30, 2020, from $1.3 billion during the same period in the prior year. Excluding the CARES Act grants, "as adjusted" EBITDA decreased to $610 million for the year ended June 30, 2020. The EBITDA margin for the year ended June 30, 2020, increased to 4.9% from 4.5% for the same period in the prior year. The "as adjusted" EBITDA margin excluding the CARES Act grants for the year ended June 30, 2020, decreased to 2.1%.

For the year ended June 30, 2020, CommonSpirit's volumes on an adjusted admission basis were unfavorable to the same period in the prior year by 6.2%. The volume performance was significantly impacted due to the COVID-19 pandemic. Adjusted patient days for the year ended June 30, 2020, were lower than the same period in the prior year by 5.7%, again, significantly impacted by the COVID-19 pandemic. The average acute length of stay ("ALOS") of 4.59 days for the year ended June 30, 2020, was higher than the prior year of 4.57 days.

The following tables below present “as recorded” results and “as adjusted” results that exclude the impact of the CARES Act grants recorded by CommonSpirit for the year ended June 30, 2020.

Key Indicators Financial Summary			
	Years Ended June 30,		
($ in millions)	**2020**	**2019**	**Change**
	As Recorded	**Pro Forma***	**As Recorded compared to Pro Forma**
EBITDA	$ 1,436	$ 1,298	$ 138
Margin %	4.9%	4.5%	0.4%
Operating loss	$ (550)	$ (617)	$ 67
Margin %	(1.9%)	(2.1%)	0.2%
Deficit of revenues over expenses	$ (524)	$ (254)	$ (270)
Margin %	(1.8%)	(1.0%)	(0.8%)

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

Key Indicators Financial Summary			
(Excluding CARES Act grants)	**Years Ended June 30,**		
($ in millions)	**2020**	**2019**	**Change**
	As Adjusted*	**Pro Forma****	**As Adjusted compared to Pro Forma**
EBITDA	$ 610	$ 1,298	$ (688)
Margin %	2.1%	4.5%	(2.4%)
Operating loss	$ (1,376)	$ (617)	$ (759)
Margin %	(4.8%)	(2.1%)	(2.7%)
Deficit of revenues over expenses	$ (1,350)	$ (254)	$ (1,096)
Margin %	(4.7%)	(1.0%)	(3.7%)

** Adjusted to exclude the CARES Act grants*

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

Results of Operations

Years Ended June 30, 2020 and 2019 (Pro Forma)

For the year ended June 30, 2020, CommonSpirit recorded operating losses of $550 million, compared to losses of $617 million, for the same period in the prior year. Operating losses excluding the CARES Act grants for the year ended June 30, 2020, were $1.4 billion.

In February 2020, the Centers for Medicare and Medicaid Services ("CMS") approved the State Plan Amendment ("SPA") and allocation model previously submitted by the state of California for the 30-month Provider Fee program beginning July 1, 2019. As such, 12 months of California Provider Fee net income was recorded during the year ended June 30, 2020, related to the new program. CommonSpirit recorded $967 million of net patient revenue in the year ended June 30, 2020, compared to $929 million during the same period in the prior year, and $483 million in purchased services and other expense for the year ended June 30, 2020, compared to $452 million for the same period in the prior year. Net income for the program of $484 million was recorded during the year ended June 30, 2020, compared to $477 million for the same period in the prior year.

CommonSpirit also recorded favorable true-ups of $82 million during the year ended June 30, 2020, in net patient revenues, and $18 million during the year ended June 30, 2020, in purchased services and other related to the prior California Provider Fee program, which expired June 30, 2019.

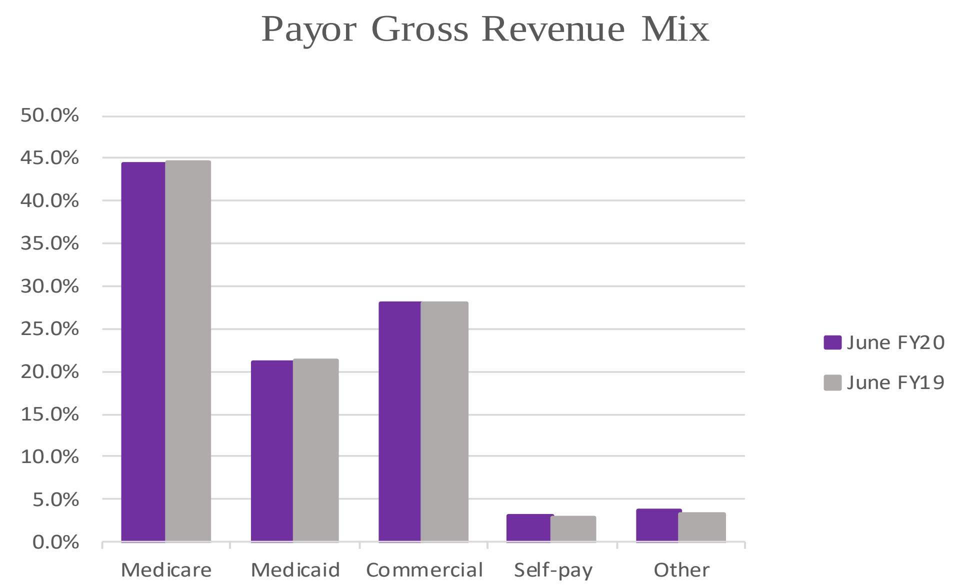
Operating Revenues and Volume Trends

Net patient and premium revenues decreased $239 million, or 0.9%, over the same period in the prior year for the year ended June 30, 2020. The decrease is primarily due to the impact of the COVID-19 pandemic and increased charity care, partially offset by a stable payor mix, favorable rate variances, and favorable implicit price concessions. The increase in charity care is primarily due to policy changes for qualification of charity care at Dignity Health. Net patient and premium revenue per adjusted admission increased 5.7% during the year ended June 30, 2020. This increase is primarily due to changes in acuity and fixed revenues that were not impacted by lower adjusted admissions. Adjusted admissions decreased 6.2% for the year ended June 30, 2020, compared to the same period in the prior year.

Volumes	Years Ended June 30,			
	2020	2019*	Change	%
Acute admissions	782,549	832,727	(50,178)	(6.0%)
Adjusted admissions	1,539,180	1,640,581	(101,401)	(6.2%)
Acute inpatient days	3,592,979	3,805,583	(212,604)	(5.6%)
Adjusted patient days	7,066,958	7,497,496	(430,538)	(5.7%)
Acute average length of stay	4.59	4.57	0.02	0.4%
Outpatient visits	24,385,619	25,695,847	(1,310,228)	(5.1%)
ED visits	3,661,255	3,994,286	(333,031)	(8.3%)
Gross outpatient revenue as a % of total gross patient services revenue	49.0%	52.3%	(3.3%)	(3.3%)

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

Payor mix based on gross revenues for the year ended June 30, 2020, is relatively stable compared to the same period in the prior year, despite the COVID-19 pandemic. The following chart represents the payor gross revenue mix for consolidated operations for the year ended June 30, 2020:



All other operating revenues increased $957 million, or 76.1%, over the same period in the prior year for the year ended June 30, 2020, primarily due to CARES Act grant revenue totaling $826 million, a $42 million gain on sale of shares of a joint venture, and higher pharmaceuticals revenues, partially offset by unfavorable cafeteria revenues. Excluding the CARES Act grants, other operating revenues increased $131 million, or 10.4%, over the same period in the prior year, primarily due to items listed above.

Operating Revenues				
	Years Ended June 30,			
($ in millions)	**2020**	**2020**	**2019**	**Change**
	As Recorded	**As Adjusted***	**Pro Forma****	**As Recorded compared to Pro Forma**
Net patient and premium revenues	$ 27,365	$ 27,365	$ 27,604	$ (239)
All other operating revenues	2,214	1,388	1,257	957
Total operating revenues	$ 29,579	$ 28,753	$ 28,861	$ 718

* *Adjusted to exclude the CARES Act grants*

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

Uncompensated Care and Community Benefits			
	Years Ended June 30,		
($ in millions)	**2020**	**2019***	**Change**
Uncompensated Care:			
Charity care, at customary charges	$ 2,089	$ 1,529	$ 560
Charity care, at cost	$ 437	$ 289	$ 148
Charity care, at cost, as a percentage of gross revenue	1.8%	1.3%	0.5%
Implicit price concessions	$ 1,528	$ 1,819	$ (291)
Unpaid Cost of Medicaid / Medi-Cal, net	$ 1,319	$ 1,441	$ (122)
Unpaid Cost of Medicare, net	$ 2,352	$ 2,249	$ 103
Net Community Benefit Expense			
Total community services for the poor	$ 190	$ 113	$ 77
Total benefits for the broader community	$ 230	$ 330	$ (100)
Total Community Benefits	$ 2,240	$ 2,186	$ 54
Total Community Benefits including unpaid costs of Medicare	$ 4,592	$ 4,435	$ 157

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

Operating Expenses

Salaries and benefits increased $404 million, or 2.8%, over the same period in the prior year, for the year ended June 30, 2020, with salaries and benefits per adjusted admission increasing 9.6%, primarily due to reduced volume and higher labor related to COVID-19 response and preparation.

Supplies decreased $4 million, or 0.1%, during the year ended June 30, 2020, compared to the same period in the prior year. The decrease is primarily due to the drastic change in volume and postponed patient care experienced during the last quarter of the fiscal year, partially offset by increased supplies required for COVID-19 preparedness, particularly personal protective equipment, higher acuity (which impacted pharmaceutical and supply costs), and general inflation.

Purchased services and other increased $391 million, or 4.6%, for the year ended June 30, 2020, compared to the same period in the prior year, primarily due to increased medical fees, EPIC go-live support costs, insurance costs, repairs and maintenance costs, lease expenses, and higher out-of-network and sub-capitation expenses.

Special charges and other costs decreased $211 million, or 70.3%, for the year ended June 30, 2020, compared to the same period in the prior year primarily due to higher asset impairment charges recognized in 2019.

Expense Management and Productivity	Years Ended June 30, 2020	2019
	As Recorded	Pro Forma*
Expense Management:		
Supply expense as a % of net patient and premium revenue	16.5%	16.4%
Purchased services and other as a % of net patient and premium revenue	32.5%	30.8%
Capital expense as a % of net patient and premium revenue	7.3%	6.9%
Non-capital cost per adjusted admission	$ 18,284	$ 16,801
Productivity:		
Salaries, wages and benefits as a % of net patient and premium revenue	53.5%	51.6%
Number of FTEs	124,389	126,195
FTEs per adjusted admission	26.8	25.5

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

Operating Expenses ($ in millions)	Years Ended June 30, 2020	2019	Change
	As Recorded	Pro Forma *	As Recorded compared to Pro Forma
Salaries and benefits	$ 14,653	$ 14,249	$ 404
Supplies	4,515	4,519	(4)
Purchased services and other	8,886	8,495	391
Depreciation and amortization	1,530	1,423	107
Interest expense, net	456	492	(36)
Special charges	89	300	(211)
Total operating expenses	$ 30,129	$ 29,478	$ 651

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

Nonoperating Results

Investment income, net, was $273 million during the year ended June 30, 2020, compared to $558 million during the same period in the prior year. Net realized gains were $426 million during the year in the current year, compared to $435 million during the same period in the prior year. Net unrealized losses were $334 million during the year in the current year, compared to $81 million during the same period in the prior year. Investment results were largely impacted by financial market disruptions related to the COVID-19 pandemic.

CommonSpirit recorded a loss on early extinguishment of debt of $110 million during the year ended June 30, 2020, related to the debt restructuring in August 2019.

The change in market value and cash payments of interest rate swaps was an unfavorable result of $219 million during the year ended June 30, 2020, compared to $150 million during the same period in the prior year.

Contributions from business combinations amounted to a gain of $54 million during the year ended June 30, 2020, compared to a loss of $53 million during the same period in the prior year.

Net periodic postretirement costs amounted to $100 million of income during the year ended June 30, 2020, compared to $35 million during the same period in the prior year.

Nonoperating Results			
	Years Ended June 30,		
($ in millions)	**2020**	**2019**	**Change**
	As Recorded	**Pro Forma ***	**As Recorded compared to Pro Forma**
Investment income, net	$ 273	$ 558	$ (285)
Loss on early extinguishment of debt	(110)	-	(110)
Income tax expense	(50)	(23)	(27)
Change in fair value and cash payments of interest rate swaps	(219)	(150)	(69)
Contributions from business combinations	54	(53)	107
Other components of net periodic postretirement costs	100	35	65
Other	(22)	(4)	(18)
Total nonoperating income, net	$ 26	$ 363	$ (337)

** 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 years ended June 30, 2020 and 2019 (pro forma):

Division Operating Revenues

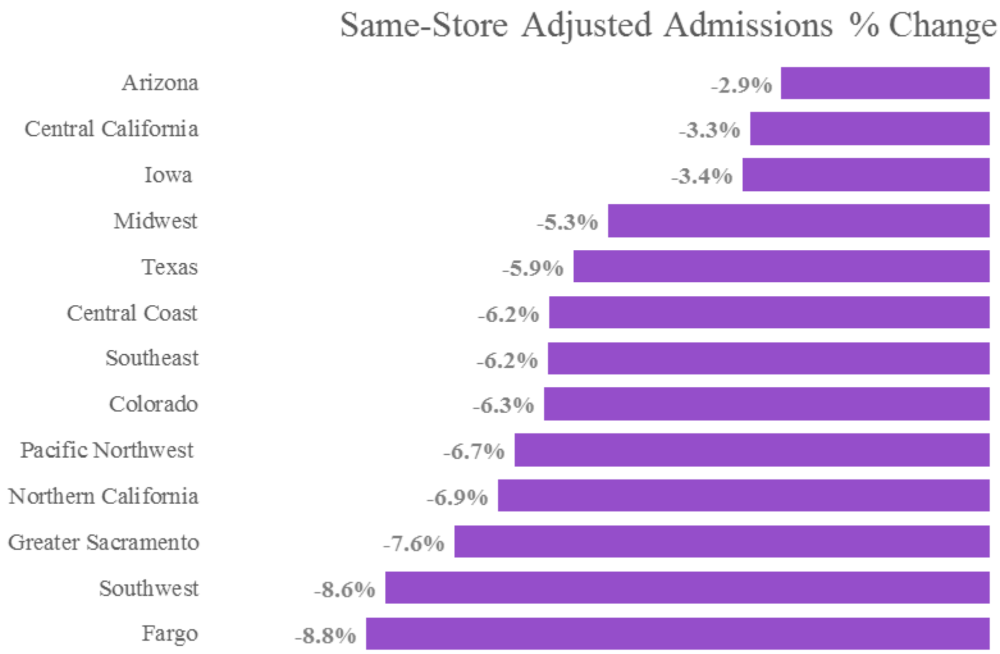
($ in millions)	2020	2020*	2019**	Change	Change
	Years Ended June 30,				
	As Recorded	As Adjusted*	Proforma**	As Recorded compared to Pro Forma	As Adjusted compared to Pro Forma
Southeast	$ 3,294	$ 3,192	$ 3,355	$ (61)	$ (163)
Southwest	3,025	2,961	2,968	57	(7)
Greater Sacramento	2,916	2,846	2,857	59	(11)
Pacific Northwest	2,860	2,783	2,841	19	(58)
Arizona	2,529	2,453	2,345	184	108
Colorado	2,524	2,443	2,502	22	(59)
Midwest	2,381	2,308	2,348	33	(40)
Texas	2,309	2,240	2,303	6	(63)
Central California	2,185	2,136	2,003	182	133
Northern California	2,072	2,017	2,035	37	(18)
Central Coast	1,422	1,397	1,368	54	29
Iowa	1,033	1,013	1,036	(3)	(23)
Fargo	429	406	429	-	(23)
National Business Lines***	395	388	378	17	10
Other	24	24	9	15	15
Subtotal Divisions	29,398	28,607	28,777	621	(170)
Corporate Services	181	146	84	97	62
CommonSpirit Total	$ 29,579	$ 28,753	$ 28,861	$ 718	$ (108)

* *As adjusted to exclude the CARES Act grants.*

** *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 started to see the impact of the COVID-19 pandemic during mid-March at which time the System experienced a drastic reduction in inpatient and outpatient volume levels. In comparison to the pre-COVID-19 pandemic volume run rate, CommonSpirit lost about 40% of normal volume in the month of April, but experienced considerable recovery in May and June. Same-store adjusted admissions decreased by 6.0% year over year due to the COVID-19 pandemic. Payor mix has remained stable, but some deterioration is expected in future months due to the increase in unemployment.



Following are the significant division performance drivers related to operating revenues compared to prior year for the year ended June 30, 2020, adjusted to exclude CARES Act grant revenues:

- Southeast Division – operating revenues decreased $163 million from the same period in the prior year primarily due to a 6.2% decrease in same-store adjusted admissions and lower surgical volume, partially offset by a slight increase in commercial payor mix.
- Arizona Division – operating revenues increased $108 million from the same period in the prior year primarily due to improved commercial payor mix and favorable revenue from health-related joint venture activities, partially offset by a 2.9% decrease in same-store adjusted admissions and lower surgical volume.
- Colorado Division – operating revenues decreased $59 million from the same period in the prior year primarily due to a 6.3% decrease in same-store adjusted admissions and lower outpatient and surgical volume levels.
- Midwest Division – operating revenues decreased $40 million from the same period in the prior year primarily due to a 5.3% decrease in same-store adjusted admissions, a decline in commercial and managed care payor mix and lower outpatient and surgical volume levels.
- Texas Division – operating revenues decreased $63 million from the same period in the prior year primarily due to a 5.9% decrease in same-store adjusted admissions and lower outpatient and surgical volume levels, partially offset by improved commercial payor mix and a gain on sale of certain assets.
- Central California Division – operating revenues increased $133 million from the same period in the prior year primarily due to an increase in premium revenues and rate increases, partially offset by a 3.3% decrease in same-store adjusted admissions and lower outpatient and surgical volume levels.
- Central Coast Division – operating revenues increased $29 million from the same period in the prior year primarily due to an increase in premium revenues and rate increases, partially offset by a 6.2% decrease in same-store adjusted admissions and lower outpatient and surgical volume levels.

Balance Sheet Metrics

The following table provides key balance sheet metrics for CommonSpirit:

Key Balance Sheet Metrics ($ in millions)	June 30, 2020	June 30, 2019	Change
Consolidated Balance Sheet Summary			
Total assets	$ 46,773	$ 40,625	$ 6,148
Total liabilities	$ 33,178	$ 24,834	$ 8,344
Total net assets	$ 13,595	$ 15,791	$ (2,196)
Financial Position Ratios			
Total cash and unrestricted investments	$ 15,782	$ 11,599	$ 4,183
Days cash on hand	202	152	50
Total debt	$ 15,040	$ 13,507	$ 1,533
Debt to capitalization	55.0%	48.4%	6.6%

Liquidity

Cash and unrestricted investments were $15.8 billion at June 30, 2020, and $11.6 billion at June 30, 2019. The increase is primarily due to accelerated Medicare payments and CARES Act grants received in the last quarter of the fiscal year.

Liquidity and Capital Resources ($ in millions)	June 30, June 30, 2020	June 30, 2019	Change
Cash	$ 5,674	$ 1,569	$ 4,105
Short-term investments	2,715	2,511	204
Designated for capital projects and other	7,393	7,519	(126)
Total	$ 15,782	$ 11,599	$ 4,183

CommonSpirit is actively monitoring liquidity given the volatility in financial markets and the operational disruption related to COVID-19. As of June 30, 2020, CommonSpirit's cash and investment position increased significantly as a result of a rebound in investment markets, coupled with several actions management has taken to shore up liquidity and protect the organization in the face of potential ongoing operating cash flow disruption. As described under "Debt Portfolio" below, CommonSpirit drew $500 million on its working capital line in March and an additional $200 million in April 2020 to bolster cash. In addition, a significant amount of government aid has been received, including $1.1 billion of CARES Act grants and $2.6 billion in accelerated Medicare payments.

Capital Resources

Cash provided by operating activities totaled $4.2 billion for the year ended June 30, 2020, compared to $2.1 billion for the same period in the prior year on a pro forma basis. Significant activity for the year ended June 30, 2020, includes the following:

- Investments and net assets limited as to use increased $40 million during the year ended June 30, 2020, compared to a decrease of $752 million during the same period in the prior year.
- Other accrued liabilities increased $3.0 billion during the year ended June 30, 2020, compared to an increase of $101 million during the same period in the prior year, primarily due to $2.6 billion in accelerated Medicare payments.
- California Provider Fee-related receivables, net of payables, increased $94 million during the year ended June 30, 2020, compared to a decrease of $52 million during the same period in the prior year.
- Accounts receivable, net, decreased $156 million during the year ended June 30, 2020, compared to an increase of $137 million during the same period in the prior year.
- Change in broker payables, net of receivables, decreased $9 million during the year ended June 30, 2020, compared to an increase of $121 million during the same period in the prior year.
- Prepaid and other current assets increased $238 million during the year ended June 30, 2020, compared to an increase of $113 million during the same period in the prior year.

Cash used in investing activities totaled $1.2 billion for the year ended June 30, 2020, compared to $1.6 billion for the same period in the prior year on a pro forma basis, primarily due to the following:

- Capital expenditures were $1.3 billion during the year ended June 30, 2020, compared to $1.6 billion 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 $218 million during the year ended June 30, 2020, compared to $74 million during the same period in the prior year, primarily related to the sale of shares of a joint venture.
- Investments in health-related activities increased $167 million during the year ended June 30, 2020, compared to $126 million during the same period in the prior year.

Cash provided by financing activities totaled $1.1 billion for the year ended June 30, 2020, compared to cash used in financing activities of $0.4 billion for the same period in the prior year on a pro forma basis, primarily due to the following:

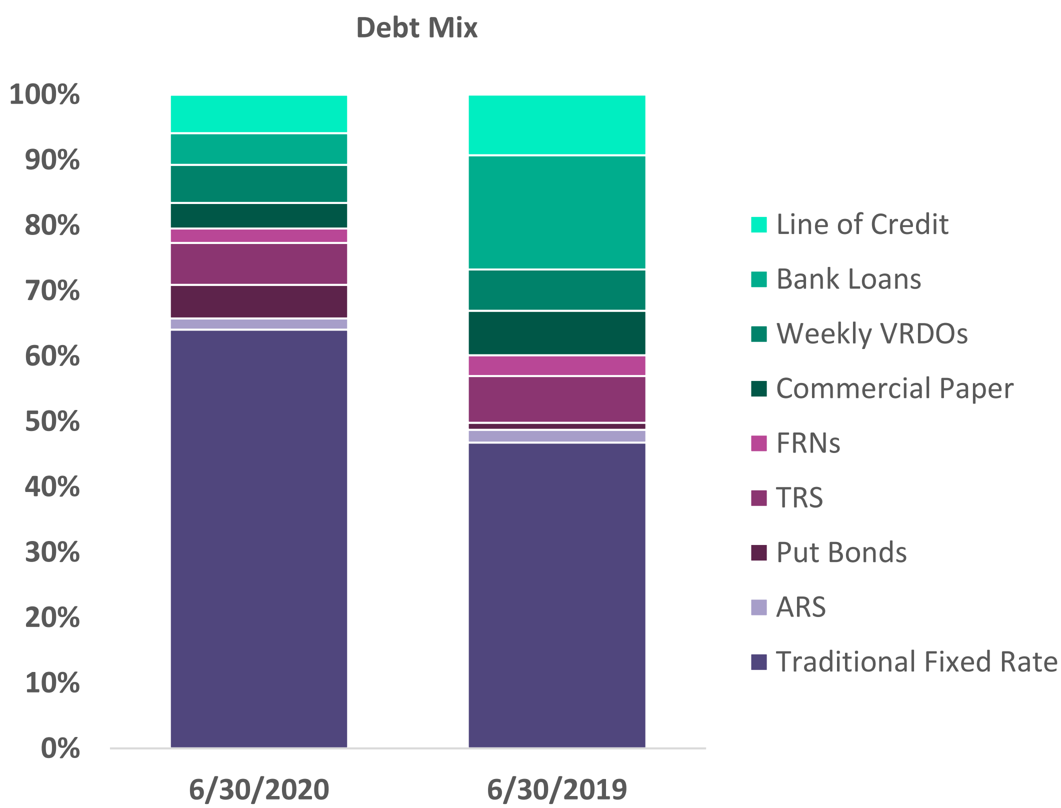
- Net borrowings of $1.4 billion during the year ended June 30, 2020, in connection with the August 2019 financing, compared to net repayments on debt of $245 million during the same period in the prior year.
- Debt extinguishment costs of $110 million during the year ended June 30, 2020, related to the August 2019 financing.

Debt Portfolio

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, under a new CommonSpirit Health Master Trust Indenture (the "CommonSpirit Health MTI"). 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 Obligated Group represents approximately 88% of consolidated revenues of CommonSpirit as of June 30, 2020.

Benefits from the debt restructuring include a unified credit structure that enables efficiencies in financial reporting, debt management, and investor relations; net present value savings on the tax-exempt bond restructurings; a favorable cost of capital on the restructuring transactions; a five-year cash flow window on principal payments; reduction in short-term debt maturities and near-term put risk; and cash on the balance sheet for reimbursement of prior capital expenditures. These actions helped to reduce risk and create a stable platform for CommonSpirit and enabled the organization to better manage through the near-term capital market disruptions related to COVID-19.

The chart below depicts CommonSpirit's current debt mix as compared to the prior year, before the August 2019 restructuring:



CommonSpirit is currently evaluating an approximately $2 billion bond financing in the fourth quarter of 2020 for the purpose of (i) restructuring and/or refinancing certain indebtedness, and (ii) financing and reimbursing up to $750 million related to capital projects. Any refinancing of indebtedness or financing and reimbursement of capital projects is dependent on the issuance of one or more new series of taxable and tax-exempt bonds and may depend on the market and other conditions. There is no assurance that any of the bonds will be issued, that all or any portion of the existing indebtedness will be refinanced, or that the capital projects identified will be financed or reimbursed.

Strategic Focus and Priorities

CommonSpirit's vision of "a healthier future for all – inspired by faith, driven by innovation, and powered by our humanity" is embodied by the goal to transform health care in the United States by committing to building healthier communities, advocating for those who are poor and vulnerable, and innovating how and where healing can happen in order to extend care beyond traditional settings. The COVID-19 pandemic presents a range of short- and medium-term challenges, and management is focused both on near-term priorities to serve its patients and communities and protect its caregivers and other employees, as well as on longer-term strategic goals. The organization is embracing the challenge of this pandemic and, where appropriate, accelerating care transformation strategies to meet the needs of its communities.

CommonSpirit has described its strategic vision through five transformative strategies: (1) advocate for healthy populations; (2) coordinate and customize care; (3) address unique needs of the communities it serves; (4) enhance consumer engagement; and (5) inspire the CommonSpirit workforce. These strategies have informed CommonSpirit CEO Lloyd Dean's seven organizational imperatives that describe both strategic goals and near-term priorities. These imperatives and recent progress in specific areas are described below:

Mission-Driven Outreach: CommonSpirit will use its voice and continue to focus resources on the social determinants of health, particularly related to the needs of vulnerable populations and social justice issues. The disproportionate impact of COVID-19 on communities of color and low-income communities and on those with complex health conditions highlights the urgency of this work.

- CommonSpirit has led innovative models and high-value community interventions to address health inequities in our communities through partnerships that promote access to care and address social determinants of health, to improve health outcomes particularly for vulnerable communities. CommonSpirit's Connected Community Network is now active in 21 locations, connecting individuals and breaking down barriers in accessing community resources. The Community Investment program, while generally focused on below-market loans to community-based organizations focused on addressing social determinants of health, is working to help make communities resilient and respond to needs during environmental or other emergencies with direct investments and leveraged investment with other like-minded partners.
- CommonSpirit continues to work with other industry leaders and healthcare associations to advocate for federal relief funds and adequate Medicare and Medicaid funding and eligibility to ensure the sustainability of the healthcare system during the COVID-19 crisis and beyond. Particular focus is on those who provide safety net services and care to rural communities.

Consumer-Focused Integrated Care: Win consumer's trust and confidence through reliable, safe, personalized care experiences. In particular, offer a coordinated, systematic and customizable approach to serve those with acute, chronic and complex conditions.

- CommonSpirit has rapidly expanded and scaled a range of virtual care options as a means to meet the care needs of our patients. Virtual care, through video visits, online health assessments, pre-visit screening, and other means, has become increasingly critical as a means to care for communities.
- Other non-hospital based services, such as home care, are increasingly important not only to serve patients in the most appropriate, lowest cost settings, but also to protect patients at a time when disease transmission is of particular concern. For example, CommonSpirit Health at Home stood up remote patient monitoring in two weeks across its 27 locations in 11 states. Since its inception in April, it has remotely monitored over 2,000 patients. Additionally, with the medication delivery program stood up in the same time frame, Health at Home has already serviced over 1,600 patients.

Integrated Digital Services, Capabilities and Analytics: CommonSpirit is strategically investing in digital capabilities to enhance the patient experience and improve operational effectiveness.

- As virtual care becomes a more widely utilized care modality, CommonSpirit believes a range of digital interactions and virtual care will be an increasingly important component of care delivery and consumer engagement. CommonSpirit scaled virtual visit capabilities rapidly at the peak of the COVID-19 crisis, providing nearly 740,000 virtual visits since the onset of the pandemic and shelter-in-place and other COVID-19 prevention measures (mid-March to mid-September 2020). Demand for virtual care is now a fundamental component of the care delivery system.
- CommonSpirit anticipates that virtual care modalities – from virtual visits to virtual ICU, health at home, palliative care, and other applications – will be an important component of the continuum of care. Strategic planning efforts are being accelerated in these areas as CommonSpirit considers the long-term implications on

service delivery of the COVID-19 pandemic and that potential long-term behavioral and cultural changes that may result.

Diversified Growth: Complementing CommonSpirit's care continuum, from virtual and primary care to acute, post-acute and in-home services, the organization seeks to further diversify from a service line, access point, and revenue perspective through selected investments and partnerships. The organization is frequently in dialogue with potential partners, building upon its successful track record in diversified investments and partnerships.

- During the fourth quarter 2020, CommonSpirit entered into partnerships with Fresno Surgical Hospital and Summit Surgery Center in partnership with St. Agnes (Trinity) and USPI in its Central California Division. CommonSpirit is also utilizing its Home Recovery Care partnership with Contessa to provide support for managing capacity needs at our acute facilities during the COVID-19 pandemic, using the partnership to support earlier transitions to home based care where clinically appropriate.

One Inspired Team: CommonSpirit's employees and clinicians form the core of its mission delivery. CommonSpirit seeks to attract, retain and inspire leaders and caregivers who reflect our strategic vision and values. Now more than ever, our caregivers and other employees are called upon to make sacrifices to care for our communities and our ministry. CommonSpirit is focused on honoring our employees and celebrating the heroes that serve our patients at this time.

- Actions taken to support our employees during COVID-19 include adjusting HR policies to provide additional flexibility and providing other support programs for employees, such as a Care for Caregivers program, as we recognize the demands of care delivery and the shared sacrifices of employees who may need to flex schedules or work from home during this time.

At Scale Operational Excellence: The organization continues to focus on operational efficiencies, which are challenging and even more important in the face of disruption in service delivery related to COVID-19, as well as moving toward optimizing capital deployment.

- Examples of System-wide initiatives include clinical standardization in areas such as the implementation of sepsis bundles and protocols for outpatient hypertension control, which led to a significant improvement in fiscal 2020. CommonSpirit also created a COVID-19 dashboard, mining enterprise-wide data to track, on a daily basis, a range of operational and clinical data to effectively manage resources across the System to meet the rapidly changing demands of the pandemic.

Effective Financial Stewardship: Part of the vision for CommonSpirit was to create an efficient, financially stable platform in order to sustain the organization's mission and ministry into the future. Effective financial stewardship is even more critical as the industry faces headwinds related to COVID-19 and related recessionary pressures. To that end, the organization is accelerating various components of value capture and synergy realization, and engaging in capital discipline to help deliver long-term value and reduce organizational risk.

- In fiscal year 2020, CommonSpirit instituted a common set of enterprise metrics that are tracked consistently across the System. The metrics include measures of clinical quality, patient satisfaction, service to the community, employee engagement, integration initiatives, growth and diversification, and financial performance measures. These metrics are reported quarterly to the Board, and CommonSpirit's executive leadership is held accountable for performance against these metrics.

Ongoing Integration Work

Operating Company Model: 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 13 operating divisions overseen by regional executives. Centralized management and decision-making are expected to allow CommonSpirit to deploy the most effective clinical and operational practices 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 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.

Realization of Synergy Goals: CommonSpirit has been on a path toward performance improvement, synergy realization and growth to meet its financial goals, which include achieving an 8% operating EBITDA margin and maintaining and improving balance sheet strength. To support these long-term financial goals, CommonSpirit identified approximately $2 billion in merger-related synergies and performance excellence initiatives to be achieved over a multiyear time frame.

Through February 2020, the System was on track to achieve or exceed its fiscal 2020 performance and synergy goals. CommonSpirit made significant progress in traditional merger synergy areas during fiscal 2020. Examples of synergies achieved include the selection of a single group purchasing organization partner; consolidating vendors through a competitive bidding process in the areas of audits, treasury, supply chain, insurance brokerage, external legal services, and marketing services; and consolidating support operations such as data centers, finance and System offices.

During the first eight months of FY20, the organization also made solid progress toward its performance excellence goals in several areas, including 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. Productivity and other efforts were disrupted by the COVID-19 pandemic, as volumes dropped precipitously; and in the initial days of surge planning, management generally kept full staffing in an effort to be optimally prepared to address patient care needs related to a potential COVID-19 surge. As management has learned more regarding the trajectory of the pandemic in each geography, efforts to manage productivity through flex time and furlough and other methods are being utilized as appropriate to return to more reasonable levels of productivity. Other efforts to contain costs at this time include temporary reductions in executive salaries, reduction in discretionary spending, and a re-examination of capital projects.

While safely reopening for patients and returning to pre-COVID-19 volume levels is a near-term priority, further growth remains a long-term focus for CommonSpirit, in addition to achievement of synergies. Growth goals are focused across the continuum of care, from inpatient to ambulatory and virtual services. As noted, virtual care is being scaled rapidly and is a priority both during the pandemic and over the longer term. Other examples of initiatives that can be scaled rapidly and are expected to drive growth over the longer term or improve costs or efficiency include: expanding centralized precision sales and marketing activities that drive commercial volume; expanding home-based healthcare to manage length of stay and avoid costly readmissions; growing specialty and retail pharmacy capabilities; and scaling community health initiatives that address the social determinants of health.

Exhibit I

Consolidated Financial Statements as of and for the Years Ended June 30, 2020 and 2019
With Report of Independent Auditors

(ATTACHED)

COMMONSPIRIT HEALTH

Consolidated Financial Statements as of
and for the Years Ended June 30, 2020 and 2019
With Report of Independent Auditors

COMMONSPIRIT HEALTH

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Report of Independent Auditors

The Board of Stewardship Trustees
CommonSpirit Health

We have audited the accompanying consolidated financial statements of CommonSpirit Health, which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CommonSpirit Health as of June 30, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of Accounting Standards Update No. 2016-02, *Leases* (Topic 842)

As discussed in Note 2 to the consolidated financial statements, CommonSpirit Health changed its method of accounting for leases due to the adoption of Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), and the related amendments, effective July 1, 2019. Our opinion is not modified with respect to this matter.

Ernst & Young LLP

October 2, 2020

COMMONSPIRIT HEALTH

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2020 AND 2019 (in millions)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	$ 5,674	$ 1,569
Short-term investments	2,715	2,511
Assets limited as to use	1,172	2,315
Patient accounts receivable, net	3,581	3,726
Broker receivables for unsettled investment trades	199	291
Provider fee receivable	1,142	964
Assets held for sale	-	223
Other current assets	1,622	1,403
Total current assets	16,105	13,002
Assets limited as to use:		
Designated assets for:		
Capital projects and other	7,393	7,519
Held for self-insured claims	1,557	1,551
Under bond indenture agreements for debt service	19	31
Donor-restricted	861	879
Other	597	397
Less amount required to meet current obligations	(1,172)	(2,315)
Assets limited as to use, net	9,255	8,062
Property and equipment, net	15,233	15,266
Right-of-use operating lease assets	1,828	-
Ownership interests in health-related activities	3,188	3,145
Goodwill	274	242
Intangible assets, net	700	714
Other long-term assets, net	190	194
Total assets	$ 46,773	$ 40,625

(Continued)

COMMONSPIRIT HEALTH

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2020 AND 2019 (in millions)

Liabilities and Net Assets	**2020**	**2019**
Current liabilities:		
Current portion of long-term debt	$ 1,079	$ 3,475
Demand bonds subject to short-term liquidity arrangements	821	820
Accounts payable	1,436	1,362
Accrued salaries and benefits	1,460	1,348
Self-insured reserves and claims	407	423
Broker payables for unsettled investment trades	302	403
Liabilities held for sale	-	162
Provider fee payables	421	335
Operating lease liabilities	274	-
Other accrued liabilities - current	4,176	1,190
Total current liabilities	10,376	9,518
Other liabilities - long-term:		
Self-insured reserves and claims	1,129	1,104
Pension and other postretirement benefit liabilities	5,553	3,692
Derivative instruments	277	214
Operating lease liabilities	1,701	-
Other accrued liabilities - long-term	1,002	1,094
Total other liabilities - long-term	9,662	6,104
Long-term debt, net of current portion	13,140	9,212
Total liabilities	33,178	24,834
Net assets:		
Without donor restrictions - attributable to CommonSpirit Health	12,317	14,428
Without donor restrictions - noncontrolling interests	419	486
With donor restrictions	859	877
Total net assets	13,595	15,791
Total liabilities and net assets	$ 46,773	$ 40,625

See notes to consolidated financial statements.

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2020 AND 2019 (in millions)

	2020	2019
Operating revenues:		
Net patient revenue	$ 26,207	$ 19,476
Premium revenue	1,158	476
Revenue from health-related activities, net	99	70
Other operating revenue	2,053	897
Contributions	62	47
Total operating revenues	29,579	20,966
Operating expenses:		
Salaries and benefits	14,653	10,221
Supplies	4,515	3,337
Purchased services and other	8,886	6,273
Depreciation and amortization	1,530	1,087
Interest expense, net	456	391
Special charges and other costs	89	259
Total operating expenses	30,129	21,568
Operating loss	(550)	(602)
Nonoperating income (loss):		
Investment income, net	273	612
Loss on early extinguishment of debt	(110)	-
Income tax expense	(50)	(14)
Change in fair value and cash payments of interest rate swaps	(219)	(131)
Contributions from business combination	54	9,155
Other components of net periodic postretirement costs	100	(1)
Other	(22)	(5)
Total nonoperating income, net	26	9,616
Excess (deficit) of revenues over expenses	$ (524)	$ 9,014
Less excess of revenues over expenses attributable to noncontrolling interests	27	6
Excess (deficit) of revenues over expenses attributable to CommonSpirit Health	$ (551)	$ 9,008

(Continued)

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2020 AND 2019 (in millions)

	Without Donor Restrictions			
	Attributable to CommonSpirit Health	Noncontrolling Interests	With Donor Restrictions	Total Net Assets
Balance, June 30, 2018	$ 6,529	$ 300	$ 303	$ 7,132
Excess of revenues over expenses	9,008	6	-	9,014
Contribution from business combination	-	235	559	794
Contributions	-	-	69	69
Net assets released from restrictions for capital	28	-	(28)	-
Net assets released from restrictions for operations and other	-	-	(35)	(35)
Change in funded status of pension and other postretirement benefit plans	(1,026)	-	-	(1,026)
Loss from discontinued operations, net	(79)	-	-	(79)
Other	(32)	(55)	9	(78)
Increase in net assets	7,899	186	574	8,659
Balance, June 30, 2019	14,428	486	877	15,791
Excess (deficit) of revenues over expenses	(551)	27	-	(524)
Change in accounting principle	152	-	-	152
Contributions	-	-	96	96
Net assets released from restrictions for capital	49	-	(49)	-
Net assets released from restrictions for operations and other	-	-	(45)	(45)
Change in funded status of pension and other postretirement benefit plans	(1,668)	-	-	(1,668)
Loss from discontinued operations, net	(182)	-	-	(182)
Other	89	(94)	(20)	(25)
Decrease in net assets	(2,111)	(67)	(18)	(2,196)
Balance, June 30, 2020	$ 12,317	$ 419	$ 859	$ 13,595

See notes to consolidated financial statements.

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019 (in millions)

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ (2,196)	$ 8,659
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Loss on early extinguishment of debt	110	-
Depreciation and amortization	1,530	1,087
Changes in equity of health-related entities	(100)	(78)
Contribution from business combination	(54)	(9,949)
Net assets related to business combination	75	12
Noncash special charges and other	10	124
Net gain on disposal of assets	-	(24)
Noncash impact of change in accounting principle	(152)	-
Change in fair value of swaps	174	104
Change in funded status of pension and other postretirement benefit plans	1,668	1,026
Pension cash contributions	(22)	(19)
Changes in certain assets and liabilities:		
Accounts receivable, net	156	(110)
Accounts payable	10	76
Self-insured reserves and claims	53	20
Accrued salaries and benefits	76	117
Changes in broker receivables/payables for unsettled investment trades	(9)	142
Provider fee assets and liabilities	(94)	152
Other accrued liabilities	3,023	130
Prepaid and other current assets	(238)	(30)
Other, net	175	49
Cash provided by operating activities before net change in investments and assets limited as to use	4,195	1,488
Net (increase) decrease in investments and assets limited as to use	(40)	409
Cash provided by operating activities	4,155	1,897

(Continued)

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019 (in millions)

	2020	2019
Cash flows from investing activities:		
Purchases of property and equipment	(1,286)	(1,148)
Investments in health-related activities	(167)	(121)
Business acquisitions, net of cash acquired	(12)	665
Proceeds from asset sales	218	72
Cash distributions from health-related activities	102	109
Other, net	(53)	6
Cash used in investing activities	(1,198)	(417)
Cash flows from financing activities:		
Borrowings	9,032	580
Repayments	(7,607)	(869)
Loss on early extinguishment of debt	(110)	-
Swaps cash collateral posted	(112)	(65)
Distributions to noncontrolling interests	(55)	(49)
Purchase of noncontrolling interests	-	(12)
Other	-	(6)
Cash provided by (used in) financing activities	1,148	(421)
Net increase in cash and cash equivalents	4,105	1,059
Cash and cash equivalents at beginning of period	1,569	510
Cash and cash equivalents at end of period	$ 5,674	$ 1,569
Components of cash and cash equivalents and investments at end of year:		
Cash and cash equivalents	$ 5,674	$ 1,569
Short-term investments	2,715	2,511
Designated assets for capital projects and other	7,393	7,519
Total	$ 15,782	$ 11,599
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 429	$ 430
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through finance lease or note payable	$ 91	$ 15
Investments in health-related activities	$ 92	$ 17
Accrued purchases of property and equipment	$ 105	$ 113

See notes to consolidated financial statements.

1. ORGANIZATION

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

CommonSpirit Health owns and operates health care facilities in 21 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations that are exempt from federal and state income taxes. CommonSpirit Health is comprised of 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 consolidated financial statements include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit").

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

The accompanying consolidated balance sheets and related consolidated statements of operations and changes in net assets and statements of cash flows reflect the financial position and results of operations of CommonSpirit as of and for the years ended June 30, 2020 and 2019. CommonSpirit's results of operations for the year ended June 30, 2019, include 12 months of results of operations and cash flows for CHI, and five months of results of operations and cash flows for Dignity Health from February 1, 2019 to June 30, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reclassifications – Certain reclassifications and changes in presentation were made in the 2019 consolidated financial statements to conform to the 2020 presentation, as a result of recently adopted accounting pronouncements. See ***Recent Accounting Pronouncements*** below.

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

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

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

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

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

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

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

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

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

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

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

Liquidity – Cash and cash equivalents, short-term investments, patient and other accounts receivable, broker receivables, and provider fee receivables are the financial assets available to meet expected expenditure needs within the next year. Additionally, although intended to satisfy long-term obligations, management estimates that approximately 87% of designated assets for capital projects and other in assets limited as to use, as stated at June 30, 2020 and 2019, could be utilized within the next year, if needed. CommonSpirit also has credit facility programs, as described in Note 15, available to meet unanticipated liquidity needs.

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

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

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

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

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

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

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

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

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

Self-Insurance Plans – CommonSpirit maintains self-insurance programs for workers' compensation benefits for employees and for professional and general liability risks. Annual self-insurance expense under these programs is based on past claims experience and projected losses. Actuarial estimates of uninsured losses for each program at June 30, 2020 and 2019, have been accrued as liabilities and include an actuarial estimate for claims incurred but not reported ("IBNR"). CommonSpirit has insurance coverage in place for amounts in excess of the self-insured retention for workers' compensation and professional and general liabilities. The current and long-term portions of these liabilities are reflected accordingly in self-insured reserves and claims in the accompanying consolidated balance sheets.

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

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

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

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

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

Subsequent changes that are determined to be the result of an adverse change in a third-party payor's ability to pay are recorded as bad debt expense in purchased services and other in the accompanying consolidated statements of operations and changes in net assets. Bad debt expense for 2020 and 2019 was not significant.

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

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

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

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

Traditional Charity Care – Charity care is free or discounted health services provided to persons who cannot afford to pay and who meet CommonSpirit's criteria for financial assistance. The amount of services written off as charity quantified at customary charges was $2.1 billion and $1.2 billion for 2020 and 2019, respectively. CommonSpirit estimates the cost of charity care by calculating a ratio of cost to usual and customary charges and applying that ratio to the usual and customary uncompensated charges associated with providing care to patients who qualify for charity care. This amount is not included in net patient revenue in the accompanying consolidated statements of operations and changes in net assets. The estimated cost of charity care associated with write-offs in 2020 and 2019 was $447 million and $317 million, respectively, for continuing operations. See Note 24.

Other Operating Revenue – Other operating revenue includes grant revenues, including funds received from the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), retail pharmacy revenues, management services revenues, rental revenues, cafeteria revenues, certain contributions released from restrictions, gains on sales of assets, and other nonpatient care revenues. See Note 4.

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

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

Endowment assets, which are primarily to be used for equipment and expansion, research and education, or charity purposes, include donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Donor-restricted endowment net assets totaled $859 million and $877 million in 2020 and 2019, respectively. Changes in endowment net assets primarily relate to investment returns, contributions, and appropriations for expenditures. CommonSpirit preserves the fair value of these gifts as of the date of donation unless otherwise stipulated by the donor. Donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure. CommonSpirit considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of CommonSpirit.

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

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

Special Charges and Other Costs – Special charges include costs related to the affiliation of CHI and Dignity Health, changes in business operations and long-lived asset impairments. Changes in business operations include patient information go-live support and costs incurred to implement reorganization efforts within specific operations in order to align CommonSpirit's operations in the most strategic and cost effective manner. See Note 20.

Community Benefits – As part of its mission, CommonSpirit provides services to the poor and benefits for the broader community. The costs incurred to provide such services are included in excess (deficit) of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets. CommonSpirit prepares a summary of unsponsored community benefit expense in accordance with Internal Revenue Service Form 990, Schedule H, and the Catholic Health Association of the United States ("CHA") publication, *A Guide for Planning and Reporting Community Benefit*. See Note 24.

Interest Expense – Interest expense on debt issued for construction projects is capitalized until the projects are placed in service. Interest expense, net, includes interest and fees on debt, net of these capitalized amounts. See Note 18.

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

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

Income tax interest and penalties are recorded as income tax expense. For the years ended June 30, 2020 and 2019, CommonSpirit's taxable entities recorded an immaterial amount of interest and penalties as part of the provision for income taxes. CommonSpirit's taxable entities did not have any material unrecognized income tax expense as of June 30, 2020 and 2019. CommonSpirit reviews its tax positions quarterly and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated financial statements.

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

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

Recent Accounting Pronouncements – In August 2018, the FASB issued ASU No. 2018-15, I*ntangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation*

Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, 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 July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842)*, which enhanced ASU No. 2016-02, *Lease*s *(Topic 842)*, and amendments thereto. The guidance of these ASUs requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet and allows for an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements. The guidance is effective for CommonSpirit for the annual period ended June 30, 2020, and interim periods beginning July 1, 2019. The guidance was adopted 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 $152 million cumulative effect transition adjustment increase to net assets without donor restrictions related to the adoption of ASU 2016-02.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires employers to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, and the other components of net periodic benefit cost are required to be presented on the income statement separately from the service cost component and outside of income from operations. The guidance was effective for CommonSpirit for the annual period ended June 30, 2020, and interim periods beginning July 1, 2020. The other components of net benefit cost recognized during the years ended June 30, 2020 and 2019 are $100 million and $(1) million, respectively. As a result of the adoption of ASU 2017-07, this component of net periodic benefit cost is reflected in nonoperating income (loss) in the consolidated statements of operations and changes in net assets.

Subsequent Events – CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal year and October 2, 2020, the date the consolidated financial statements were issued. See Notes 3, 4 and 15.

3. ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

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

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

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

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

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

The following unaudited pro forma consolidated financial information of CommonSpirit for 2019 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. Acquisition-related adjustments have been excluded from the pro forma results.

(in millions)	2020 Actual	2019 Pro Forma (a)	2019 Actual
Operating revenues:			
Net patient revenue	$ 26,207	$ 26,570	$ 19,476
Premium revenue	1,158	1,034	476
Revenue from health-related activities, net	99	104	70
Other operating revenue	2,053	1,090	897
Contributions	62	63	47
Total operating revenues	29,579	28,861	20,966
Operating expenses:			
Salaries and benefits	14,653	14,249	10,221
Supplies	4,515	4,519	3,337
Purchased services and other	8,886	8,495	6,273
Depreciation and amortization	1,530	1,423	1,087
Interest expense, net	456	492	391
Special charges and other costs	89	300	259
Total operating expenses	30,129	29,478	21,568
Operating loss	(550)	(617)	(602)
Nonoperating income (loss):			
Investment income, net	273	558	612
Loss on early extinguishment of debt	(110)	-	-
Income tax expense	(50)	(23)	(14)
Change in fair value and cash payments of interest rate swaps	(219)	(150)	(131)
Contribution (loss) from business combination, net	54	(53)	9,155
Other components of net periodic postretirement costs	100	35	(1)
Other	(22)	(4)	(5)
Total nonoperating income, net	26	363	9,616
Excess (deficit) of revenues over expenses	$ (524)	$ (254)	$ 9,014
Less excess of revenues over expenses attributable to noncontrolling interests	27	36	6
Excess (deficit) of revenues over expenses attributable to CommonSpirit	$ (551)	$ (290)	$ 9,008

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

College Station Medical Center – 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 $35 million gain, recorded as contribution from business combination in nonoperating income (loss) in 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.

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

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

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

In June 2018, CHI recognized additional impairment charges of $106 million in discontinued operations and $12 million in continuing operations to adjust the JHSMH property and equipment values to the lower of their carrying value or their fair value less cost to sell.

In November 2019, CommonSpirit completed its divestiture of JHSMH to the University of Louisville, which resulted in a total loss of $134 million, of which $127 million is reflected in loss from discontinued operations, net, in the accompanying consolidated statements of operations and changes in net assets, and $7 million is reflected in other operating revenue in the accompanying consolidated statements of operations and changes in net assets. 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 $33 million. The current portion of the future commitment of $10 million is recorded in other accrued liabilities - current, and the long-term portion of $23 million is reflected in other accrued liabilities - long-term in the accompanying consolidated balance sheets.

In August 2020, a consolidated affiliate of CommonSpirit, Dignity Community Care ("DCC"), and Yavapai Community Hospital Association, dba Yavapai Regional Medical Center ("YRMC"), an Arizona nonprofit corporation, executed an affiliation agreement to transfer the sole membership of YRMC and its applicable subsidiaries to DCC for no cash consideration. YRMC owns and operates two acute care hospitals, a regional wellness center, an imaging center, a network of primary and specialty physician clinics, and a fundraising foundation in the Prescott, Arizona area. The transaction is expected to close before the end of calendar 2020.

4. COVID-19 PANDEMIC

In December 2019, a novel strain of coronavirus, known as COVID-19, was first detected. The virus spread worldwide and in March 2020 was declared a pandemic by the World Health Organization. The Centers for Disease Control and Prevention confirmed the first case in the United States in February 2020, and with the rapid spread across all 50 states, the United States government passed new laws designed to help the nation respond to this pandemic.

The CARES Act provides stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. Through June 30, 2020, CommonSpirit has received approximately $1.1 billion under the CARES Act in the form of grants as reimbursement through the Public Health and Social Services Emergency Fund for lost revenues attributable to COVID-19. These payments are recorded as other operating revenues, as earned. These funds are not required to be repaid upon attestation and compliance with certain terms and conditions. To date, $826 million has been recognized within other operating revenue, and $227 million of deferred revenue, within other accrued liabilities-current, in the consolidated balance sheets. CommonSpirit will continue to monitor the terms and conditions of the CARES Act funding and the impact of the pandemic on revenues and expenses. If CommonSpirit is unable to attest or comply with current or future terms and conditions, the ability to retain some or all of the distributions received may be impacted. CommonSpirit also received $2.6 billion in funds under the Medicare Accelerated and Advance Payment Program. These payments are advances that will be recouped by withholding future Medicare fee-for-service payments for claims until such time as the full accelerated payment has been recouped, and as such, are recorded in other accrued liabilities - current. As of June 30, 2020, the terms and conditions in effect prescribed that any outstanding balance remaining after 12 months from the date of receipt must be repaid or may be subject to interest. As of October 1, 2020, the terms and conditions have been revised whereby recoupment is extended to 29 months from date of receipt, at which time remaining unpaid amounts are subject to interest of 4%.

CommonSpirit will apply for reimbursement for qualifying expenses under the Federal Emergency Management Agency Disaster Relief Fund in fiscal year 2021, and has deferred approximately $140 million of employer payroll taxes through June 30, 2020, pursuant to the Paycheck Protection Program and Health Care Enhancement Act, recorded in other accrued liabilities - long-term.

While the aid received from the programs above provides much needed assistance during this crisis, CommonSpirit is unable to assess the extent to which the amounts and benefits received, or to be received, will offset the anticipated negative impacts on its results of operations and financial position arising from the COVID-19 pandemic.

5. NET PATIENT REVENUE

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

	2020	2019
Inpatient services	51%	48%
Outpatient services	49%	52%

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

	2020	2019
Government	$ 13,319	$ 9,676
Contracted	11,026	8,236
Self-pay and other	1,862	1,564
	$ 26,207	$ 19,476

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

Total operating revenues by service line are as follows:

	2020	2019
Hospitals	$ 23,785	$ 17,167
Physician organizations	2,755	2,277
Long-term care and home care	332	324
Other	493	184
Net patient and premium revenue	27,365	19,952
Health plans, accountable care, and other	2,214	1,014
Total operating revenues	$ 29,579	$ 20,966

6. OTHER CURRENT ASSETS

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

	2020	2019
Inventories	$ 640	$ 538
Receivables, other than patient accounts receivable	593	522
Prepaid expenses	321	286
Other	68	57
Total other current assets	$ 1,622	$ 1,403

7. INVESTMENTS AND ASSETS LIMITED AS TO USE

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

	2020	2019
Cash and short-term investments	$ 414	$ 697
U.S. government securities	866	843
U.S. corporate bonds	980	941
U.S. equity securities	1,236	1,372
Foreign government securities	6	-
Foreign corporate bonds	194	153
Foreign equity securities	1,475	1,302
Asset-backed securities	31	-
Private equity investments	687	643
Multi-strategy hedge fund investments	1,269	1,179
Real estate	278	233
CHI Operating Investment Program	4,739	4,738
DH Community Investment Program	83	-
Other	585	459
Interest in net assets of unconsolidated foundations	299	328
Total	$ 13,142	$ 12,888
Assets limited as to use:		
Current	$ 1,172	$ 2,315
Long-term	9,255	8,062
Short-term investments	2,715	2,511
Total	$ 13,142	$ 12,888

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

8. FAIR VALUE MEASUREMENTS

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

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

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

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

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

	2020			
	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	$ 308	$ 106	$ -	$ 414
U.S. government securities	653	213	-	866
U.S. corporate bonds	51	513	-	564
U.S. equity securities	1,033	5	-	1,038
Foreign government securities	-	6	-	6
Foreign corporate bonds	1	87	-	88
Foreign equity securities	855	1	-	856
Asset-backed securities	-	31	-	31
Private equity	-	-	66	66
Real estate	7	1	-	8
DH Community Investment Program	-	-	83	83
Other investments	61	35	1	97
Assets measured at fair value	$ 2,969	$ 998	$ 150	4,117
Assets at NAV:				
U.S. corporate bonds				416
U.S. equity securities				198
Foreign corporate bonds				106
Foreign equity securities				619
Private equity				621
Hedge funds				1,269
Real estate				270
Total assets				$ 7,616
Liabilities				
Derivative instruments	$ -	$ 630	$ -	$ 630
Other	5	-	75	80
Total liabilities	$ 5	$ 630	$ 75	$ 710

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

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.

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 noncash collateral of $127 million and $54 million as of June 30, 2020 and 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.

Financial assets totaling $65 million were transferred to Level 3 through the contribution from business combination in 2019. See Note 3.

The following table and explanations identify attributes relating to the nature and risk of investments for which fair value is determined using a calculated NAV as of June 30, 2020 (in millions):

		As of June 30, 2020			
		NAV Practical Expedient	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private equity	(1)	$ 621	$ 289	-	-
Multi-strategy hedge funds	(2)	1,269	-	Weekly, Monthly, Quarterly, Semi-annually, Annually	3 - 90 days
Real estate	(3)	270	25	Quarterly	90 days
Commingled funds - debt securities	(4)	522	30	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	817	-	Daily, Weekly, Monthly, Quarterly	1 - 90 days
Total		$ 3,499	$ 344		

(1) This category includes private equity funds that specialize in providing capital to a variety of investment groups, including, but not limited to, venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at June 30, 2020, to be over the next 11 years.

(2) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term, risk-adjusted absolute returns. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. The following table reflects the various redemption frequencies, notice periods, and any applicable lock-up periods or gates to redemption as of June 30, 2020:

Percentage of the Value of Category (2) Total	Subtotal	Redemption Frequency	Redemption Notice Period	Redemption Locked Up Until (if applicable)	Redemption Gate % of Account (if applicable)
17.1%	15.6%	Annually	60 days	2 years	up to 25.0% - 50.0%
	1.5%	Annually	75 days	-	-
0.3%	0.3%	Semi-annually	75 - 90 days	2 years	-
39.2%	8.0%	Quarterly	30 - 45 days	2 years	up to 20.0%
	20.4%	Quarterly	60 - 65 days	1 year	up to 12.5% - 25.0%
	10.8%	Quarterly	90 days	-	up to 12.5% - 25.0%
32.8%	11.3%	Monthly	5 days	-	up to 20.0%
	16.6%	Monthly	30 - 45 days	-	up to 20.0%
	4.9%	Monthly	90 days	-	up to 20.0%
10.6%	10.6%	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 36% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at June 30, 2020, to be over the next eight years.

(4) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets. Also included in this category are commingled fixed income funds that provide capital in a variety of mezzanine debt, distressed debt and other special debt securities situations. Investments representing approximately 9% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at June 30, 2020, to be over the next five years.

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

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

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

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

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

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

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

The following represents assets and liabilities of the Program in its entirety, of which CHI holds 89% as of June 30, 2020 and 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 as of June 30 (in millions):

	2020			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets				
Short-term investments	$ 12	$ 366	$ -	$ 378
Commercial paper	-	128	-	128
Common stocks	1,961	1	-	1,962
Mutual funds and exchange-traded funds	27	-	-	27
Preferred stocks	7	-	-	7
Fixed-income funds	9	532	-	541
Corporate bonds	-	472	-	472
Asset-backed securities	-	371	-	371
U.S. government bonds:				
U.S. treasury inflation indexed bonds	36	-	-	36
U.S. treasury notes	109	-	-	109
Other	-	19	-	19
Foreign government bonds	-	59	-	59
CHI Direct Community Investment Program	-	-	51	51
Foreign currency exchange contracts	-	175	-	175
Term loans	-	169	1	170
Assets measured at fair value	$ 2,161	$ 2,292	$ 52	4,505
Assets at NAV:				
Hedge funds				285
Real estate				387
Venture capital/private equity				425
Total assets				$ 5,602
Liabilities - foreign currency exchange contracts	$ -	$ 176	$ -	$ 176

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

9. PROPERTY AND EQUIPMENT, NET

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

	2020	2019
Land and improvements	$ 1,920	$ 1,879
Buildings	11,833	11,290
Equipment	9,345	8,666
Construction in progress	2,070	1,685
Total	25,168	23,520
Less: Accumulated depreciation	(9,935)	(8,254)
Property and equipment, net	$ 15,233	$ 15,266

10. OWNERSHIP INTERESTS IN HEALTH-RELATED ACTIVITIES

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

As of June 30, 2020 and 2019, CommonSpirit has investment interests of 65%, 50% and 50% in JOCs based in Colorado, Iowa, and Ohio, respectively. CommonSpirit's interests in the JOCs are included in ownership interests in health-related activities in the accompanying consolidated balance sheets and totaled $469 million and $450 million at June 30, 2020 and 2019, respectively. CommonSpirit recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide varying levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization.

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

- CHI acquired the investment in Conifer Health Solutions ("Conifer") in May 2012 as part of a multiyear agreement whereby Conifer provides revenue cycle services and health information management solutions for CHI's acute care operations. CommonSpirit's ownership interest in Conifer was 23.8% as of June 2020 and 2019.
- In January 2018, CHI entered into an agreement with Premier Health to reorganize and restructure the existing JOA with Premier Health. The agreement provided that CHI transfer ownership of the Dayton market-based organization to Premier Health in exchange for a 22% interest in Premier Health.
- Dignity Health transferred and contributed to Optum360, LLC ("Optum360º") certain equipment and the intellectual property related to its internal revenue cycle management functions for a noncontrolling interest in Optum360° in September 2013. Optum360° also provides revenue cycle management functions for other health care organizations. CommonSpirit's ownership interest in Optum360º was 23% at June 30, 2020 and 2019.
- Dignity Health contributed the stock of U.S. HealthWorks to Concentra, Inc. in February 2018 to strengthen the access and delivery of expanded occupational care for employees, payors, and patients. Pursuant to the transaction, Dignity Health received a 20.6% interest in the combined entity, Concentra Group Holdings Parent, LLC. CommonSpirit's interest in Concentra Group Holdings Parent, LLC was 13.1% as of June 30, 2020, pursuant to a sale of certain shares during 2020.

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

	2020			
	Hospitals	**JOCs**	**Other**	**Total**
Total assets	$ 2,845	$ 1,522	$ 6,024	$ 10,391
Total liabilities	1,726	684	2,243	4,653
Total net assets	1,119	838	3,781	5,738
Total operating revenues, net	1,880	955	3,929	6,764
Excess (deficit) of revenues over expenses	(104)	(171)	426	151
Investment at June 30 recorded in ownership interests in health-related activities	244	469	1,382	2,095
Income (loss) recorded in revenue from health-related activities, net	(24)	(83)	91	(16)

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

Other than the investments described above, ownership interests totaling $1.1 billion and $1 billion as of June 30, 2020 and 2019, respectively, are not material individually to the consolidated financial statements.

11. GOODWILL

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

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

	2020	**2019**
Balance at beginning of period	$ 242	$ 239
Addition from acquisitions	32	3
Balance at end of period	$ 274	$ 242

12. INTANGIBLE ASSETS, NET

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

2020	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of Period	Amortization period
Trademarks	$ 555	$ -	$ 555	Indefinite
Trademark agreements	156	(49)	107	120 - 300 months
Noncompete agreements	16	(9)	7	24 months
Certificate of need	13	-	13	Indefinite
Other contracts	23	(5)	18	150 - 168 months
	$ 763	$ (63)	$ 700	

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

The aggregate amortization expense related to intangible assets is $12 million and $10 million for the years ended June 30, 2020 and 2019, respectively, and is recorded in depreciation and amortization on the accompanying consolidated statements of operations and changes in net assets.

Estimated amortization expense related to intangible assets is $13 million in 2021 and 2022, $11 million in 2023, $10 million in 2024, $8 million in 2025, and $77 million thereafter.

13. OTHER LONG-TERM ASSETS, NET

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

	2020	2019
Notes receivable, primarily secured	$ 57	$ 68
Other	133	126
Total other long-term assets, net	$ 190	$ 194

14. OTHER ACCRUED LIABILITIES

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

	2020	2019
Accrued interest expense	$ 140	$ 105
Due to government agencies	149	109
Medicare advances (see Note 4)	2,646	-
Capitation claims	92	82
Construction retention and contracts payable	52	44
Liabilities due to medical groups and physicians	63	71
Due to unconsolidated affiliates	73	116
Deferred revenue - CARES Act	227	-
Other	734	663
Total other accrued liabilities	$ 4,176	$ 1,190

15. DEBT

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

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

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

CommonSpirit Health MTI – As part of the Debt Consolidation plan and in connection with the issuance and sale of the 2019 tax-exempt and taxable bonds, the debt previously issued by CHI and Dignity Health was consolidated into a single unified credit group and debt structure in August 2019. See "2020 Financing Activity" for additional information.

In August 2019, the COD and the Master Trust Indenture were amended and restated, both to be the new CommonSpirit Health Master Trust Indenture (the "CommonSpirit Health MTI"), with CHI and the Dignity

Health Obligated Group each obtaining the necessary consents. The CommonSpirit Health MTI has an Obligated Group that is comprised of the former Dignity Health Obligated Group and CHI entities (collectively, the "CommonSpirit Obligated Group"). The CommonSpirit Health Obligated Group represents approximately 88% and 92% of consolidated revenues of CommonSpirit as of June 30, 2020 and 2019, respectively.

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

	2020	2019
Under the CommonSpirit Health MTI (2020) and Master Trust Indenture and COD (2019):		
Fixed rate debt:		
Fixed rate revenue bonds payable in installments through 2050; interest at 2.70% to 7.00%	$ 5,073	$ 4,175
Fixed rate taxable bonds payable in installments through 2065; interest at 2.76% to 5.27%	6,027	2,994
Taxable term loan payable in 2025; interest at 2.95%	250	-
Total fixed rate debt	11,350	7,169
Variable rate debt:		
Taxable direct placement loans payable in 2019 and 2023; interest set at prevailing market rates (3.29% to 3.32% at June 30, 2019)	-	353
Taxable direct purchase bonds with mandatory tender through 2021; interest set at prevailing market rates (1.54% to 1.67% at June 30, 2020)	200	925
Direct purchase bonds payable in installments through 2024; interest set at prevailing market rates (1.36% to 1.87% at June 30, 2020)	165	922
Floating rate notes payable with mandatory tender from 2021 through 2025; interest set at prevailing market rates (1.12% to 1.52% at June 30, 2020)	306	411
Variable rate demand bonds payable in installments through 2047; interest set at prevailing market rates (0.02% to 0.26% at June 30, 2020)	821	820
Auction rate certificates payable in installments through 2042; interest set at prevailing market rates (0.10% to 1.03% at June 30, 2020)	240	240
Bank lines of credit maturing in 2023; interest set at prevailing market rates (1.20% to 1.22% at June 30, 2020)	831	1,195
Commercial paper notes with maturities ranging from 7 to 198 days in June 2020; interest set at prevailing market rates (1.20% to 4.25% at June 30, 2020)	553	881
Total variable rate debt	3,116	5,747
Total debt under the CommonSpirit Health MTI (2020) and Master Trust Indenture and COD (2019):	14,466	12,916
Other:		
Various notes payable and other debt payable in installments	319	435
Finance lease obligations	255	156
Total debt	15,040	13,507
Less amounts classified as current	(1,079)	(3,475)
Less demand bonds subject to short-term liquidity arrangements	(821)	(820)
Total long-term debt	$ 13,140	$ 9,212

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

	Long-Term Debt Other Than Demand Bonds	Demand Bonds Subject to Short-Term Liquidity Arrangements	Total Long-Term Debt
2021	$ 1,049	$ 97	$ 1,146
2022	95	-	95
2023	1,755	-	1,755
2024	367	-	367
2025	1,833	-	1,833
Thereafter	8,480	724	9,204
Subtotal	13,579	821	14,400
Finance lease obligations	255	-	255
Issuance cost, net	385	-	385
Total	$ 14,219	$ 821	$ 15,040

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

Fixed Rate Taxable Bonds – CommonSpirit has taxable fixed rate bonds that are due in August 2023, October 2024, 2029, and 2049 and November 2022, 2024, 2040, 2041, 2042 and 2064. Early redemption of the debt, in whole or in part, may require a premium depending on market rates.

Fixed Rate Taxable Term Loan – CommonSpirit has a taxable fixed rate term loan due in April 2025.

Taxable Commercial Paper – CommonSpirit has a commercial paper program that permits the issuance of up to $881 million in aggregate principal amount outstanding, with maturities limited to 270-day periods. As of June 30, 2020, $553 million of commercial paper notes were outstanding.

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

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

Variable Rate Demand Bonds – Variable rate demand bonds (“VRDBs”) are remarketed weekly and may be put at the option of the holders. CommonSpirit maintains bank letters of credit of $724 million as credit enhancement for the VRDBs to ensure the availability of funds to purchase any bonds tendered that the remarketing agent is unable to remarket.

Letters of credit to support certain VRDBs of $91 million, $140 million, $150 million, $196 million, $90 million and $57 million expire in June 2021, October 2021, November 2021, October 2022, March 2023, and December 2023, respectively.

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

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

Notes Payable to Banks Under Credit Agreements – In 2020, CommonSpirit maintained a $900 million syndicated line of credit facility for working capital, letters of credit, capital expenditures and other general corporate purposes. The amount outstanding under the syndicated credit facility was $831 million as of June 30, 2020. During 2020, the maximum amount outstanding was $831 million. There were no letters of credit issued under this facility as of June 30, 2020. This credit facility expires in June 2023.

CommonSpirit maintained $290 million of undrawn lines of credit with expiration dates ranging from September 2020 through August 2023 that can be used to support obligations to fund tenders of VRDBs and pay maturing principal of commercial paper.

CommonSpirit also maintained a $59 million and a $35 million single-bank line of credit facility for standby letters of credit. Letters of credit issued under this facility were $71 million as of June 30, 2020, but no amounts have been drawn.

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, at a premium. 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 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.

In February 2020, CommonSpirit renewed and extended a letter of credit issued by Dignity Health in March 2018 to support VRDBs of $90 million to March 2023. This did not change the terms, provisions or classification of the VRDBs.

In February 2020, CommonSpirit drew $100 million on its syndicated line of credit for working capital purposes.

In March 2020, CommonSpirit renewed a $75 million line of credit used to support its self-liquidity program scheduled to mature in March 2020, to June 2020.

In March 2020, CommonSpirit drew $500 million on its syndicated line of credit for working capital purposes.

In April 2020, CommonSpirit drew $200 million on its syndicated line of credit for working capital purposes.

In April 2020, CommonSpirit refinanced a $250 million fully drawn line of credit scheduled to mature in August 2020, into a fixed rate term loan to mature in April 2025.

In April 2020, CommonSpirit provided for the redemption in full, of $35 million of the County of Montgomery, Ohio Health Care and Multifamily Housing Improvement and Refunding Revenue Bonds, Series 2010 (St. Leonard) issued for the benefit of one of its affiliates using $31 million of proceeds from a draw on its syndicated line of credit, and its own funds.

In August 2020, CommonSpirit renewed a $125 million line of credit used to support its self-liquidity program scheduled to mature in August 2020, to August 2023.

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

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 letters of credit issued in June 2017 to support VRDBs of $91 million to June 2021. This did not change the terms, provisions or classification of the VRDBs.

16. DERIVATIVE INSTRUMENTS

CommonSpirit's derivative instruments include 31 floating-to-fixed rate interest rate swaps and 1 basis swap as of June 30, 2020. CommonSpirit uses floating-to-fixed interest rate swaps to manage interest rate risk associated with outstanding variable rate debt. Under these floating-to-fixed rate swaps, CommonSpirit receives a percentage of LIBOR ranging from 57% to 100%, plus a spread ranging from 0.13% to 1.40%, and pays a fixed rate. CommonSpirit's derivative instruments also include 5 fixed-to-floating interest rate swaps and 7 total return swaps as of June 30, 2020. CommonSpirit uses these fixed-to-floating derivatives to reduce interest expense associated with fixed rate debt and receives a fixed rate and pays a variable rate percentage of SIFMA plus a spread.

The following table shows the outstanding notional amount of derivative instruments measured at fair value, net of credit value adjustments, as reported in the accompanying consolidated balance sheets as of June 30, 2020 and 2019 (in millions):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			2020	
Derivatives not designated as hedges:				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 2,189	$ (629)
Risk participation agreements	2022 - 2025 with extension options	SIFMA plus spread	510	-
Total return swaps	2021 - 2030	SIFMA plus spread	394	(1)
Total derivative instruments			3,093	(630)
Cash collateral			-	353
Derivative instruments, net			$ 3,093	$ (277)
			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 $1.3 billion notional amount of interest rate swaps at June 30, 2020, which have a negative fair value of $380 million. CHI posted $353 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 $666 million of interest rate swaps and below Baa2/BBB on a notional amount of $541 million of interest rate swaps.

Based upon CHI's swap agreements in place as of June 30, 2020, a reduction in CHI's credit rating to BBB would obligate CHI to post additional cash collateral of $27 million. 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 of CHI's long-term indebtedness.

CHI has total return swaps in the notional amount of $124 million and a negative fair value of $1 million at June 30, 2020.

Of the $871 million notional amount of interest rate swaps held by Dignity Health at June 30, 2020, $160 million are insured and have a negative fair value of $78 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 June 30, 2020. 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 $91 million at June 30, 2020. The remaining uninsured interest rate swaps in the notional amount of $289 million have a negative fair value of $79 million as of June 30, 2020.

Dignity Health has floating rate derivatives in the notional amount of $780 million as of June 30, 2020. Risk participation agreements in the notional amount of $510 million have a fair value deemed immaterial as of June 30, 2020. Dignity Health has a total return swap in the notional amount of $270 million. The total return swap has a positive fair value of less than $1 million at June 30, 2020.

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.

In May 2020, CommonSpirit renewed a total return swap in the notional amount of $59 million to reduce interest expense associated with fixed rate debt. CommonSpirit receives a fixed rate and pays a variable rate of SIFMA plus a spread. CommonSpirit has the right to terminate the swap for any reason after May 2027, prior to its maturity in May 2030.

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

17. 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 lease liability at the present value of lease payments over the contract term using a risk-free interest rate, subject to certain adjustments. 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. Lease costs also include escalating rent payments that are not fixed at commencement but are based on the Consumer Price Index or other measure of cost inflation. Future changes in the indices are included within variable lease costs. 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 and lease type.

The components of lease cost, net for the year ended June 30, 2020, are as follows (in millions):

Operating lease cost	$ 359
Variable lease cost	159
Short-term rent expense	20
Amortization of right-of-use assets	41
Interest on finance lease liabilities	8
Sublease income	(5)
Total lease cost, net	$ 582

Following is supplemental balance sheet information related to leases as of June 30, 2020 (in millions):

Lease Type	**Balance Sheet Classification**	
Operating Leases:		
Operating lease ROU assets	Right-of-use operating lease assets	$ 1,828
Operating lease obligations - current	Current liabilities: Operating lease liabilities	274
Operating lease obligations - long-term	Other liabilities: Operating lease liabilities	1,701
Finance Leases:		
Finance lease ROU assets	Property and equipment, net	$ 208
Current finance lease liabilities	Current portion of long-term debt	30
Long-term finance lease liabilities	Long-term debt, net of current portion	225

Supplemental cash flow and other information related to leases for the year ended June 30, 2020, is as follows (in millions):

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 339
Operating cash flows from finance leases	7
Financing cash flows from finance leases	33
ROU assets obtained in exchange for new operating lease liabilities	$ 128
ROU assets obtained in exchange for new finance lease liabilities	$ 69
Weighted-average remaining lease term:	
Operating leases	11 years
Finance leases	17 years
Weighted-average discount rate:	
Operating leases	2.2%
Finance leases	3.6%

Commitments related to operating and finance leases for each of the next five years and thereafter as of June 30, 2020, are as follows (in millions):

	Operating	Finance	Total
2021	$ 317	$ 38	$ 355
2022	286	37	323
2023	254	34	288
2024	228	29	257
2025	211	26	237
Thereafter	985	151	1,136
Total minimum future lease payments	2,281	315	2,596
Less: Imputed interest	(306)	(60)	(366)
Total lease liabilities	1,975	255	2,230
Less: Current portion	(274)	(30)	(304)
Long-term liabilities	$ 1,701	$ 225	$ 1,926

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

	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

18. INTEREST EXPENSE, NET

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

	2020	2019
Interest and fees on debt	$ 482	$ 414
Capitalized interest expense	(26)	(23)
Interest expense, net	$ 456	$ 391

19. RETIREMENT PROGRAMS

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

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

Actuarial valuations are performed for all of the plans. These valuations are dependent on various assumptions. These assumptions include the discount rate and the expected rate of return on plan assets (for pension), which are important elements of expense and liability measurement. Other assumptions involve demographic factors such as retirement age, mortality, turnover, and the rate of compensation increases. CommonSpirit evaluates all assumptions in conjunction with the valuation updates and modifies them as appropriate. In the year ended June 30, 2020, the actuarial loss for the year was $1.3 billion, primarily driven by the decrease to the discount rate assumption.

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

Contributions to the defined benefit pension plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Dignity Health management believes the majority of its plans qualify under a church plan exemption, and as such, are not subject to Employee Retirement Income Security Act ("ERISA") funding requirements. CommonSpirit's funding policy requires that, at a minimum, contributions equal the unfunded normal cost plus amortization of any unfunded actuarial accrued liability. Contributions to these funded plans are anticipated at $211 million in 2021, which exceeds the funding policy minimum contributions.

The accumulated benefit obligation exceeds plan assets for each of the defined benefit plans and postretirement benefit plans for the years ended June 30, 2020 and 2019. The following summarizes the benefit obligations and funded status for the defined benefit pension and postretirement benefit plans (in millions):

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of period	$ 12,677	$ 4,960
Service cost	340	146
Interest cost	395	286
Actuarial loss	1,329	1,239
Acquisitions and other	3	6,494
Administrative expenses paid	-	(12)
Settlements	(194)	(176)
Benefits paid	(454)	(260)
Benefit obligation at end of period	$ 14,096	$ 12,677
Accumulated benefit obligation	$ 13,578	$ 12,235
Change in plan assets:		
Fair value of plan assets at beginning of period	$ 9,177	$ 4,106
Actual return on plan assets	170	532
Settlements	(186)	(176)
Employer contributions	180	126
Benefits paid	(454)	(260)
Acquisitions and other	-	4,861
Administrative expenses paid	-	(12)
Fair value of plan assets at end of period, net	$ 8,887	$ 9,177
Funded status	$ (5,209)	$ (3,500)

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

	2020	2019
Net actuarial loss	$ 3,908	$ 2,240
Prior service credit	(8)	(12)
Amounts in net assets without donor restrictions	$ 3,900	$ 2,228

The settlement component of net periodic pension cost is recognized in the accompanying consolidated statements of operations and changes in net assets within nonoperating income (loss).

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

	2020	2019
To determine benefit obligations:		
Discount rate	1.4% - 3.0%	2.4% - 3.7%
Rate of compensation increase	3.8%	3.8%
To determine net periodic benefit cost:		
Discount rate	2.4% - 3.7%	3.2% - 4.3%
Expected return on plan assets	4.8% - 7.3%	4.8% - 7.5%
Rate of compensation increase	3.8%	3.8%

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

	2020	2019
Service cost	$ 340	$ 146
Interest cost	395	286
Expected return on plan assets	(640)	(425)
Settlements	77	60
Net prior service credit amortization	(1)	(1)
Net actuarial loss amortization	69	47
Net periodic benefit cost	$ 240	$ 113

The service cost amount above is recorded in salaries and benefits on the accompanying consolidated statements of operations and changes in net assets. All other costs of net periodic benefit cost above are reflected in nonoperating income (loss) in the consolidated statements of operations and changes in net assets.

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

	2020			
	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	$ 79	$ 417	$ -	$ 496
U.S. government securities	612	156	-	768
U.S. corporate bonds	-	930	-	930
U.S. equity securities	1,779	-	-	1,779
U.S. term loans	-	150	1	151
Foreign corporate bonds	-	184	-	184
Foreign equity securities	1,187	-	-	1,187
Foreign term loans	-	28	-	28
Real estate	9	-	-	9
Other	-	238	-	238
Assets measured at fair value	$ 3,666	$ 2,103	$ 1	5,770
Assets at NAV:				
U.S. corporate bonds				206
U.S. equity securities				176
Foreign corporate bonds				47
Foreign equity securities				928
Private equity				1,014
Hedge funds				770
Real estate				200
Total assets				$ 9,111
Liabilities				
Foreign currency exchange contracts	$ -	$ 98	$ -	$ 98
Payable under securities lending program	-	15	-	15
Total liabilities	$ -	$ 113	$ -	$ 113
Other plan assets (liabilities)				
Due from brokers for unsettled investment trades				247
Due to brokers for unsettled investment trades				(358)
Fair value of plan assets, net				$ 8,887

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

The following table presents the change in the balance of Level 3 financial assets in 2020 and 2019 (in millions):

	2020	2019
Balance at beginning of period	$ 197	$ 188
Total realized losses, net	(3)	(1)
Total unrealized losses, net	(17)	(2)
Purchases	109	12
Sales	(106)	-
Transfers out of Level 3	(179)	-
Balance at end of period	$ 1	$ 197

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

	2020	2019
Cash and cash equivalents	5%	5%
U.S. government securities	8%	9%
U.S. corporate bonds	12%	15%
U.S. equity securities	21%	23%
U.S. term loans	2%	2%
Foreign corporate bonds	3%	2%
Foreign equity securities	23%	19%
Private equity	11%	11%
Other	15%	14%
Total	100%	100%

The asset allocation policy for the pension plans for 2020 is as follows: domestic fixed income, 20%; international fixed income, 2%; domestic equity, 26%; international equity, 26%; private equity, 9%; hedge funds, 8%; real assets 6.5%; cash and opportunistic, 2.5%.

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

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

CommonSpirit's pension plan portfolio return assumptions for 2020 and 2019 were based on the long-term weighted-average returns of comparative market indices for the asset classes represented in the portfolio and expectations about future returns.

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

2021	$ 795
2022	684
2023	670
2024	685
2025	706
2026 and thereafter	3,719
Total	$ 7,259

CommonSpirit maintains defined contribution retirement plans for most employees. Employer contributions to those plans of $331 million and $273 million for 2020 and 2019, respectively, included in salaries and benefits in the accompanying consolidated statements of operations and changes in net assets, are primarily based on a percentage of a participant's contribution.

20. SPECIAL CHARGES AND OTHER COSTS

Special charges include costs related to the following activities:

	2020	2019
Impairment on carrying value of long-lived assets	$ 6	$ 123
Changes in business operations	-	59
Affiliation-related costs	83	77
Total special charges and other costs	$ 89	$ 259

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.

21. INVESTMENT INCOME, NET

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

	2020	2019
Interest and dividend income, net	$ 181	$ 160
Net realized gains on sales of securities	426	290
Net unrealized (loss) gains on securities	(334)	162
Investment income, net	$ 273	$ 612

22. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

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

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

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

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

Within this category of activities, in October 2014, Dignity Health completed a civil settlement and entered into a Corporate Integrity Agreement ("CIA") with the OIG to resolve an investigation into government reimbursement of hospital inpatient stays. The CIA required, 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. In February 2020, CommonSpirit received a letter from the OIG, notifying it that Dignity Health had completed its CIA obligations and that it would be removed from the OIG website list of current CIAs when next updated.

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

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

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

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

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

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

Capital and Purchase Commitments – CommonSpirit has legally committed to fund capital improvements related to certain acquisitions and affiliations, has undertaken various construction and expansion projects that include certain capital commitments, and has entered into various agreements that require certain minimum purchases of goods and services, including management services agreements or information and clinical technology, at levels consistent with normal business requirements. Outstanding capital and purchase commitments were approximately $736 million and $159 million at June 30, 2020, respectively.

23. FUNCTIONAL EXPENSES

CommonSpirit provides healthcare services, including inpatient, outpatient, ambulatory, long-term care and community-based services to individuals within the various geographic areas supported by its facilities. Expenses for these program services represent costs that are controllable by operational leadership. Support services include administration, financial services and purchasing, financial planning and budgeting, information technology, risk management, public relations, human resources, cash, debt and investment management, legal, mission services, and other functions that are supported centrally for all of CommonSpirit and are driven by CommonSpirit leadership. Following is a summary of the program and support services provided for the year ended June 30, 2020 and 2019:

	2020			
	Program Services - Healthcare	Support Services - Management and Administrative	Support Services - Fundraising	Total Expenses
Salaries and benefits	$ 13,659	$ 969	$ 25	$ 14,653
Supplies	4,456	58	1	4,515
Purchased services and other	7,465	1,362	59	8,886
Depreciation and amortization	1,198	332	-	1,530
Interest expense	419	37	-	456
Special charges	34	55	-	89
Total operating expenses	$ 27,231	$ 2,813	$ 85	$ 30,129

	2019			
	Program Services - Healthcare	Support Services - Management and Administrative	Support Services - Fundraising	Total Expenses
Salaries and benefits	$ 9,714	$ 490	$ 17	$ 10,221
Supplies	3,317	20	-	3,337
Purchased services and other	5,323	898	52	6,273
Depreciation and amortization	846	241	-	1,087
Interest expense	375	16	-	391
Special charges	157	102	-	259
Total operating expenses	$ 19,732	$ 1,767	$ 69	$ 21,568

24. UNSPONSORED COMMUNITY BENEFIT EXPENSE (UNAUDITED)

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

Benefits for the Poor include services provided to persons who are economically poor or are medically indigent and cannot afford to pay for health care services because they have inadequate resources and/or are uninsured or underinsured.

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

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

Net Community Benefit, excluding the unpaid cost of Medicare, is the total cost incurred after deducting direct offsetting revenue from government programs, patients, and other sources of payment or reimbursement for services provided to program patients. Also, restricted revenue from grants, patients, and other sources of payment or reimbursement for services provided to program patients are included in direct offsetting revenue. The comparable amount of net community benefit was $2 billion for 2019 and net community benefit, including the unpaid cost of Medicare, was $4 billion for 2019.

Following is a summary of CommonSpirit's community benefits for 2020, in terms of services to the poor and benefits for the broader community, which has been prepared in accordance with Internal Revenue Service Form 990, Schedule H and the CHA publication, *A Guide for Planning and Reporting Community Benefit* (dollars in millions):

	Unaudited			
	Total Benefit Expense	**Direct Offsetting Revenue**	**Net Community Benefit**	**% of Total Expenses**
Benefits for the poor:				
Traditional charity care	$ 447	$ (10)	$ 437	1.5%
Unpaid costs of Medicaid / Medi-Cal	4,497	(3,178)	1,319	4.4%
Other means-tested programs	68	(4)	64	0.2%
Community services:				
Community health services	85	(27)	58	0.2%
Health professions education	39	-	39	0.1%
Subsidized health services	70	(2)	68	0.2%
Cash and in-kind contributions	32	(19)	13	0.0%
Community building activities	3	(1)	2	0.0%
Community benefit operations	10	-	10	0.0%
Total community services for the poor	239	(49)	190	0.5%
Total benefits for the poor	5,251	(3,241)	2,010	6.6%
Benefits for the broader community:				
Community services:				
Community health services	39	(5)	34	0.1%
Health professions education	184	(27)	157	0.5%
Subsidized health services	29	(18)	11	0.0%
Research	45	(38)	7	0.0%
Cash and in-kind contributions	7	-	7	0.0%
Community building activities	5	(1)	4	0.0%
Community benefit operations	10	-	10	0.0%
Total benefits for the broader community	319	(89)	230	0.7%
Total community benefits	$ 5,570	$ (3,330)	$ 2,240	7.3%
Unpaid costs of Medicare	5,848	(3,496)	2,352	7.8%
Total community benefits including unpaid costs of Medicare	$ 11,418	$ (6,826)	$ 4,592	15.1%

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