This document is dated February 15, 2019

UNAUDITED QUARTERLY REPORT

For the period ended
December 31, 2018

Dignity Health

The information in this report
has been provided by
Dignity Health

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

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DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND JUNE 30, 2018
(In millions)

	As of December 31, 2018	As of June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 350	$ 930
Short-term investments	2,637	2,564
Collateral held under securities lending program	17	30
Assets limited as to use	1,684	1,588
Patient accounts receivable, net of allowance for doubtful accounts of $597 at June 30, 2018	1,734	1,695
Broker receivables for unsettled investment trades	33	19
Provider fee receivable	1,123	975
Other current assets	704	643
Total current assets	8,282	8,444
Assets limited as to use:		
Board-designated assets (including $93 and $97 of assets loaned under securities lending program at December 31, 2018 and June 30, 2018, respectively) for:		
Capital projects	2,718	2,821
Workers' compensation	408	418
Professional and general liability	351	348
Under bond indenture agreements for:		
Debt service	11	45
Donor-restricted	545	553
Other	87	88
Less amount required to meet current obligations	(1,684)	(1,588)
Net assets limited as to use	2,436	2,685
Property and equipment, net	4,906	4,804
Ownership interests in health-related activities	1,854	1,798
Goodwill	264	264
Intangible assets, net	27	29
Other long-term assets, net	42	45
Total assets	$ 17,811	$ 18,069

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND JUNE 30, 2018
(In millions)

	As of December 31, 2018	As of June 30, 2018
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$ 838	$ 727
Demand bonds subject to short-term liquidity arrangements, excluding current maturities	724	744
Accounts payable	573	584
Payable under securities lending program	17	30
Accrued salaries and benefits	671	743
Accrued workers' compensation	46	46
Accrued professional and general liability	59	59
Pension and other postretirement benefit liabilities	243	244
Broker payables for unsettled investment trades	31	11
Derivative instruments	138	133
Provider fee and CHFT grant payables	396	318
Other accrued liabilities	337	331
Total current liabilities	4,073	3,970
Other liabilities:		
Workers' compensation	326	343
Professional and general liability	285	313
Pension and other postretirement benefit liabilities	1,164	1,143
Deferred tax liabilities	51	51
Other	114	123
Total other liabilities	1,940	1,973
Long-term debt, net of current portion	3,584	3,724
Total liabilities	9,597	9,667
Net assets:		
Without donor restrictions - attributable to Dignity Health	7,436	7,617
Without donor restrictions - noncontrolling interest	232	231
With donor restrictions	546	554
Total net assets	8,214	8,402
Total liabilities and net assets	$ 17,811	$ 18,069

(Concluded)

See notes to condensed consolidated financial statements.

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2018 AND 2017
(In millions)

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2018	2017	2018	2017
Unrestricted revenues and other support:				
Patient revenue, net of contractual allowances and discounts		$ 3,989		$ 6,876
Provision for bad debts		(157)		(265)
Net patient revenue	$ 3,050	3,832	$ 6,020	6,611
Premium revenue	250	212	501	419
Revenue from health-related activities, net	6	27	45	40
Other operating revenue	87	82	168	169
Contributions	7	5	11	9
Total unrestricted revenues and other support	3,400	4,158	6,745	7,248
Expenses:				
Salaries and benefits	1,709	1,742	3,398	3,477
Supplies	536	507	1,000	987
Purchased services and other	956	1,243	1,914	2,050
Depreciation and amortization	144	151	287	302
Interest expense, net	67	38	101	83
Special charges and other costs	21	7	32	11
Total expenses	3,433	3,688	6,732	6,910
Operating income (loss)	(33)	470	13	338
Other income:				
Investment income (loss), net	(269)	119	(179)	287
Income tax (expense) credit	(3)	39	(7)	37
Total other income (loss), net	(272)	158	(186)	324
Excess (deficit) of revenues over expenses	$ (305)	$ 628	$ (173)	$ 662
Less excess of revenues over expenses attributable to noncontrolling interests	13	19	25	27
Excess (deficit) of revenues over expenses attributable to Dignity Health	$ (318)	$ 609	$ (198)	$ 635

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2018 AND 2017
(In millions)

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2018	2017	2018	2017
Net assets without donor restrictions attributable to Dignity Health:				
Excess (deficit) of revenues over expenses attributable to Dignity Health	$ (318)	$ 609	$ (198)	$ 635
Net assets released from restrictions used for purchase of property and equipment	3	4	7	5
Gain from discontinued operations, net	-	-	1	-
Change in net assets of unconsolidated equity method investments	(8)	6	1	12
Change in ownership interests held by controlled subsidiaries	1	-	3	(1)
Change in accumulated unrealized derivative gains, net	1	1	1	1
Funds donated from unconsolidated sources for purchase of property and equipment	2	2	3	3
Other	-	-	1	3
Increase (decrease) in net assets without donor restrictions attributable to Dignity Health	(319)	622	(181)	658
Net assets without donor restrictions attributable to noncontrolling interests:				
Excess of revenues over expenses attributable to noncontrolling interests	13	19	25	27
Change in ownership interest and other, net	(15)	(8)	(24)	(9)
Increase (decrease) in net assets without donor restrictions attributable to noncontrolling interests	(2)	11	1	18
Net assets with donor restrictions:				
Contributions	9	12	23	23
Net realized and unrealized gains (losses) on investments	(7)	4	(5)	6
Net assets released from restrictions	(8)	(7)	(15)	(15)
Change in interest in net assets of unconsolidated foundations	(17)	7	(11)	11
Increase (decrease) in net assets with donor restrictions	(23)	16	(8)	25
Increase (decrease) in net assets	(344)	649	(188)	701
Net assets, beginning of period	8,558	7,059	8,402	7,007
Net assets, end of period	$ 8,214	$ 7,708	$ 8,214	$ 7,708

(Concluded)

See notes to condensed consolidated financial statements.

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2018 AND 2017
(In millions)

	Six-Month Periods Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (188)	$ 701
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	288	303
Ownership interests in health-related activities:		
Changes in equity of unconsolidated entities	(54)	(52)
(Gain) loss, net, on disposal of assets	(1)	1
Change in deferred taxes	-	(40)
Restricted contributions	(20)	(27)
Undistributed portion of change in net assets of unconsolidated foundations	11	(11)
Change in net realized and unrealized gains on investments	221	(269)
Change in fair value of swaps	5	(7)
Changes in certain assets and liabilities:		
Accounts receivable, net	(39)	(40)
Accounts payable	(12)	(94)
Workers' compensation and professional and general liabilities	(27)	(8)
Accrued salaries and benefits	(73)	(41)
Pension and other postretirement liabilities	20	(4)
Provider fee-related receivables and payables	(71)	(57)
Estimated receivables from/payables to third-party payors, net	(2)	(9)
Other accrued liabilities	(1)	48
Prepaid and other current assets	(66)	(57)
Other, net	(12)	23
Cash provided by (used in) operating activities	(21)	360
Cash flows from investing activities:		
Net (purchases) sales of investments	(161)	290
Investments in health-related activities	(5)	(15)
Cash distributions from health-related activities	2	13
Additions to operating property and equipment	(363)	(284)
Decrease in securities lending collateral	13	15
Other, net	-	(26)
Cash used in investing activities	(512)	(7)

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2018 AND 2017
(In millions)

	Six-Month Periods Ended December 31,	
	2018	2017
Cash flows from financing activities:		
Borrowings	23	154
Repayments	(77)	(206)
Decrease in payable under securities lending program	(13)	(15)
Restricted contributions	20	27
Cash used in financing activities	(47)	(40)
Net increase (decrease) in cash and cash equivalents including cash classified as held for sale	(580)	313
Less: cash classified within current assets held for sale	-	(31)
Net increase (decrease) in cash and cash equivalents	(580)	282
Cash and cash equivalents at beginning of the year	930	582
Cash and cash equivalents at end of the year	$ 350	$ 864
Components of cash and cash equivalents and investments at end of period:		
Cash and cash equivalents	350	864
Short-term investments	2,637	2,361
Board-designated assets for capital projects	2,718	2,059
Total	$ 5,705	$ 5,284
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 89	$ 90
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease or note payable	$ 5	$ 4
Accrued purchases of property and equipment	$ 113	$ 70
Broker receivables for unsettled investment trades	$ 33	$ 87
Broker payables for unsettled investment trades	$ 31	$ 3

(Concluded)

See notes to condensed consolidated financial statements.

Dignity Health and Subordinate Corporations
Notes to Unaudited Condensed Consolidated Financial Statements

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of Dignity Health and Subordinate Corporations ("Dignity Health") as of December 31, 2018, and for the three and six-month periods ended December 31, 2018 and 2017, should be read in conjunction with the audited financial statements as of and for the year ended June 30, 2018. Certain footnotes and disclosures that are required in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted as they substantially duplicate the disclosures contained in the annual financial statements.

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

Operating results for the three and six-month periods ended December 31, 2018, are not necessarily indicative of the results that may be expected for any future period or for a full fiscal year as revenues, expenses, assets, and liabilities can vary during each quarter of the year.

Certain reclassifications and changes in presentation were made in the condensed consolidated financial statements for the year ended June 30, 2018, and for the three and six-month periods ended December 31, 2017, to conform to the presentation for the three and six-month periods ended December 31, 2018. As previously presented, Dignity Health classified net assets with no donor imposed restriction as unrestricted. Such net assets are reported herein as net assets without donor restrictions. Also, as previously presented, Dignity Health classified net assets with donor imposed restrictions as either temporarily restricted or permanently restricted. Such net assets are reported herein as net assets with donor restrictions. Additionally, expenses related to the Ministry Alignment were reclassified to special charges. See Notes 2, 3 and 15.

In preparing the accompanying condensed consolidated financial statements, management of Dignity Health has evaluated subsequent events occurring between the end of the most recent fiscal quarter and February 15, 2019, the date the condensed consolidated financial statements were issued. See Notes 2 and 10.

2. ACQUISITIONS, DIVESTITURES AND SIGNIFICANT TRANSACTIONS

Ministry Alignment – Effective February 1, 2019, Dignity Health and Catholic Health Initiatives ("CHI") aligned their respective ministries into a single, Catholic, nonprofit health system, CommonSpirit Health (the "Transaction"). Prior to the Transaction, CHI and Dignity Health were each the direct or indirect parent corporation of separate groups of not-for-profit and for-profit entities that comprised the "Legacy CHI System" and the "Legacy Dignity Health System," respectively, and together the "Legacy Systems." References to "CommonSpirit Health" herein shall mean and refer to the combined Legacy Systems, including their respective affiliates and subsidiaries.

Notwithstanding the consolidation of the financial statements as of February 1, 2019, the indebtedness of the respective Legacy Systems (the "Existing Debt") remain the separate legal obligations of the respective Legacy Systems, until such Existing Debt is restructured and consolidated into a single credit.

Acquisition – In June 2018, Dignity Health acquired the remaining 49.9% interest in AGH Phoenix, LLC ("AGH"). AGH operates Arizona General Hospital in Laveen Village, Arizona and opened another hospital in Mesa, Arizona in November 2018. The allocation of the purchase price is preliminary, subject to adjustment during the remeasurement period to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

Disposition – In February 2018, Dignity Health effected an agreement to combine its wholly-owned subsidiary, U.S. HealthWorks ("USHW"), with Concentra, Inc. to strengthen the access and delivery of expanded occupational care for employees, payors, and patients. Dignity Health contributed the stock of USHW in exchange for cash

consideration of $505 million and a 20% ownership interest in the combined entity, Concentra Group Holdings Parent, LLC ("CGHP"). Dignity Health accounts for its ownership in CGHP under the equity method.

3. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

4. NET PATIENT REVENUE AND PREMIUM REVENUE

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

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

Dignity Health 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 Dignity Health's financial assistance policy, and implicit price concessions provided to uninsured and underinsured patients. Dignity Health determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. Dignity Health determines its estimate of implicit price concessions based on its historical collection experience. Subsequent changes to estimates of the transaction price are generally recorded as adjustments to net patient revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in a third-party payor's ability to pay are recorded as bad debt expense in purchased services and other in the condensed consolidated statement of operations and changes in net assets. Bad debt expense for the three and six-month periods ended December 31, 2018, was not significant.

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

Medicare: Payments for inpatient services are generally made on a prospectively determined rate based on clinical diagnosis. 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 diem basis. Hospital outpatient services and physician services are paid based upon established fee schedules.

Commercial: Payments for inpatient and outpatient services provided to patients covered under commercial insurance policies are paid using a variety of payment methodologies, including per diem and case rates.

Self-pay and Other: Payment agreements with uninsured or underinsured patients along with other responsible entities, including institutions, other hospitals and other government payors, are based on a variety of payment methodologies.

Net patient revenue by payor for the three and six-month periods ended December 31, 2018, is comprised of the following (in millions):

	Three-Months Ended December 31, 2018	Six-Months Ended December 31, 2018
Medicare	$ 924	$ 1,766
Medicaid	714	$ 1,465
Commercial	1,311	2,574
Self-pay and other	101	215
	$ 3,050	$ 6,020

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

5. CALIFORNIA PROVIDER FEE PROGRAMS

Net patient revenue includes $232 million and $870 million related to supplemental Medi-Cal payments provided under the California provider fee programs during the three-month periods ended December 31, 2018 and 2017, respectively, and $465 million and $870 million for the six-months periods ended December 31, 2018 and 2017, respectively. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds. Dignity Health recorded $120 million and $413 million in such fees in purchased services and other expense during the three-month periods ended December 31, 2018 and 2017, respectively, and $241 and $413 during the six-month periods ended December 31, 2018 and 2017, respectively. Grant expense related to the California Health Foundation and Trust was recognized in connection with the California provider fee programs resulting in $4 million and $16 million recorded in purchased services and other expense during the three-month periods ended December 31, 2018 and 2017, respectively, and $8 million and $16 million during the six-month periods ended December 31, 2018 and 2017, respectively. Total net income recognized was $108 million and $441 million during the three-month periods ended December 31, 2018 and 2017, respectively, and $216 million and $441 million during the six-month periods ended December 31, 2018 and 2017, respectively.

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

6. SELF-INSURANCE PLANS

Dignity Health maintains self-insurance programs for workers' compensation benefits for employees and for hospital professional and general liability risks. Self-insurance expense decreased $42 million and $28 million during the three-month periods ended December 31, 2018 and 2017, respectively, and decreased $56 million and $44 million for the six-month periods ended December 31, 2018 and 2017, respectively. The expenses and related adjustments are recorded in salaries and benefits for workers' compensation benefits and in purchased services and other for professional and general liability risks in the accompanying condensed consolidated statements of operations and changes in net assets.

7. FAIR VALUE MEASUREMENTS

Dignity Health accounts for certain assets and liabilities at fair value or on a basis that approximates fair value. A fair value hierarchy for valuation inputs categorizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the

three levels and is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

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

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

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

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

	December 31, 2018				
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**NAV Practical Expedient**	**Total Balance**
Assets					
Cash and cash equivalents	$ 666	$ -	$ -	$ -	$ 666
U.S. government securities	633	8	-	-	641
U.S. corporate bonds	70	87	-	331	488
U.S. equity securities	854	3	-	259	1,116
Foreign government securities	-	4	-	-	4
Foreign corporate bonds	1	1	-	160	162
Foreign equity securities	674	-	-	569	1,243
Asset-backed securities	-	7	-	-	7
Structured debt	-	26	-	-	26
Private equity	-	-	51	533	584
Multi-strategy hedge funds	-	-	-	1,032	1,032
Real estate	10	1	-	220	231
Collateral held under securities lending program	-	17	-	-	17
Derivative instruments	-	1	-	-	1
Other fund investments	3	-	-	-	3
Total assets	$ 2,911	$ 155	$ 51	$ 3,104	$ 6,221
Liabilities					
Derivative instruments	$ -	$ 138	$ -	$ -	$ 138
Total liabilities	$ -	$ 138	$ -	$ -	$ 138

	June 30, 2018				
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV Practical Expedient	Total Balance
Assets					
Cash and cash equivalents	$ 621	$ -	$ -	$ -	$ 621
U.S. government securities	880	17	-	-	897
U.S. corporate bonds	81	108	-	454	643
U.S. equity securities	796	4	-	344	1,144
Foreign government securities	-	6	-	-	6
Foreign corporate bonds	1	1	-	112	114
Foreign equity securities	523	-	-	547	1,070
Asset-backed securities	-	7	-	-	7
Structured debt	-	29	-	-	29
Private equity	-	-	49	476	525
Multi-strategy hedge funds	-	-	-	989	989
Real estate	10	-	-	194	204
Collateral held under securities lending program	-	30	-	-	30
Derivative instruments	-	1	-	-	1
Other fund investments	7	-	-	-	7
Total assets	$ 2,919	$ 203	$ 49	$ 3,116	$ 6,287
Liabilities					
Derivative instruments	$ -	$ 133	$ -	$ -	$ 133
Total liabilities	$ -	$ 133	$ -	$ -	$ 133

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, and current liabilities in the consolidated balance sheets.

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

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

For marketable securities such as U.S. and foreign government securities, U.S. and foreign corporate bonds, U.S. and foreign equity securities, 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. Dignity Health 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, Dignity Health classifies all such investments as Level 3.

The fair value of collateral held under securities lending program is classified as Level 2. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include non-cash collateral of $55 million and $72 million as of December 31, 2018 and June 30, 2018, respectively.

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

discounted and the difference between the present value of each leg's cash flows equals the market value of the swap.

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

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

The following table presents the change in the balance of Level 3 financial assets for the three and six-month periods ended December 31, 2018 and 2017 (in millions):

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2018	2017	2018	2017
Balance at beginning of period	$ 50	$ 41	$ 49	$ 41
Total unrealized losses, net, included in excess (deficit) of revenues over expenses	-	(10)	-	(10)
Purchases, net	1	-	2	-
Balance at end of period	$ 51	$ 31	$ 51	$ 31

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 December 31, 2018 and June 30, 2018 (in millions):

		As of December 31, 2018			
		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
NAV Practical Expedient					
Private equity	(1)	$ 533	$ 262	-	-
Multi-strategy hedge funds	(2)	1,032	-	Monthly, Quarterly, Semi-Annually, Annually	5 - 120 days
Real estate fund	(3)	220	8	Quarterly	90 days
Commingled funds - debt securities	(4)	491	70	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	828	-	Daily, Monthly, Quarterly	1 - 90 days
Total NAV Practical Expedient		$ 3,104	$ 340		

		As of June 30, 2018			
		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
NAV Practical Expedient					
Private equity	(1)	$ 476	$ 455	-	-
Multi-strategy hedge funds	(2)	989	-	Monthly, Quarterly, Semi-Annually, Annually	5 - 120 days
Real estate fund	(3)	194	15	Quarterly	90 days
Commingled funds - debt securities	(4)	566	192	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	891	-	Daily, Bi-Monthly, Monthly, Quarterly	1 - 120 days
Total NAV Practical Expedient		$ 3,116	$ 662		

(1) This category includes private equity funds that specialize in providing capital to a variety of investment groups, including but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at December 31, 2018, 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 December 31, 2018:

Percentage of the Value of Category (2)		Redemption Frequency	Redemption Notice Period	Redemption Locked Up Until (if applicable)	Redemption Gate % of Account (if applicable)
Total	Subtotal				
9.8%	8.3%	Annually	60 days	-	up to 50.0%
	1.5%	Annually	75 days	-	-
9.8%	5.7%	Semi-Annually	45 days	-	-
	4.1%	Semi-Annually	75 - 90 days	-	-
47.0%	10.7%	Quarterly	30 - 45 days	09/29/2019	up to 20.0%
	23.5%	Quarterly	60 - 65 days	-	up to 12.5% - 25.0%
	12.8%	Quarterly	90 days	-	up to 25.0%
33.4%	10.5%	Monthly	5 - 20 days	-	-
	8.4%	Monthly	30 - 45 days	-	up to 16.7%
	14.5%	Monthly	60 - 120 days	-	up to 20.0% - 25.0%

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

have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at December 31, 2018, to be over the next 8 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 7.0 percent of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at December 31, 2018, to be over the next 2 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.

Fair Value of Debt - The fair value of Dignity Health's debt is estimated based on the quoted market prices and/or other market data for the same or similar issues and transactions in active markets or on the current rates offered to Dignity Health for debt of the same remaining maturities, discounted cash flow models and other pricing models. These inputs to fair value are included in industry-standard valuation techniques. Based on the inputs and valuation techniques, the fair value of long-term debt is classified as Level 2 within the fair value hierarchy. The carrying value of Dignity Health's debt is reported within the current portion of long-term debt, demand bonds subject to short-term liquidity arrangements and long-term debt, net of current portion, on the consolidated balance sheets. The estimated fair value of Dignity Health's debt instruments as of December 31, 2018, is as follows (in millions):

	Carrying Value	Fair Value
Debt issued under Master Trust Indenture:		
Fixed rate revenue bonds	$ 1,410	$ 1,435
Fixed rate taxable bonds	1,478	1,463
Taxable direct placement loans	353	353
Variable rate demand bonds	724	724
Auction rate certificates	260	260
Notes payable to banks under credit agreements	853	854
Total debt issued under Master Trust Indenture	5,078	5,089
Other	68	68
Total debt	$ 5,146	$ 5,157

The fair value amounts do not represent the amount Dignity Health would be required to expend to retire the indebtedness.

8. INTANGIBLE ASSETS, NET

Intangible assets reported in the condensed consolidated balance sheets consist primarily of amounts for managed care contracts, trade names, management agreements, noncompete agreements, and other contracts related to certain business combinations accounted for under the acquisition method. Some intangible assets have indefinite lives, and others are amortized over estimated useful lives ranging up to 14 years using the straight-line method. The aggregate amount of amortization expense related to intangible assets subject to amortization is $1 million and $2 million for the three-month periods ended December 31, 2018 and 2017, respectively, and $2 and $5 million for the six-month periods ended December 31, 2018 and 2017, respectively.

9. GOODWILL

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

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

	As of December 31, 2018	As of June 30, 2018
Balance at beginning of period	$ 264	$ 590
Addition from acquisitions	-	58
Goodwill divested during the period	-	(384)
Balance at end of period	$ 264	$ 264

10. DEBT

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

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

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, as discussed below, to December 2019.

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

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

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

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

11. DERIVATIVE INSTRUMENTS

The following table shows the outstanding notional amount of derivative instruments measured at fair value, net of credit value adjustments, as reported in the consolidated balance sheets as of December 31, 2018 and June 30, 2018 (in millions):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			December 31, 2018	
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	$ 889	$ (138)
Risk participation agreements	2019 - 2025, with extension options	SIFMA plus spread	510	-
Total return swap	2024	SIFMA plus spread	270	1
Total derivative insturments			$ 1,669	$ (137)
			June 30, 2018	
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	$ 908	$ (133)
Risk participation agreements	2019 - 2025, with extension options	SIFMA plus spread	510	-
Total return swaps	2024	SIFMA plus spread	270	1
Total derivative insturments			$ 1,688	$ (132)

Changes in fair value of derivative instruments have been recorded for the three and six-month periods ended December 31, 2018 and 2017, as follows (in millions):

	Three-Month Periods Ended December 31,	
	2018	2017
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:		
Interest rate swaps - amortization	$ (1)	$ (1)
Gain (loss) recognized in interest expense, net:		
Changes in fair value of non-hedged derivatives	(18)	7
Amortization of amounts in unrestricted net assets - interest rate swaps	(1)	(1)
Total	$ (19)	$ 6

	Six-Month Periods Ended December 31,	
	2018	2017
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:		
Interest rate swaps - amortization	$ (1)	$ (1)
Gain (loss) recognized in interest expense, net:		
Changes in fair value of non-hedged derivatives	(5)	7
Amortization of amounts in unrestricted net assets - interest rate swaps	(1)	(1)
Total	$ (6)	$ 6

Of the amounts classified in net assets without donor restrictions as of December 31, 2018, Dignity Health anticipates reclassifying approximately $3 million of additional non-cash losses from net assets without donor restrictions into interest expense, net, in the next twelve months. Amounts in net assets without donor restrictions are being amortized into earnings as the interest payments being economically hedged are made.

Of the $889 million notional amount of interest rate swaps held by Dignity Health at December 31, 2018, $160 million are insured and have a negative fair value of $38 million at December 31, 2018. In the event the insurer, Assured Guaranty, is downgraded below A2/A or A3/A- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps if Dignity Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If the insurer is downgraded below the thresholds noted above and Dignity Health is downgraded below Baa3/BBB- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps.

Dignity Health had $729 million of interest rate swaps that are not insured as of December 31, 2018. While Dignity Health has the right to terminate the swaps prior to maturity for any reason, counterparties have various rights to terminate, including swaps in the outstanding notional amount of $100 million at each five-year anniversary date commencing in March 2023 and swaps in the notional amount of $204 million at each five-year anniversary date commencing in September 2023. Swaps in the notional amount of $60 million and swaps in the notional amount of $68 million have mandatory puts in March 2021 and March 2023, respectively. The termination value would be the fair market value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps have a negative fair value of $60 million at December 31, 2018. The remaining uninsured interest rate swaps in the notional amount of $297 million have a negative fair value of $40 million as of December 31, 2018.

Dignity Health had floating rate derivatives in the notional amount of $780 million as of December 31, 2018. Risk participation agreements in the notional amount of $510 million have a fair value deemed immaterial as of December 31, 2018. Dignity Health has a total return swap in the notional amount of $270. The total return swap has a positive fair value of $1 million at December 31, 2018.

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). Other than the insured swaps described above, the termination events include credit ratings dropping below Baa1/BBB+ (Moody's/Standard & Poor's) by either party on the notional amount of $709 million of swaps and below Baa2/BBB on a notional amount of $800 million and Dignity Health's cash on hand dropping below 85 days.

Dignity Health, under the terms of its Master Trust Indenture, is prohibited from posting collateral on derivative instruments.

12. INTEREST EXPENSE, NET

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

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2018	2017	2018	2017
Interest and fees on debt and swap cash settlements	$ 51	$ 45	$ 100	$ 92
Market adjustment on swaps and amortization of amounts in unrestricted net assets	19	(6)	6	(6)
Total interest expense	70	39	106	86
Capitalized interest expense	(3)	(1)	(5)	(3)
Interest expense, net	$ 67	$ 38	$ 101	$ 83

13. INVESTMENT INCOME, NET

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

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2018	2017	2018	2017
Interest and dividend income	$ 37	$ 22	$ 57	$ 41
Net realized gains on sales of securities	58	46	120	98
Net unrealized gains (losses) on securities	(357)	55	(340)	161
Other, net of capitalized investment income	(7)	(4)	(16)	(13)
Investment income (loss), net	$ (269)	$ 119	$ (179)	$ 287

14. RETIREMENT PROGRAMS

Total expense for all Dignity Health retirement and postretirement plans was $88 million and $101 million for the three-month periods ended December 31, 2018 and 2017, respectively, and $177 million and $202 million for the six-month periods ended December 31, 2018 and 2017, respectively. Such amounts are included in salaries and benefits expense in the condensed consolidated statements of operations and changes in net assets.

15. SPECIAL CHARGES

Special charges relate to consulting, legal, severance and other costs related to the Ministry Alignment described in Note 2.

16. COMMITMENTS AND CONTINGENT LIABILITIES

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

General – The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, the rules governing licensure, accreditation, controlled substances, privacy, government program participation, government reimbursement, antitrust, anti-kickback, prohibited referrals by physicians, false claims, and in the case of tax-exempt organizations, the requirements of tax exemption. In recent years, government activity has increased with respect to investigations and allegations of wrongdoing. In addition, during the course of business, Dignity Health 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 – Dignity Health 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. Dignity Health does not presently have information indicating that pending matters or their resolution will have a material effect on Dignity Health'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 Dignity Health, taken as a whole.

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

Medicare Certification – From time to time, Dignity Health and/or its facilities receive notices from CMS indicating that steps to terminate the provider agreements of certain hospital facilities will be taken unless specific corrective actions related to qualification for Medicare participation are pursued. The process of responding to these notices involves plan(s) of correction submitted by the facility and resurvey by CMS or its designee. While Dignity Health does not expect a loss of Medicare qualification by any facility, there can be no assurance that the loss of Medicare qualification by a facility or facilities will not occur and have a material effect on the financial condition or operations of Dignity Health, taken as a whole.

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

In July 2014, the District Court ruled that only a church or an association of churches may establish a church plan, the DHPP did not qualify as a church plan since Dignity Health was not a church when the plan was established,

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

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

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

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

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

Dignity Health and Subordinate Corporations

Management Discussion and Analysis of Financial Condition and Results of Operations

Overview

Dignity Health is a California not-for-profit corporation exempt from federal and state income taxes. Dignity Health operates 41 hospitals in California, Arizona and Nevada and provides a variety of health care, education and other benefits to the communities in which it operates. Health care services include inpatient, outpatient, sub-acute and home health care services, as well as physician services through a medical foundation and affiliated medical groups.

Results of Operations

Three Months Ended December 31, 2018 and 2017

For the three-month period ended December 31, 2018, Dignity Health recorded an operating loss of $33 million compared to an operating gain of $470 million for the same period in the prior year. The results of operations for the three-month period ended December 31, 2018, are primarily related to the following:

- Related to the California provider fee programs, Dignity Health recognized net income of $108 million pertaining to the quarter. For the same quarter in the prior year, the net provider fee income recognized was $441 million; these amounts included catch-up pertaining to January through September 2017.
- Net patient and premium revenues decreased $744 million, or 18.4%, over the same period in the prior year. Excluding provider fee program revenues, net patient and premium revenues decreased $106 million, or 3.3%, primarily due to no longer consolidating revenues from USHW, higher implicit price concessions, and a deterioration in payor mix, partially offset by rate increases and higher volumes.
- Hospital-only net patient and premium revenue per adjusted admission, excluding the provider fee revenues, decreased 0.7% compared to the same period in the prior year primarily due to higher implicit price concessions, deterioration in payor mix, and lower acuity, partially offset by rate increases. Adjusted admissions increased 1.7% compared to the same period in the prior year.
- Revenue from health-related activities, net, decreased $21 million over the same period in the prior year related to investment losses embedded in joint venture earnings.
- Salaries and benefits decreased $33 million, or 1.9%, over the same period in the prior year primarily due to no longer consolidating expenses for USHW and decreases in the cost of employee health coverage, workers' compensation, and pension, partially offset by staffing for higher volumes, wage increases and lower productivity.
- Supplies increased $29 million, or 5.7%, compared to the same period in the prior year, primarily due to the decline in value of Dignity Health's investment in the stock of its third party group purchasing organization (recorded as supply expense) and increased pharmaceutical costs, offset by no longer consolidating expenses for USHW.
- Purchased services and other decreased $287 million, or 23.1%, compared to the same period in the prior year. Excluding the provider fee program costs, purchased services and other increased $19 million, or 2.3%, primarily due to increased medical fees, out of network costs and advertising costs, partially offset by no longer consolidating expenses for USHW and decreases in consulting costs.
- Non-cash market adjustments on swaps, recorded in interest expense, net, were $19 million unfavorable compared to $6 million favorable in the same period in the prior year.
- Investment loss, net, was $269 million during the three-month period ended December 31, 2018, compared to income of $119 million during the same period in the prior year. Net realized gains of $58 million in the current year were higher than net realized gains of $46 million in the same period in the prior year. Net unrealized losses were $357 million in the current year, compared to net unrealized gains of $55 million during the same period in the prior year.
- Net income tax expense of $3 million was recorded during the three-month period ended December 31, 2018, compared to net income tax credits of $39 million in the same period in the prior year. The prior year credits related to changes to the tax law adopted in December 2017.

Six Months Ended December 31, 2018 and 2017

For the six-month period ended December 31, 2018, Dignity Health recorded an operating gain of $13 million compared to $338 million for the same period in the prior year. The results of operations for the six-month period ended December 31, 2018, are primarily related to the following:

- Related to the California provider fee programs, Dignity Health recognized net income of $216 million pertaining to the six-months ended December 31, 2018. For the same period in the prior year, the net provider fee income recognized was $441 million; the amounts included catch-up pertaining to January through December 2017.
- Net patient and premium revenues decreased $509 million, or 7.2%, over the same period in the prior year. Excluding provider fee program revenues, net patient and premium revenues decreased $104 million, or 1.7%, primarily due to no longer consolidating revenues from USHW, increased implicit price concessions, and a deterioration in payor mix, partially offset by rate increases.
- Hospital-only net patient and premium revenue per adjusted admission, excluding the provider fee revenues, increased 0.7% compared to the same period in the prior year primarily due to rate increases, partially offset by higher implicit price concessions and a deterioration in payor mix. Adjusted admissions increased 2.2% compared to the same period in the prior year.
- Salaries and benefits decreased $79 million, or 2.3%, over the same period in the prior year primarily due to no longer consolidating expenses for USHW and decreases in the cost of employee health coverage, workers' compensation, and pension, partially offset by staffing for higher volumes and wage increases.
- Supplies increased $13 million, or 1.3%, compared to the same period in the prior year, primarily due to price increases for surgical implants and pharmaceuticals, partially offset by no longer consolidating expenses for USHW and the appreciation of Dignity Health's investment in the stock of its third party group purchasing organization (recorded as negative supply expense).
- Purchased services and other decreased $136 million, or 6.6%, compared to the same period in the prior year. Excluding the provider fee program costs, purchased services and other increased $46 million, or 2.8%, primarily due to increased medical fees and out of network costs, partially offset by no longer consolidating expenses for USHW and lower consulting costs.
- Non-cash market adjustments on swaps, recorded in interest expense, net, were $6 million unfavorable compared to $6 million favorable in the same period in the prior year.
- Investment loss, net, was $179 million during the six-month period ended December 31, 2018, compared to income of $287 million during the same period in the prior year. Net realized gains of $120 million in the current year were higher than net realized gains of $98 million in the same period in the prior year. Net unrealized losses were $340 million in the current year, compared to net unrealized gains of $161 million during the same period in the prior year.
- Net income tax expense of $7 million was recorded during the six-month period ended December 31, 2018, compared to net income tax credits of $37 million in the same period in the prior year. The prior year credits related to changes to the tax law adopted in December 2017.

Capital Resources

Cash used in operating activities totaled $21 million for the six-month period ended December 31, 2018, compared to cash provided by operating activities of $360 million for the same period in the prior year. Significant activity for the six-month period ended December 31, 2018, includes the following:

- Provider fee-related receivables, net of payables, increased $71 million during the six-month period ended December 31, 2018, compared to $57 million during the same period in the prior year.
- Accrued salaries and benefits decreased $73 million during the six-month period ended December 31, 2018, compared to $41 million during the same period in the prior year.
- Accounts payable decreased $12 million during the six-month period ended December 31, 2018, compared to $94 million during the same period in the prior year.

Cash used in investing activities totaled $512 million for the six-month period ended December 31, 2018, compared to $7 million for the same period in the prior year, primarily due to the following:

- Net purchases of investments were $161 million during the six-month period ended December 31, 2018, compared to net sales of $290 million during the same period in the prior year.
- Capital expenditures were $363 million during the six-month period ended December 31, 2018, compared to $284 million during the same period in the prior year. Such capital expenditures primarily relate to expansion and renovation of existing facilities, equipment and systems additions and replacements, and various other capital improvements.

Cash used in financing activities totaled $47 million for the six-month period ended December 31, 2018, compared to $40 million for the same period in the prior year, primarily due to the following:

- Net debt repayments of $54 million during the six-month period ended December 31, 2018, compared to $52 million during the same period in the prior year.

Dignity Health's debt-to-capitalization ratio was 40.9% as of December 31, 2018, and 40.5% as of June 30, 2018. The increase is due primarily to investment losses during the six-month period ended December 31, 2018.

Dignity Health's EBITDA (earnings before interest expense, net, depreciation and amortization, special charges, loss on early extinguishment of debt, income tax expense, and investment income, net) decreased to $433 million during the six-month period ended December 31, 2018, compared to $734 million for the same period in the prior year. The EBITDA margin percentage decreased to 6.4% from 10.1% for the same period in the prior year.

Business Strategy

Dignity Health's "Horizon 2020" strategy, which was launched in September 2010, envisioned the transition to a consumer-focused, value-based operating model, and described six core strategies to achieve Dignity Health's vision: Quality, Cost, Growth, Integration, Connectivity, and Leadership. Dignity Health has a range of initiatives underway to help the organization succeed in the current environment as well as in the future. Progress on selected key initiatives through the quarter ended December 31, 2018, is highlighted below:

Brand Identity and Experience — Dignity Health's *Hello humankindness* campaign is an integrated effort to articulate the patient and employee experience. The organization has been focused on consumer awareness, brand identity and delivering the patient experience since the launch of the new name and brand in 2012. Dignity Health's clinical systems, workforce, and marketing strategies are aligned toward delivering an experience of healing through human connection and respect for patients, providers, and employees, consistent with Dignity Health's mission and values and evolving consumer expectations.

Building the Clinical Enterprise — Dignity Health is focused on improving quality and patient experience in its service areas through clinical integration and other physician alignment, and implementation of new payment models. Selected recent accomplishments in these areas include:

1. *Quality and Patient Experience* – Dignity Health is continuing the use of a clinical service line framework to identify and achieve improvements in quality and patient safety. Service lines include critical care medicine, cardiovascular surgery and interventional cardiology, emergency medicine, endocrinology, infectious disease, hospital medicine, laboratory medicine, nursing care and perinatal services. The measures selected have the potential to positively impact the lives of more than a hundred thousand patients in the communities we serve. The preliminary results for the quarter ended December 31, 2018, demonstrate steady improvement from baseline. Dignity Health also continues to focus on patient experience and track the average percentile ranking of the HCAHPS composites, with preliminary year to date results showing performance on track to meet fiscal year goals.
2. *Physician Alignment* – Dignity Health engages with physicians in a range of models to achieve alignment and integration. Overall, Dignity Health continues to expand its physician relationships, including Dignity Health's eight Clinical Integration ("CI") networks, its medical foundation model in California, direct employment in Arizona and Nevada, community clinic models and aligned partnerships. The CI strategy aligns physicians and hospitals around a common set of clinical and quality metrics and information sharing through common technology, provider compliance and peer review, and payor contracting, enabling the transition to a value-based care framework.
3. *New Payment Models* - Economic models that support coordinated care are essential to Dignity Health's success in population health management. Dignity Health has focused on participating in new payment models such as the Medicare Shared Savings Program, professional and/or hospital capitation, CMS demonstration

projects, bundled payments, narrow networks and risk sharing. As of December 31, 2018, Dignity Health had 141 value-based agreements with 1.2 million attributable lives, representing growth of 4.4% in attributable lives since September 2018. Value-based agreements are contracts with health care payors and purchasers which include financial risk beyond routine pay-for-performance, negotiated narrow provider networks, and/or direct-to-employer arrangements. Many of these contracts include arrangements with Dignity Health's CI networks.

Grow, Diversify and Expand the Continuum — Dignity Health's growth strategy has focused on building out integrated delivery networks ("IDNs") in existing service areas through expansion of the continuum of care and limited in-market consolidation, and growth in diversified services, defined as non-acute business lines with accretive economics. Dignity Health has a philosophy of partnering with best-in-class companies to bring expertise to the organization that will facilitate and accelerate the transition to population health management. Dignity Health's joint venture with Emerus, a micro-hospital company, now includes four neighborhood hospitals in the Las Vegas, Nevada area. In the San Francisco Bay Area, Dignity Health's joint venture with GoHealth includes 14 urgent care centers as of December 31, 2018, which are integrated with Dignity Health's clinical network. Dignity Health works with its partners to assess potential expansion in other service areas.

Horizon 2020 Acceleration — Dignity Health is engaged at every level of the organization to build on the performance improvement initiatives begun in fiscal 2016, and has developed a broad, multi-year effort to further improve operating performance. This work is called "Horizon 2020 Acceleration", as it is critical to realizing the goals set forth in the Horizon 2020 strategic plan. Ongoing areas of focus include:

1. Clinical resource management, including continued improvement in length-of-stay, pharmacy standardization, and enhancements of clinical governance to further reduce clinical variation;
2. Further optimization of the hospital revenue cycle function, particularly related to improving clinical documentation and reducing denials and bad debt;
3. Revenue growth, through enhancement of overall revenue mix and growth in specific service lines and geographies;
4. Physician organization performance, including standardizing staffing models and improving the physician revenue cycle function; and
5. Initiatives within supply chain, productivity and corporate services.

Senior executives and leadership across a wide range of functions within Dignity Health are aligned and accountable to achieve these operating improvement goals.

Alignment to Create CommonSpirit Health

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

CommonSpirit Health will focus on achieving success in five key areas:

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

CommonSpirit Health is committed to creating healthier communities, delivering exceptional patient care, and ensuring every person has access to quality health care. With its national office in Chicago and a team of approximately 150,000 employees and 25,000 physicians and advanced practice clinicians, CommonSpirit Health operates 142 hospitals and

more than 700 care sites across 21 states. CHI and Dignity Health previously announced that the new ministry will retain the names of local facilities and services in the communities where they are located. In fiscal 2018, Catholic Health Initiatives and Dignity Health had combined revenues of $29.2 billion and provided $4.2 billion in charity care, community benefit, and unreimbursed government programs.

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

Additional information is available at commonspirit.org.

Forward Looking Statements

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

Dignity Health and Subordinate Corporations
Unaudited Consolidated Operating Statistics

($ in millions)	Three-Month Periods Ended December 31, 2018	2017	Six-Month Periods Ended December 31, 2018	2017
Financial Performance:				
Operating income (loss)	$ (33)	$ 470	$ 13	$ 338
Margin %	(1.0%)	11.3%	0.2%	4.7%
EBITDA (earnings before interest expense, net, depreciation and amortization, special charges, loss on early extinguishment of debt, income tax credits and expense, and investment income, net)	$ 199	$ 666	$ 433	$ 734
Margin %	5.9%	16.1%	6.4%	10.1%
Excess (deficit) of revenues over expenses attributable to Dignity Health	$ (318)	$ 609	$ (198)	$ 635
Margin %	(10.2%)	14.2%	(3.0%)	8.4%
Uncompensated Care:				
Charity care, at customary charges	$ 149	$ 140	$ 283	$ 318
Charity care, at cost	$ 35	$ 36	$ 65	$ 79
Charity care, at cost, as a percentage of total expenses	1.0%	1.0%	1.0%	1.1%
Implicit price concession	$ 220	$ -	$ 428	$ -
Bad debt at customary charges	$ -	$ 157	$ -	$ 265
Productivity:				
Salaries, wages and benefits as a % of net patient and premium revenue	51.8%	43.1%	52.1%	49.5%
Supply expense as a % of net patient and premium revenue	16.2%	12.5%	15.3%	14.0%
Purchased services as a % of net patient and premium revenue	29.0%	30.7%	29.4%	29.2%
Capital expense as a % of net patient and premium revenue	6.4%	4.7%	5.9%	5.5%
Operations:				
Acute admissions*	97,370	97,816	194,107	193,644
Adjusted admissions*	164,731	162,020	329,188	322,254
Acute inpatient days*	417,898	416,217	829,135	818,823
Adjusted patient days *(1)	711,586	699,443	1,416,835	1,382,157
Acute average length of stay*	4.29	4.26	4.27	4.23
Gross outpatient revenue as a % of total gross patient services revenue	42.1%	42.6%	42.4%	42.9%
Number of FTEs	53,048	55,427	52,574	55,123
FTEs per adjusted occupied bed *(1)	5.68	5.65	5.64	5.67

*Hospital only

(1) Adjusted patient days weigh skilled subacute days by 0.4 of an acute day and skilled nursing days by 0.2 of an acute day.