This document is dated February 17, 2021

UNAUDITED QUARTERLY REPORT

For the Three and Six-Month Periods Ended
December 31, 2020 and 2019

The information in this report
has been provided by
CommonSpirit Health

COMMONSPIRIT HEALTH

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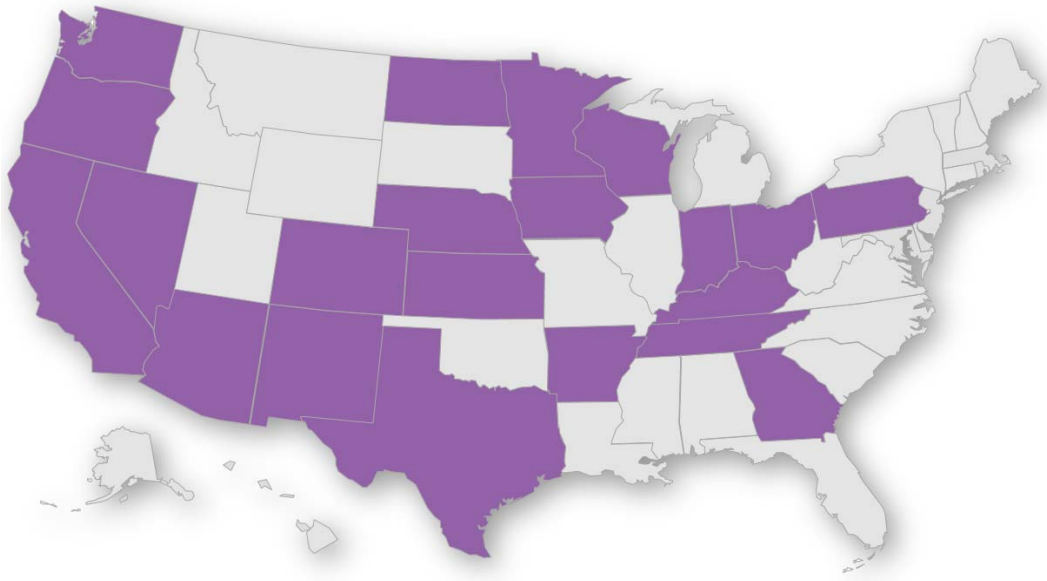
Overview

CommonSpirit Health (the "Corporation") is a Colorado nonprofit public benefit corporation exempt from federal and state income taxes. CommonSpirit Health was created by the alignment of Catholic Health Initiatives ("CHI") and Dignity Health in February 2019. CommonSpirit Health is a Catholic healthcare system sponsored by the public juridic person, Catholic Health Care Federation ("CHCF").

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 145,000 employees and over 25,000 physicians and advanced practice clinicians, CommonSpirit Health is comprised of more than 1,000 care sites, including 140 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 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.

CommonSpirit has presented its operating results for the three and six-month periods ended December 31, 2020 and 2019, 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), operating revenues and expenses adjusted to include unrecorded FY20 California provider fee program revenues and

expenses as the program had not yet been approved by the Centers for Medicare and Medicaid ("CMS") for the prior year results for the three and six-month periods ended December 31, 2019. 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 –Response and Impact on Operations

In January 2020, when the COVID-19 pandemic was first presenting, CommonSpirit took swift and immediate action and convened a multidisciplinary national COVID-19 Task Force, led by CommonSpirit's Chief Medical Officer. This multidisciplinary group has been coordinating clinical and operational readiness across the entire System to identify and resolve emerging issues within CommonSpirit's acute care and non-acute care sites. Some key initiatives the Task Force implemented included:

- The COVID-19 Response Integrated Surveillance and Insights System (CRISIS) dashboard, which tracked data across the System daily, down to the facility level. This has enabled CommonSpirit to manage flexing capacity, staffing, supplies and other resources at a System level.
- CommonSpirit took a system-wide approach to addressing the demands on the organization, deploying personal protective equipment ("PPE"), supplies, ventilators, and caregivers (as feasible), across the Divisions. The System continually monitors its PPE inventories and available ventilators. Capacity remains sufficient, and CommonSpirit has implemented surge flexibility in order to expand ICU capacity as needed.
- The Task Force regularly assesses readiness at CommonSpirit's acute and ambulatory care facilities, and provides standard, updated protocols and algorithms for screening, testing, triaging and isolating patients with actual or potential cases of COVID-19. Information is disseminated regularly to appropriate facilities and individuals across the system, with important clinical and other information.
- A COVID-19 Command Center ("C3") was established, led by CommonSpirit's Chief Medical Officer. The C3 is a small group primarily comprised of members of the Executive Leadership Team. The group meets almost daily, with a focus on operational and policy decisions, such as universal masking requirements, decisions around halting elective procedures, visitor policies or reopening, and other issues. Having the compulsory people at the table allows for immediate decision making and expeditious national operational execution.
- Internally developed predictive models enable the System to anticipate surges in particular geographies, and plan staffing, PPE, testing and other resources as needed to meet community needs. The System saw its COVID-19 patient census more than double as of December 31, 2020 since the summer peak. The health care system nationally is strained, but CommonSpirit remains able to anticipate and manage surges across various communities and believes it has the capacity in most of its locations, in terms of ICU beds, critical equipment, PPE, testing and staffing, to effectively manage the current surge levels in COVID-19 patient volume. The biggest challenge to capacity is staff. CommonSpirit continues to shift staff to the extent possible. Some facilities in areas hit hardest with a surge in COVID-19 cases, such as Southern California, were and continue to be prepared to implement crisis standards should the need arise. These decisions are made on a real-time basis in close coordination with public health officials.
- CommonSpirit has focused on meeting critical testing needs system-wide. As of December 31, 2020, CommonSpirit has tested over 1.3 million patients across the System. To mitigate the ongoing shortage of testing and reporting of COVID-19 cases, in early September 2020, CommonSpirit opened a national, high-capacity COVID-19 testing laboratory located in Arizona. The testing laboratory has the capability to process 10,000 tests

per day with a turnaround time of 24-36 hours. In addition to improving testing capacity, the cost to perform each test is approximately 60% lower than tests performed at other laboratories.

- As the release of a COVID-19 vaccine became a possibility, CommonSpirit once again implemented a system wide approach to preparedness, instituting a multidisciplinary vaccine steering committee with representation from every division as well as the germane national disciplines and subject matter experts.
- The steering committee planned and shepherded vaccine procurement, distribution, administration, prioritization, data and reporting, and internal and external communications across they system. An expert clinical panel was convened for independent clinical trial analysis so that in conjunction with the FDA and CDC, CommonSpirit could knowledgably and confidently encourage employee and community vaccination.
- CommonSpirit is uniquely positioned to support the COVID-19 vaccine rollout. CommonSpirit is coordinating the logistics and distribution of the vaccine across the System, taking steps to promote vaccine confidence with its employees and communities. There are over 100 CommonSpirit locations approved by respective State Health Departments to administer vaccines. On average between 2,000 and 3,000 vaccinations are being given daily with daily vaccination rates are as high as 10,000 per day (depending on vaccine availability).

CommonSpirit continues to update its practices, procedures, guidelines and recommendations following the latest guidance of federal, state, and local public health agencies. CommonSpirit participated in, or is participating in, several COVID-19 clinical trials, including COVID-19 vaccines and therapeutics (e.g., convalescent plasma and the anti-viral drug Remdesivir). Several of the best practices developed in response to the COVID-19 pandemic will continue to be a key focus point for CommonSpirit's future operations.

Patient and Provider Safety

CommonSpirit is highly focused on ensuring that its clinicians have access to the PPE they need to safely deliver care to its communities. During the global shortage of PPE in early 2020, CommonSpirit increased its agility, teamwork and innovation and moved rapidly to secure and distribute quality PPE from legitimate manufacturers. CommonSpirit is working closely with Dignity Bio-Life International, a joint venture based in China, to source PPE, and is continuing to build this relationship to source a broader spectrum of supplies. CommonSpirit established an inter-Divisional distribution system to ensure sufficient PPE across locations. CommonSpirit, through Premier, its sole group purchasing organization, is also investing in domestic PPE manufacturers to ensure access and price protection during the current and future pandemics. The vaccination rollout should help to protect caregivers and staff in patient care areas and further enhance patient safety.

Virtual Health

The virtual infrastructure and clinical capabilities developed by CommonSpirit provided the platform to immediately respond to the challenges posed by the COVID-19 pandemic and the shelter-in-place mandates. In mid-March, CommonSpirit rapidly expanded access to a range of virtual health options for its clinicians and patients. Virtual care through video visits, online health assessments, pre-visit screening, and other means has become increasingly critical in caring for its communities. Virtual care extends across the continuum of care (virtual ICU, health at home, palliative care and other applications).

Since the onset of the COVID-19 pandemic through December 31, 2020, CommonSpirit has provided over 1.1 million virtual visits. This represents an average of nearly 5,800 visits per day, a more than fifty-fold increase from pre-pandemic virtual visit volume. The demand for virtual visits persists, even after in-office visits have rebounded from their lows in April 2020. Virtual visits have stabilized in the first quarter of FY21 to approximately 18% of total visits, from a high of more than 37% in April 2020. CommonSpirit anticipates that virtual visits will continue to be a key component of the health care delivery system into the future.

Operational Impact

The pandemic continues to create significant financial challenges for health care providers. With the cancelling of elective and non-emergent procedures that began in mid-March 2020 to allow for additional acute-care capacity for patients infected by the COVID-19 pandemic, CommonSpirit experienced lower volumes across the System, varying significantly by Division. In mid-May when States began to permit health care facilities to resume elective procedures, CommonSpirit implemented initial re-opening phases following the current guidance of federal, state and local public health agencies. As of August 2020, all CommonSpirit Divisions had fully reopened and volumes consistently improved.

Since the fall, however, a resurgence in cases nationally has led to a steep rise in COVID-19 cases within CommonSpirit Health. As of December 31, 2020, over 3,300 COVID-19 positive patients were in CommonSpirit's facilities, representing 18% of total inpatient cases on such date. While cases continued to rise through mid-January 2021, COVID-19

hospitalizations started to slow in the second half of the month. From the onset of the COVID-19 pandemic through December 31, 2020, CommonSpirit has cared for more than 144,000 COVID-19 positive patients.

For the month of December 2020, charge volume has recovered to less than 1.0% below pre-COVID-19 pandemic levels, reflecting higher acuity in many of the patients present at CommonSpirit's health care facilities, but volume levels across CommonSpirit have not yet recovered to the pre-COVID-19 pandemic levels. The following table is a summary of key metrics comparing the quarterly impact to the same quarter in the prior year on a same store basis.

Same-Store Volume Impact Trend	% Change from Prior Year Quarter		
	June 2020	Sep 2020	Dec 2020
Acute Admissions	-19.3%	-7.4%	-6.1%
Inpatient Surgeries	-24.6%	-10.4%	-15.3%
Outpatient Surgeries	-37.2%	-7.8%	-6.6%
ED Visits	-32.9%	-19.0%	-19.8%

As CommonSpirit continues to manage through the COVID-19 pandemic, the organization has taken steps to mitigate the related financial and operational challenges on the System. Leadership believes the System's size and geographic diversity has helped to smooth the impact of the crisis on the System. Specifically:

- **Expense and Liquidity Management**. CommonSpirit had been on a path to improving efficiency and realizing synergies as part of its alignment, and was well positioned to take a disciplined approach to expense management during the pandemic. CommonSpirit initiated several near-term actions to mitigate some of the impact of the COVID-19 pandemic, including: temporary salary reductions through the end of December 31, 2020; flex time and furloughs; labor productivity management; renegotiation of certain vendor contracts to reflect lower patient volumes; reduction in non-essential costs; shifting to virtual care; and focusing on "re-opening". Additional actions include a rigorous capital review process and deferral of non-essential capital spending, draws on working capital lines of credit, and ongoing liquidity monitoring.
- **Revenue Diversification**. CommonSpirit's operations across 21 states create a strong geographic diversification of revenues for the System. As COVID-19 cases fluctuate across CommonSpirit's communities, certain Divisions have thus far experienced a higher number of confirmed patients than other Divisions, particularly in Southern California, Arizona and Texas. Other Divisions have not experienced the same levels of positive COVID-19 patients, and more quickly rebounded to volumes approaching pre-COVID-19 pandemic levels. Given the variation in re-opening trends, restrictions and disease transition rates among states, CommonSpirit anticipates that surges may ebb and flow across different geographies at different times, and the System's geographic diversity may provide greater stability of revenue trends versus more geographically concentrated providers.

Governmental Support

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 December 31, 2020, CommonSpirit has received approximately $1.4 billion under the CARES Act in the form of grants as reimbursement through the Public Health and Social Services Emergency Fund for healthcare expenses and lost revenues attributable to COVID-19. These payments are recorded as other operating revenues, as earned. During the three and six-month periods ended December 31, 2020, $293 and $484 million has been recorded in other operating revenues in the consolidated statements of operations and changes in net assets, respectively, and $826 million was recognized during the three-month period ended June 30, 2020. These funds are not required to be repaid upon attestation and compliance with certain terms and conditions.

CommonSpirit also received $2.7 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. As of December 31, 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%. As such, $900 million is recorded in other accrued liabilities - current, and $1.8 billion is recorded other liabilities - long-term.

Through December 31, 2020, CommonSpirit has deferred $371 million in employer payroll taxes pursuant to the Paycheck Protection Program and Health Care Enhancement Act, one half of which is recorded in accrued salaries and benefits within current liabilities, and one half recorded in other accrued liabilities – long-term.

In total, the funds received under the Medicare Accelerated and Advance Payment Program and the Paycheck Protection Program and Health Care Enhancement Act represent 38 days cash on hand as of December 31, 2020.

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

($ in millions)	Six-Months Ended December 31, 2020 Other Operating Revenue	As of December 31, 2020 Deferred Revenue (Liability)	Cumulative CARES Act Grants	Cumulative Medicare Advances
Southeast	$ 20	$ 61	$ 183	$ 365
Southwest	22	98	184	207
Pacific Northwest	8	89	174	245
Arizona	13	20	109	190
Greater Sacramento	32	4	106	220
Colorado	28	6	115	189
Midwest	18	36	127	250
Texas	22	23	114	218
Central California	4	8	61	180
Northern California	7	10	72	263
Central Coast	6	-	31	166
Iowa	20	3	43	101
Fargo	5	25	53	48
National Business Lines*	2	6	15	27
Subtotal Divisions	207	389	1,387	2,669
Corporate Services	277	(279)	33	-
CommonSpirit Total	$ 484	$ 110	$ 1,420	$ 2,669

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

CommonSpirit experienced EBITDA improvement in the first half of the fiscal year compared to losses experienced during the early months of the pandemic as volumes, expense management and productivity continue to improve each month.

Trend COVID-19 Impact ($ in millions)	Monthly Average per Quarter March	June 2020	Sep 2020	Dec 2020	February Pre-COVID Run Rate	Six-Month Periods Ended December 31, 2020	2019*
Total operating revenues	$ 2,190	$ 2,380	$ 2,574	$ 2,760	$ 2,518	$ 16,002	$ 15,118
EBITDA including CARES Act	$ (175)	$ 96	$ 214	$ 279	$ 153	$ 1,479	$ 1,016
EBITDA %	-8.0%	4.0%	8.3%	10.1%	6.1%	9.2%	6.7%
EBITDA excluding CARES Act	$ (175)	$ (180)	$ 150	$ 182	$ 153	$ 995	$ 1,016
EBITDA %	-8.0%	-8.5%	6.0%	6.8%	6.1%	6.4%	6.7%
CARES Act revenue	$ -	$ 275	$ 64	$ 97	$ -	$ 484	$ -

** Adjusted to include the unrecorded FY20 California Provider Fee Program revenues of $484 million and expenses of $241 million.*

California Provider Fee Program

In February 2020, CMS approved the State Plan Amendment and allocation model previously submitted by the State for the 30-month provider fee program beginning July 1, 2019, therefore, nine-months of California provider fee net income was recorded at that time and has been recorded monthly thereafter. As such, EBITDA, operating revenues, and expenses for FY20 have been adjusted where indicated in this report to include unrecorded FY20 California provider fee program revenues and expenses as the program had not yet been approved by CMS for the prior year quarter ended results. During the three and six-month periods ended December 31, 2020, $143 million and $270 million of net income was recorded related to the new program, compared to $121 million and $243 million of unrecorded provider fee net income during the same periods in the prior year, respectively. CommonSpirit recorded $254 million and $508 million of net patient revenue and $111 million and $238 million in purchased services and other expense for the three and six-month periods ended December 31, 2020, respectively, compared to $242 million and $484 million of unrecorded provider fee revenues and $121 million and $241 million of unrecorded purchased services and other expense for the same periods in the prior year, respectively.

Unrecorded California Provider Fee Impact ($ in millions)	December 31, 2019 Q2	Q2 YTD
Net patient and premium revenues	$ 242	$ 484
Operating Expenses	$ 121	$ 241
EBITDA	$ 121	$ 243

Financial Highlights and Summary

For the three and six-month periods ended December 31, 2020, CommonSpirit recorded operating income of $363 million and $530 million, respectively. Including the California provider fee program not yet approved and recorded in FY20, "as adjusted" operating income would have been $161 million and $56 million for the three and six-month periods in the prior year, respectively.

Effective November 1, 2020, Yavapai Regional Medical Center ("YRMC"), became affiliated with CommonSpirit as a subsidiary of Dignity Community Care. YRMC owns and operates a 134-bed acute care hospital in Prescott, Arizona, a 72-bed acute care hospital in Prescott Valley, Arizona, and several other primary and specialty care facilities located throughout Prescott and Prescott Valley. As a result of the affiliation, a contribution of the excess of unrestricted assets

over liabilities of $509 million was recognized as a contribution from business combination, and the financial results of YRMC are included in the accompanying condensed consolidated financial statements.

CommonSpirit's EBITDA (earnings before interest, tax, depreciation and amortization, and nonoperating income) increased to $837 million for the three-month period ended December 31, 2020, from $649 million during the same period in the prior year as adjusted for the provider fee program. The EBITDA margin for the three-month period ended December 31, 2020, increased to 10.1% from 8.4% for the same period in the prior year normalized for the California provider fee program. Excluding CARES Act grant revenues, the EBITDA margin for the three-month periods ended December 31, 2020, was 6.8%, compared to 8.4% for the same period in the prior year normalized for the FY20 California provider fee program.

CommonSpirit's EBITDA increased to $1.5 billion for the six-month period ended December 31, 2020, from $1.0 billion during the same period in the prior year as adjusted for the provider fee program. The EBITDA margin for the six-month period ended December 31, 2020, increased to 9.2% from 6.7% for the same period in the prior year normalized for the California provider fee program. Excluding CARES Act grant revenues, the EBITDA margin for the six-month period ended December 31, 2020, was 6.4%, compared to 6.7% for the same period in the prior year normalized for the FY20 California provider fee program.

For the three and six-month periods ended December 31, 2020, CommonSpirit's volumes on an adjusted admission basis continued to improve from the lower volumes during the pandemic, but were still unfavorable to the same periods in the prior year by 9.2% and 10.1%, respectively. The volume performance was impacted by the COVID-19 pandemic. Adjusted patient days for the three and six-month periods ended December 31, 2020, were higher than the same periods in the prior year by 2.5%, but lower by 0.4%, respectively. The acute average length of stay of 5.05 days for the three-month period ended December 31, 2020 and 4.95 days for the six-month period ended December 31, 2020, were higher than the prior year of 4.47 days, primarily due to higher acuity.

Key Indicators Financial Summary

($ in millions)	Three-Month Periods Ended December 31, 2020	2019	2019*	Change**
	As Recorded	As Recorded	As Adjusted	As Adjusted Comparison
EBITDA	$ 837	$ 528	$ 649	$ 188
Margin %	10.1%	7.1%	8.4%	1.7%
EBITDA - excluding CARES Act	$ 544	$ 528	$ 649	$ (105)
Margin % - excluding CARES Act	6.8%	7.1%	8.4%	(1.6%)
Operating income	$ 363	$ 40	$ 161	$ 202
Margin %	4.4%	0.5%	2.1%	2.3%
Operating income (loss) - excluding CARES Act	$ 70	$ 40	$ 161	$ (91)
Margin % - excluding CARES Act	0.9%	0.5%	2.1%	(1.2%)
Excess of revenues over expenses	$ 2,073	$ 579	$ 701	$ 1,372
Margin %	21.9%	7.3%	8.6%	13.3%

* *Adjusted to include the unrecorded California Provider Fee Program income of $121 million.*

** *Comparing the 2020 three-month period ended December 31, 2020, as recorded to the same period in the prior year as adjusted.*

Key Indicators Financial Summary ($ in millions)	Six-Month Periods Ended December 31, 2020	2019	2019*	Change**
	As Recorded	As Recorded	As Adjusted	As Adjusted Comparison
EBITDA	$ 1,479	$ 773	$ 1,016	$ 463
Margin %	9.2%	5.3%	6.7%	2.5%
EBITDA - excluding CARES Act	$ 995	$ 773	$ 1,016	$ (21)
Margin % - excluding CARES Act	6.4%	5.3%	6.7%	(0.3%)
Operating income (loss)	$ 530	$ (187)	$ 55	$ 475
Margin %	3.3%	(1.3%)	0.4%	2.9%
Operating income (loss) - excluding CARES Act	$ 46	$ (187)	$ 55	$ (9)
Margin % - excluding CARES Act	0.3%	(1.3%)	0.4%	(0.1%)
Excess of revenues over expenses	$ 2,890	$ 320	$ 563	$ 2,327
Margin %	16.2%	2.1%	3.6%	12.6%

* *Adjusted to include the unrecorded California Provider Fee Program income of $243 million.*

** *Comparing the 2020 six-month period ended December 31, 2020, as recorded to the same period in the prior year as adjusted.*

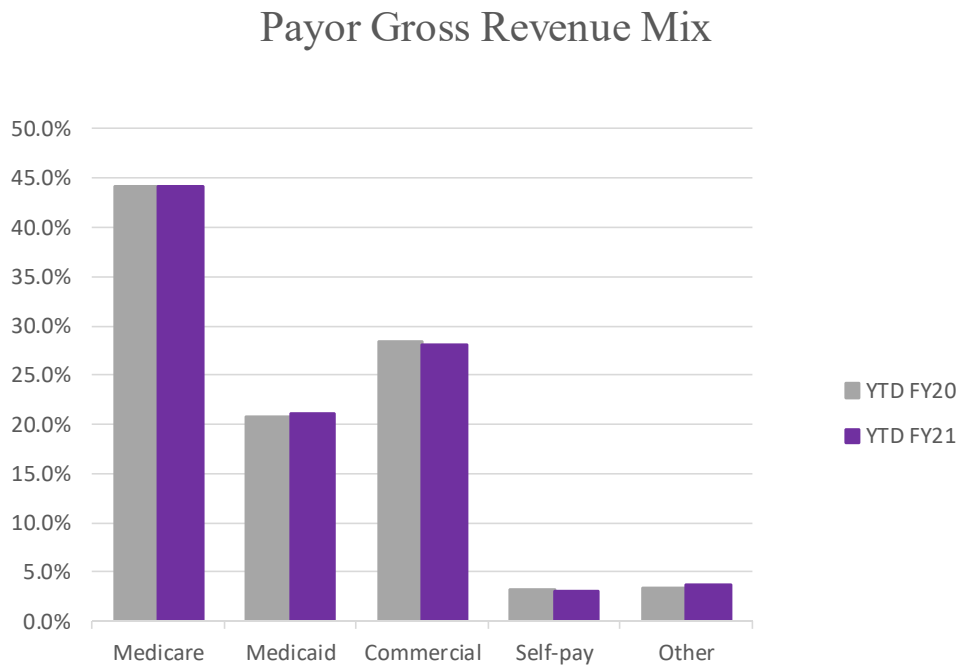
Results of Operations

Operating Revenues and Volume Trends

Net patient and premium revenues increased $454 million, or 6.4%, and increased $724 million, or 5.2%, over the same periods in the prior year for the three and six-month periods ended December 31, 2020, respectively. Including the unrecorded provider fee revenues in the prior year three and six-month periods ended December 31, 2019, net patient and premium revenues increased $212 million, or 2.9%, and increased $240 million, or 1.7%, respectively. The increase is primarily due to stable payor mix and higher acuity, partially offset by improved but continued volume shortfalls resulting from the COVID-19 pandemic. Net patient and premium revenue per adjusted admission increased 3.3% and 3.4% during the three and six-month periods ended December 31, 2020, respectively, when including the unrecorded provider fee revenues. This increase is primarily due to rate changes, stable payor mix and higher acuity due to COVID-19 patients.

Volumes	Three-Month Periods Ended December 31,				Six-Month Periods Ended December 31,			
	2020	2019	Change	%	2020	2019	Change	%
Acute admissions	197,674	208,321	(10,647)	(5.1%)	390,453	416,444	(25,991)	(6.2%)
Adjusted admissions	379,705	418,286	(38,581)	(9.2%)	753,382	837,597	(84,215)	(10.1%)
Acute inpatient days	998,475	931,957	66,518	7.1%	1,933,238	1,862,568	70,670	3.8%
Adjusted patient days	1,917,935	1,871,269	46,666	2.5%	3,730,196	3,746,197	(16,001)	(0.4%)
Acute average length of stay	5.05	4.47	0.58	12.9%	4.95	4.47	0.48	10.7%
Outpatient visits	6,393,166	6,631,794	(238,628)	(3.6%)	12,574,136	13,197,486	(623,350)	(4.7%)
ED visits	813,096	1,000,724	(187,628)	(18.7%)	1,622,274	2,000,300	(378,026)	(18.9%)
Gross outpatient revenue as a % of total gross patient services revenue	47.9%	50.2%	(2.3%)	(2.3%)	48.2%	50.3%	(2.1%)	(2.1%)

Payor mix based on gross revenues for the three and six-month periods ended December 31, 2020, is relatively stable compared to the same periods in the prior year, despite the COVID-19 pandemic. The following chart represents the payor gross revenue mix for consolidated operations for the six-month periods ended December 31, 2020 and 2019:



All other operating revenues increased $365 million and $644 million, or 96.3% and 91.0%, over the same periods in the prior year for the three and six-month periods ended December 31, 2020, respectively, primarily due to CARES Act grant revenue totaling $293 million and $484 million, respectively, favorable joint venture results, a $19 million gain on sale of shares of a joint venture, and higher grant and pharmaceuticals revenues, partially offset by lower cafeteria revenues. Excluding the CARES Act grants, other operating revenues increased $72 million and $160 million, or 19.0% and 22.6%, over the same periods in the prior year, respectively.

Operating Revenues	**Three-Month Periods Ended December 31,**			
($ in millions)	**2020**	**2019**	**2019***	**Change****
	As Recorded	**As Recorded**	**As Adjusted**	**As Adjusted Comparison**
Net patient and premium revenues	$ 7,537	$ 7,083	$ 7,325	$ 212
All other operating revenues	744	379	379	365
Total operating revenues	$ 8,281	$ 7,462	$ 7,704	$ 577

* *Adjusted to include the unrecorded FY20 California Provider Fee Program revenues of $242 million.*

** *Comparing the 2020 three-month period ended December 31, 2020, as recorded to the same period in the prior year as adjusted.*

Operating Revenues ($ in millions)	Six-Month Periods Ended December 31, 2020	2019	2019*	Change**
	As Recorded	As Recorded	As Adjusted	As Adjusted Comparison
Net patient and premium revenues	$ 14,650	$ 13,926	$ 14,410	$ 240
All other operating revenues	1,352	708	708	644
Total operating revenues	$ 16,002	$ 14,634	$ 15,118	$ 884

* *Adjusted to include the unrecorded FY20 California Provider Fee Program revenues of $484 million.*

** *Comparing the 2020 six-month period ended December 31, 2020, as recorded to the same period in the prior year as adjusted.*

Uncompensated Care ($ in millions)	Three-Month Periods Ended December 31, 2020	2019	Change	Six-Month Periods Ended December 31, 2020	2019	Change
Uncompensated Care:						
Charity care, at customary charges	$ 432	$ 620	$ (188)	$ 1,066	$ 1,087	$ (21)
Charity care, at cost	$ 110	$ 154	$ (44)	$ 270	$ 272	$ (2)
Charity care, at cost, as a percentage of gross revenue	1.4%	2.0%	(0.6%)	1.7%	1.8%	(0.1%)
Implicit price concessions	$ 322	$ 348	$ (26)	$ 679	$ 809	$ (130)

Charity care at customary charges for the three and six-month periods is lower than the same period in the prior year primarily due to adjustments between charity and bad debt and the low patient census.

Operating Expenses

Salaries and benefits increased $221 million and $256 million, or 6.0% and 3.5%, over the same periods in the prior year, for the three and six-month periods ended December 31, 2020, respectively, with salaries and benefits per adjusted admission increasing 16.8% and 15.1%, respectively, primarily due to reduced volume and higher length of stay and acuity due to COVID-19.

Supplies increased $144 million and $182 million, or 12.3% and 7.7%, during the three and six-month periods ended December 31, 2020, compared to the same periods in the prior year, respectively. The increase is primarily due to increased supplies related to higher acuity (which impacted pharmaceutical and other supply costs), additional supplies required for COVID-19 preparedness, particularly personal protective equipment, and general inflation.

Purchased services and other increased $20 million and decreased $5 million, or 0.9% and -0.1%, for the three and six-month periods ended December 31, 2020, respectively, compared to the same periods in the prior year when including the unrecorded provider fee program costs recorded in FY20, primarily due to higher California provider fee, partially offset by lower insurance costs, consulting costs, repairs and maintenance, and travel expenses.

Special charges and other costs increased $4 million and decreased $12 million, or 17.4% and -29.3%, for the three and six-month periods ended December 31, 2020, compared to the same periods in the prior year, respectively, primarily consisting of affiliation and restructuring related costs.

Expense Management and Productivity

	Three-Month Periods Ended December 31,			Six-Month Periods Ended December 31,		
	2020	2019	2019*	2020	2019	2019*
Expense Management:	As Recorded	As Recorded	As Adjusted	As Recorded	As Recorded	As Adjusted
Supply expense as a % of net patient and premium revenue	17.5%	16.5%	16.0%	17.3%	16.9%	16.3%
Purchased services and other as a % of net patient and premium revenue	29.0%	28.9%	29.6%	29.8%	29.7%	30.4%
Capital expense as a % of net patient and premium revenue	6.3%	6.9%	6.7%	6.5%	6.9%	6.7%
Non-capital cost per adjusted admission	$ 17,796	$ 18,264	$ 16,868	$ 19,408	$ 16,548	$ 16,837
Productivity:						
Salaries, wages and benefits as a % of net patient and premium revenue	51.9%	52.1%	50.4%	51.8%	52.7%	50.9%
Number of FTEs	125,728	126,858	126,858	123,721	126,669	126,669
FTEs per adjusted admission	27.31	25.39	25.39	27.22	25.33	25.33

** Adjusted to include the unrecorded FY20 California Provider Fee Program revenue and expenses.*

Operating Expenses

($ in millions)	Three-Month Periods Ended December 31, 2020 As Recorded	2019 As Recorded	2019* As Adjusted	Change** As Adjusted Comparison
Salaries and benefits	$ 3,913	$ 3,692	$ 3,692	$ 221
Supplies	1,316	1,172	1,172	144
Purchased services and other	2,188	2,047	2,168	20
Depreciation and amortization	360	370	370	(10)
Interest expense, net	114	118	118	(4)
Special charges	27	23	23	4
Total operating expenses	$ 7,918	$ 7,422	$ 7,543	$ 375

** Adjusted to include the unrecorded FY20 California Provider Fee Program expenses of $121 million.*

*** Comparing the 2020 three-month period ended December 31, 2020, as recorded to the same period in the prior year as adjusted.*

Operating Expenses	Six-Month Periods Ended December 31,			
($ in millions)	2020	2019	2019*	Change**
	As Recorded	As Recorded	As Adjusted	As Adjusted Comparison
Salaries and benefits	$ 7,590	$ 7,334	$ 7,334	$ 256
Supplies	2,533	2,351	2,351	182
Purchased services and other	4,371	4,135	4,376	(5)
Depreciation and amortization	730	729	729	1
Interest expense, net	219	231	231	(12)
Special charges	29	41	41	(12)
Total operating expenses	$ 15,472	$ 14,821	$ 15,062	$ 410

* *Adjusted to include the unrecorded FY20 California Provider Fee Program expenses of $241 million.*

** *Comparing the 2020 six-month period ended December 31, 2020, as recorded to the same period in the prior year as adjusted.*

Nonoperating Results

CommonSpirit recorded investment income, net, of $1.2 billion and $1.8 billion during the three and six-month periods ended December 31, 2020, compared to $463 million and $562 million during the same periods in the prior year, respectively, due to strong financial markets.

CommonSpirit recorded a loss on early extinguishment of debt of $12 million during the three and six-month periods ended December 31, 2020, compared to $112 million during the six-month period in the prior year, related to debt restructuring in 2020 and 2019.

The change in market value and cash payments of interest rate swaps was a favorable result of $30 million and $42 million during the three and six-month periods ended December 31, 2020, compared to a favorable result of $50 million and an unfavorable result of $12 million during the same periods in the prior year, respectively.

Contribution from business combination amounted to a gain of $509 million during the three and six-month periods ended December 31, 2020, as a result of the affiliation with YRMC, compared to gains of $8 million and $27 million during the same periods in the prior year, respectively.

Net periodic postretirement costs amounted to $14 million and $29 million of income during the three and six-month periods ended December 31, 2020, compared to $30 million and $59 million during the same periods in the prior year, respectively.

Nonoperating Results	Three-Month Periods Ended December 31,			Six-Month Periods Ended December 31,		
($ in millions)	2020	2019	Change	2020	2019	Change
Investment income, net	$ 1,186	$ 463	$ 723	$ 1,813	$ 562	$1,251
Loss on early extinguishment of debt	(12)	-	(12)	(12)	(112)	100
Income tax expense	(20)	(15)	(5)	(30)	(19)	(11)
Change in fair value and cash payments of interest rate swaps	30	50	(20)	42	(12)	54
Contribution from business combination	509	8	501	509	27	482
Other components of net periodic postretirement costs	14	30	(16)	29	59	(30)
Other	3	3	-	9	2	7
Total nonoperating income, net	$ 1,710	$ 539	$1,171	$ 2,360	$ 507	$1,853

Operating Revenues by Division

The following tables present operating revenues by Division for the three and six-month periods ended December 31, 2020 and 2019:

Division Operating Revenues	Three-Month Periods Ended December 31,			
($ in millions)	2020	2019	2019*	Change**
	As Recorded	As Recorded	As Adjusted	As Adjusted Comparison
Southeast	$ 925	$ 871	$ 871	$ 54
Southwest	807	648	737	70
Pacific Northwest	761	770	770	(9)
Arizona	828	649	649	179
Greater Sacramento	737	687	734	3
Colorado	670	644	644	26
Midwest	661	625	625	36
Texas	639	618	618	21
Central California	572	503	554	18
Northern California	518	507	535	(17)
Central Coast	375	341	369	6
Iowa	286	281	281	5
Fargo	108	109	109	(1)
National Business Lines***	91	100	100	(9)
Other	5	5	4	1
Subtotal Divisions	7,983	7,358	7,600	383
Corporate Services	298	104	104	194
CommonSpirit Total	$ 8,281	$ 7,462	$ 7,704	$ 577

* *Adjusted to include the unrecorded FY20 California Provider Fee Program revenues of $242 million.*

** *Comparing the 2020 three-months periods ended as recorded to the same period in the prior year 2019 as adjusted.*

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

Division Operating Revenues ($ in millions)	Six-Month Periods Ended December 31, 2020	2019	2019*	Change**
	As Recorded	As Recorded	As Adjusted	As Adjusted Comparison
Southeast	$ 1,816	$ 1,731	$ 1,731	$ 85
Southwest	1,586	1,308	1,486	100
Pacific Northwest	1,527	1,509	1,509	18
Arizona	1,498	1,246	1,246	252
Greater Sacramento	1,487	1,372	1,466	21
Colorado	1,336	1,263	1,263	73
Midwest	1,288	1,229	1,229	59
Texas	1,264	1,198	1,198	66
Central California	1,141	1,006	1,109	32
Northern California	1,041	1,012	1,066	(25)
Central Coast	731	674	731	-
Iowa	581	547	547	34
Fargo	215	218	218	(3)
National Business Lines***	190	197	197	(7)
Other	13	11	9	4
Subtotal Divisions	15,714	14,521	15,005	709
Corporate Services	288	113	113	175
CommonSpirit Total	$ 16,002	$ 14,634	$ 15,118	$ 884

* *Adjusted to include the unrecorded FY20 California Provider Fee Program revenues of $484 million.*

** *Comparing the 2020 six-month periods ended as recorded to the same period in the prior year 2019 as adjusted.*

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

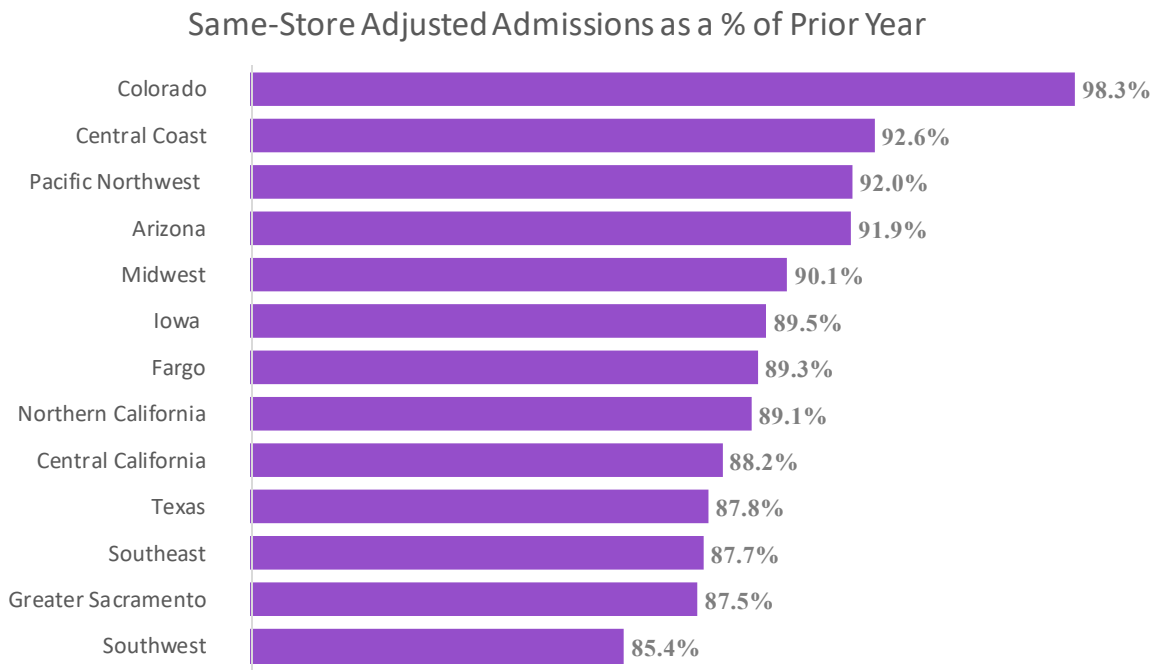
Following are the significant division performance drivers related to operating revenues compared to prior year for the six-month period ended December 31, 2020, adjusted to include the unrecorded California provider fee revenues in the prior year:

- Arizona Division – operating revenues increased $252 million from the same period in the prior year primarily due to the affiliation of YRMC effective November 1, 2020, stable commercial payor mix, higher acuity, favorable revenue from health-related joint venture activities, graduate medical education revenue, and $13 million of CARES Act grant revenues, partially offset by an 8.1% decrease in same store adjusted admissions and lower surgical and outpatient volume.
- Southwest Division – operating revenues increased $100 million from the same period in the prior year primarily due to higher acuity and $22 million of CARES Act grant revenues, partially offset by a 14.6% decrease in same store adjusted admissions and lower surgical and outpatient volume.
- Southeast Division - operating revenues increased $85 million from the same period in the prior year primarily due to improved commercial payor mix, and $20 million of CARES Act grant revenues, partially offset by a 12.3% decrease in same store adjusted admissions and lower surgical and outpatient volume.
- Colorado Division – operating revenues increased $73 million from the same period in the prior year primarily due to higher acuity, strong operating performance at St. Anthony's Hospital, and $28 million of CARES Act grant revenues, partially offset by a 1.7% decrease in same store adjusted admissions.

- Texas Division – operating revenues increased $66 million from the same period in the prior year primarily due to higher acuity and $22 million of CARES Act grant revenues, partially offset by a 12.2% decrease in same-store adjusted admissions.
- Midwest Division – operating revenues increased $59 million from the same period in the prior year primarily due to $18 million of CARES Act grant revenues and a $20 million increase in contract pharmacy revenues, partially offset by a 9.9% decrease in same-store adjusted admissions.
- Iowa Division – operating revenues increased $34 million from the same period in the prior year primarily due to $20 million of CARES Act grant revenues, partially offset by a 10.5% decrease in same-store adjusted admissions, lower commercial payor mix, and lower outpatient and surgical volume levels.
- Northern California Division – operating revenues decreased $25 million from the same period in the prior year primarily due to a 10.9% decrease in same-store adjusted admissions, lower commercial payor mix, and lower outpatient and surgical volume levels, partially offset by $7 million of CARES Act grant revenues and higher acuity.

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 has experienced considerable recovery since May and June. Same-store adjusted admissions decreased by 10.6% during the six-month period ended December 31, 2020, compared to the same period in the prior 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.

The table below reflects the same-store adjusted admissions (excluding the impact of the affiliation with YRMC) as a percentage of prior year, for the six-month period ended December 31, 2020.



Balance Sheet Metrics

The following table provides key balance sheet metrics for CommonSpirit:

Key Balance Sheet Metrics ($ in millions)	December 31, 2020	June 30, 2020	Change
Consolidated Balance Sheet Summary			
Total assets	$ 51,075	$ 46,773	$ 4,302
Total liabilities	$ 33,968	$ 33,178	$ 790
Total net assets	$ 17,107	$ 13,595	$ 3,512
Financial Position Ratios			
Total cash and unrestricted investments	$ 17,910	$ 15,782	$ 2,128
Days cash on hand	224	202	22
Total debt	$ 15,122	$ 15,040	$ 82
Debt to capitalization	50.1%	55.0%	(4.9%)

Liquidity

Cash and unrestricted investments were $17.9 billion at December 31, 2020, and $15.8 billion at June 30, 2020. The increase is primarily due to strong investment returns, the consolidation of the CommonSpirit Operating Investment Pool, LLC ("CSH OIP"), and operating results, partially offset by financing activities. CommonSpirit is actively monitoring liquidity given the operational disruption related to COVID-19.

Liquidity and Capital Resources ($ in millions)	December 31, 2020	June 30, 2020	Change
Cash	$ 4,791	$ 5,674	$ (883)
Short-term investments	3,802	2,715	1,087
Designated for capital projects and other	9,317	7,393	1,924
Total	$ 17,910	$ 15,782	$ 2,128

Capital Resources

Cash used by operating activities totaled $26 million for the six-month period ended December 31, 2020, compared to $155 million for the same period in the prior year. Significant activity for the six-month period ended December 31, 2020, includes the following:

- Investments and assets limited as to use increased $3.1 billion during the six-month period ended December 31, 2020, compared to an increase of $424 million during the same period due to investment returns and the full consolidation of YRMC and the CSH OIP.
- Accounts receivable, net, increased $436 million during the six-month period ended December 31, 2020, compared to an increase of $341 million during the same period in the prior year.
- California Provider Fee-related receivables, net of payables, increased $238 million during the six-month period ended December 31, 2020, compared to a decrease of $73 million during the same period in the prior year.
- Change in broker payables, net of receivables, increased $76 million during the six-month period ended December 31, 2020, compared to a decrease of $97 million during the same period in the prior year.
- Prepaid and other current assets increased $62 million during the six-month period ended December 31, 2020, compared to $139 million during the same period in the prior year.

Cash used in investing activities totaled $675 million for the six-month period ended December 31, 2020, compared to $551 million for the same period in the prior year, primarily due to the following:

- Capital expenditures were $599 million during the six-month period ended December 31, 2020, compared to $637 million during the same period in the prior year. Such capital expenditures primarily relate to expansion and renovation of existing facilities, equipment and systems additions and replacements, and various other capital improvements.
- Proceeds from the sale of assets were $91 million during the six-month period ended December 31, 2020, compared to $79 million during the same period in the prior year.
- Investments in health-related activities were $75 million during the six-month period ended December 31, 2020, compared to $93 million during the same period in the prior year.

Cash used in financing activities totaled $182 million for the six-month period ended December 31, 2020, compared to cash provided by financing activities of $497 million for the same period in the prior year, primarily due to the following:

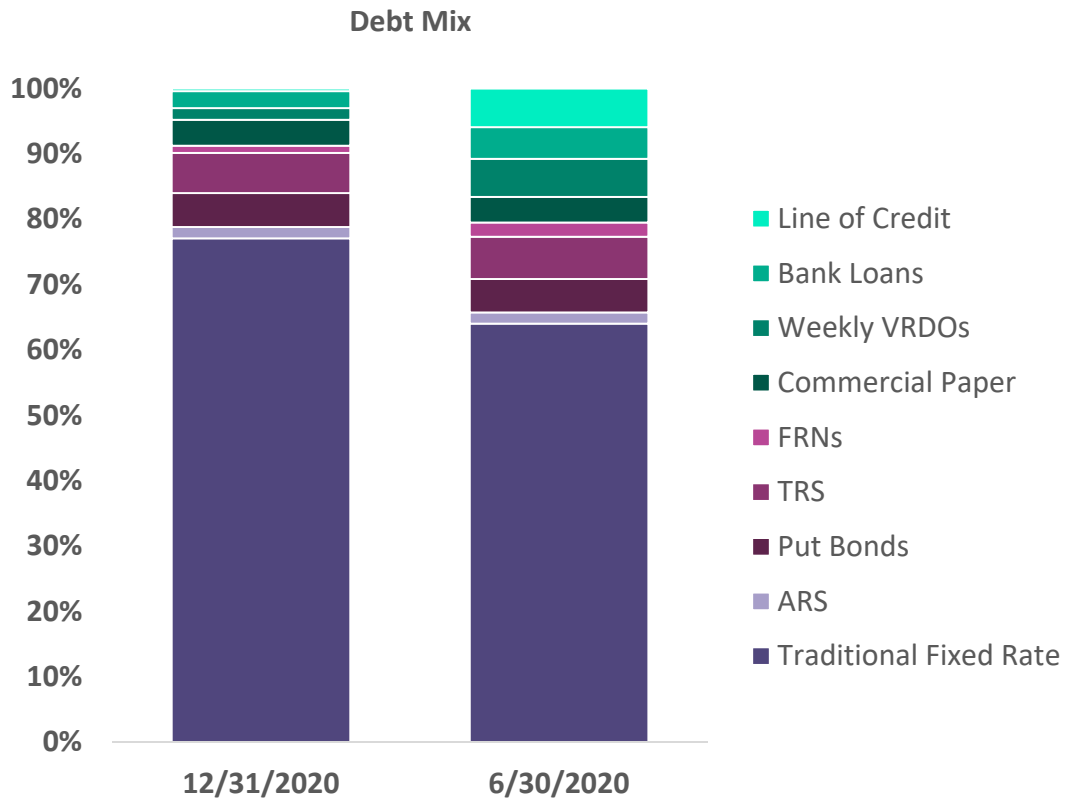
- Net repayments of $176 million during the six-month period ended December 31, 2020, compared to net borrowings of debt of $660 million during the same period in the prior year, in connection with $800 million in repayments of line of credit draws in September 2020, the October 2020 financing, and the August 2019 financing.
- Debt extinguishment costs of $12 million during the six-month period ended December 31, 2020, compared to $112 million during the same period in the prior year, related to the debt financings.

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 87% of consolidated revenues of CommonSpirit as of December 31, 2020.

CommonSpirit completed a $2.2 billion bond financing in October 2020 to restructure or refinance certain indebtedness, and finance and reimburse $750 million related to capital projects. The financing closed on October 28, 2020, and was comprised of $577 million in fixed rate tax-exempt bonds issued at a premium through the California Health Facilities Financing Authority, and $1.7 billion in taxable bonds issued by CommonSpirit Health. The 2020 financing served to generate net present-value savings from tax-exempt refinancings, achieve a favorable cost of capital on new borrowing, and reduce risk associated with short-term debt maturities. The bond portfolio remains well diversified, with a higher proportion of long-term fixed rate debt providing stability.

The chart below depicts CommonSpirit's debt mix as of December 31, 2020, as compared to the prior year June 30, 2020:



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 challenges to meeting these goals, and management is focused on both 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 the COVID-19 pandemic and, where appropriate, accelerating care transformation strategies to meet the needs of its communities.

CommonSpirit's strategic vision encompasses 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 been translated by Lloyd Dean, CommonSpirit's CEO, into 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 the COVID-19 pandemic on communities of color, 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: CommonSpirit will work to win consumers' trust and confidence through reliable, safe and personalized care experiences. In particular, CommonSpirit will offer a coordinated, systemic 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 ("Health at Home") implemented remote patient monitoring in two weeks across its 27 locations in 11 states. For the six-month period ended December 31, 2020, Health at Home has remotely monitored nearly 3,650 patients and has deployed use of secure video technology across CommonSpirit Health's footprint to remotely provide nursing, therapy, and medical social services for a total of 11,552 virtual visits. Additionally, Health at Home implemented a medication delivery program in April 2020, and as of December 31, 2020, has serviced over 3,000 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. For example, CommonSpirit Health rapidly scaled virtual visit capabilities in response to the

COVID-19 pandemic. CommonSpirit provided over 1.1 million virtual visits since the onset of the pandemic through December 31, 2020.

- 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 the potential long-term behavioral and cultural changes that may result.

Diversified Growth: Complimenting CommonSpirit's care continuum, from virtual and primary care to acute, post-acute and in-home services, the System seeks to further diversify from a service line, access point, and revenue perspective through selected investments and partnerships. The System is frequently in dialogue with potential partners, building upon its successful track record in diversified investments and partnerships. CommonSpirit has several affiliation discussions in various stages that would provide geographic diversification and/or market infill.

- During the six-months ended December 31, 2020, CommonSpirit expanded ambulatory surgical center relationships in Kentucky, Southern California and Arizona, expanded its freestanding imaging partnership in Phoenix, Arizona, and is developing a new imaging partnership in Central Coast.
- In November 2020, Dignity Community Care ("DCC") and Yavapai Community Hospital Association, dba Yavapai Regional Medical Center ("YRMC") effected a business combination which transferred the sole membership of YRMC and its subsidiaries to DCC. YRMC owns and operates a 134-bed acute care hospital in Prescott, Arizona, a 72-bed acute care hospital in Prescott Valley, Arizona, and several other primary and specialty care facilities located throughout Prescott and Prescott Valley, Arizona. See Note 3 of the financial statements.
- Effective January 1, 2021, Franciscan Health System ("FHS"), Virginia Mason Health System ("VMHS"), and CommonSpirit Health, the sole member of FHS, completed an affiliation transaction, pursuant to which, among other things, CommonSpirit formed Virginia Mason Franciscan Health (VMFH"), a Washington nonprofit corporation. CommonSpirit and VMHS are the sole corporate members of VMFH. As a result of the Affiliation, VMFH now governs and manages the combined operations of FHS, Virginia Mason Medical Center ("VMMC"), Benaroya Research Institute "(BRI") and certain other affiliates of FHS and VMMC. VMMC is a 336-bed acute care hospital in Seattle, Washington.

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 its strategic vision and values. Now more than ever, CommonSpirit's caregivers and other employees are called upon to make sacrifices to care for its communities and ministry. CommonSpirit is focused on honoring our employees and celebrating the heroes that serve our patients at this time.

Additional actions taken to support employees during the pandemic include: staff recruitment and resource procurement programs (i.e. redeployments, traveler staff and reemployment actions of retirees), flexible work arrangements through union leadership discussions, direct and indirect caregiver support, remote work and flex scheduling, EAP deployment and staff well-being programming. In addition we have restructured internal policies and adjusted benefit programs to accommodate surge activity.

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

- As an example, CommonSpirit Health's COVID-19 dashboard continues to be an important tool that utilizes 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.
- The organization is similarly aligned on a set of Enterprise Metrics, a balanced scorecard that includes clinical quality, patient satisfaction, growth, financial performance, community benefit and other measures. Enterprise Metrics are set each year and reported to the Board on a quarterly basis.

Effective Financial Stewardship: Part of the vision for CommonSpirit is to create an efficient, financially stable platform in order to sustain its mission and ministry into the future. Effective financial stewardship is even more critical as the health care industry addresses the challenges of the COVID-19 pandemic and related economic pressures. CommonSpirit is focused on managing financial performance and continuing its path toward longer-term financial performance goals.

Integration and Synergy Realization

Management has defined long-term financial goals for CommonSpirit, including achieving an eight percent operating EBITDA margin, achieving and maintaining days' cash on hand of 150 days and maintaining total debt to capitalization of 45 percent or less. 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. While full realization of synergies and operating improvements may be delayed beyond the initial 2023 goal due to operating disruption from the COVID-19 pandemic, leadership has affirmed these goals as a priority for the System.

During FY20, CommonSpirit achieved approximately $350 million of traditional merger synergies in corporate-level functions, and operational best practice implementation across field functions. Through the first six months of the fiscal year, CommonSpirit is on track to surpass its annual synergy goal. Examples of areas where significant savings were achieved in FY20 include vendor consolidation and competitive re-bidding of contracts, transition to a single group purchasing organization, consolidating support operations, standardized labor management approach and clinical documentation improvement. In addition to these actions, the 2019 debt consolidation and restructuring transaction, which was completed in FY20, generated significant net present value savings, cash flow relief and risk reduction. Debt portfolio actions are above and beyond, and not incorporated into, the System's synergy targets.

Despite the ongoing nature of the COVID-19 pandemic, management has established a goal of $350-400 million in synergy realization and operational best practice implementation. This includes the acceleration of areas such as corporate labor reductions, consolidation of corporate and other real estate assets, as well as ongoing consolidation and insourcing in areas such as human resources, information technology, and revenue cycle. Operational best practice work is focused on supply chain (implementing changes related to the single group purchasing organization), labor productivity, pharmacy, clinical engineering, revenue cycle and ancillary services. The organization is also streamlining its division structure, transitioning from 13 to 9 Operating Divisions in January 2021 in an effort to standardize best practices, more quickly scale new programs, and recognize operational efficiencies across the organization. Additional integration work that could potentially streamline the System and contribute to long-term sustainability includes a strategic portfolio assessment that is currently ongoing at the leadership and Board level. In addition, the 2020 debt financing transaction, which closed in October 2020, produced additional net present value savings, which are not included in the FY21 synergy goals.

While safely reopening all facilities and services and returning to pre-COVID-19 pandemic volume levels has been 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. Virtual care is being scaled rapidly and is a priority both during the COVID-19 pandemic and 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.

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six-Month Periods Ended December 31, 2020 and 2019

COMMONSPIRIT HEALTH

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COMMONSPIRIT HEALTH

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2020 AND JUNE 30, 2020
(in millions)

Assets	As of December 31, 2020 (Unaudited)	As of June 30, 2020
Current assets:		
Cash and cash equivalents	$ 4,791	$ 5,674
Short-term investments	3,802	2,715
Assets limited as to use	620	1,172
Patient accounts receivable, net	4,029	3,581
Broker receivables for unsettled investment trades	674	199
Provider fee receivable	1,368	1,142
Other current assets	1,707	1,622
Total current assets	16,991	16,105
Assets limited as to use:		
Designated assets for:		
Capital projects and other	9,317	7,393
Held for self-insured claims	1,717	1,557
Under bond indenture agreements for debt service	4	19
Donor-restricted	929	861
Other	791	597
Less amount required to meet current obligations	(620)	(1,172)
Assets limited as to use, net	12,138	9,255
Property and equipment, net	15,499	15,233
Right-of-use operating lease assets	1,878	1,828
Ownership interests in health-related activities	3,341	3,188
Goodwill	286	274
Intangible assets, net	753	700
Other long-term assets, net	189	190
Total assets	$ 51,075	$ 46,773

(Continued)

COMMONSPIRIT HEALTH

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2020 AND JUNE 30, 2020
(in millions)

Liabilities and Net Assets	As of December 31, 2020 (Unaudited)	As of June 30, 2020
Current liabilities:		
Current portion of long-term debt	$ 737	$ 1,079
Demand bonds subject to short-term liquidity arrangements	247	821
Accounts payable	1,439	1,436
Accrued salaries and benefits	1,442	1,460
Self-insured reserves and claims	416	407
Broker payables for unsettled investment trades	853	302
Provider fee payables	408	421
Operating lease liabilities	271	274
Other accrued liabilities - current	2,409	4,176
Total current liabilities	8,222	10,376
Other liabilities - long-term:		
Self-insured reserves and claims	1,033	1,129
Pension and other postretirement benefit liabilities	5,742	5,553
Derivative instruments	243	277
Operating lease liabilities	1,776	1,701
Other accrued liabilities - long-term	2,814	1,002
Total other liabilities - long-term	11,608	9,662
Long-term debt, net of current portion	14,138	13,140
Total liabilities	33,968	33,178
Net assets:		
Without donor restrictions - attributable to CommonSpirit Health	15,082	12,317
Without donor restrictions - noncontrolling interests	1,096	419
With donor restrictions	929	859
Total net assets	17,107	13,595
Total liabilities and net assets	$ 51,075	$ 46,773

See notes to unaudited condensed consolidated financial statements.

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2020 AND 2019 (in millions)

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2020	2019	2020	2019
Operating revenues:				
Net patient revenue	$ 7,242	$ 6,796	$ 14,056	$ 13,358
Premium revenue	295	287	594	568
Revenue from health-related activities, net	93	58	169	88
Other operating revenue	638	301	1,154	586
Contributions	13	20	29	34
Total operating revenues	8,281	7,462	16,002	14,634
Operating expenses:				
Salaries and benefits	3,913	3,692	7,590	7,334
Supplies	1,316	1,172	2,533	2,351
Purchased services and other	2,188	2,047	4,371	4,135
Depreciation and amortization	360	370	730	729
Interest expense, net	114	118	219	231
Special charges and other costs	27	23	29	41
Total operating expenses	7,918	7,422	15,472	14,821
Operating income (loss)	363	40	530	(187)
Nonoperating income (loss):				
Investment income, net	1,186	463	1,813	562
Loss on early extinguishment of debt	(12)	-	(12)	(112)
Income tax expense	(20)	(15)	(30)	(19)
Change in fair value and cash payments of interest rate swaps	30	50	42	(12)
Contribution from business combination	509	8	509	27
Other components of net periodic postretirement costs	14	30	29	59
Other	3	3	9	2
Total nonoperating income, net	1,710	539	2,360	507
Excess of revenues over expenses	$ 2,073	$ 579	$ 2,890	$ 320
Less excess of revenues over expenses attributable to noncontrolling interests	127	35	144	61
Excess of revenues over expenses attributable to CommonSpirit Health	$ 1,946	$ 544	$ 2,746	$ 259

(Continued)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2020 AND 2019 (in millions)

	Without Donor Restrictions			
	Attributable to CommonSpirit Health	Noncontrolling Interests	With Donor Restrictions	Total Net Assets
Balance, September 30, 2019	$ 14,245	$ 495	$ 880	$ 15,620
Excess of revenues over expenses	544	35	-	579
Change in accounting principle	13	-	-	13
Contributions	-	-	43	43
Net assets released from restrictions for capital	12	-	(12)	-
Net assets released from restrictions for operations and other	-	-	(12)	(12)
Loss from discontinued operations, net	(127)	-	-	(127)
Other	20	(5)	15	30
Increase in net assets	462	30	34	526
Balance, December 31, 2019	14,707	525	914	16,146
Balance, September 30, 2020	$ 13,118	$ 417	$ 890	$ 14,425
Excess of revenues over expenses	1,946	127	-	2,073
Contributions	-	-	32	32
Contribution from business combination	-	573	5	578
Net assets released from restrictions for capital	6	-	(6)	-
Net assets released from restrictions for operations and other	-	-	(6)	(6)
Loss from discontinued operations, net	(1)	-	-	(1)
Other	13	(21)	14	6
Increase in net assets	1,964	679	39	2,682
Balance, December 31, 2020	$ 15,082	$ 1,096	$ 929	$ 17,107

(Continued)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2020 AND 2019 (in millions)

	Without Donor Restrictions			
	Attributable to CommonSpirit Health	Noncontrolling Interests	With Donor Restrictions	Total Net Assets
Balance, June 30, 2019	$ 14,428	$ 486	$ 877	$ 15,791
Excess of revenues over expenses	259	61	-	320
Change in accounting principle	151	-	-	151
Contributions	-	-	56	56
Net assets released from restrictions for capital	19	-	(19)	-
Net assets released from restrictions for operations and other	-	-	(23)	(23)
Loss from discontinued operations, net	(164)	-	-	(164)
Other	14	(22)	23	15
Increase in net assets	279	39	37	355
Balance, December 31, 2019	$ 14,707	$ 525	$ 914	$ 16,146
Balance, June 30, 2020	$ 12,317	$ 419	$ 859	13,595
Excess of revenues over expenses	2,746	144	-	2,890
Contributions	-	-	54	54
Contribution from business combination	-	573	5	578
Net assets released from restrictions for capital	10	-	(10)	-
Net assets released from restrictions for operations and other	-	-	(18)	(18)
Other	9	(40)	39	8
Increase in net assets	2,765	677	70	3,512
Balance, December 31, 2020	$ 15,082	$ 1,096	$ 929	$ 17,107

See notes to unaudited condensed consolidated financial statements.

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2020 AND 2019 (in millions)

	Six-Month Periods Ended December 31,	
	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 3,512	$ 355
Adjustments to reconcile change in net assets to cash used in operating activities:		
Loss on early extinguishment of debt	12	112
Depreciation and amortization	730	729
Changes in equity of health-related entities	(172)	(88)
Net assets related to business combination	(514)	(27)
Net (gain) loss on disposal of assets	(11)	70
Noncash impact of change in accounting principle	-	(151)
Change in fair value of swaps	(79)	(6)
Change in funded status of pension and other postretirement benefit plans	-	(15)
Pension cash contributions	(4)	(19)
Changes in certain assets and liabilities:		
Accounts receivable, net	(436)	(341)
Accounts payable	(6)	(65)
Self-insured reserves and claims	(83)	(8)
Accrued salaries and benefits	(34)	(117)
Changes in broker receivables/payables for unsettled investment trades	76	(97)
Provider fee assets and liabilities	(238)	73
Other accrued liabilities	(1,756)	8
Prepaid and other current assets	(62)	(139)
Other, net	2,183	(5)
Cash provided by operating activities before net change in investments and assets limited as to use	3,118	269
Net increase in investments and assets limited as to use	(3,144)	(424)
Cash used in operating activities	(26)	(155)

(Continued)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2020 AND 2019 (in millions)

	Six-Month Periods Ended December 31,	
	2020	2019
Cash flows from investing activities:		
Purchases of property and equipment	(599)	(637)
Investments in health-related activities	(75)	(93)
Business acquisitions, net of cash acquired	-	(12)
Proceeds from asset sales	91	79
Cash distributions from health-related activities	42	71
Other, net	(134)	41
Cash used in investing activities	(675)	(551)
Cash flows from financing activities:		
Borrowings	2,346	8,100
Repayments	(2,522)	(7,439)
Loss on early extinguishment of debt	(12)	(112)
Swaps cash collateral posted	45	(21)
Distributions to noncontrolling interests	(39)	(31)
Cash provided by (used in) financing activities	(182)	497
Net decrease in cash and cash equivalents	(883)	(209)
Cash and cash equivalents at beginning of period	5,674	1,569
Cash and cash equivalents at end of period	$ 4,791	$ 1,360
Components of cash and cash equivalents and investments at end of year:		
Cash and cash equivalents	$ 4,791	$ 1,360
Short-term investments	3,802	2,733
Designated assets for capital projects and other	9,317	7,627
Total	$ 17,910	$ 11,720
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 216	$ 195
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through finance lease or note payable	$ 136	$ 53
Investments in health-related activities	$ 40	$ 41
Accrued purchases of property and equipment	$ 83	$ 120

See notes to unaudited condensed consolidated financial statements.

1. ORGANIZATION

CommonSpirit Health (the "Corporation") is a Colorado nonprofit public benefit corporation exempt from federal and state income taxes. CommonSpirit Health was created by the alignment of Catholic Health Initiatives ("CHI") and Dignity Health in February 2019. CommonSpirit Health is a Catholic healthcare system sponsored by the public juridic person, Catholic Health Care Federation ("CHCF").

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 more than 1,000 care sites, including 140 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 condensed consolidated financial statements include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis for Presentation – The unaudited condensed consolidated financial statements of CommonSpirit as of December 31, 2020, and for the three and six-month periods ended December 31, 2020 and 2019, should be read in conjunction with the audited financial statements of CommonSpirit as of and for the year ended June 30, 2020. 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.

Operating results for the three and six-month periods ended December 31, 2020 and 2019, are not necessarily indicative of the results that may be expected for any future period or for a full fiscal year as revenues, expenses, assets, and liabilities can vary during each quarter of the year.

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. Actual results could differ from those estimates.

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.

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 condensed

consolidated statements of operations and changes in net assets. Bad debt expense for the three and six-month periods ended December 31, 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. See Note 5.

Recent Accounting Pronouncements – In July 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-11, Leases (Topic 842), which enhanced ASU No. 2016-02, Leases (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 was 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, of which $151 million was recognized as of December 31, 2019, related to the adoption of ASU 2016-02. See Note 11.

Subsequent Events – CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal quarter and February 17, 2021, the date the unaudited condensed consolidated financial statements were issued. See Notes 3 and 10.

3. ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

Acquisitions – In November 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, effected a business combination which transferred 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 resulted in the recognition of a $509 million gain, recorded as contribution from business combination in nonoperating income (loss) in the accompanying condensed consolidated statements of operations and changes in net assets, and $5 million was recorded as contribution from business combination for net assets with donor restrictions, 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.

The following summarizes the fair value estimate of YRMC's assets acquired and liabilities assumed as of November 1, 2020 (in millions):

Current assets	$	226
Assets limited as to use		124
Property and equipment, net		272
Intangible assets, net		58
Other long-term assets, net		5
Current liabilities		(33)
Long-term debt, net of current portion		(131)
Other liabilities - long-term		(7)
Total contribution of net assets	$	514

In December 2020, CommonSpirit entered into an affiliation agreement to form a new integrated health system through a Joint Operating Company, Virginia Mason Franciscan Health ("VMFH"), a Washington nonprofit corporation, bringing together CommonSpirit Franciscan Health System and Virginia Mason Health System ("VMHS"). The Joint Operating Company will be a controlled subsidiary of CommonSpirit. Based on the terms contained in the agreement, CommonSpirit has elected to consolidate the operations of VMHS, and as such will account for the business combination using the acquisition method of accounting, and will fair value the respective assets and liabilities of VMHS. With the addition of an acute hospital and other care sites from VMHS, VMFH will operate eleven hospitals and nearly 300 sites of care within the Pacific Northwest. The agreement, which did not include consideration, is effective January 1, 2021.

In January 2021, CommonSpirit entered into a nonbinding letter of intent with Essentia Health to negotiate a definitive affiliation agreement to transfer ownership of CommonSpirit's ministries in North Dakota and Minnesota. The CommonSpirit ministries in North Dakota and Minnesota include 13 critical access hospitals and one full service tertiary hospital, along with associated clinics and home health operations.

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, of which $19 million was recorded as of December 31, 2019, in contribution from business combination in nonoperating income (loss) in the accompanying condensed consolidated statements of operations and changes in net assets, calculated as the fair value of the excess of identifiable assets acquired over liabilities assumed, determined based on Level 3 inputs, including estimated future cash flows and probability weighted performance assumptions.

Dispositions – In November 2019, CommonSpirit completed its divestiture of the acute care operations of Jewish Hospital and St. Mary's Healthcare, Inc. ("JHSMH") to the University of Louisville. The divestiture resulted in a total loss of $121 million, of which $114 million is reflected in loss from discontinued operations, net, in the accompanying consolidated statements operations and changes in net assets as of December 31, 2019, and $7 million is reflected in other operating revenue in the accompanying consolidated statements of operations and changes in net assets for the three and six-month periods ended December 31, 2019. Included in the loss and as part of the divestiture agreement, CommonSpirit committed to quarterly support payments to the University of Louisville over a four year period, totaling $40 million. The remaining future commitment is $26 million, of which the current portion of $10 million is recorded in other accrued liabilities - current, and the long term portion of $16 million is reflected in other accrued liabilities - long-term in the accompanying condensed consolidated balance sheet.

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 December 31, 2020, CommonSpirit has received approximately $1.4 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. To date, $1.3 billion has been recognized within other operating revenue, of which $293 million and $484 million was recognized during the three and six-month periods ended December 31, 2020, respectively, and $110 million is recorded as deferred revenue in other accrued liabilities-current in the condensed consolidated balance sheet as of December 31, 2020. CommonSpirit will continue to monitor the terms and conditions of the CARES Act funding and the impact of the pandemic on revenues and expenses. These funds are not required to be repaid upon attestation and compliance with certain terms and conditions.

CommonSpirit also received $2.7 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. As of December 31, 2020, the terms and conditions in effect prescribed that any outstanding balance remaining after 29 months from date of receipt are subject to interest of 4%. As such, $900 million is recorded in other accrued liabilities - current, and $1.8 billion is recorded in other accrued liabilities - long-term.

CommonSpirit has deferred approximately $371 million of employer payroll taxes through December 31, 2020, pursuant to the Paycheck Protection Program and Health Care Enhancement Act, of which, and $185 million is recorded in accrued salaries and benefits, and $186 million is 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

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

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2020	2019	2020	2019
Government	$ 3,647	$ 3,237	$ 7,109	$ 6,480
Contracted	3,045	3,040	5,848	5,877
Self-pay and other	550	519	1,099	1,001
	$ 7,242	$ 6,796	$ 14,056	$ 13,358

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.

6. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

In April 2020, CommonSpirit formed the CommonSpirit Health Operating Investment Pool LLC (the "CSH OIP"), a consolidated entity, and beginning in October 2020, the investment portfolios of Dignity Health and its related organizations and the assets of the CHI Operating Investment Program, L.P. (the "Program") were transferred to the CSH OIP. The formation of the CSH OIP included $573 million recorded in the three-month period ended December 31, 2020, as a contribution from business combination for net assets attributable to non-controlling interests, in the accompanying condensed consolidated statements of operations and changes in net assets.

The following represents CommonSpirit assets and liabilities, including CSH OIP, measured at fair value or at the net asset value ("NAV") practical expedient on a recurring basis and certain other assets accounted for under the equity method (in millions):

	December 31, 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	$ 329	$ 435	$ -	$ 764
U.S. government securities	926	511	-	1,437
U.S. corporate bonds	88	1,124	-	1,212
U.S. equity securities	2,640	5	-	2,645
Foreign government securities	-	132	-	132
Foreign corporate bonds	1	269	-	270
Foreign equity securities	2,641	2	-	2,643
Asset-backed securities	5	132	-	137
Private equity	-	-	66	66
Real estate	39	1	-	40
Community Investment Program	-	-	131	131
Other investments	183	286	-	469
Assets measured at fair value	$ 6,852	$ 2,897	$ 197	9,946
Assets at NAV:				
U.S. corporate bonds				520
U.S. equity securities				165
Foreign corporate bonds				115
Foreign equity securities				1,198
Private equity				1,036
Hedge funds				2,337
Real estate				741
Total assets				$ 16,058
Liabilities				
Derivative instruments	$ -	$ 551	$ -	$ 551
Other	4	-	79	83
Total liabilities	$ 4	$ 551	$ 79	$ 634

	As of June 30, 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

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 condensed 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 $196 million and $127 million as of December 31, 2020 and June 30, 2020, respectively.

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

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

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

The following table and explanations identify attributes relating to the nature and risk of investments for which fair value is determined using a calculated NAV as of December 31, 2020 (in millions):

		NAV Practical Expedient	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private equity	(1)	$ 1,036	$ 503	-	-
Multi-strategy hedge funds	(2)	2,337	-	Weekly, Monthly, Quarterly, Semi-annually, Annually	3 - 90 days
Real estate	(3)	741	75	Quarterly	60 - 90 days
Commingled funds - debt securities	(4)	635	26	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	1,363	-	Daily, Weekly, Bi-weekly, Monthly, Quarterly	1 - 90 days
Total		$ 6,112	$ 604		

(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, 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 December 31, 2020:

Percentage of the Value of Category (2)		Redemption	Redemption Notice	Redemption Locked Up Until	Redemption Gate % of Account
Total	Subtotal	Frequency	Period	(if applicable)	(if applicable)
12.4%	11.5%	Annually	60 days	2 years	up to 25.0 - 50.0%
	0.9%	Annually	75 days	-	-
0.2%	0.2%	Semi-annually	75 - 90 days	2 years	-
37.6%	7.1%	Quarterly	7 days		up to 25.0%
	2.4%	Quarterly	30 - 45 days	2 years	up to 20.0%
	17.2%	Quarterly	60 - 65 days	1 year	up to 12.5% - 25.0%
	10.9%	Quarterly	90 days	-	up to 12.5% - 25.0%
33.1%	6.8%	Monthly	5 days	-	up to 20.0%
	19.8%	Monthly	30 - 45 days	-	up to 16.7% - 25.0%
	6.5%	Monthly	90 days	-	up to 20.0%
16.7%	16.7%	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 20% 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, 2020, to be over the next 12 years.

(4) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets. Also included in this category are commingled fixed income funds that provide capital in a variety of mezzanine debt, distressed debt and other special debt securities situations. Investments representing approximately 8% 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, 2020, to be over the next four 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.

The following represents assets and liabilities of the Program in its entirety, of which CHI held 89% as of June 30, 2020 measured at fair value or at the NAV practical expedient on a recurring basis and certain other assets accounted for under the equity method (in millions):

	June 30, 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

7. 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, 2020	As of June 30, 2020
Balance at beginning of period	$ 274	$ 242
Addition from acquisitions	8	32
Acquisition accounting and other adjustments	4	-
Balance at end of period	$ 286	$ 274

8. INTANGIBLE ASSETS, NET

Intangible assets reported in the accompanying 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. Certain intangible assets have indefinite lives, and others are amortized over estimated useful lives ranging up to 25 years using the straight-line method. The aggregate amount of amortization expense related to intangible assets subject to amortization is $3 million and $1 million for the three-month periods ended December 31, 2020 and 2019, respectively and $5 million and $3 million for the six-month periods ended December 31, 2020 and 2019, respectively.

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

	As of December 31, 2020			
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of Period	Amortization period
Trademarks	$ 613	$ -	$ 613	Indefinite
Trademark agreements	156	(52)	104	120 - 300 months
Noncompete agreements	16	(10)	6	24 months
Certificate of need	13	-	13	Indefinite
Other contracts	23	(6)	17	150 - 168 months
	$ 821	$ (68)	$ 753	

	As of June 30, 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	

The increase in trademarks during the six-month period ended December 31, 2020, relates to the affiliation with YRMC.

9. DEBT

As part of a debt consolidation plan and in conjunction 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. The CHI Capital Obligation Document (the "COD") and the Dignity Health Master Trust Indenture were amended and restated, both to the new CommonSpirit Health Master Trust Indenture (the "CommonSpirit Health MTI"), with CHI and the Dignity Health Obligated Group each obtaining the necessary consents.

2021 Financing Activity – 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.

In September 2020, CommonSpirit repaid $800 million of draws during February through April 2020 on its syndicated line of credit.

In September 2020, CommonSpirit drew $54 million on its syndicated line of credit for the redemption in full, of the Colorado Health Facilities Authority Variable Rate Revenue Bonds, Series 2004B-6.

In October 2020, CommonSpirit issued $1.7 billion of taxable fixed rate bonds at par, with repayments of $450 million, $550 million and $658 million to be made in October 2025, 2030 and 2050, respectively. A portion of the proceeds were used to refund $537 million of tax-exempt fixed rate bonds, $230 million of tax-exempt variable rate bonds, $196 million of taxable variable rate bonds, $153 million of tax-exempt floating rate notes, $79 million of affiliate debt, $439 million for general working capital purposes and to pay cost of issuance expenses.

In October 2020, CommonSpirit issued $577 million of tax-exempt fixed rate bonds, at a premium. Proceeds included $300 million of new money to reimburse for prior capital expenditures and $344 million to refinance of tax-exempt variable rate bonds. The bonds mature in April 2049.

In November 2020, CommonSpirit repaid a $31 million draw on its syndicated line of credit using proceeds from the CommonSpirit 2020 taxable bonds.

In December 2020, CommonSpirit increased a line of credit used to issue standby letters of credit from $35 million to $85 million.

In December 2020, CommonSpirit renewed a $65 million line of credit used to support its self-liquidity program scheduled to mature in December 2020, to December 2023.

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 mature in August 2044 and 2049.

In August 2019, CommonSpirit issued $621 million of tax-exempt put bonds, at a premium. 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 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.

10. DERIVATIVE INSTRUMENTS

CommonSpirit has a portfolio of derivative agreements to hedge interest rate risk and manage cost of capital. All swaps held by the historical organizations are obligations to the CommonSpirit Health MTI, although they are kept in the name of the legacy organization. The following table shows the outstanding notional amount of derivative instruments held by CommonSpirit measured at fair value, net of credit value adjustments, as reported in the accompanying condensed consolidated balance sheets (in millions):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			As of December 31, 2020	
Derivatives not designated as hedges:				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 2,216	$ (552)
Risk participation agreements	2022 - 2025 with extension options	SIFMA plus spread	510	-
Total return swaps	2024 - 2030	SIFMA plus spread	324	1
Total derivative instruments			3,050	(551)
Cash collateral			-	308
Derivative instruments, net			$ 3,050	$ (243)
			As of June 30, 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)

CHI held $1.4 billion notional amount of interest rate swaps at December 31, 2020, which have a negative fair value of $331 million. CHI posted $308 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).

Based upon CHI's swap agreements in place as of December 31, 2020, a reduction in CHI's credit rating to BBB or below would obligate CHI to post additional cash collateral of $23 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 $54 million and a fair value of $0 million at December 31, 2020.

Of the $849 million notional amount of interest rate swaps held by Dignity Health at December 31, 2020, $160 million are insured and have a negative fair value of $67 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 $689 million of interest rate swaps that are not insured as of December 31, 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 $181 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 $83 million at December 31, 2020. The remaining uninsured interest rate swaps in the notional amount of $280 million have a negative fair value of $71 million as of December 31, 2020.

Dignity Health has floating rate derivatives in the notional amount of $780 million as of December 31, 2020. Risk participation agreements in the notional amount of $510 million have a fair value deemed immaterial as of December 31, 2020. Dignity Health has a total return swap in the notional amount of $270 million. The total return swap has a fair value of $1 million at December 31, 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 $181 million of swaps and below Baa3/BBB- on a notional amount of $1.3 billion, and Dignity Health's cash on hand dropping below 75 days.

In January 2021, CommonSpirit renewed a total return swap in the notional amount of $25 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. The total return swap will expire in August 2023.

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

11. 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.

Operating lease balances are included within discreet financial statement line items within the condensed consolidated balance sheets as of December 31, 2020, and June 30, 2020. Finance lease right of use assets, current lease liabilities and long-term lease liabilities as of December 31, 2020 are $295 million, $34 million, and $340 million, respectively. Finance lease right of use assets, current lease liabilities and long-term lease liabilities as of June 30, 2020, are $208 million, $30 million, and $225 million, respectively.

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,	
	2020	2019	2020	2019
Interest and fees on debt	$ 124	$ 126	$ 238	$ 247
Capitalized interest expense	(10)	(8)	(19)	(16)
Interest expense, net	$ 114	$ 118	$ 219	$ 231

13. RETIREMENT PROGRAMS

Total expense for all CommonSpirit retirement and postretirement plans was $175 million and $145 million for the three-month periods ended December 31, 2020 and 2019, respectively, and $353 million and $292 million for the six-month periods ended December 31, 2020 and 2019, respectively. The service cost component of $189 million and $176 million for the three-month periods ended December 31, 2020 and 2019, respectively, and $382 million and $351 million for the six-month periods ended December 31, 2020 and 2019, respectively, is included in salaries and benefits expense in the accompanying condensed consolidated statements of operations and changes in net assets. Other nonservice net benefit credits of $14 million and $30 million for the three-month periods ended December 31, 2020 and 2019, respectively, and $29 million and $59 million for the six-month periods ended December 31, 2020 and 2019, respectively, are included in other components of net periodic postretirement costs in nonoperating income (loss).

14. 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.

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