



**This document is dated February 15, 2024**

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UNAUDITED QUARTERLY REPORT

For the Three and Six-Month Periods Ended  
December 31, 2023 and 2022

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The information in this report  
has been provided by  
CommonSpirit Health

# COMMONSPIRIT HEALTH

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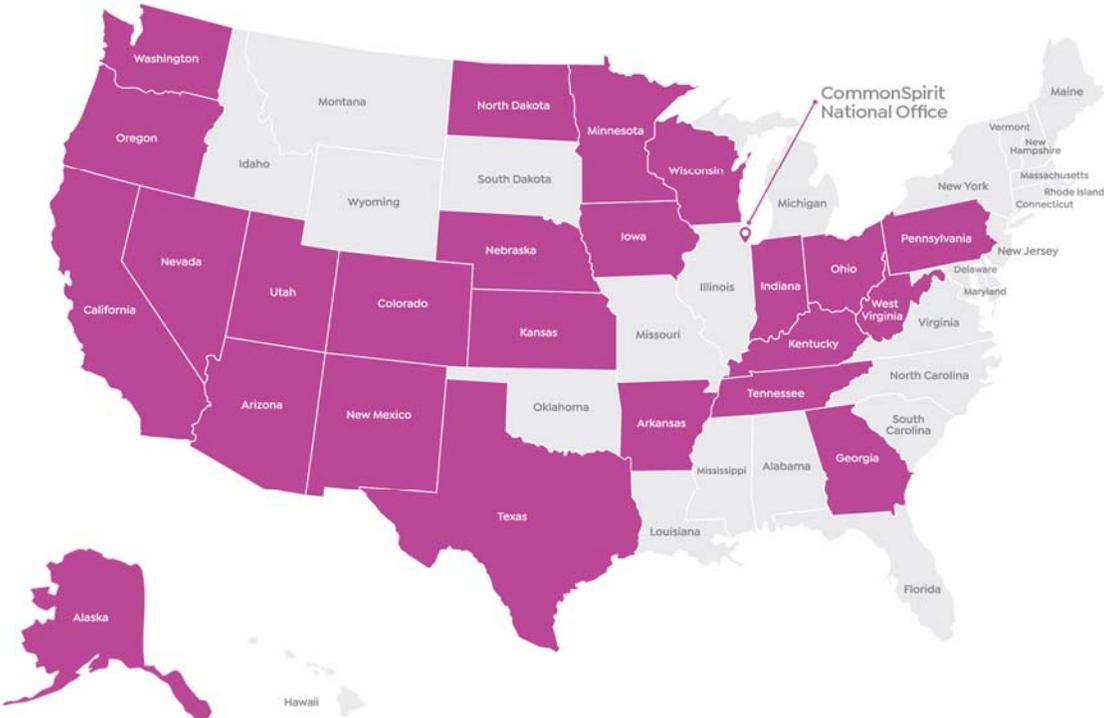
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# Management Discussion and Analysis of Financial Condition and Results of Operations

## Overview

CommonSpirit Health is a Colorado nonprofit public benefit corporation exempt from federal and state income taxes. CommonSpirit Health is a Catholic health care system sponsored by the public juridic person, Catholic Health Care Federation (“CHCF”).

CommonSpirit Health owns and operates health care facilities in 24 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations. CommonSpirit Health and substantially all of its direct affiliates and subsidiaries have been granted exemptions from federal income tax as charitable organizations under Section 501(c)(3) of the Internal Revenue Code. With its national office in Chicago, and a team of over 150,000 employees and over 25,000 physicians and advanced practice clinicians, as of February 15, 2024, CommonSpirit Health is comprised of approximately 2,250 care sites, including 142 hospitals, consisting of 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. An additional 20 hospitals are operated through unconsolidated joint ventures. The unaudited condensed consolidated financial statements in Exhibit I 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 presented herein, 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, 2023 and 2022, in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and on a non-GAAP basis for EBITDA (earnings before interest, tax, depreciation and amortization, and nonoperating income). The non-GAAP financial measures are in addition to, not a substitute for, measures of financial performance prepared in accordance with GAAP.

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

## Financial Highlights and Summary

CommonSpirit recorded operating income of \$356 million and an operating loss of \$46 million during the three and six-month periods ended December 31, 2023, compared to operating losses of \$440 million and \$395 million during the same periods in the prior year. Normalized for the California provider fee program, operating losses for the three and six-month periods ended December 31, 2023, were \$87 million and \$340 million, compared to normalized operating losses of \$440 million and \$642 million during the same periods in the prior year. Operating results reflect the continued impact of salary and supply cost inflation increasing at a higher rate than payor reimbursement rates, partially offset by improved volume levels, length-of-stay, and productivity. Current year results include a \$234 million 340(b) program settlement from the Centers for Medicare and Medicaid Services (“CMS”) related to underpayments in prior years, and the six-month prior year results include \$248 million of CARES Act Provider Relief Funding (“CARES PRF”).

CommonSpirit’s EBITDA increased to \$927 million for the three-month period ended December 31, 2023, from \$47 million during the same period in the prior year. The EBITDA margin for the three-month period ended December 31, 2023, increased to 9.1% from 0.6% for the same period in the prior year. Normalized for the California provider fee program, EBITDA for the three-month period ended December 31, 2023, was \$484 million, or an EBITDA margin of 5.2%, compared to \$47 million, or an EBITDA margin of 0.6%, during the same period in the prior year. The increase is primarily related to improved volume levels, length-of-stay, and productivity, the CMS 340(b) program settlement, partially offset by continued staffing and revenue yield challenges, and general inflation.

CommonSpirit’s EBITDA increased to \$1.0 billion for the six-month period ended December 31, 2023, from \$554 million during the same period in the prior year. The EBITDA margin for the six-month period ended December 31, 2023, increased to 5.6% from 3.2% for the same period in the prior year. Normalized for the California provider fee program, EBITDA for the six-month period ended December 31, 2023, was \$746 million, or an EBITDA margin of 4.1%, compared to \$307 million, or an EBITDA margin of 1.8%, during the same period in the prior year. The increase is primarily related to the CMS 340(b) program settlement, improved volume levels, length-of-stay, and productivity, partially offset by \$248 million in CARES PRF funds recorded in the prior year, continued staffing and revenue yield challenges, and general inflation.

For the three and six-month periods ended December 31, 2023, CommonSpirit’s volumes on an adjusted admission basis were favorable to the same periods in the prior year by 9.5% and 7.2%, respectively. On a same-store basis, adjusted admissions were favorable to the same periods in the prior year by 6.9% and 5.9%, respectively. Adjusted patient days for the three and six-month periods ended December 31, 2023, were higher than the same periods in the prior year by 4.5% and 2.8%, respectively. The acute average length of stay (ALOS) of 4.76 days and 4.74 days for

the three and six-month periods ended December 31, 2023, was lower than the same periods in the prior year of 4.98 and 4.94, respectively, primarily due to continued length-of-stay reduction efforts.

<b>Key Indicators Financial Summary</b>					
<b>Three-Month Periods Ended</b>					
<b>December 31,</b>					
<b>(\$ in millions)</b>	<b>2023</b>	<b>2023*</b>	<b>2022</b>	<b>2022*</b>	<b>Change**</b>
	<b>As</b>	<b>As</b>	<b>As</b>	<b>As</b>	<b>As</b>
	<b>Recorded</b>	<b>Adjusted</b>	<b>Recorded</b>	<b>Adjusted</b>	<b>Adjusted Comparison</b>
EBITDA	\$ 927	\$ 484	\$ 47	\$ 47	\$ 437
Margin %	9.1%	5.2%	0.6%	0.6%	4.6%
Operating gain (loss)	\$ 356	\$ (87)	\$ (440)	\$ (440)	\$ 353
Margin %	3.5%	(0.9%)	(5.4%)	(5.4%)	4.5%
Excess (deficit) of revenues					
over expenses	\$ 1,179	\$ 736	\$ 232	\$ 232	\$ 504
Margin %	10.6%	7.2%	2.6%	2.6%	4.6%

<b>Key Indicators Financial Summary</b>					
<b>Six-Month Periods Ended</b>					
<b>December 31,</b>					
<b>(\$ in millions)</b>	<b>2023</b>	<b>2023*</b>	<b>2022</b>	<b>2022*</b>	<b>Change**</b>
	<b>As</b>	<b>As</b>	<b>As</b>	<b>As</b>	<b>As</b>
	<b>Recorded</b>	<b>Adjusted</b>	<b>Recorded</b>	<b>Adjusted</b>	<b>Adjusted Comparison</b>
EBITDA	\$ 1,040	\$ 746	\$ 554	\$ 307	\$ 439
Margin %	5.6%	4.1%	3.2%	1.8%	2.3%
Operating gain (loss)	\$ (46)	\$ (340)	\$ (395)	\$ (642)	\$ 302
Margin %	(0.2%)	(1.9%)	(2.3%)	(3.9%)	2.0%
Excess (deficit) of revenues					
over expenses	\$ 480	\$ 186	\$ (159)	\$ (406)	\$ 592
Margin %	2.5%	1.0%	(0.9%)	(2.4%)	3.4%

\* Adjusted to normalize the California Provider Fee Program net income.

\*\* Comparing December 31, 2023, as adjusted to the prior year as adjusted.

## Acquisitions, Affiliations and Divestitures

In February 2024, CommonSpirit entered into an agreement to transfer two hospitals, along with associated clinics in San Francisco, to University of California, San Francisco. As of December 31, 2023, for all periods presented, the associated assets and liabilities are classified as held for sale, within other current assets and other accrued liabilities – current, respectively, in the condensed consolidated balance sheets. The operations of the facilities held for sale are not material to the condensed consolidated statement of operations and changes in net assets.

In August 2023, CommonSpirit and AdventHealth effected an agreement to transition to direct management of their respective care sites that comprised Centura Health (the “Transition”), with CommonSpirit directly operating and managing its hospitals and affiliated clinics in Colorado, western Kansas and Utah, and AdventHealth directly

operating and managing its Adventist hospitals and their affiliated clinics in Colorado. The Transition did not have a material effect on the financial condition or operations of CommonSpirit, taken as a whole.

In May 2023, CommonSpirit acquired substantially all of the assets of a regional health system, including five hospitals, over 40 clinics, and other ambulatory services in Utah for total consideration of \$705 million and initiation of a 15-year master lease agreement for real property on which the primary health care facilities are located, with minimum annual payments of approximately \$95 million. The facilities acquired support the mission and strategy to better serve the health care needs of the communities in Utah.

In September 2022, CommonSpirit sold the facilities and assets of MercyOne, a regional health system in Iowa, to Trinity Health for a gross purchase price of \$613 million. MercyOne had operated under a JOA between Trinity Health and CommonSpirit. A net loss on sale of \$34 million was recognized in September 2022.

Same-store results reported herein exclude the impact of the Utah transaction, the divestiture of MercyOne, and the San Francisco hospitals that are held for sale as noted above.

## California Provider Fee Program

In September 2022, CMS approved the State Plan Amendment (“SPA”) and allocation model previously submitted by the State of California for the 12-month provider fee program beginning January 1, 2022. With the culmination of the program as of December 31, 2022, the State of California submitted a SPA to CMS for approval of a new 24-month provider fee program beginning January 1, 2023. CMS approval of the new program was received in December 2023. As such, during the six-month period ended December 31, 2023, CommonSpirit recognized provider fee net income from continuing operations of \$598 million (\$304 million related to six-month period ended December 31, 2023 and \$294 million related to the six-month period ended June 30, 2023). CommonSpirit recorded \$494 million in net provider fee income during the six-month period ended December 31, 2022. As a result of the CMS approval timing, EBITDA, operating revenues, and expenses for the three and six-month periods ended December 31, 2023 and 2022, have been adjusted where indicated in this report to normalize the California provider fee program revenue and expenses as though CMS approval had occurred on January 1, 2023 and 2022, respectively.

Following is a summary of the impact of normalizing provider fee net income:

California Provider Fee Program						
(\$ in millions)	Three-Month Periods December 31,			Six-Month Periods Ended December 31,		
	2023	2022	Change	2023	2022	Change
<b>California Provider Fee as Recorded</b>						
Net patient and premium revenues	\$ 1,169	\$ 236	\$ 933	\$ 1,169	\$ 943	\$ 226
Operating expenses	<u>571</u>	<u>112</u>	<u>459</u>	<u>571</u>	<u>449</u>	<u>122</u>
Provider Fee net income	<u>\$ 598</u>	<u>\$ 124</u>	<u>\$ 474</u>	<u>\$ 598</u>	<u>\$ 494</u>	<u>\$ 104</u>
<b>Normalized California Provider Fee</b>						
Net patient and premium revenues	\$ 318	\$ 236	\$ 82	\$ 602	\$ 472	\$ 130
Operating expenses	<u>163</u>	<u>112</u>	<u>51</u>	<u>298</u>	<u>225</u>	<u>73</u>
Provider Fee net income	<u>\$ 155</u>	<u>\$ 124</u>	<u>\$ 31</u>	<u>\$ 304</u>	<u>\$ 247</u>	<u>\$ 57</u>
<b>Impact of Normalizing California Provider Fee</b>						
Net patient and premium revenues	\$ (851)	\$ -	\$ (851)	\$ (567)	\$ (471)	\$ (96)
Operating expenses	<u>(408)</u>	<u>-</u>	<u>(408)</u>	<u>(273)</u>	<u>(224)</u>	<u>(49)</u>
Provider Fee net income	<u>\$ (443)</u>	<u>\$ -</u>	<u>\$ (443)</u>	<u>\$ (294)</u>	<u>\$ (247)</u>	<u>\$ (47)</u>

With the approval of the provider fee program in September 2022, CommonSpirit recorded provider fee net income totaling \$494 million (\$247 million related to the six-month period ended June 30, 2022, and \$247 million related to the six-month period ended December 31, 2022).

## Cybersecurity Incident

On October 2, 2022, CommonSpirit experienced a ransomware attack (“the Cybersecurity Incident”) that impacted certain of its IT systems. Upon discovering the attack, CommonSpirit took immediate steps to protect its IT systems, contain the incident, begin an investigation, notify individuals whose data was impacted, and maintain continuity of care. CommonSpirit engaged leading cybersecurity specialists to support its investigation and notified law enforcement and the United States Department of Health and Human Services.

The Cybersecurity Incident had an estimated adverse financial impact of approximately \$160 million in fiscal year 2023, which included lost revenues from the associated business interruption, the costs incurred to remediate the issues and other related business expenses, and is exclusive of any potential insurance related recoveries. We have notified and continue to consult with our insurance carriers and expect a significant portion of the amounts incurred to be covered by insurance, but are unable to predict the timing or amount of insurance recoveries at this time.

## Results of Operations

### Operating Revenues and Volume Trends

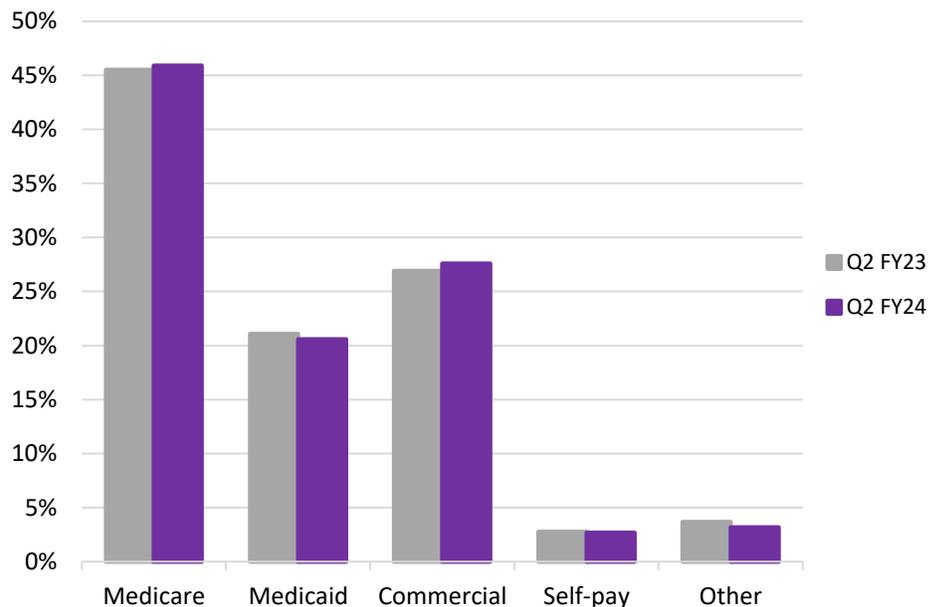
Net patient and premium revenues increased \$2.0 billion, or 25.1%, and \$1.7 billion, or 10.8%, over the same periods in the prior year, for the three and six-month periods ended December 31, 2023 and 2022, respectively. Normalizing the California provider fee revenues, net patient and premium revenue increased \$1.1 billion, or 14.2%, and \$1.6 billion, 10.5%, over the same periods in the prior year, respectively. On a same-store basis, normalized net patient and premium revenues increased \$921 million, or 11.9%, and increased \$1.4 billion, or 9.2%, over the same periods in the prior year, for the three and six-month periods ended December 31, 2023, respectively. Same-store normalized net patient and premium revenue per adjusted admission increased 4.6% and 3.1% over the same periods in the prior year, for the three and six-month periods ended December 31, 2023, respectively. The increase is primarily due to improved volume levels, improved payer mix, and the CMS 340(b) program settlement.

Volumes	Three-Month Periods				Six-Month Periods Ended			
	December 31,		Change	%	December 31,		Change	%
	2023	2022			2023	2022		
Acute admissions	208,530	192,123	16,407	8.5%	410,931	386,440	24,491	6.3%
Adjusted admissions	431,747	394,212	37,535	9.5%	858,125	800,141	57,984	7.2%
Acute inpatient days	991,961	956,247	35,714	3.7%	1,948,443	1,909,473	38,970	2.0%
Adjusted patient days	2,153,016	2,061,028	91,988	4.5%	4,261,707	4,146,737	114,970	2.8%
Acute average length of stay	4.76	4.98	(0.22)	(4.4%)	4.74	4.94	(0.20)	(4.0%)
Outpatient visits	6,958,284	6,642,220	316,064	4.8%	13,892,750	13,300,516	592,234	4.5%
ED visits	1,012,178	981,363	30,815	3.1%	2,009,520	1,958,570	50,950	2.6%
Gross outpatient revenue as a % of total gross patient services revenue	51.5%	51.1%	0.4%	0.4%	52.0%	51.5%	0.5%	0.5%

Same-Store Volumes	Three-Month Periods				Six-Month Periods Ended			
	December 31,		Change	%	December 31,		Change	%
	2023	2022			2023	2022		
Acute admissions	204,596	192,123	12,473	6.5%	402,981	382,451	20,530	5.4%
Adjusted admissions	421,592	394,212	27,380	6.9%	837,933	791,278	46,655	5.9%
Acute inpatient days	976,467	956,247	20,220	2.1%	1,916,829	1,886,303	30,526	1.6%
Adjusted patient days	2,110,841	2,061,028	49,813	2.4%	4,177,734	4,095,664	82,070	2.0%
Acute average length of stay	4.77	4.98	(0.21)	(4.2%)	4.76	4.93	(0.17)	(3.4%)
Outpatient visits	6,860,808	6,642,220	218,588	3.3%	13,694,920	12,998,523	696,397	5.4%
ED visits	990,105	981,363	8,742	0.9%	1,964,680	1,944,245	20,435	1.1%
Gross outpatient revenue as a % of total gross patient services revenue	51.3%	51.1%	0.2%	0.2%	51.7%	51.5%	0.2%	0.2%

Payor mix based on gross revenues for the six-month period ended December 31, 2023, has slightly improved compared to the same period in the prior year. The following chart represents the gross revenue payor mix for consolidated operations for the six-month periods ended December 31, 2023 and 2022:

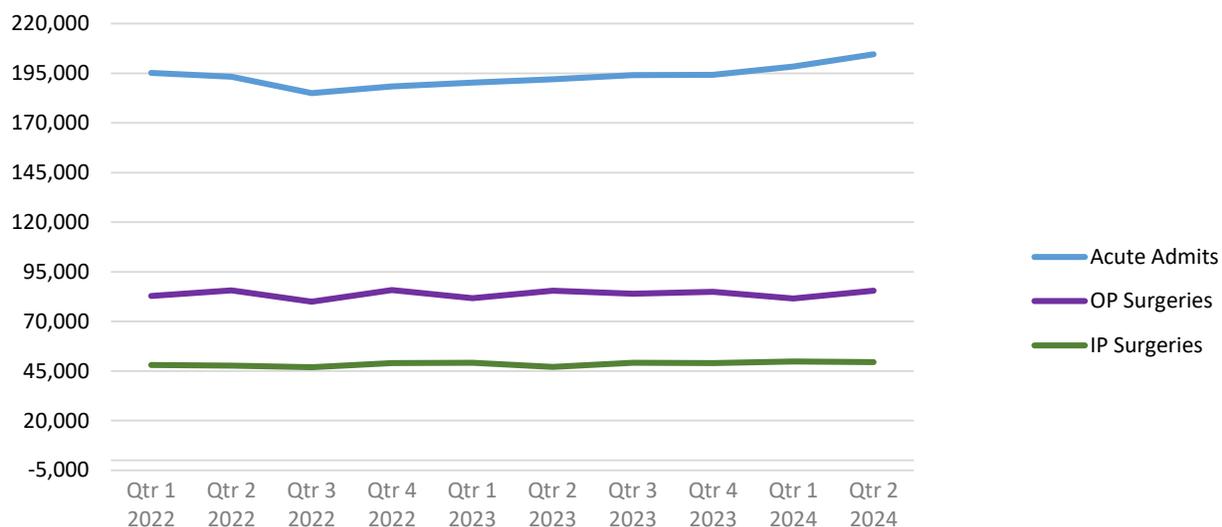
### Gross Revenue Payor Mix



Same-store adjusted admissions increased 6.9% and 5.9% during the three and six-month periods ended December 31, 2023, respectively, compared to the same periods in the prior year.

The following table is a summary of key volume metrics on a same-store basis:

### Same-Store Volume Trend



All other operating revenues increased \$59 million, or 14.1%, but decreased \$119 million, or 11.4%, from the same periods in the prior year, for the three and six-month periods ended December 31, 2023, respectively. Same-store other operating revenues increased \$70 million, or 18.2%, but decreased \$149 million, or 14.0%, from the same periods in the prior year, for the three and six-month periods ended December 31, 2023, respectively. The six-month period decrease is primarily due to CARES PRF grant revenue totaling \$248 million recorded during the six-month period ended December 31, 2022, offset by an increase of \$28 million in revenue from health-related activities, net. The six-month period increase in revenue from health-related activities, net, is primarily related to improvements in operations and the financial market performance at joint ventures accounted for on the equity method.

Operating Revenues					
(\$ in millions)	Three-Month Periods Ended				
	December 31,				
	2023	2023*	2022	2022*	Change**
	As Recorded	As Adjusted	As Recorded	As Adjusted	As Adjusted Comparison
Net patient and premium revenues	\$ 9,722	\$ 8,871	\$ 7,771	\$ 7,771	\$ 1,100
All other operating revenues	478	478	419	419	59
Total operating revenues	<u>\$ 10,200</u>	<u>\$ 9,349</u>	<u>\$ 8,190</u>	<u>\$ 8,190</u>	<u>\$ 1,159</u>

\* Adjusted to normalize the California Provider Fee Program revenues.

\*\* Comparing December 31, 2023, as adjusted to the prior year as adjusted.

Operating Revenues					
(\$ in millions)	Six-Month Periods Ended				
	December 31,				
	2023	2023*	2022	2022*	Change**
	As Recorded	As Adjusted	As Recorded	As Adjusted	As Adjusted Comparison
Net patient and premium revenues	\$ 17,765	\$ 17,198	\$ 16,036	\$ 15,565	\$ 1,633
All other operating revenues	923	923	1,042	1,042	(119)
Total operating revenues	<u>\$ 18,688</u>	<u>\$ 18,121</u>	<u>\$ 17,078</u>	<u>\$ 16,607</u>	<u>\$ 1,514</u>

\* Adjusted to normalize the California Provider Fee Program revenues.

\*\* Comparing December 31, 2023, as adjusted to the prior year as adjusted.

## Operating Revenues by Region

The following tables present operating revenues by region for the three and six-month periods ended December 31, 2023 and 2022. The results by region are presented consistent with the organization's recent consolidation of eight operating divisions into five regions, as shown below:

Operating Revenues By Region					
(\$ in millions)	Three-Month Periods Ended				
	December 31,				
	2023	2023**	2022	2022**	Change***
	As Recorded	As Adjusted	As Recorded	As Adjusted	As Adjusted Comparison
Southern California	\$ 2,488	\$ 1,863	\$ 1,669	\$ 1,669	\$ 194
Northern California	1,592	1,365	1,239	1,239	126
<b>California</b>	4,080	3,228	2,908	2,908	320
Southwest	1,143	1,143	1,086	1,086	57
Midwest	853	853	675	675	178
<b>Central</b>	1,996	1,996	1,761	1,761	235
Southeast	1,043	1,043	921	921	122
Texas	715	715	629	629	86
<b>South</b>	1,758	1,758	1,550	1,550	208
<b>Mountain</b>	967	967	769	769	198
<b>Northwest</b>	1,249	1,249	1,117	1,117	132
National Business Lines*	80	80	83	83	(3)
Others	6	7	12	12	(5)
Subtotal	<u>10,136</u>	<u>9,285</u>	<u>8,200</u>	<u>8,200</u>	<u>1,085</u>
Corporate Services	64	64	(10)	(10)	74
CommonSpirit Total	<u>\$ 10,200</u>	<u>\$ 9,349</u>	<u>\$ 8,190</u>	<u>\$ 8,190</u>	<u>\$ 1,159</u>

\* Includes Home Care and Senior Living Business Lines.

\*\* Adjusted to normalize the California Provider Fee Program income.

\*\*\* Comparing December 31, 2023, as adjusted to the prior year as adjusted.

<b>Operating Revenues By Region</b>					
(\$ in millions)	Six-Month Periods Ended December 31,				
	2023	2023**	2022	2022**	Change***
	As Recorded	As Adjusted	As Recorded	As Adjusted	As Adjusted Comparison
<i>Southern California</i>	\$ 4,018	\$ 3,601	\$ 3,664	\$ 3,320	\$ 281
<i>Northern California</i>	2,778	2,628	2,584	2,457	171
<b>California</b>	<b>6,796</b>	<b>6,229</b>	<b>6,248</b>	<b>5,777</b>	<b>452</b>
<i>Southwest</i>	2,181	2,181	2,140	2,140	41
<i>Midwest</i>	1,629	1,629	1,430	1,430	199
<b>Central</b>	<b>3,810</b>	<b>3,810</b>	<b>3,570</b>	<b>3,570</b>	<b>240</b>
<i>Southeast</i>	2,071	2,071	1,872	1,872	199
<i>Texas</i>	1,421	1,421	1,305	1,305	116
<b>South</b>	<b>3,492</b>	<b>3,492</b>	<b>3,177</b>	<b>3,177</b>	<b>315</b>
<b>Mountain</b>	<b>1,906</b>	<b>1,906</b>	<b>1,486</b>	<b>1,486</b>	<b>420</b>
<b>Northwest</b>	<b>2,399</b>	<b>2,399</b>	<b>2,265</b>	<b>2,265</b>	<b>134</b>
National Business Lines*	158	158	191	191	(33)
Others	33	33	146	146	(113)
Subtotal	18,594	18,027	17,083	16,612	1,415
Corporate Services	94	94	(5)	(5)	99
CommonSpirit Total	<u>\$ 18,688</u>	<u>\$ 18,121</u>	<u>\$ 17,078</u>	<u>\$ 16,607</u>	<u>\$ 1,514</u>

\* Includes Home Care and Senior Living Business Lines.

\*\* Adjusted to normalize the California Provider Fee Program revenues.

\*\*\* Comparing December 31, 2023, as adjusted to the prior year as adjusted.

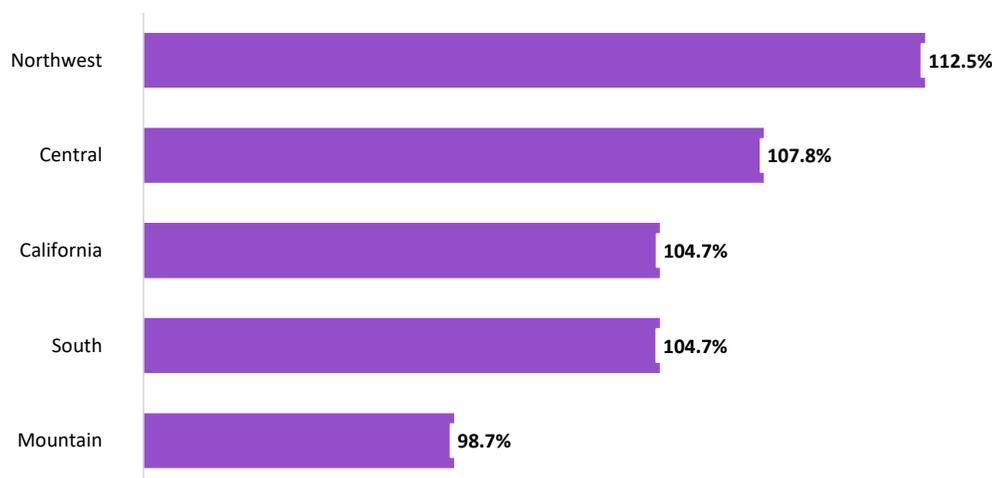
Following are the significant performance drivers related to operating revenues normalized for the California Provider Fee for the six-month period ended December 31, 2023, compared to the same period in the prior year:

- California – normalized operating revenues increased \$452 million from the prior year, primarily due to higher provider fee revenue, the 340(b) CMS settlement, a 4.7% increase in adjusted admissions, and higher Medicaid disproportionate share payments, partially offset by CARES PRF funds recorded in the prior year and continued revenue yield challenges.
- Central – operating revenues increased \$240 million, primarily due to a 7.8% increase in adjusted admissions, the 340(b) CMS settlement, higher surgical volumes, and higher revenue from interests in health-related activities, partially offset by CARES PRF funds recorded in the prior year.
- South – operating revenues increased \$315 million from the prior year, primarily due to higher volumes, with adjusted admissions increasing by 4.7% over the prior year, higher disproportionate share settlements, and the 340(b) CMS settlement, partially offset by CARES PRF funds recorded in the prior year and continued revenue yield challenges.
- Mountain – operating revenues increased \$420 million from the prior year, primarily due to the Utah transaction in May 2023, partially offset by CARES PRF funds recorded in the prior year, continued revenue yield challenges, and lower volumes with same-store adjusted admissions decreasing by 1.3%.

- Northwest – operating revenues increased \$134 million from the prior year, primarily due to a 12.5% increase in adjusted admissions, the 340(b) CMS settlement, partially offset by CARES PRF funds recorded in the prior year and continued revenue yield challenges.

The table below reflects the same-store adjusted admissions (excluding the impact of the San Francisco hospitals held for sale and the Utah and Iowa transactions) as a percentage of prior year, for the six-month period ended December 31, 2023:

#### Same-Store Adjusted Admissions as a % of Prior Year



Uncompensated Care (\$ in millions)	Three-Month Periods Ended December 31,			Six-Month Periods Ended December 31,		
	2023	2022	Change	2023	2022	Change
<b>Uncompensated Care:</b>						
Charity care, at customary charges	\$ 530	\$ 453	\$ 77	\$ 1,028	\$ 987	\$ 41
Charity care, at cost, net	\$ 137	\$ 114	\$ 23	\$ 256	\$ 250	\$ 6
Charity care, at cost, as a percentage of total expenses	1.4%	1.3%	0.1%	1.4%	1.4%	0.0%

#### Operating Expenses

Salaries and benefits increased \$413 million, or 9.3%, and \$587 million, or 6.6%, over the same periods in the prior year, for the three and six-month periods ended December 31, 2023, respectively. On a same-store basis, salaries and benefits increased \$346 million, or 7.8%, and \$554 million, or 6.3%, over the same periods in the prior year, respectively, primarily due to higher salary costs, partially offset by FTE reductions implemented during fiscal year 2023. Salaries and benefits per adjusted admission on a same-store basis slightly increased 0.8% and 0.4%, from the same periods in the prior year, for the three and six-month periods ended December 31, 2023, respectively.

Supplies increased \$64 million, or 4.7% and \$113 million, or 4.2%, during the three and six-month periods ended December 31, 2023, compared to the same periods in the prior year, respectively. On a same-store basis, supplies increased \$35 million, or 2.6%, and \$90 million, or 3.4%, during the three and six-month periods ended December 31, 2023, over the same periods in the prior year, respectively. The increase is primarily due to volume increases, higher than anticipated inflation and higher pharmaceuticals. Supplies per adjusted admission on a same-store basis

decreased 4.1% and 2.4%, compared to the same periods in the prior year, for the three and six-months periods ended December 31, 2023, respectively.

Purchased services and other increased \$245 million, or 10.4% and \$375 million, or 7.9%, for the three and six-month periods ended December 31, 2023, compared to the same periods in the prior year, when normalizing for the California provider fee program costs, respectively. On a normalized same-store basis, purchased services and other increased \$197 million, or 8.4% and \$329, or 7.0%, compared to the same periods in the prior year, respectively. The increase is primarily due to higher provider fee, medical fees, hardware and software maintenance, collection agency costs, insurance costs, and out-of-network costs, partially offset by lower special charges and repairs and maintenance costs.

Expense Management and Productivity								
	Three-Month Periods Ended				Six-Month Periods Ended			
	December 31,				December 31,			
	2023	2023*	2022	2022*	2023	2023*	2022	2022*
	As Recorded	As Adjusted	As Recorded	As Adjusted	As Recorded	As Adjusted	As Recorded	As Adjusted
<b>Expense Management:</b>								
Supply expense as a % of net patient and premium revenue	14.7%	16.1%	17.6%	17.6%	15.9%	16.4%	16.9%	17.4%
Purchased services and other as a % of net patient and premium revenue	30.8%	29.2%	30.2%	30.2%	30.3%	29.7%	30.9%	30.4%
Capital expense as a % of net patient and premium revenue	5.9%	6.4%	6.3%	6.3%	6.1%	6.3%	5.9%	6.1%
Non-capital cost per adjusted admission	\$ 21,479	\$ 20,533	\$ 20,657	\$ 20,657	\$ 20,566	\$ 20,248	\$ 20,652	\$ 20,371
<b>Productivity:</b>								
Salaries, wages and benefits as a % of net patient and premium revenue	49.8%	54.6%	57.0%	57.0%	53.2%	54.9%	55.2%	56.9%
Number of FTEs	134,199	134,199	126,371	126,371	132,893	132,893	128,955	128,955
FTEs per adjusted admission	25.06	25.06	26.40	26.40	24.98	24.98	26.61	26.61

\*Adjusted to normalize the California Provider Fee Program revenues and expense.

Same-Store Expense Management and Productivity								
	Three-Month Periods Ended				Six-Month Periods Ended			
	December 31,				December 31,			
	2023	2023*	2022	2022*	2023	2023*	2022	2022*
	As	As	As	As	As	As	As	As
	Recorded	Adjusted	Recorded	Adjusted	Recorded	Adjusted	Recorded	Adjusted
<b>Expense Management:</b>								
Supply expense as a % of net patient and premium revenue	14.7%	16.1%	17.6%	17.6%	15.9%	16.4%	16.8%	17.4%
Purchased services and other as a % of net patient and premium revenue	30.9%	29.2%	30.2%	30.2%	30.4%	29.8%	30.9%	30.4%
Capital expense as a % of net patient and premium revenue	5.5%	6.0%	6.3%	6.3%	5.7%	5.9%	6.0%	6.1%
Non-capital cost per adjusted admission	\$ 21,654	\$ 20,685	\$ 20,654	\$ 20,654	\$ 20,723	\$ 20,397	\$ 20,654	\$ 20,370
<b>Productivity:</b>								
Salaries, wages and benefits as a % of net patient and premium revenue	50.1%	55.0%	57.0%	57.0%	53.5%	55.3%	55.1%	56.8%
Number of FTEs	131,985	131,985	128,231	128,231	130,659	130,659	127,327	127,327
FTEs per adjusted admission	25.66	25.66	26.83	26.83	25.59	25.59	26.53	26.53

\*Adjusted to normalize the California Provider Fee Program revenues and expense.

<b>Operating Expenses</b>					
<b>Three-Month Periods Ended</b>					
<b>December 31,</b>					
(\$ in millions)	2023	2023*	2022	2022*	Change**
	As Recorded	As Adjusted	As Recorded	As Adjusted	As Adjusted Comparison
Salaries and benefits	\$ 4,846	\$ 4,846	\$ 4,433	\$ 4,433	\$ 413
Supplies	1,429	1,429	1,365	1,365	64
Purchased services and other	2,998	2,590	2,345	2,345	245
Depreciation and amortization	392	392	363	363	29
Interest expense, net	<u>179</u>	<u>179</u>	<u>124</u>	<u>124</u>	<u>55</u>
Total operating expenses	<u>\$ 9,844</u>	<u>\$ 9,436</u>	<u>\$ 8,630</u>	<u>\$ 8,630</u>	<u>\$ 806</u>

\* Adjusted to normalize the California Provider Fee Program expense.

\*\* Comparing December 31, 2023, as adjusted to the prior year as adjusted.

<b>Operating Expenses</b>					
<b>Six-Month Periods Ended</b>					
<b>December 31,</b>					
(\$ in millions)	2023	2023*	2022	2022*	Change**
	As Recorded	As Adjusted	As Recorded	As Adjusted	As Adjusted Comparison
Salaries and benefits	\$ 9,443	\$ 9,443	\$ 8,856	\$ 8,856	\$ 587
Supplies	2,819	2,819	2,706	2,706	113
Purchased services and other	5,386	5,113	4,962	4,738	375
Depreciation and amortization	735	735	716	716	19
Interest expense, net	<u>351</u>	<u>351</u>	<u>233</u>	<u>233</u>	<u>118</u>
Total operating expenses	<u>\$ 18,734</u>	<u>\$ 18,461</u>	<u>\$ 17,473</u>	<u>\$ 17,249</u>	<u>\$ 1,212</u>

\* Adjusted to normalize the California Provider Fee Program expense.

\*\* Comparing December 31, 2023, as adjusted to the prior year as adjusted.

## Nonoperating Results

CommonSpirit recorded investment income, net, of \$899 million and \$610 million during the three and six-month periods ended December 31, 2023, compared to investment income, net, of \$718 million and \$202 million during the same periods in the prior year, respectively.

Income tax expense was \$12 million and \$15 million during the three and six-month periods ended December 31, 2023, compared to \$16 million and \$20 million during the same periods in the prior year, respectively.

The change in market value and cash payments of interest rate swaps was an unfavorable result of \$31 million and \$4 million during the three and six-month periods ended December 31, 2023, compared to favorable results of \$8 million and \$56 million during the same periods in the prior year, respectively.

Net periodic postretirement costs amounted to \$33 million and \$66 million of expense during the three and six-month periods ended December 31, 2023, compared to \$40 million of expense and \$5 million of income during the same periods in the prior year, respectively.

Nonoperating Results (\$ in millions)	Three-Month Periods Ended December 31,			Six-Month Periods Ended December 31,		
	2023	2022	Change	2023	2022	Change
Investment income, net	\$ 899	\$ 718	\$ 181	\$ 610	\$ 202	\$ 408
Income tax expense	(12)	(16)	4	(15)	(20)	5
Change in fair value and cash payments						
of interest rate swaps	(31)	8	(39)	(4)	56	(60)
Other components of net periodic postretirement costs	(33)	(40)	7	(66)	5	(71)
Other	-	2	(2)	1	(7)	8
Total nonoperating income, net	<u>\$ 823</u>	<u>\$ 672</u>	<u>\$ 151</u>	<u>\$ 526</u>	<u>\$ 236</u>	<u>\$ 290</u>

The detail of investment earnings is as follows:

Investment income, net (\$ in millions)	Three-Month Periods Ended December 31,			Six-Month Periods Ended December 31,		
	2023	2022	Change	2023	2022	Change
Net realized gains (losses) on sale of securities	\$ 101	\$ (14)	\$ 115	\$ 188	\$ 44	\$ 144
Net unrealized gains on securities	744	678	66	304	65	239
Other, net of capitalized investment income	54	54	-	118	93	25
Total investment income, net	<u>\$ 899</u>	<u>\$ 718</u>	<u>\$ 181</u>	<u>\$ 610</u>	<u>\$ 202</u>	<u>\$ 408</u>

The presentation of realized and unrealized gains and losses is determined based on the cost basis at the original acquisition date of the securities.

## Balance Sheet Metrics

The following table provides key balance sheet metrics for CommonSpirit:

Key Balance Sheet Metrics			
(\$ in millions)	December 31, 2023	June 30, 2023	Change
<b>Consolidated Balance Sheet Summary</b>			
Total assets	\$ 52,479	\$ 51,872	\$ 607
Total liabilities	\$ 31,166	\$ 30,733	\$ 433
Total net assets	\$ 21,313	\$ 21,139	\$ 174
<b>Financial Position Ratios</b>			
Unrestricted cash and investments	\$ 14,589	\$ 15,456	\$ (867)
Days cash on hand	151	166	(15)
Total debt	\$ 18,293	\$ 18,360	\$ (67)
Debt to capitalization	48.9%	49.2%	(0.3%)

## Liquidity

Unrestricted cash and investments were \$14.6 billion at December 31, 2023, and \$15.5 billion at June 30, 2023. The decrease is primarily due to weak operating cash flows. CommonSpirit is actively monitoring liquidity given the operational disruption related to inflationary pressures, cash flow disruptions related to denials, timing related to ERC and provider fee receipts and payments, and pending insurance proceeds related to the cybersecurity incident.

Liquidity and Capital Resources			
(\$ in millions)	December 31, 2023	June 30, 2023	Change
Cash	\$ 1,367	\$ 1,677	\$ (310)
Short-term investments	348	539	(191)
Long-term investments, excluding assets limited as to use	<u>12,874</u>	<u>13,240</u>	<u>(366)</u>
Total unrestricted cash and investments	<u>\$ 14,589</u>	<u>\$ 15,456</u>	<u>\$ (867)</u>

## Capital Resources

Cash provided by operating activities totaled \$346 million for the six-month period ended December 31, 2023, compared to cash used of \$1.7 billion for the same period in the prior year. Significant activity for the six-month period ended December 31, 2023, includes the following:

- Investments decreased \$536 million during the six-month period ended December 31, 2023, compared to a decrease of \$556 million during the same period in the prior year.
- Medicare advances withheld from Medicare fee-for-service payments were zero during the six-month period ended December 31, 2023, compared to a \$766 million decrease for the same period in the prior year.
- Provider fee program net receivables, increased \$432 million during the six-month period ended December 31, 2023, compared to a \$420 million increase for the same period in the prior year.
- Accounts receivable, net, increased \$346 million during the six-month period ended December 31, 2023, compared to \$842 million for the same period in the prior year.
- Accrued salaries and benefits decreased \$108 million during the six-month period ended December 31, 2023, compared to \$491 million during the same period in the prior year.
- Prepays and other current assets increased \$429 million during the six-month period ended December 31, 2023, compared to \$150 million during the same period in the prior year.

Cash used in investing activities totaled \$484 million for the six-month period ended December 31, 2023, compared to cash provided of \$77 million during the same period in the prior year, primarily related to the following:

- Capital expenditures were \$474 million during the six-month period ended December 31, 2023, compared to \$481 million during same period in the prior year. Such capital expenditures primarily relate to growth in ambulatory and inpatient services, general maintenance of facilities, equipment and systems additions and replacements, and various other capital improvements.
- Proceeds from the sale of assets were \$52 million during the six-month period ended December 31, 2023, compared to \$507 million during the same period in the prior year, primarily due to the Iowa transaction in the prior year.
- Cash distributions from health-related activities were \$37 million during the six-month period ended December 31, 2023, compared to \$109 million during the same period in the prior year.
- Investments in health-related activities were \$62 million during the six-month period ended December 31, 2023, compared to \$44 million during the same period in the prior year.

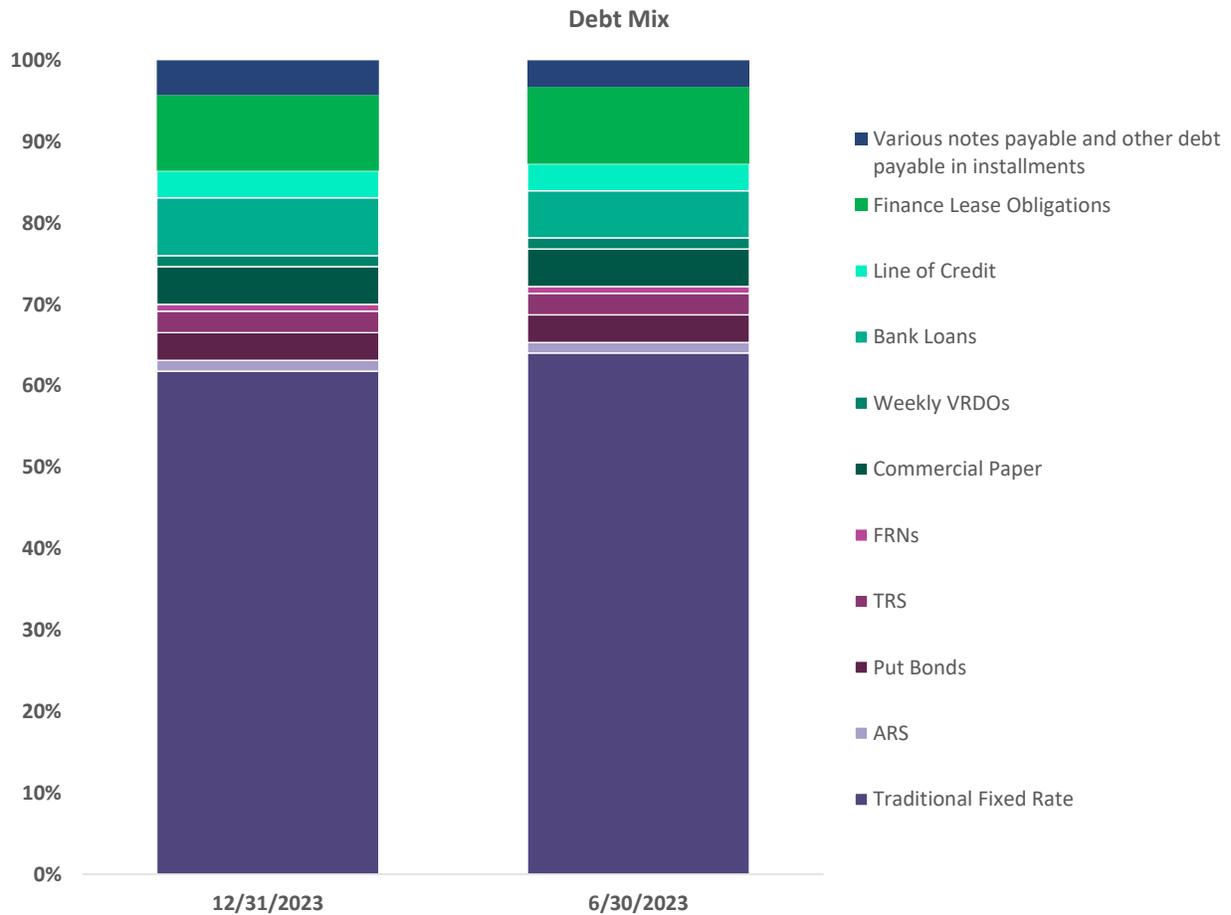
Cash used in financing activities totaled \$172 million for the six-month period ended December 31, 2023, compared to cash provided of \$891 million for the same period in the prior year, primarily due to the following:

- Net repayments of debt were \$70 million during the six-month period ended December 31, 2023, compared to net borrowings of \$916 million during the same period in the prior year.
- Distributions to noncontrolling interests were \$138 million for the six-month period ended December 31, 2023, compared to \$96 million during the same period in the prior year.

## Debt Portfolio

The CommonSpirit Obligated Group represents approximately 88% of consolidated revenues of CommonSpirit as of December 31, 2023. The debt portfolio remains well diversified, with a high proportion of long-term fixed rate debt providing stability.

The chart below depicts CommonSpirit’s debt mix as of December 31, 2023, as compared to June 30, 2023:



## Strategic Focus and Priorities

In FY22, CommonSpirit launched CommonSpirit 2026, the ministry's five-year strategic roadmap. This framework effectively aligned all of CommonSpirit's mid- and long-range initiatives and workstreams, and their associated metrics, under three major pillars: Our People, Our Excellence and Our Future.

With the leadership team complete with several new executive leaders now on board at CommonSpirit, and under the leadership of CEO Wright Lassiter III, the organization's efforts related to CommonSpirit 2026 have been infused with fresh perspectives and new strategies. Consistent with priorities identified for fiscal year 2024, the executive leadership team has framed priorities for the upcoming fiscal year 2025. These five areas have been identified to drive improvement in the next 12-18 months, to ensure the long-term financial sustainability of the ministry:

- Achieve OneCommonSpirit, by defining a unified culture, brand and operations, aligning approaches to increase efficiency and leverage scale;
- Ensure we are paid for the care we provide, through heightened work with payers and revenue cycle partners;
- Transform our portfolio through continued diversification in non-acute verticals, strategic capital deployment and other potential portfolio adjustments;
- Drive organic growth through expanded access points as well as better care coordination to facilitate consumers' utilization of our care networks; and
- Launch a new digital consumer experience, to enable increased access to care for those we serve.

## Recent Accomplishments

**Our People:** At its core, this strategic pillar calls for the creation of an environment, culture, and programs that allow our people to flourish while answering their calling to care. To date, CommonSpirit has:

- Improved its ministry-wide Employee Engagement scores year-over-year (including Overall Employee Engagement, Resilience and Culture of Safety);
- Developed and offered a robust set of well-being benefits to all of its employees, including comprehensive mental health resources, financial planning resources, and an award-winning monthly wellness newsletter;
- Sharpened its focus on employee retention by effectively addressing market-specific retention trends;
- Expanded its already successful national Nurse Residency (NNRP) and Nurse Fellowship programs to more markets, growing to over 50 sites (as of December 31, 2023) with nearly 600 nurse residents enrolled. To date, the NNRP retention rate is 96%. CommonSpirit is expanding this to social work fellowships and specialty tracks such as neonatal ICU, perinatal, pediatrics / pediatrics ICU and behavioral health;
- Building a pipeline of culturally competent physicians through our academic partnerships with Morehouse School of Medicine, Creighton University and Baylor College of Medicine. With approximately 3,000 affiliate trainees, CommonSpirit is one of the largest provider-based academic medicine programs.
- The next level of improvement must come from transformative care models and tech-enabled services and care. Given CommonSpirit's size, the first steps include scaling our resilience, training and residency programs across the System, and this work is well underway. The next stage is to leverage technology and innovation to change and augment how we deliver care.

**Our Excellence:** This strategic pillar affirms the need for the ministry's clinical, operational, and financial initiatives to generate consistent delivery of exceptional, whole-person care, while embracing the needs and circumstances of the diverse communities we serve. Recent actions and accomplishments include:

- **One CommonSpirit:** This defines our strategic imperative to rapidly complete the integration of all aspects of our ministry – clinical, operational, and technological – across our entire footprint while aligning our geographic markets. It requires us to further centralize or standardize processes to ensure the delivery of a consistently superior patient experience, while maintaining exceptional clinical standards. It also includes evolving the design and operating model of CommonSpirit, as well as cultivating a consistent identity and culture. Under the banner of *One CommonSpirit*, the following milestones have been reached:

- **Refining the Operating Model:** Management consolidated eight operating divisions into five regions (California, Central, Mountain, Northwest, and South), taking a more market-based approach to enhance efficiency, further reduce overhead, and implement standardized leadership structures for the operating regions. The goal is to better leverage CommonSpirit's systemness and economies of scale nationally, yet execute on strategies locally. The operating model changes being implemented will create clarity around decision rights and accountabilities for how CommonSpirit operates nationally and regionally, improving effectiveness as a system.
- **Information Technology (IT) Roadmap:** Under the leadership of CommonSpirit's Chief Information Officer, a new IT Roadmap has been developed to facilitate efficiencies, streamline and reduce redundant technologies, generate economies of scale and enhance system capabilities. The roadmap is a comprehensive multi-year plan to address key infrastructure and software needs to align fragmented platforms and third-party applications. The roadmap identifies opportunities to lower long term costs, improve clinical and operational challenges, reduce staff and clinician burnout/turnover, increase speed to market, and realize a greater ROI through standardization of clinical platforms. Other technology investments are being made in data analytics, consumer engagement, quality, AI, and cybersecurity. An example of how CommonSpirit is deploying AI include:
  - Implemented a Sepsis Program in 2015. Since the program's inception, CommonSpirit has actively monitored nearly 18 million patients for sepsis. Results of the program for fiscal year 2023 include a 4.7 percentage point reduction in sepsis mortality rate, saving more than 1,600 lives and a reduction in 33 ICU hours for each ICU sepsis case. In addition, CommonSpirit has used AI to identify potential stroke patients, resulting in saving critical time in stroke cases and reductions in length of stay for stroke patients and disability caused by stroke.
- **Financial Sustainability:** Maintaining financial strength is a critical component of excellence and supports the ministry's achievement of its strategic objectives. Some of the areas that CommonSpirit continues to build on to drive improved performance are through revenue and cost levers, as well as work to transform and enhance the portfolio.
- One of the most critical levers is to receive the revenue and cash flow CommonSpirit is entitled to for services provided. We are focused on improving our revenue cycle function; clinical denials, clinical documentation, underpayment review, patient collections at the service site, outsourcing additional accounts to specialized vendors and revenue cycle performance with our partners. The dynamics of payer-provider relationships also have to change. This includes being paid appropriately based on contracts CommonSpirit has in place, taking a firm stance on contract renewals so payers absorb a share of inflation, and the process and terms are improved and providers get paid for the care they deliver.
- In terms of volume growth, better utilizing the costly physical and people resources CommonSpirit already has is the most efficient way to grow. CommonSpirit's Patient Connection Centers (PCC), which are discussed more below, use efficient resources to improve patient access and physician productivity and our network integrity tools help improve care continuity within our network.
- CommonSpirit identified \$2 billion in synergies at the time of the merger; with the achievement of \$540 million in synergies and best practice realization in FY23, this goal has been achieved. In addition to this work, the organization took actions in FY23 to address continued inflation pressures impacting operating performance, reducing the non-clinical workforce by approximately 2,000 FTEs. Other cost levers that CommonSpirit is focused on include rationalizing our real estate portfolio (administrative space and ambulatory sites); IT application rationalization and third party provider spend optimization; standardizing how all key clinical and support functions are delivered; and continuing to improve length of stay. Given the increasing industry headwinds, the organization has identified additional initiatives and opportunities in supply chain, pharmacy, payer contracting and adherence, purchased services and a range of other areas to help the organization meet its financial goals in 2024 and beyond.

**Our Future:** This pillar defines the initiatives and workstreams needed to bridge the gaps between CommonSpirit's current state and the delivery system of the future, to create a seamless, convenient, high-quality and effective patient

experience. Highlights here include focusing on personalized experiences for our patients, increasing access, optimizing our diverse portfolio, integrating across the care continuum, and appropriately scaling value-based care arrangements. Some highlights of this work include:

- **Portfolio Assessment and Management:** CommonSpirit is enhancing its portfolio analysis to focus on market essentiality in evaluating its portfolio of health care markets. This includes assessing each market's current position and market potential, defining market-based strategies and aligning and prioritizing our capital investments for maximum impact. Although not the primary intent, this may result in acquisitions and divestitures where appropriate. An example of recent and ongoing actions includes the acquisition of the Holy Cross facilities in Utah in May 2023. Also, in February 2024, CommonSpirit entered into an agreement to transfer ownership of its San Francisco facilities to University of California San Francisco, which will create a stronger network of care for the residents of the San Francisco Bay Area.
- **Essentiality in Key Markets:** Aligned with the portfolio work, CommonSpirit is focused on the needs and opportunities in each of our regions and markets and in most cases, addressing this through further development of our integrated delivery networks (IDNs), with a goal to increased access, capacity, and sustainable growth, improved market share and financial improvement. Some initiatives in this area include:
  - **Improved Network Integrity and Growth:** CommonSpirit is enhancing efforts to track care continuity and enhance practice patterns, to ensure we are serving our patients in-network, and implementing solutions unique to each market when necessary. These efforts are enhanced by tools that provide consistent, detailed analysis and trending of data to assess continuity of care and network integrity, Patient Connection Centers and digital front door enhancements, and improved use of our electronic health records to facilitate referrals and follow up care. To date, all 36 of CommonSpirit's markets are using a range of these tools and results are provided and tracked on a quarterly basis.
  - **Enhancing the Continuum of Care and Focused Ambulatory Development:** CommonSpirit's goal is to seamlessly care for patients across all care settings, either at an individual care setting or by managing a patient's journey across multiple settings. To accommodate that, CommonSpirit continues to expand our ambulatory and virtual care points and enhance connections across the continuum of care. As clinical innovation drives the continued transition of a range of traditionally acute-care services to lower acuity settings, we are expanding ambulatory care capacity. From the period of July 1, 2023 through December 31, 2023, CommonSpirit has added 17 primary care and specialty care clinics, 12 outreach clinics, three home health clinics, two labs, one ambulatory surgery center and one physical therapy clinic. Additionally, CommonSpirit has a planned partnership for behavioral health services with three new sites to be announced in 2024.
  - **Innovative Partnerships Advance Care Continuum:** Partnerships play an important role in CommonSpirit's strategy and innovation ecosystem, and enable us to continue to differentiate our service delivery in our markets. CommonSpirit has implemented novel care models in primary care, behavioral health, micro hospitals, hospitals at home and other care models that started as pilot programs, where we have or intend to scale in other markets. New areas of focus include real time DME ordering to reduce patient wait times and lower LOS, and a new Generative AI partnership focused on leveraging data to create a more efficient supply chain. CommonSpirit supports diversification through a successful co-investment program where we may invest alongside leading venture firms in the companies we are partnering with. This program has had very strong results and has generated financial and operational returns.
  - **Aligning Services to Deliver a Differentiated Consumer Experience:** CommonSpirit is further aligning our services to meet and exceed consumers' evolving expectations. Initiatives underway include those to provide "one digital front door" to our services, which provides a consistent landing page and search/schedule feature across all of our regions.
- CommonSpirit's PCCs help connect patients to their providers, through a single point of access. CommonSpirit's PCCs include four hubs geographically positioned to serve its five regions. The PCC hubs enable CommonSpirit to leverage best practices in scheduling, authorization and referral management, nurse triage and prescription refills. The PCCs are delivering on customer needs in significantly less time than the national average, and most (92%) patient needs are resolved within the first phone call, also well ahead of industry averages.

- CommonSpirit's Clinical Command Centers are another example of scaling resources, including innovative virtual hospital programs in the Puget Sound market and Care Across the Continuum in Arizona. These programs provide integrated care, in-home monitoring, virtual visits, cardiac monitoring, virtual companions, or a virtual ICU to partner with bedside teams, hospitalist services supporting hospitals, consulting nurses, or a contact center supporting inpatient and outpatient sites and after hour nurse triage, resulting in over \$12 million in savings from operating costs, efficiency in processes, and improved patient metrics such as patient experience with over 592,000 hours monitored and the prevention of nearly 64,000 patient adverse events.

The specific initiatives and focus areas around the CommonSpirit 2026 strategic road map are expected to evolve further over time, as industry dynamics shift and the new leadership team refines its approaches and priorities. Updates to these priorities and specific accomplishments will continue to be highlighted in these quarterly reports as appropriate.

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## **Exhibit I**

Unaudited Condensed Consolidated Financial Statements  
for the Three and Six-Month Periods Ended December 31, 2023 and 2022

(Attached)

**COMMONSPIRIT HEALTH**

**UNAUDITED CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

For the Three and Six-Month Periods Ended December 31, 2023 and 2022

# COMMONSPIRIT HEALTH

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# COMMONSPIRIT HEALTH

## CONDENSED CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2023 AND JUNE 30, 2023 (in millions)

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	As of December 31, 2023 (Unaudited)	As of June 30, 2023
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,367	\$ 1,677
Short-term investments	348	539
Patient accounts receivable, net	5,246	4,899
Provider fee receivable	1,795	931
Other current assets	<u>3,355</u>	<u>2,733</u>
Total current assets	<u>12,111</u>	<u>10,779</u>
Long-term investments	16,207	16,483
Property and equipment, net	16,895	17,189
Right-of-use operating lease assets	1,628	1,676
Ownership interests in health-related activities	3,099	3,114
Other long-term assets, net	<u>2,539</u>	<u>2,631</u>
Total assets	<u>\$ 52,479</u>	<u>\$ 51,872</u>

(Continued)

# COMMONSPIRIT HEALTH

## CONDENSED CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2023 AND JUNE 30, 2023 (in millions)

	As of December 31, 2023 (Unaudited)	As of June 30, 2023
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 2,746	\$ 1,966
Demand bonds subject to short-term liquidity arrangements	247	247
Accounts payable	1,399	1,342
Accrued salaries and benefits	1,455	1,512
Provider fee payables	773	342
Other accrued liabilities - current	<u>3,511</u>	<u>3,473</u>
Total current liabilities	<u>10,131</u>	<u>8,882</u>
Other liabilities - long-term:		
Self-insured reserves and claims	1,133	1,138
Pension and other postretirement benefit liabilities	2,353	2,255
Derivative instruments	87	77
Operating lease liabilities	1,539	1,586
Other accrued liabilities - long-term	<u>623</u>	<u>648</u>
Total other liabilities - long-term	<u>5,735</u>	<u>5,704</u>
Long-term debt, net of current portion	<u>15,300</u>	<u>16,147</u>
Total liabilities	<u>31,166</u>	<u>30,733</u>
Net assets:		
Without donor restrictions - attributable to CommonSpirit Health	19,146	18,960
Without donor restrictions - noncontrolling interests	1,003	1,062
With donor restrictions	<u>1,164</u>	<u>1,117</u>
Total net assets	<u>21,313</u>	<u>21,139</u>
Total liabilities and net assets	<u>\$ 52,479</u>	<u>\$ 51,872</u>

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, 2023 AND 2022 (in millions)

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2023	2022	2023	2022
Operating revenues:				
Net patient revenue	\$ 9,341	\$ 7,424	\$ 16,989	\$ 15,343
Premium revenue	381	347	776	693
Revenue from health-related activities, net	45	51	96	68
Other operating revenue	416	347	795	938
Contributions	17	21	32	36
Total operating revenues	<u>10,200</u>	<u>8,190</u>	<u>18,688</u>	<u>17,078</u>
Operating expenses:				
Salaries and benefits	4,846	4,433	9,443	8,856
Supplies	1,429	1,365	2,819	2,706
Purchased services and other	2,998	2,345	5,386	4,962
Depreciation and amortization	392	363	735	716
Interest expense, net	179	124	351	233
Total operating expenses	<u>9,844</u>	<u>8,630</u>	<u>18,734</u>	<u>17,473</u>
Operating income (loss)	356	(440)	(46)	(395)
Nonoperating income (loss):				
Investment income, net	899	718	610	202
Income tax expense	(12)	(16)	(15)	(20)
Change in fair value and cash payments of interest rate swaps	(31)	8	(4)	56
Other components of net periodic postretirement costs	(33)	(40)	(66)	5
Other	-	2	1	(7)
Total nonoperating income, net	<u>823</u>	<u>672</u>	<u>526</u>	<u>236</u>
Excess (deficit) of revenues over expenses	<u>\$ 1,179</u>	<u>\$ 232</u>	<u>\$ 480</u>	<u>\$ (159)</u>
Less excesses of revenues over expenses attributable to noncontrolling interests	<u>49</u>	<u>24</u>	<u>49</u>	<u>7</u>
Excess (deficit) of revenues over expenses attributable to CommonSpirit Health	<u>\$ 1,130</u>	<u>\$ 208</u>	<u>\$ 431</u>	<u>\$ (166)</u>

(Continued)

## COMMONSPIRIT HEALTH

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2023 AND 2022 (in millions)

	<u>Without Donor Restrictions</u>			<u>Total Net Assets</u>
	<u>Attributable to CommonSpirit Health</u>	<u>Noncontrolling Interests</u>	<u>With Donor Restrictions</u>	
Balance, September 30, 2022	\$ 18,405	\$ 1,044	\$ 1,109	\$ 20,558
Excess of revenues over expenses	208	24	-	232
Contributions	-	-	23	23
Net assets released from restrictions for capital	4	-	(4)	-
Net assets released from restrictions for operations and other	-	-	(16)	(16)
Other	(46)	(2)	16	(32)
Increase in net assets	<u>166</u>	<u>22</u>	<u>19</u>	<u>207</u>
Balance, December 31, 2022	<u>\$ 18,571</u>	<u>\$ 1,066</u>	<u>\$ 1,128</u>	<u>\$ 20,765</u>
Balance, September 30, 2023	\$ 18,229	\$ 969	\$ 1,139	\$ 20,337
Excess of revenues over expenses	1,130	49	-	1,179
Contributions	-	-	38	38
Net assets released from restrictions for capital	7	-	(7)	-
Net assets released from restrictions for operations and other	-	-	(15)	(15)
Other	(220)	(15)	9	(226)
Increase in net assets	<u>917</u>	<u>34</u>	<u>25</u>	<u>976</u>
Balance, December 31, 2023	<u>\$ 19,146</u>	<u>\$ 1,003</u>	<u>\$ 1,164</u>	<u>\$ 21,313</u>

(Continued)

## COMMONSPIRIT HEALTH

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2023 AND 2022 (in millions)

	Without Donor Restrictions		With Donor Restrictions	Total Net Assets
	Attributable to CommonSpirit Health	Noncontrolling Interests		
Balance, June 30, 2022	\$ 18,808	\$ 1,079	\$ 1,142	\$ 21,029
Excess (deficit) of revenues over expenses	(166)	7	-	(159)
Contributions	-	-	47	47
Net assets released from restrictions for capital	9	-	(9)	-
Net assets released from restrictions for operations and other	-	-	(28)	(28)
Other	(79)	(20)	(24)	(123)
Decrease in net assets	(236)	(13)	(14)	(263)
Balance, December 31, 2022	<u>\$ 18,572</u>	<u>\$ 1,066</u>	<u>\$ 1,128</u>	<u>\$ 20,766</u>
Balance, June 30, 2023	\$ 18,960	\$ 1,062	\$ 1,117	\$ 21,139
Excess of revenues over expenses	431	49	-	480
Contributions	-	-	78	78
Net assets released from restrictions for capital	11	-	(11)	-
Net assets released from restrictions for operations and other	-	-	(22)	(22)
Other	(256)	(108)	2	(362)
Increase (decrease) in net assets	186	(59)	47	174
Balance, December 31, 2023	<u>\$ 19,146</u>	<u>\$ 1,003</u>	<u>\$ 1,164</u>	<u>\$ 21,313</u>

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, 2023 AND 2022 (in millions)

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	Six-Month Periods Ended December 31,	
	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 174	\$ (263)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	735	716
Changes in equity of health-related entities	(125)	(134)
Net loss (gain) on sales of facilities and investments in unconsolidated organizations	(30)	32
Noncash operating expenses related to restructuring, impairment and other losses	180	5
Change in fair value of swaps	3	(65)
Noncash adjustments of pension and other postretirement benefit plans	116	38
Changes in certain assets and liabilities:		
Accounts receivable, net	(346)	(842)
Prepaid and other current assets	(429)	(150)
Changes in broker receivables/payables for unsettled investment trades	(48)	6
Provider fee assets and liabilities, net	(432)	(420)
Accounts payable	46	48
Accrued salaries and benefits	(108)	(491)
Medicare advances	-	(766)
Other accrued liabilities	63	49
Self-insured reserves and claims	(22)	(59)
Other, net	33	31
Cash used in operating activities before net change in investments	(190)	(2,265)
Net decrease in investments	536	556
Cash provided by (used in) operating activities	346	(1,709)

(Continued)

# COMMONSPIRIT HEALTH

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2023 AND 2022 (in millions)

	Six-Month Periods Ended	
	December 31,	
	2023	2022
Cash flows from investing activities:		
Purchases of property and equipment	(474)	(481)
Investments in health-related activities	(62)	(44)
Business acquisitions, net of cash acquired	(21)	-
Proceeds from asset sales, net	52	507
Cash distributions from health-related activities	37	109
Other, net	(16)	(14)
Cash provided by (used in) investing activities	<u>(484)</u>	<u>77</u>
Cash flows from financing activities:		
Borrowings	531	2,056
Repayments	(601)	(1,140)
Swaps cash collateral received	7	14
Distributions to noncontrolling interests	(138)	(96)
Contribution by noncontrolling interests	29	57
Cash provided by (used in) financing activities	<u>(172)</u>	<u>891</u>
Net decrease in cash and cash equivalents	(310)	(741)
Cash and cash equivalents at beginning of period	<u>1,677</u>	<u>2,592</u>
Cash and cash equivalents at end of period	<u>\$ 1,367</u>	<u>\$ 1,851</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	<u>\$ 339</u>	<u>\$ 259</u>
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through finance lease or note payable	<u>\$ 16</u>	<u>\$ 34</u>
Investments in health-related activities	<u>\$ 41</u>	<u>\$ 32</u>
Accrued purchases of property and equipment	<u>\$ 56</u>	<u>\$ 58</u>

See notes to unaudited condensed consolidated financial statements.

# COMMONSPIRIT HEALTH

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### 1. ORGANIZATION

CommonSpirit Health is a Colorado nonprofit public benefit corporation exempt from federal and state income taxes. CommonSpirit Health is a Catholic health care system sponsored by the public juridic person, Catholic Health Care Federation (“CHCF”).

CommonSpirit Health owns and operates health care facilities in 24 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations. CommonSpirit Health and substantially all of its direct affiliates and subsidiaries have been granted exemptions from federal income tax as charitable organizations under Section 501(c)(3) of the Internal Revenue Code. As of December 31, 2023, CommonSpirit Health is comprised of approximately 2,250 care sites, consisting of 142 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. An additional 20 hospitals are operated through unconsolidated joint ventures. 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 of Presentation*** – The accompanying condensed consolidated financial statements of CommonSpirit were prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include the accounts of all wholly-owned affiliates and affiliates over which CommonSpirit exercises control or has a controlling financial interest, after elimination of intercompany transactions and balances. These unaudited condensed consolidated financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, refer to the audited consolidated financial statements as of and for the years ended June 30, 2023 and 2022. Operating results for the three and six-month periods ended December 31, 2023, are not necessarily indicative of the results to be expected for the year ending June 30, 2024.

***Reclassifications*** – Certain reclassifications and changes in presentation were made in the fiscal year 2023 condensed consolidated financial statements to conform to the fiscal year 2024 presentation.

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

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

Performance obligations are generally satisfied over a period of less than one year. As such, CommonSpirit has elected to apply the optional exemption provided in Financial Accounting Standards Board Accounting Standards Update (“ASU”) No. 2015-14, *Revenue From Contracts with Customers (Topic 606)*, and is not required to

disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

CommonSpirit determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with CommonSpirit's financial assistance policy, and implicit price concessions provided to uninsured and underinsured patients. CommonSpirit determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. CommonSpirit determines its estimate of implicit price concessions based on its historical collection experience with these classes of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. CommonSpirit relies on the results of detailed reviews of historical write-offs and collections in estimating the collectability of accounts receivable. Updates to the hindsight analysis are performed at least quarterly using primarily a rolling 18-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, 2023 and 2022 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.

**Special Charges** - Included within purchased services and other are certain non-routine, nonrecurring costs that are unusual in nature. These costs, referred to as special charges, primarily relate to impairment of long-lived assets, certain contract termination costs, certain integration activities that are specific to long-term value capture efforts, and severance costs related to system-wide reductions in force. Amounts recorded for the three and six-month periods ended December 31, 2023 and 2022, are not material to the condensed consolidated financial statements.

**Subsequent Events** – CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal quarter and February 15, 2024, the date the unaudited condensed consolidated financial statements were issued. See Notes 3 and 11.

### 3. ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

**California** – In February 2024, CommonSpirit entered into an agreement to transfer two hospitals, along with associated clinics in San Francisco, to University of California, San Francisco. As of December 31, 2023, and for all periods presented, the associated assets and liabilities are classified as held for sale, within other current assets and other accrued liabilities – current, respectively, in the associated condensed consolidated balance sheets. The operations of the facilities held for sale are not material to the condensed consolidated statement of operations and changes in net assets.

**Colorado** – In February 2023, CommonSpirit entered into an asset purchase agreement to acquire substantially all of the assets of a regional health system, including five hospitals, over 40 clinics, and other ambulatory services in Utah for total consideration of \$705 million and initiation of a 15-year master lease agreement for real property on which the primary health care facilities are located, with minimum annual payments of approximately \$95 million. This master lease agreement is recorded as a finance lease, within long-term debt in the condensed consolidated financial statements. The transaction closed in May 2023. The facilities acquired will support the mission and strategy to better serve the health care needs of the communities in Utah.

The following summarized the fair value estimate of the assets acquired and liabilities assumed as of the acquisition (in millions):

Current assets	\$	34
Property and equipment, net		75
Right of use operating lease assets		1
Other long-term assets, net		610
Other accrued liabilities - current		(9)
Operating lease liabilities		(6)
Total contribution of net assets	\$	<u>705</u>

In August 2023, CommonSpirit and AdventHealth effected an agreement to transition to direct management of their respective care sites that comprised Centura Health (the “Transition”), with CommonSpirit directly operating and managing its hospitals and affiliated clinics in Colorado, western Kansas and Utah, and AdventHealth directly operating and managing its Adventist hospitals and their affiliated clinics in Colorado. The Transition did not have a material effect on the financial condition or operations of CommonSpirit, taken as a whole.

**Iowa** – In September 2022, CommonSpirit sold the facilities and assets of MercyOne, a regional health system in Iowa, to Trinity Health for a gross purchase price of \$613 million. MercyOne had operated under a Joint Operating Agreement between Trinity Health and CommonSpirit. A net loss on sale of \$23 million was recognized in the six-month period ended December 31, 2022.

### 4. COVID-19 PANDEMIC

The Provider Relief Funds (“CARES PRF”) provided 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. For the six-month period ended December 31, 2022, \$248 million has been recognized within other operating revenue as earned. No funds have been received and recognized as revenue in the six-month period ended December 31, 2023.

Employee Retention Credits (“ERC”) of \$189 million, net, were recorded in the year ended June 30, 2023, of which a \$92 million net receivable remains as of December 31, 2023. These payroll tax credits relate to qualified wages paid from March 13, 2020, through September 30, 2021.

All grants and tax credits recorded are subject to subsequent audits by the applicable regulatory agencies providing the funds.

## 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		Six-Month Periods	
	December 31,		Ended December 31,	
	2023	2022	2023	2022
Government	\$ 5,286	\$ 3,819	\$ 9,188	\$ 8,205
Contracted	3,280	3,053	6,259	5,992
Self-pay and other	775	552	1,542	1,146
	<u>\$ 9,341</u>	<u>\$ 7,424</u>	<u>\$ 16,989</u>	<u>\$ 15,343</u>

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.

The three and six-month periods ended December 31, 2023 include \$234 million of 340(b) program settlement from the Centers for Medicare and Medicaid Services (“CMS”) related to underpayments in prior years.

## 6. OTHER CURRENT ASSETS

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

	As of December 31,	As of June 30,
	2023	2023
Inventories	\$ 832	\$ 819
Receivables, other than patient accounts receivable	1,264	883
Broker receivables for unsettled investment trades	495	535
Assets held for sale	128	-
Prepaid expenses	569	440
Other	67	56
Total other current assets	<u>\$ 3,355</u>	<u>\$ 2,733</u>

## 7. CASH AND INVESTMENTS

CommonSpirit's cash and investments include consolidated membership interests in the CommonSpirit Health Operating Investment Pool, LLC, as of December 31, 2023 and June 30, 2023. Short-term and long-term investments also include assets limited as to use set aside by CommonSpirit for future long-term purposes as outlined below (in millions):

	<b>As of December 31, 2023</b>	<b>As of June 30, 2023</b>
Cash and cash equivalents	\$ 1,367	\$ 1,677
Short-term investments	348	539
Long-term investments	<u>16,207</u>	<u>16,483</u>
Total cash and investments	<u>17,922</u>	<u>18,699</u>
Less:		
Held for self-insured claims	1,897	1,885
Under bond indenture agreements for debt service	68	66
Donor-restricted	593	589
Other	<u>775</u>	<u>703</u>
Total assets limited as to use	<u>3,333</u>	<u>3,243</u>
Unrestricted cash and investments	<u>\$ 14,589</u>	<u>\$ 15,456</u>

## 8. FAIR VALUE MEASUREMENTS

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

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

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

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

The following represents assets and liabilities measured at fair value or at the NAV practical expedient on a recurring basis (in millions):

	<b>December 31, 2023</b>			
	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Assets</b>				
Cash and short-term investments	\$ 1,632	\$ 203	\$ -	\$ 1,835
U.S. government securities	755	834	-	1,589
U.S. corporate bonds	23	549	-	572
U.S. equity securities	1,467	1	-	1,468
Foreign government securities	-	69	-	69
Foreign corporate bonds	3	222	-	225
Foreign equity securities	1,375	5	-	1,380
Asset-backed securities	-	141	-	141
Private equity	-	-	102	102
Multi-strategy hedge funds	2	-	-	2
Real estate	25	7	-	32
Community Investment Program	-	-	176	176
Other investments	199	339	-	538
Assets measured at fair value	<u>\$ 5,481</u>	<u>\$ 2,370</u>	<u>\$ 278</u>	8,129
Assets at NAV				<u>9,793</u>
Total assets				<u>\$ 17,922</u>
<b>Liabilities</b>				
Derivative instruments	\$ -	\$ 138	\$ -	\$ 138
Other	2	-	90	92
Total liabilities	<u>\$ 2</u>	<u>\$ 138</u>	<u>\$ 90</u>	<u>\$ 230</u>

**June 30, 2023**

	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Assets</b>				
Cash and short-term investments	\$ 1,961	\$ 258	\$ -	\$ 2,219
U.S. government securities	911	673	-	1,584
U.S. corporate bonds	44	598	-	642
U.S. equity securities	1,867	1	-	1,868
Foreign government securities	-	72	-	72
Foreign corporate bonds	4	224	-	228
Foreign equity securities	1,769	5	-	1,774
Asset-backed securities	-	172	-	172
Private equity	5	-	73	78
Multi-strategy hedge funds	1	-	-	1
Real estate	28	7	-	35
Community Investment Program	-	-	155	155
Other investments	169	267	-	436
Assets measured at fair value	<u>\$ 6,759</u>	<u>\$ 2,277</u>	<u>\$ 228</u>	9,264
Assets at NAV				<u>9,435</u>
Total assets				<u>\$ 18,699</u>
<b>Liabilities</b>				
Derivative instruments	\$ -	\$ 135	\$ -	\$ 135
Other	<u>2</u>	<u>-</u>	<u>97</u>	<u>99</u>
Total liabilities	<u>\$ 2</u>	<u>\$ 135</u>	<u>\$ 97</u>	<u>\$ 234</u>

Assets and liabilities measured at fair value on a recurring basis reflected in the table above are reported in short-term investments, long-term investments, current liabilities and other liabilities – long term 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 \$649 million and \$561 million as of December 31, 2023 and June 30, 2023, 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.

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, 2023 (in millions):

		NAV		Redemption	Redemption
		Practical	Unfunded	Frequency (If	Notice
		Expedient	Commitments	Currently Eligible)	Period
Private equity	(1)	\$ 1,529	\$ 1,388	-	-
Multi-strategy hedge funds	(2)	2,333	-	Weekly, Monthly, Quarterly, Semi-annually, Annually	3 - 90 days
Real estate	(3)	1,180	134	Quarterly	60 - 90 days
Commingled funds - debt securities	(4)	987	44	Daily, Monthly, Quarterly	1 - 90 days
				Daily, Weekly, Bi-Weekly, Monthly, Quarterly	2 - 90 days
Commingled funds - equity securities	(5)	<u>3,764</u>	<u>-</u>		
Total		<u>\$ 9,793</u>	<u>\$ 1,566</u>		

(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, 2023, to be over the next 14 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, 2023:

Percentage of the Value of Category (2)		Redemption	Redemption	Redemption	Redemption
Total	Subtotal	Frequency	Notice Period	Locked Up Until (if applicable)	Gate % of Account (if applicable)
6.9%	6.9%	Annually	60 days	up to 2 years	up to 50.0%
47.1%	2.2%	Quarterly	45 days	up to 2 years	up to 20.0%
	29.5%	Quarterly	55- 65 days	up to 2 years	up to 12.5% - 25.0%
	15.4%	Quarterly	90 days	up to 1 year	up to 12.5% - 25.0%
31.9%	20.4%	Monthly	30 - 45 days	-	up to 16.7 - 25.0%
	11.5%	Monthly	90 days	-	up to 20.0%
3.2%	3.2%	Weekly	3 days	-	-
1.5%	1.5%	Daily	1 day	-	-
9.4%	9.4%	None	5 days	up to 2 years	-

- (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 17% 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, 2023, to be over the next 14 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 18% 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, 2023, to be over the next seven 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.

## 9. OTHER LONG-TERM ASSETS, NET

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

	As of December 31, 2023	As of June 30, 2023
Notes receivable, primarily secured	\$ 56	\$ 56
Goodwill	964	962
Intangible assets - definite-lived, net	117	123
Intangible assets - indefinite-lived	661	661
Donor-restricted assets	509	517
Other	232	312
Total other long-term assets, net	<u>\$ 2,539</u>	<u>\$ 2,631</u>

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.

Intangible assets consist primarily of trademarks, trademark agreements, noncompete agreements, certificates of need, and other contracts, and are recorded at fair value using various methods based on the nature of the asset. Definite-lived intangible assets are amortized using the straight-line method over the estimated useful lives of the assets.

Goodwill and intangible assets whose lives are indefinite are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist. No impairment on goodwill or intangible assets was recorded for the six-month periods ended December 31, 2023 and 2022.

The aggregate amortization expense related to intangible assets is \$3 million and \$6 million for the three and six-month periods ended December 31, 2023 and 2022, and is recorded in depreciation and amortization on the accompanying condensed consolidated statements of operations and changes in net assets.

## 10. DEBT

**2024 Financing Activity** – In July 2023, CommonSpirit drew \$265 million on its syndicated line of credit for the redemption in full of the Catholic Health Initiatives Series 2013 Taxable Bonds.

In August 2023, CommonSpirit entered into a \$265 million term loan to refinance the \$265 million draw on its syndicated line of credit.

In December 2023, CommonSpirit renewed a \$65 million line of credit used to support its self-liquidity program scheduled to mature in December 2023, to June 2024.

In December 2023, CommonSpirit renewed a \$345 million term loan scheduled to mature in April 2024, to December 2025.

**2023 Financing Activity** – In October 2022, CommonSpirit issued \$807 million of taxable fixed rate bonds at par, with repayments of \$507 million and \$300 million to be made in November 2027 and 2052, respectively. Proceeds were used to refund \$800 million of taxable fixed rate bonds and pay cost of issuance expenses.

In October 2022, CommonSpirit issued \$497 million of tax-exempt fixed rate bonds, at a premium. Proceeds were used to reimburse for prior capital expenditures and to fund future capital expenditures. The bonds mature in November 2052.

In November 2022, CommonSpirit drew \$150 million on its syndicated line of credit for working capital purposes.

In December 2022, CommonSpirit drew \$300 million on its syndicated line of credit for working capital purposes.

In December 2022, CommonSpirit issued \$297 million of taxable commercial paper notes to redeem in full, the California Health Facilities Financing Authority Revenue Bonds, Series 2014B.

## 11. DERIVATIVE INSTRUMENTS

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

	<b>Maturity Date of Derivatives</b>	<b>Interest Rate</b>	<b>Notional Amount Outstanding</b>	<b>Fair Value</b>
<b>As of December 31, 2023</b>				
Derivatives not designated as hedges:				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	\$ 1,849	\$ (138)
Total return swaps	2024 - 2030	SIFMA plus spread	481	-
Total derivative instruments			2,330	(138)
Cash collateral			-	51
Derivative instruments, net			\$ 2,330	\$ (87)
<b>As of June 30, 2023</b>				
Derivatives not designated as hedges:				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	\$ 1,877	\$ (135)
Total return swaps	2024 - 2030	SIFMA plus spread	485	-
Total derivative instruments			2,362	(135)
Cash collateral			-	58
Derivative instruments, net			\$ 2,362	\$ (77)

CommonSpirit held \$1.8 billion notional amount of interest rate swaps and \$481 million notional amount of total return swaps at December 31, 2023, which have a negative fair value of \$138 million and a fair value deemed immaterial, respectively. CommonSpirit posted \$51 million of collateral against the fair value of the interest rate swaps as of December 31, 2023.

CommonSpirit's interest rate swaps mature between 2024 and 2047. CommonSpirit 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 circumstances. 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, cash on hand dropping below a specified number of days, and defaults under other agreements (cross-default provision). Termination events can include credit ratings dropping below a defined minimum credit rating threshold by either party.

CommonSpirit has \$160 million notional of interest rate swaps that are insured and have a negative fair value of \$20 million as of December 31, 2023. In the event the insurer is downgraded below a specified minimum credit

rating, the counterparties have the right to terminate the swaps if CommonSpirit Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If both the insurer and CommonSpirit Health are downgraded below a specified minimum credit rating, the counterparties have the right to terminate the swaps.

CommonSpirit has \$1.7 billion notional amount of interest rate swaps that are not insured, of which the counterparties have various rights to terminate \$256 million notional. These include the outstanding notional amounts of \$100 million and \$96 million at each five-year anniversary date commencing in March 2028 and September 2028, respectively. Swaps in the outstanding notional amounts of \$60 million have a mandatory put in March 2028. The termination value would be the fair value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps with the optional and mandatory put options have a negative fair value of \$21 million as of December 31, 2023. The remaining uninsured swaps in the notional amount of \$1.4 billion have a negative fair value of \$97 million as of December 31, 2023.

In January 2024, CommonSpirit renewed a total return swap in the notional amount of \$23 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 January 2029.

## 12. LEASES

CommonSpirit enters into operating and finance leases primarily for buildings and equipment and determines if an arrangement is a lease at inception of the contract. For leases with terms greater than 12 months, CommonSpirit records the related right-of-use (“ROU”) asset 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.

Following is supplemental condensed consolidated balance sheet information related to leases (in millions):

<b>Lease Type</b>	<b>Balance Sheet Classification</b>	<b>As of December 31 2023</b>	<b>As of June 30, 2023</b>
<b>Operating Leases:</b>			
Operating lease ROU assets	Right-of-use operating lease assets	\$ 1,628	\$ 1,676
Operating lease obligations - current	Other accrued liabilities - current	258	264
Operating lease obligations - long-term	Other liabilities: Operating lease liabilities	1,539	1,586
<b>Finance Leases:</b>			
Finance lease ROU assets	Property and equipment, net	\$ 1,627	\$ 1,700
Current finance lease liabilities	Current portion of long-term debt	89	88
Long-term finance lease liabilities	Long-term debt, net of current portion	1,617	1,649

### 13. INTEREST EXPENSE, NET

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

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2023	2022	2023	2022
Interest and fees on debt	\$ 186	\$ 133	\$ 369	\$ 251
Capitalized interest expense	<u>(7)</u>	<u>(9)</u>	<u>(18)</u>	<u>(18)</u>
Interest expense, net	<u>\$ 179</u>	<u>\$ 124</u>	<u>\$ 351</u>	<u>\$ 233</u>

### 14. RETIREMENT PROGRAMS

Total expense for all CommonSpirit retirement and post retirement plans includes service cost components and other nonservice net benefit credits. Service costs are recorded in salaries and benefits on the accompanying unaudited condensed consolidated statements of operations and changes in net assets. Other nonservice net periodic benefit credits are recorded in nonoperating income (loss) in the unaudited condensed consolidated statements of operations and changes in net assets. Total retirement and post retirement plans expense includes the following (in millions):

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2023	2022	2023	2022
Service cost	\$ 177	\$ 180	\$ 357	\$ 356
Other nonservice net benefit expense (credits)	<u>33</u>	<u>40</u>	<u>66</u>	<u>(5)</u>
Retirement and postretirement plans expense	<u>\$ 210</u>	<u>\$ 220</u>	<u>\$ 423</u>	<u>\$ 351</u>

### 15. 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. Additionally, certain CommonSpirit entities have identified and self-disclosed potential instances of noncompliance with applicable regulations. 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 condensed 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.

**Cybersecurity Incident** – On October 2, 2022, CommonSpirit experienced a ransomware attack (“the Cybersecurity Incident”) that impacted certain of its systems. Upon discovering the attack, CommonSpirit took immediate steps to protect its IT systems, contain the incident, begin an investigation, and maintain continuity of care. CommonSpirit engaged leading cybersecurity specialists to support its investigation, and notified law enforcement and the United States Department of Health and Human Services. In April 2023, CommonSpirit completed notifications to individuals whose data was potentially impacted by the Cybersecurity Incident.

The Cybersecurity Incident has had an estimated adverse financial impact of approximately \$160 million to date, which includes lost revenues from the associated business interruption, the costs incurred to remediate the issues and other related business expenses, and is exclusive of any potential insurance related recoveries. We have notified and continue to consult with our insurance carriers, but are unable to predict the timing or amount of insurance recoveries at this time.

The organization is aware of lawsuits filed as potential class actions against CommonSpirit regarding the Cybersecurity Incident. There can be no assurance that the resolution of this matter will not affect the financial condition or operations of CommonSpirit, taken as a whole.

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