CommonSpirit™

This document is dated November 16, 2021

UNAUDITED QUARTERLY REPORT

For the Three-Month Periods Ended
September 30, 2021 and 2020

The information in this report
has been provided by
CommonSpirit Health

COMMONSPIRIT HEALTH

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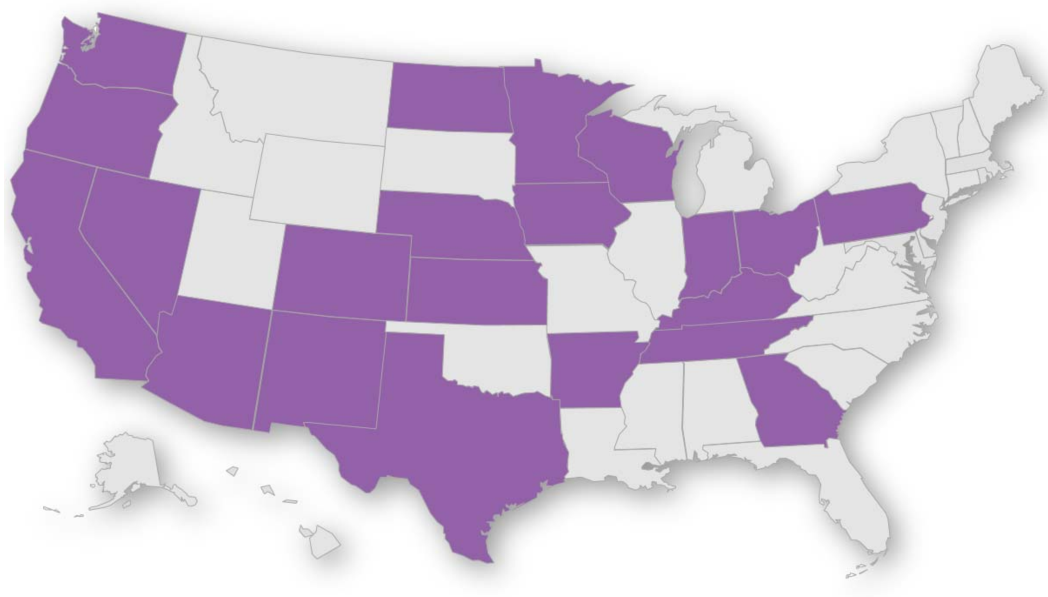
Management Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

CommonSpirit Health owns and operates health care facilities in 21 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations that are exempt from federal and state income taxes. With its national office in Chicago, and a team of over 150,000 employees and over 25,000 physicians and advanced practice clinicians, CommonSpirit Health is comprised of more than 1,500 care sites, including 140 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. 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-month periods ended September 30, 2021 and 2020, in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and on a non-GAAP basis for EBITDA (earnings before interest, tax, depreciation and amortization, and nonoperating income). The non-GAAP financial measures are in addition to, not a substitute for, measures of financial performance prepared in accordance with GAAP.

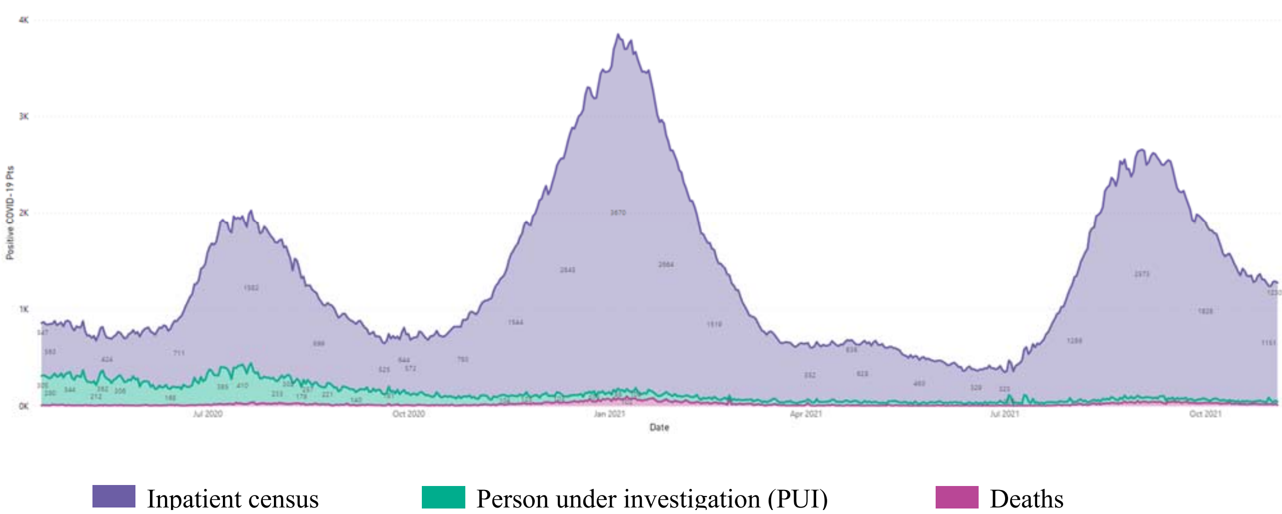
CommonSpirit believes that its presentation of non-GAAP financial measures provides useful supplementary information to and facilitates additional analysis by investors. CommonSpirit uses certain non-GAAP financial measures to enhance an investor’s overall understanding of the financial performance and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

COVID-19 Pandemic – Response and Impact on Operations

When the COVID-19 pandemic emerged in early 2020, CommonSpirit took swift action and brought the strength of the System to bear with its multi-disciplinary resources to clinical and operational readiness across the entire System. CommonSpirit developed a centralized COVID-19 command center, PPE sourcing, a national high capacity testing laboratory, and other resources to help serve our communities and protect our caregivers and patients. As a national System, with leading experts across the country in multiple fields, CommonSpirit was positioned to quickly evaluate, summarize, implement and modify, as needed, the evolving science and to put it into practice through national guidelines and protocols.

After a peak surge in early 2021 and a steep drop in cases during spring/early summer, the national outlook worsened quickly during July and August, with more than a fivefold increase in new cases per day during that period. Hospitalizations and deaths also increased, but at far lower rates than cases. As the highly contagious Delta variant caused a spike in in patient census in early September to almost 2,900 patients, CommonSpirit met the surge with confidence stemming from considerable experience and expertise. Cases are now trending downward again with a current census of 1,153 patients in early November.

COVID -19 Weekly Census



In addition to focusing on the management of the various surges over the past 18 months, as one of the largest not-for profit health systems, CommonSpirit is working to combat and mitigate the impact of COVID-19 and its variants. Across communities large and small, CommonSpirit is providing health care services covering the entire care continuum - from acute care, clinical specialties, primary care clinics, home health care, virtual care, and community health programs, through a lens of health equity.

CommonSpirit is steadfast in the belief that vaccinations are a critical part of CommonSpirit’s mission to safely care for its communities and help end this pandemic. Below are some of the ways we are addressing this:

- Our staff –In August 2021, CommonSpirit implemented a System-wide vaccine requirement upon evaluating several factors, including the rapid spread of the Delta variant, FDA review for full approval, labor management considerations, and the potential effect on recruitment. The effective date of the requirement was November 1, with specific exemptions allowed. As of November 15, 2021, overall compliance is greater than 96% as CommonSpirit's workforce has been vaccinated or has received a religious or medical exemption.

- Our communities – CommonSpirit is focused on vaccine hesitancy in communities of color, partnering with physicians, communications, and marketing teams to develop extensive patient facing materials, including fact sheets, posters, videos, and articles shared internally and externally, addressing the factors of vaccine hesitancy and providing specific information regarding each of the three approved vaccines.

- Vulnerable populations – CommonSpirit launched a consumer outreach effort to support vaccine distribution in all of our geographies, in close consultation with physician and clinical leaders. This work includes focused efforts on the young (ages 18-30), and Black and Hispanic Americans. CommonSpirit created a vaccine hesitancy outreach communication toolkit on COVID-19 and Health Equity with multiple resources available at https://commonspiritpophealth.org/programs-tools. To date, 1.6 million vaccinations have been provided by CommonSpirit.

- National Advocacy/Media campaign – In partnership with Morehouse School of Medicine (MSM), CommonSpirit is supporting the National COVID-19 Resiliency Network (NCRN). Through a memorandum of understanding (MOU), CommonSpirit is providing access to health care to ethnic minorities and supporting the outreach efforts, along with 45 national partners and 335 community-based organizations. CommonSpirit has advanced 5 joint virtual outreach and community education sessions with over 1,000 people reached. The work of the NCRN to date has reached over 1 million people through social media and multimedia.

Staffing shortages are emerging as a significant long-term issue impacting health systems across the country, and the situation is being exacerbated by the pandemic. Supporting staff resilience and working to expand the health care workforce are key strategic priorities for the organization. CommonSpirit has established internal programs focused on staff retraining, wellness and resilience, and is aggressively working to identify new staff in key specialty areas. CommonSpirit is also focused on the long-term pipeline and has developed new graduate medical education ("GME") relationships and residency programs, and our goal is to be a leading GME partner.

At the beginning of the pandemic, CommonSpirit set three major goals: keep staff and patients safe, remain open and provide vital services to communities, and provide leadership. Through collaboration, innovation and agile decision-making, CommonSpirit has been successful in achieving these goals and will maintain these priorities going forward.

Virtual Health

The virtual infrastructure and clinical capabilities developed by CommonSpirit provided the platform to immediately respond to the challenges posed by the COVID-19 pandemic and the shelter-in-place mandates. In March 2020, CommonSpirit rapidly expanded access to a range of virtual health options for its clinicians and patients. Virtual care through video visits, online health assessments, pre-visit screening, and other means has become increasingly critical in caring for its communities. Virtual care extends across the continuum of care (virtual nursing, pharmacy, ICU, health at home, palliative care and other applications).

A worldwide shortage of nurses is projected over the next five years. According to the American Hospital Association, there will be a need for over 2 million new U.S. nurses in the next five years, while only 500,000 will be graduating from nursing schools. As staffing shortages can have a negative impact on volume, length of stay, and labor costs, CommonSpirit is implementing a five-year nursing strategy to address the nursing shortage. As part of the five-year nursing strategy, two strategies that CommonSpirit is implementing are virtual RNs to relieve onsite RNs from administrative tasks and a new model that utilizes new team members to include pharmacists, LPNs, nursing assistants and paramedics in patient care. The use of these new team members supplements the limited number of RNs as virtual nurses can assist with the supervision and education of non-licensed personnel. The use of the new team member model has been in place through a pilot in CommonSpirit's Iowa division for the past year. The expectation is to introduce this new team member model across the entire system over the next five years.

Since the onset of the COVID-19 pandemic through September 30, 2021, CommonSpirit provided approximately 2.0 million virtual visits. The demand for virtual visits persists, even after in-office visits have rebounded from their lows in April 2020. Virtual visits have stabilized through the first quarter of fiscal year 2022 to approximately 8% of total visits, which is higher than the less than 1% experienced prior to the onset of the pandemic, but is down from a high of more than 37% in April 2020. CommonSpirit anticipates that virtual visits will continue to be a key component of the health care delivery system into the future.

Operational Impact

The pandemic continues to create financial challenges for health care providers, particularly with labor shortages. As CommonSpirit continues to manage through the COVID-19 pandemic, the organization has taken steps to mitigate the evolving financial and operational challenges on the System. Leadership believes the System's size and geographic diversity have helped to smooth the impact of the crisis on the System. Specifically:

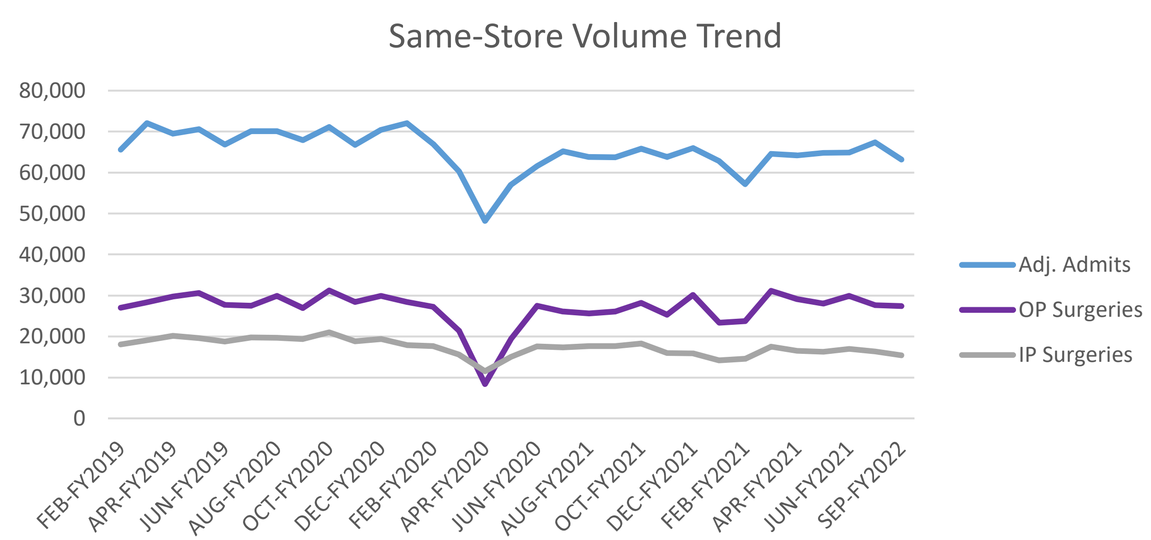
- Expense and Liquidity Management – CommonSpirit had been on a path to improving efficiency and realizing synergies as part of its alignment, and was well positioned to take a disciplined approach to expense management during the pandemic. Near-term actions implemented to mitigate the impact of the early stages of the COVID-19 pandemic, including temporary salary reductions, flex time and furloughs, labor productivity management, and vendor contract renegotiations, have evolved into managing an industry-wide labor shortage through creative recruiting techniques, encouraging time off to reduce burnout, temporarily increasing PTO caps, and managing length of stay. As the industry grapples with escalating salary costs for travelers and staff alike, particularly with increased supplemental pay, CommonSpirit has developed programs to encourage retention and has created internal float pools and an internal registry. CommonSpirit is also developing and training more professionals for the industry through partnerships with Creighton University, Baylor University, and Morehouse School of Medicine.

  To address the increase in length of stay required for most COVID-19 patients, CommonSpirit has extended the reach of hospitalists, expanded relationships with skilled nursing facilities and broadened internal programs.

  Additional actions include a rigorous capital review process and deferral of non-essential capital spending, draws on working capital lines of credit, and ongoing liquidity monitoring.

- Revenue Diversification – CommonSpirit's operations across 21 states create a strong geographic diversification of revenues for the System. CommonSpirit anticipates that as the pandemic becomes endemic in the U.S., smaller surges may ebb and flow across different geographies at different times, and the System's geographic diversity may provide greater stability of revenue trends versus more geographically concentrated providers.

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



For the month of September 2021, charge volume recovered to about 4.0% above pre-COVID-19 pandemic levels, reflecting higher acuity in many of the patients present at CommonSpirit's health care facilities.

Governmental Support

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") provides stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. Through September 30, 2021, CommonSpirit has received approximately $1.5 billion in CARES Act Provider Relief Funds ("CARES PRF") in the form of grants as reimbursement through the Public Health and Social Services Emergency Fund for health care expenses and lost revenues attributable to COVID-19. These provider relief payments are recorded as other operating revenues, as earned. For the three-month period ended September 30, 2021, $2 million has been recorded in other operating revenues in the unaudited condensed consolidated statements of operations and changes in net assets, and $690 million and $826 million was recognized during fiscal year 2021 and 2020, respectively. These funds are not required to be repaid upon attestation and compliance with certain terms and conditions.

To date, CommonSpirit received $2.8 billion in funds under the Medicare Accelerated and Advance Payment Program, of which $2.6 billion was received as of June 30, 2020, and the remainder in fiscal year 2021. No additional funds have been received in fiscal year 2022. These payments are advances that will be recouped by withholding future Medicare fee-for-service payments for claims until such time as the full accelerated payment has been recouped. As of September 30, 2021, $603 million was recouped, of which $326 million was recouped during the three-month period ended September 30, 2021. Approximately $110 million per month is expected to be recouped going forward, based on historical experience. As of September 30, 2021 and June 30, 2021, the terms and conditions of recoupment are extended to 29 months from date of receipt, at which time remaining unpaid amounts are subject to interest of 4%. As of September 30, 2021, $1.8 billion is recorded in current liabilities in Medicare advances, and $434 million is recorded in Medicare advances - long-term.

Through September 30, 2021, CommonSpirit has deferred $416 million in employer payroll taxes pursuant to the Paycheck Protection Program and Health Care Enhancement Act, of which $208 million is recorded in accrued salaries and benefits within current liabilities, and $208 million is recorded in other accrued liabilities - long-term.

CommonSpirit recorded $64 million of Employee Retention Credits under the CARES Act during the three-month period ended September 30, 2021. These funds relate to qualified wages paid between April 1, 2020, and June 30, 2020, and are recorded within other operating revenue.

In total, the funds received under the Medicare Accelerated and Advance Payment Program and the Paycheck Protection Program and Health Care Enhancement Act represent 30 days cash on hand as of September 30, 2021, and 35 days as of June 30, 2021.

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

The following table illustrates the detail of the CARES PRF funding by division:

CARES PRF Funding					
	Three-Month Periods Ended September 30,		**As of September 30, 2021**		
			Deferred Revenue (Liability)	**Cumulative CARES PRF Grants**	**Cumulative Medicare Advances, net**
	2021	**2020**			
($ in millions)	**Other Operating Revenue**				
Northern California	$ 1	$ 40	$ 2	$ 240	$ 379
Southwest	1	12	-	135	209
Southern California	-	26	2	258	375
Pacific Northwest	-	8	1	172	271
Southeast	-	22	1	225	286
Midwest	-	23	5	161	248
Colorado	-	13	4	116	148
Texas	-	22	-	141	172
Iowa	-	20	-	48	80
National Business Lines*	-	2	-	15	16
Other	-	-	-	-	-
Subtotal Divisions	2	188	15	1,511	2,184
Corporate Services	-	4	1	23	-
CommonSpirit Total	$ 2	$ 192	$ 16	$ 1,534	$ 2,184

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

As a result of the fourth surge of the pandemic during the quarter ended September 30, 2021, CommonSpirit's EBITDA excluding CARES PRF grant revenue declined compared to the same period in the prior year primarily due to higher labor and supply costs, partially offset by continued improved productivity and higher acuity.

Trend COVID-19 Impact										
	Month of	**Monthly Average per Quarter**						**February**	**Year-to-date**	
	Mar	**Jun**	**Sep**	**Dec**	**Mar**	**June**	**Sep**	**Pre-COVID**	**September 30,**	
($ in millions)	**2020**	**2020**	**2020**	**2020**	**2021**	**2021**	**2021**	**Run Rate***	**2021**	**2020**
Total operating revenues	$ 2,190	$ 2,380	$ 2,574	$ 2,760	$ 2,948	$ 2,803	$ 2,850	$ 2,518	$ 8,549	$ 7,721
EBITDA	$ (175)	$ 96	$ 214	$ 279	$ 344	$ 141	$ 168	$ 153	$ 503	$ 642
Margin %	(8.0%)	4.0%	8.3%	10.1%	11.7%	5.0%	5.9%	6.1%	5.9%	8.3%
EBITDA - excluding CARES PRF revenue and gain on sale of joint venture shares	$ (175)	$ (179)	$ 150	$ 182	$ 126	$ 117	$ 167	$ 153	$ 501	$ 450
Margin %	(8.0%)	(8.5%)	6.0%	6.8%	4.6%	4.2%	5.9%	6.1%	5.9%	6.0%
CARES PRF revenue	$ -	$ 275	$ 64	$ 97	$ 44	$ 24	$ 1	$ -	$ 2	$ 192

** Adjusted to normalize the FY20 California Provider Fee Program revenues and expenses.*

California Provider Fee Program

In February 2020, the Centers for Medicare and Medicaid Services ("CMS") approved the State Plan Amendment ("SPA") and allocation model previously submitted by the State of California for the 30-month provider fee program beginning July 1, 2019. CommonSpirit recorded $258 million of net patient revenue for the three-month period ended September 30, 2021, compared to $254 million during the same period in the prior year, and $128 million in purchased services and other expense for the three-month period ended September 30, 2021, compared to $127 million for the same period in the prior year. Net income for the program of $130 million was recorded during the three-month period ended September 30, 2021, compared to $127 million for the same period in the prior year.

Financial Highlights and Summary

CommonSpirit recorded operating income of $34 million during the three-month period ended September 30, 2021, compared to $167 million, for the same period in the prior year. Excluding CARES PRF grant revenues, operating income for the three-month period ended September 30, 2021, was $32 million, compared to an operating loss of $25 million for the same period in the prior year.

Effective November 1, 2020, Yavapai Regional Medical Center ("YRMC") became affiliated with CommonSpirit as a subsidiary of Dignity Community Care, a consolidated affiliate of CommonSpirit. YRMC owns and operates a 134-bed acute care hospital in Prescott, Arizona, a 72-bed acute care hospital in Prescott Valley, Arizona, and several other primary and specialty care facilities located throughout Prescott and Prescott Valley. As a result of the affiliation, a contribution of the excess of unrestricted assets over liabilities of $507 million was recognized as a contribution from business combination in fiscal year 2021, and the favorable financial results of YRMC are included in the accompanying unaudited condensed consolidated financial statements as of the effective date.

Effective January 1, 2021, Franciscan Health System ("FHS"), Virginia Mason Health System ("VMHS"), and CommonSpirit Health, the sole member of FHS, completed an affiliation transaction, pursuant to which, among other things, CommonSpirit formed Virginia Mason Franciscan Health ("VMFH"), a Washington non-profit corporation. VMFH owns and operates Virginia Mason Medical Center ("VMMC"), Benaroya Research Institute ("BRI"), and other affiliates of FHS and VMMC. With the addition of VMMC, a 336-bed acute care hospital and other care sites from VMHS, VMFH operates 11 hospitals and nearly 300 cares sites within the Pacific Northwest. The agreement did not include consideration, and resulted in the recognition of a $511 million gain, recorded as contribution from business combination in nonoperating income (loss) in fiscal year 2021, and the favorable financial results of the contributed entities are included in the accompanying unaudited condensed consolidated financial statements as of the effective date.

CommonSpirit's EBITDA decreased to $503 million for the three-month period ended September 30, 2021, from $642 million during the same period in the prior year. The EBITDA margin for the three-month period ended September 30, 2021, decreased to 5.9% from 8.3% for the same period in the prior year. Excluding CARES PRF grant revenues, EBITDA for the three-month period ended September 30, 2021, was $501 million with an EBITDA margin of 5.9%, compared to $450 million with an EBITDA margin of 6.0% during the same period in the prior year.

For the three-month period ended September 30, 2021, CommonSpirit's volumes on an adjusted admission basis improved from the lower volumes during the pandemic, and were favorable to the same period in the prior year by 8.1%. On a same-store basis, adjusted admissions were favorable to the same period in the prior year by 3.8%. Adjusted patient days for the three-month period ended September 30, 2021, were higher than the same period in the prior year by 15.4%. The acute average length of stay (ALOS) of 5.18 days for the three-month period ended September 30, 2021, was higher than the prior year of 4.85, primarily due to higher acuity and placement issues due to lack of availability of skilled nursing beds for both COVID and non-COVID patients.

Key Indicators Financial Summary	Three-Month Periods Ended September 30,		
($ in millions)	2021	2020	Change
EBITDA	$ 503	$ 642	$ (139)
Margin %	5.9%	8.3%	(2.4%)
EBITDA - excluding CARES PRF	$ 501	$ 450	$ 51
Margin % - excluding CARES PRF	5.9%	6.0%	(0.1%)
Operating income	$ 34	$ 167	$ (133)
Margin %	0.4%	2.2%	(1.8%)
Operating income (loss) - excluding CARES PRF	$ 32	$ (25)	$ 57
Margin % - excluding CARES PRF	0.4%	(0.3%)	0.7%
Excess of revenues over expenses	$ 302	$ 816	$ (514)
Margin %	3.5%	9.8%	(6.3%)

Results of Operations

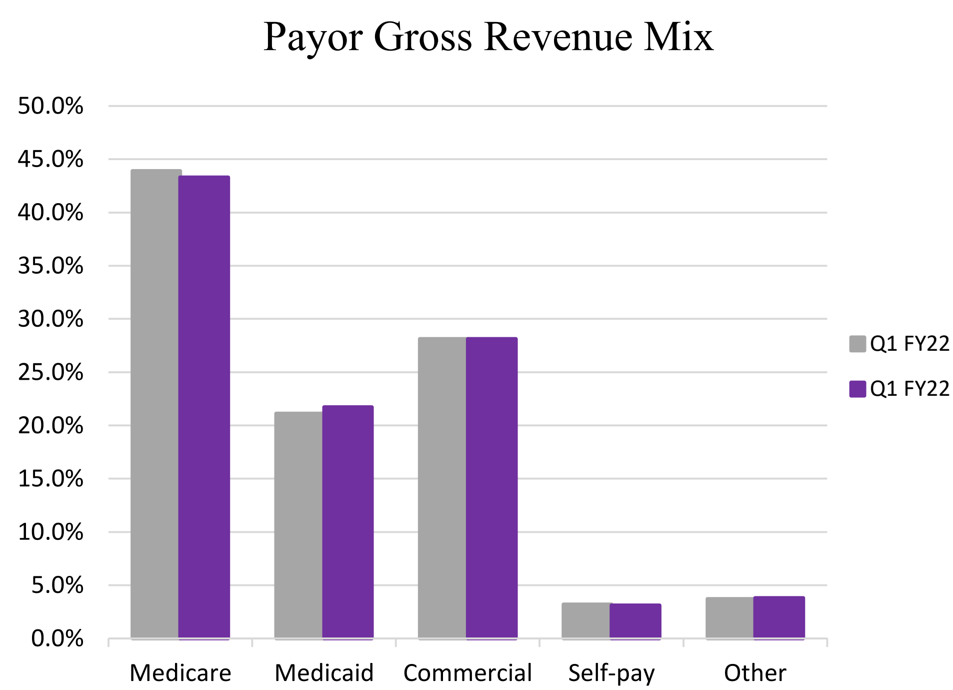
Operating Revenues and Volume Trends

Net patient and premium revenues increased $877 million, or 12.3%, over the same period in the prior year for the three-month period ended September 30, 2021. The increase is primarily due to higher volume levels, rate changes, acuity, the YRMC and VMHS affiliations, and stable payor mix, partially offset by continued length-of-stay challenges resulting from the COVID-19 pandemic. Net patient and premium revenue per adjusted admission increased 3.9% during the three-month period ended September 30, 2021. This increase is primarily due to higher acuity, rate changes and stable payor mix.

Volumes	Three-Month Periods Ended September 30,			
	2021	2020	Change	%
Acute admissions	202,467	192,779	9,688	5.0%
Adjusted admissions	404,069	373,703	30,366	8.1%
Acute inpatient days	1,048,002	934,763	113,239	12.1%
Adjusted patient days	2,091,525	1,812,044	279,481	15.4%
Acute average length of stay	5.18	4.85	0.33	6.8%
Outpatient visits	7,113,946	6,180,971	932,975	15.1%
ED visits	1,001,833	809,178	192,655	23.8%
Gross outpatient revenue as a % of total gross patient services revenue	49.9%	48.4%	1.5%	1.5%

Same-Store Volumes	Three-Month Periods Ended September 30, 2021	2020	Change	%
Acute admissions	196,424	192,779	3,645	1.9%
Adjusted admissions	388,011	373,703	14,308	3.8%
Acute inpatient days	1,014,061	934,763	79,298	8.5%
Adjusted patient days	2,003,151	1,812,044	191,107	10.5%
Acute average length of stay	5.16	4.85	0.31	6.4%
Outpatient visits	6,727,518	6,180,971	546,547	8.8%
ED visits	977,460	809,178	168,282	20.8%
Gross outpatient revenue as a % of total gross patient services revenue	49.4%	48.4%	1.0%	1.0%

Payor mix based on gross revenues for the three-month period ended September 30, 2021, is relatively stable, compared to the same periods in the prior year, despite the COVID-19 pandemic. The following chart represents the payor gross revenue mix for consolidated operations for the three-month periods ended September 30, 2021 and 2020:



All other operating revenues decreased $49 million, or 8.1%, over the same period in the prior year for the three-month period ended September 30, 2021, primarily due to $126 million in lower CARES PRF grant revenue, net of the employee retention credits funds recorded in September, partially offset higher pharmaceuticals revenues. Excluding the provider relief CARES PRF grants, other operating revenues increased $141 million, or 33.9%, over the same period in the prior year.

Operating Revenues			
	Three-Month Periods Ended September 30,		
($ in millions)	2021	2020	Change
Net patient and premium revenues	$ 7,990	$ 7,113	$ 877
All other operating revenues	559	608	(49)
Total operating revenues	$ 8,549	$ 7,721	$ 828

Uncompensated Care			
	Three-Month Periods Ended September 30,		
($ in millions)	2021	2020	Change
Uncompensated Care:			
Charity care, at customary charges	$ 564	$ 634	$ (70)
Charity care, at cost, net	$ 139	$ 160	$ (21)
Charity care, at cost, as a percentage of total expenses	1.6%	2.1%	0.5%
Implicit price concessions	$ 464	$ 357	$ 107

Operating Expenses

Salaries and benefits increased $599 million, or 16.3%, over the same period in the prior year, for the three-month period ended September 30, 2021, with salaries and benefits per adjusted admission increasing 7.5%, primarily due to high registry and contract labor costs, higher staffing costs due to premium pay programs, overtime and retention programs, higher length of stay and acuity due to COVID-19, and the YRMC and VMHS affiliations.

Supplies increased $201 million, or 16.5%, during the three-month period ended September 30, 2021, compared to the same period in the prior year. The increase is primarily due to increased supplies related to higher acuity (which impacted pharmaceutical, laboratory and other supply costs), the YRMC and VMHS affiliations, additional supplies required for COVID-19 preparedness, and general inflation.

Purchased services and other increased $167 million, or 7.6%, for the three-month period ended September 30, 2021, compared to the same period in the prior year, primarily due to the YRMC and VMHS affiliations, and higher medical fees and insurance costs, partially offset by lower consulting and repairs and maintenance costs.

Expense Management and Productivity		
	Three-Month Periods Ended September 30,	
	2021	2020
Expense Management:		
Supply expense as a % of net patient and premium revenue	17.7%	17.1%
Purchased services and other as a % of net patient and premium revenue	29.4%	30.7%
Capital expense as a % of net patient and premium revenue	5.9%	6.7%
Non-capital cost per adjusted admission	$ 19,912	$ 18,943
Productivity:		
Salaries, wages and benefits as a % of net patient and premium revenue	53.5%	51.7%
Number of FTEs	133,201	121,714
FTEs per adjusted admission	27.07	27.13

Operating Expenses			
	Three-Month Periods Ended September 30,		
($ in millions)	2021	2020	Change
Salaries and benefits	$ 4,277	$ 3,678	$ 599
Supplies	1,418	1,217	201
Purchased services and other	2,351	2,184	167
Depreciation and amortization	353	370	(17)
Interest expense, net	116	105	11
Total operating expenses	$ 8,515	$ 7,554	$ 961

Nonoperating Results

CommonSpirit recorded investment income, net, of $185 million during the three-month period ended September 30, 2021, compared to investment income, net, totaling $626 million during the same period in the prior year, due to weaker financial markets.

The change in market value and cash payments of interest rate swaps was a favorable result of $20 million during the three-month period ended September 30, 2021, compared to $12 million during the same period in the prior year.

Net periodic postretirement costs amounted to $71 million of income during the three-month period ended September 30, 2021, compared to $15 million during the same period in the prior year.

Nonoperating Results			
	Three-Month Periods September 30,		
($ in millions)	**2021**	**2020**	**Change**
Investment income, net	$ 185	$ 626	$ (441)
Income tax expense	(6)	(10)	4
Change in fair value and cash payments of interest rate swaps	20	12	8
Other components of net periodic postretirement costs	71	15	56
Other	(2)	6	(8)
Total nonoperating income, net	$ 268	$ 649	$ (381)

Operating Revenues by Division

The following tables present operating revenues by division for the three-month periods ended September 30, 2021 and 2020:

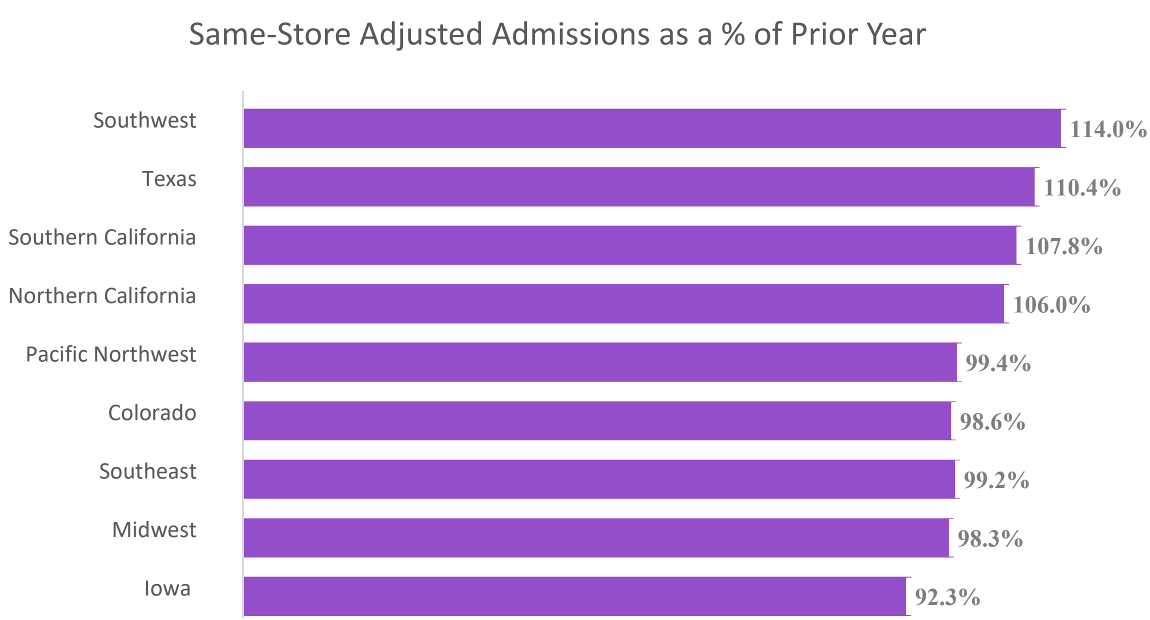
Division Operating Revenues			
	Three-Month Periods Ended September 30,		
($ in millions)	**2021**	**2020**	**Change**
Southern California	$ 1,577	$ 1,517	$ 60
Northern California	1,319	1,272	47
Pacific Northwest	1,105	766	339
Southwest	1,089	859	230
Southeast	944	891	53
Midwest	742	734	8
Colorado	701	665	36
Texas	696	625	71
Iowa	289	295	(6)
National Business Lines*	90	99	(9)
Other	13	7	6
Subtotal Divisions	8,565	7,730	835
Corporate Services	(16)	(9)	(7)
CommonSpirit Total	$ 8,549	$ 7,721	$ 828

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

Following are the significant division performance drivers related to operating revenues compared to prior year for the three-month period ended September 30, 2021:

- Pacific Northwest Division – operating revenues increased $339 million from the same period in the prior year, primarily due to higher acuity, and additional revenue of $314 million related to the affiliation of VMHS effective January 1, 2021. Same-store adjusted admissions decreased from the prior year by 0.6%.
- Southwest Division – operating revenues increased $230 million from the same period in the prior year, primarily due to higher acuity, higher volumes, and additional revenue of $113 million related to the affiliation of YRMC effective November 1, 2020. Same-store adjusted admissions increased from the prior year by 14.0%
- Texas Division – operating revenues increased $71 million from the same period in the prior year, primarily due to higher acuity, a 10.4% increase in same-store adjusted admissions, and a stable payor mix.
- Southern California Division – operating revenues increased $60 million from the same period in the prior year, primarily due to higher volumes and a stable payor mix.
- Southeast Division - operating revenues increased $53 million from the same period in the prior year, primarily due to higher commercial payor mix, and higher outpatient volume, partially offset by a 0.8% decrease in same-store adjusted admissions.
- Northern California – operating revenues increased $47 million from the same period in the prior year, primarily due to higher acuity and stable payor mix, and a 6.0% increase in same-store adjusted admissions.
- Colorado Division – operating revenues increased $36 million from the same period in the prior year, primarily due to higher acuity, partially offset by and a 1.4% decrease in same-store adjusted admissions.

The table below reflects the same-store adjusted admissions (excluding the impact of the affiliations with YRMC and VMHS) as a percentage of prior year, for the three-month period ended September 30, 2021:



Balance Sheet Metrics

The following table provides key balance sheet metrics for CommonSpirit:

Key Balance Sheet Metrics ($ in millions)	September 30, 2021	June 30, 2021	Change
Consolidated Balance Sheet Summary			
Total assets	$ 54,576	$ 54,876	$ (300)
Total liabilities	$ 32,371	$ 32,978	$ (607)
Total net assets	$ 22,205	$ 21,898	$ 307
Financial Position Ratios			
Unrestricted cash and investments	$ 19,420	$ 20,663	$ (1,243)
Days cash on hand	223	245	(22)
Total debt	$ 15,519	$ 15,541	$ (22)
Debt to capitalization	43.8%	44.2%	(0.4%)

Liquidity

Unrestricted cash and investments were $19.4 billion at September 30, 2021, and $20.7 billion at June 30, 2021. The decrease is primarily due to the recoupment of Medicare advances and changes in operating cash flows. CommonSpirit is actively monitoring liquidity, given the operational disruption related to COVID-19.

Liquidity and Capital Resources ($ in millions)	September 30, 2021	June 30, 2021	Change
Cash	$ 2,380	$ 3,329	$ (949)
Short-term investments	1,348	1,124	224
Long-term investments, excluding assets limited as to use	15,692	16,210	(518)
Total unrestricted cash and investments	$ 19,420	$ 20,663	$ (1,243)

Capital Resources

Cash used in operating activities totaled $499 million for the three-month period ended September 30, 2021, compared to $161 million for the same period in the prior year. Significant activity for the three-month period ended September 30, 2021, includes the following:

- Investments decreased $110 million during the three-month period ended September 30, 2021, compared to an increase of $1.1 billion during the same period in the prior year, primarily due to higher investment returns and the full consolidation of YRMC, VMHS and CSH OIP in the prior year.
- Medicare advances to be withheld from future Medicare fee-for-service payments decreased $326 million during the three-month period ended September 30, 2021, compared to an increase of $4 million during the same period in the prior year.
- Accounts receivable, net, increased $487 million during the three-month period ended September 30, 2021, compared to $285 million during the same period in the prior year.
- Accounts payable decreased $468 million during the three-month period ended September 30, 2021, compared to $74 million during the same period in the prior year.
- Other accrued liabilities increased $248 million during the three-month period ended September 30, 2021, compared to $164 million during the same period in the prior year.

Cash used in investing activities totaled $386 million for the three-month period ended September 30, 2021, compared to $329 million for the same period in the prior year, primarily due to the following:

- Capital expenditures were $381 million during the three-month period ended September 30, 2021, compared to $323 million during the same period in the prior year. Such capital expenditures primarily relate to expansion and renovation of existing facilities, equipment and systems additions and replacements, and various other capital improvements.
- Cash distributions from health-related activities were $40 million during the three-month period ended September 30, 2021, compared to $23 million during the same period in the prior year.
- Investments in health-related activities were $15 million during the three-month period ended September 30, 2021, compared to $38 million during the same period in the prior year.

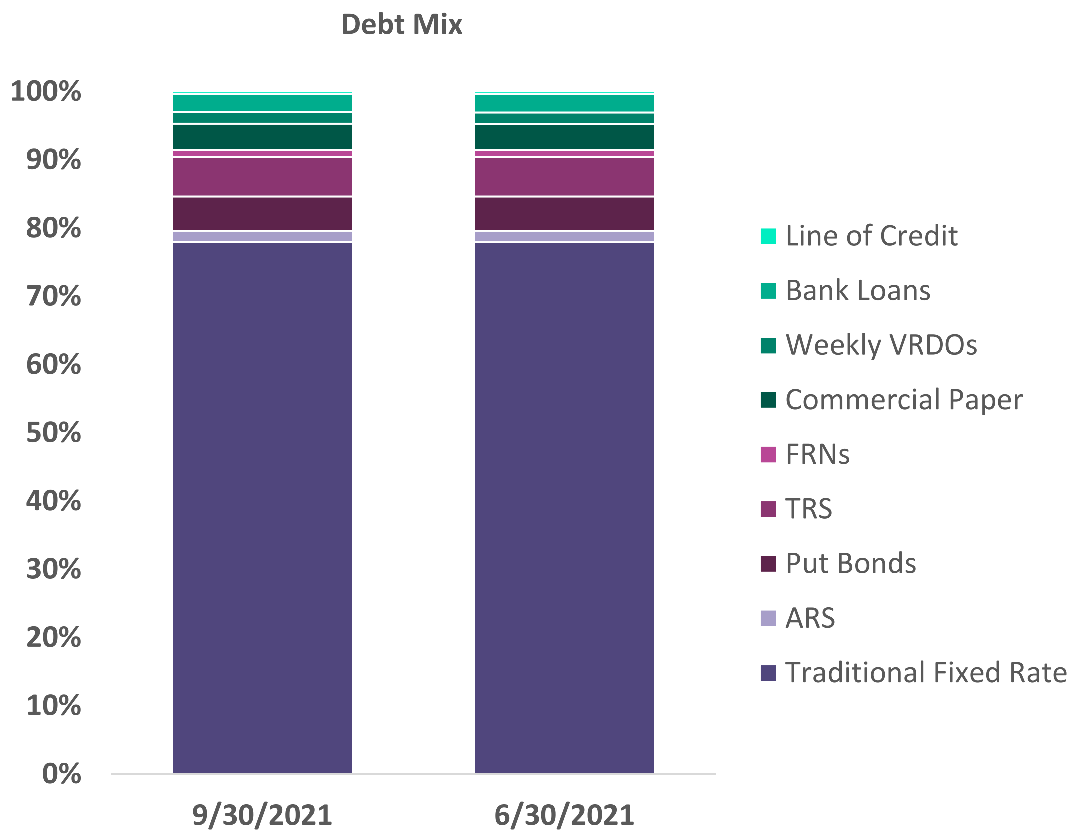
Cash used in financing activities totaled $64 million for the three-month period ended September 30, 2021, compared to $854 million for the same period in the prior year, primarily due to the following:

- Net repayments of debt were $20 million during the three-month period ended September 30, 2021, compared to $838 million during the same period in the prior year, in connection with $800 million in repayments of line of credit draws in September 2020.

Debt Portfolio

As part of a debt consolidation plan, the debt previously issued by CHI and Dignity Health was consolidated into a single unified credit group and debt structure in August 2019 in connection with the issuance and sale of the 2019 tax-exempt and taxable bonds, under a new CommonSpirit Health Master Trust Indenture (the "CommonSpirit Health MTI"). The CommonSpirit Health MTI has an Obligated Group that is comprised of the former Dignity Health Obligated Group and CHI entities (collectively, the "CommonSpirit Obligated Group"). The CommonSpirit Obligated Group represents approximately 85% of consolidated revenues of CommonSpirit as of September 30, 2021. The bond portfolio remains well diversified, with a higher proportion of long-term fixed rate debt providing stability.

The chart below depicts CommonSpirit's debt mix as of September 30, 2021, as compared to June 30, 2021:

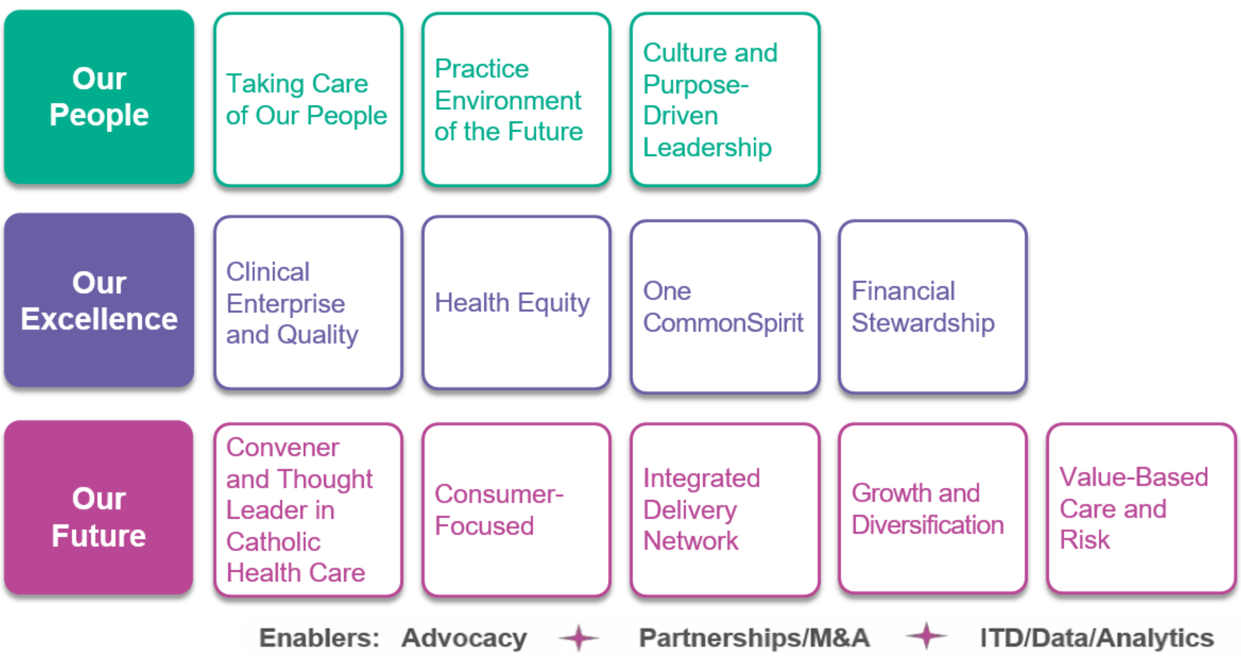


Strategic Focus and Priorities

Since the creation of CommonSpirit in 2019, the organization has strengthened its strategic position and capabilities and navigated tremendous challenges as we have responded to the unprecedented needs in our communities. The events of 2020 and 2021 have driven significant uncertainty for the strategic direction of organizations inside and outside of healthcare and have reset fundamental assumptions on how best to serve our communities.

CommonSpirit recently introduced its first five-year integrated strategic roadmap, CommonSpirit 2026. CommonSpirit 2026 is grounded in our mission, vision and values, informed by the dynamic environment around us, and mobilizes CommonSpirit's prior, current and future work around a common set of strategic priorities and focuses on where CommonSpirit can have the greatest impact. The roadmap repositions CommonSpirit to lead and transform healthcare to meet the evolving needs of our communities and consumers, particularly given the rapidly changing healthcare landscape and the disruption of the COVID-19 pandemic. CommonSpirit 2026 provides flexibility for our diverse operations and communities across 21 states to come together around a common direction and creates a roadmap to maintaining long-term sustainability for the organization.

CommonSpirit 2026 is how we will deliver on our promise and is encapsulated in the form of three pillars, *Our People, Our Excellence* and *Our Future* as depicted and described in more detail below:



Our People: *Nurture our people by creating an environment and culture in which our diverse workforce can thrive while living their calling.*

- Nurturing and investing in our employees and providers is the greatest strength CommonSpirit has with a focus on their well-being and development while creating a safe and caring environment to bring out their best.
- Focus on system redesign, new care models, and technologies that align with clinicians' interests: respond to increasing patient demands, and make CommonSpirit a clinician's first choice of partner.
- Attract and retain leaders who find purpose in their work, and build competencies that reflect CommonSpirit's focus on well-being across a continuum of care and the enhanced importance of an agile, collaborative culture.

Our Excellence: *Build on our foundation of growth and health equity through superior clinical quality, efficient capital and operations, and organizational agility to respond to shifting landscapes and healthcare disparities.*

- Excel in consistent clinical excellence by rapidly scaling best practices from innovators in and outside of CommonSpirit to create a high quality, consumer–centric patient experience.
- Shape the industry with a commitment to serve, advocate, and partner to meet the holistic health needs of diverse communities through focusing on the social determinants of health.
- Build an efficient, unified system through standardized ways of working, an agile operating model, controlled IT risk, and unified brand strategy.
- Strengthen the balance sheet and improve CommonSpirit's margin through optimizing the portfolio of patient care sites, reducing operating expenditures, and increasing capital efficiency.

Our Future: *Cultivate an ecosystem that is consumer-centered and committed to meeting the holistic needs of each consumer and improving the health of our communities.*

- Serve as a reputable leader in Catholic health care through active engagement, servant leadership, and measurable impact in the communities CommonSpirit serves.
- Implement a patient-centered, personalized care experience that is easy to access, understand and navigate, and grounded in consumer journeys-with a focus on virtual health.
- Scale integrated care across the continuum with strong provider alignment and an ecosystem of partners and owned assets.
- Advance CommonSpirit's portfolio of diverse investments to transform care delivery, be a preferred partner in a new health care landscape, and thrive in an ever-changing health care environment.
- Establish CommonSpirit as an at-scale adopter of value-based arrangements through enhanced population health capabilities and a broader continuum of care.

Exhibit I

Unaudited Condensed Consolidated Financial Statements as of and for the Three-Month Periods Ended September 30, 2021 and 2020

(ATTACHED)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

For the Three-Month Periods Ended September 30, 2021 and 2020

COMMONSPIRIT HEALTH

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QUARTERLY FINANCIAL STATEMENTS

COMMONSPIRIT HEALTH

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2021 AND JUNE 30, 2021
(in millions)

Assets	As of September 30, 2021 (Unaudited)	As of June 30, 2021
Current assets:		
Cash and cash equivalents	$ 2,380	$ 3,329
Short-term investments	1,348	1,124
Patient accounts receivable, net	4,810	4,323
Provider fee receivable	1,333	1,151
Other current assets	2,794	2,712
Total current assets	12,665	12,639
Long-term investments	19,126	19,480
Property and equipment, net	15,961	16,002
Right-of-use operating lease assets	1,842	1,863
Ownership interests in health-related activities	3,139	3,107
Other long-term assets, net	1,843	1,785
Total assets	$ 54,576	$ 54,876

(Continued)

COMMONSPIRIT HEALTH

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2021 AND JUNE 30, 2021
(in millions)

Liabilities and Net Assets	As of September 30, 2021 (Unaudited)	As of June 30, 2021
Current liabilities:		
Current portion of long-term debt	$ 754	$ 754
Demand bonds subject to short-term liquidity arrangements	247	247
Accounts payable	1,402	1,705
Accrued salaries and benefits	1,898	1,994
Provider fee payables	480	405
Medicare advances	1,750	1,422
Other accrued liabilities - current	3,134	2,984
Total current liabilities	9,665	9,511
Other liabilities - long-term:		
Self-insured reserves and claims	1,053	1,024
Pension and other postretirement benefit liabilities	3,749	3,761
Derivative instruments	226	287
Operating lease liabilities	1,727	1,750
Medicare advances - long-term	434	1,088
Other accrued liabilities - long-term	999	1,017
Total other liabilities - long-term	8,188	8,927
Long-term debt, net of current portion	14,518	14,540
Total liabilities	32,371	32,978
Net assets:		
Without donor restrictions - attributable to CommonSpirit Health	19,926	19,646
Without donor restrictions - noncontrolling interests	1,205	1,187
With donor restrictions	1,074	1,065
Total net assets	22,205	21,898
Total liabilities and net assets	$ 54,576	$ 54,876

See notes to unaudited condensed consolidated financial statements.

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020 (in millions)

	Three-Month Periods Ended September 30, 2021	2020
Operating revenues:		
Net patient revenue	$ 7,699	$ 6,814
Premium revenue	291	299
Revenue from health-related activities, net	70	76
Other operating revenue	469	517
Contributions	20	15
Total operating revenues	8,549	7,721
Operating expenses:		
Salaries and benefits	4,277	3,678
Supplies	1,418	1,217
Purchased services and other	2,351	2,184
Depreciation and amortization	353	370
Interest expense, net	116	105
Total operating expenses	8,515	7,554
Operating income	34	167
Nonoperating income:		
Investment income, net	185	626
Income tax expense	(6)	(10)
Change in fair value and cash payments of interest rate swaps	20	12
Other components of net periodic postretirement costs	71	15
Other	(2)	6
Total nonoperating income, net	268	649
Excess of revenues over expenses	$ 302	$ 816
Less excess of revenues over expenses attributable to noncontrolling interests	33	16
Excess of revenues over expenses attributable to CommonSpirit Health	$ 269	$ 800

(Continued)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020
(in millions)

	Without Donor Restrictions			
	Attributable to CommonSpirit Health	Noncontrolling Interests	With Donor Restrictions	Total Net Assets
Balance, June 30, 2020	$ 12,317	$ 419	$ 859	$ 13,595
Excess of revenues over expenses	800	16	-	816
Contributions	-	-	22	22
Net assets released from restrictions for capital	4	-	(4)	-
Net assets released from restrictions for operations and other	-	-	(12)	(12)
Loss from discontinued operations, net	1	-	-	1
Other	(4)	(18)	25	3
Increase (decrease) in net assets	801	(2)	31	830
Balance, September 30, 2020	$ 13,118	$ 417	$ 890	$ 14,425
Balance, June 30, 2021	$ 19,646	$ 1,187	$ 1,065	21,898
Excess of revenues over expenses	269	33	-	302
Contributions	-	-	30	30
Net assets released from restrictions for capital	6	-	(6)	-
Net assets released from restrictions for operations and other	-	-	(17)	(17)
Gain from discontinued operations, net	(3)	-	-	(3)
Other	8	(15)	2	(5)
Increase in net assets	280	18	9	307
Balance, September 30, 2021	$ 19,926	$ 1,205	$ 1,074	$ 22,205

See notes to unaudited condensed consolidated financial statements.

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020
(in millions)

	Three-Month Periods Ended September 30, 2021	Three-Month Periods Ended September 30, 2020
Cash flows from operating activities:		
Change in net assets	$ 307	$ 830
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation and amortization	353	370
Changes in equity of health-related entities	(70)	(76)
Net gain on disposal of assets	(1)	(14)
Change in fair value of swaps	(36)	(29)
Pension cash contributions	(11)	(4)
Changes in certain assets and liabilities:		
Accounts receivable, net	(487)	(285)
Accounts payable	(468)	(74)
Self-insured reserves and claims	24	(80)
Accrued salaries and benefits	(97)	63
Changes in broker receivables/payables for unsettled investment trades	48	121
Provider fee assets and liabilities	(107)	(150)
Medicare advances	(326)	4
Other accrued liabilities	248	164
Prepaid and other current assets	4	(36)
Other, net	10	172
Cash provided by (used in) operating activities before net change in investments	(609)	976
Net (increase) decrease in investments	110	(1,137)
Cash used in operating activities	(499)	(161)

(Continued)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020
(in millions)

	Three-Month Periods Ended September 30, 2021	2020
Cash flows from investing activities:		
Purchases of property and equipment	(381)	(323)
Investments in health-related activities	(15)	(38)
Business acquisitions, net of cash acquired	3	-
Proceeds from asset sales	(1)	11
Cash distributions from health-related activities	40	23
Other, net	(32)	(2)
Cash used in investing activities	(386)	(329)
Cash flows from financing activities:		
Borrowings	-	55
Repayments	(20)	(893)
Swaps cash collateral posted	(25)	2
Distributions to noncontrolling interests	(14)	(18)
Contribution by noncontrolling interests	(5)	-
Cash used in financing activities	(64)	(854)
Net decrease in cash and cash equivalents	(949)	(1,344)
Cash and cash equivalents at beginning of period	3,329	5,927
Cash and cash equivalents at end of period	$ 2,380	$ 4,583
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 94	$ 100
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through finance lease or note payable	$ 9	$ 28
Investments in health-related activities	$ 16	$ 12
Accrued purchases of property and equipment	$ 70	$ 53

See notes to unaudited condensed consolidated financial statements.

1. ORGANIZATION

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

CommonSpirit Health owns and operates health care facilities in 21 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations that are exempt from federal and state income taxes. CommonSpirit Health is comprised of more than 1,500 care sites, consisting of 140 hospitals, including academic health centers, major teaching hospitals, and critical access facilities, community health services organizations, accredited nursing colleges, home health agencies, living communities, a medical foundation and other affiliated medical groups, and other facilities and services that span the inpatient and outpatient continuum of care. CommonSpirit Health also has offshore and onshore captive insurance companies. The accompanying unaudited condensed consolidated financial statements include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit").

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying unaudited 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.

Reclassification – Certain reclassifications and changes in presentation were made in the 2020 consolidated financial statements to conform to the 2021 presentation of the statement of cash flows. These changes to the presentation of total cash and cash equivalents were reflected in the June 30, 2021, consolidated audited financial statements, impacting the beginning balance and net (increase) decrease in investments for the unaudited condensed consolidated statement of cash flows for the three-month period ended September 30, 2020. These reclassifications did not have any impact on net assets or changes in net assets.

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 consolidated financial statements, including the following: recognition of net patient revenue, which includes contractual discounts and adjustments; price concessions and charity care; fair value of acquired assets and assumed liabilities in business combinations; recorded values of depreciable and amortizable assets, investments and goodwill; reserves for self-insured workers' compensation and professional and general liabilities; contingent liabilities; and assumptions for measurement of pension and other postretirement benefit liabilities. Management bases its estimates on historical experience and various other assumptions that it believes are reasonable under the particular circumstances. Actual results could differ from those estimates.

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

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

Subsequent changes that are determined to be the result of an adverse change in a third-party payor's ability to pay are recorded as bad debt expense in purchased services and other in the accompanying unaudited condensed consolidated statements of operations and changes in net assets. Bad debt expense for the three month periods ended September 30, 2021 and 2020 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.

Recent Accounting Pronouncements – In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20) Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, which applies to employer sponsored defined benefit pension and other postretirement plans. The amendments modify, remove and add certain disclosure requirements. The guidance is effective for CommonSpirit for the annual period ended June 30, 2022. CommonSpirit is evaluating the effect on the consolidated financial statements.

Subsequent Events – CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal quarter and November 16, 2021, the date the unaudited condensed consolidated financial statements were issued. See Note 9.

3. ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

Yavapai Regional Medical Center – In November 2020, a consolidated affiliate of CommonSpirit, Dignity Community Care ("DCC"), and Yavapai Community Hospital Association, dba Yavapai Regional Medical Center ("YRMC"), an Arizona nonprofit corporation, effected a business combination which transferred the sole membership of YRMC and its applicable subsidiaries to DCC for no cash consideration. YRMC owns and operates two acute care hospitals, a regional wellness center, an imaging center, a network of primary and specialty physician clinics, and a fundraising foundation in the Prescott, Arizona area. The gain on business combinations was recorded in the three month period ended December 31, 2020.

Virginia Mason Health System – In January 2021, CommonSpirit formed a new integrated health system through the creation of a Joint Operating Company ("JOC"), Virginia Mason Franciscan Health ("VMFH"), a Washington nonprofit corporation, bringing together CommonSpirit Franciscan Health System and Virginia Mason Health System ("VMHS"). With the addition of an acute hospital and other care sites from VMHS, VMFH now operates eleven hospitals and nearly 300 sites of care within the Pacific Northwest. The JOC is a controlled subsidiary of CommonSpirit. The gain on business combinations was recorded in the three month period ended March 31, 2021.

Dispositions – In March 2021, CommonSpirit sold a portion of its investment in a joint venture resulting in a pretax gain related to the transaction. The gain on business combinations was recorded in the three month period ended March 31, 2021. CommonSpirit continues to account for its remaining interest in the joint venture under the equity method.

In May 2021, CommonSpirit entered into a nonbinding Memorandum of Understanding to negotiate a definitive agreement for the purchase of certain assets related to two acute care hospitals within CommonSpirit's existing footprint. A definitive agreement is expected to be completed by the end of calendar 2021.

Held for Sale - CommonSpirit is currently in discussions to negotiate a definitive affiliation agreement to transfer ownership of CommonSpirit's ministries in North Dakota and Minnesota to a third party. The CommonSpirit ministries in North Dakota and Minnesota include 13 critical access hospitals and one full service tertiary hospital, along with associated clinics and home health operations. The assets and liabilities are classified as held for sale, within other current assets and other accrued liabilities - current, respectively, in the accompanying condensed consolidated balance sheets. See detailed summary below.

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

	As of September 30, 2021	As of June 30, 2021
Other current assets	$ 25	$ 25
Long-term investments	18	18
Property and equipment, net	274	272
Other long-term assets	70	68
Total assets held for sale	$ 387	$ 383
Other accrued liabilities - current	$ 11	$ 11
Other accrued liabilities - long-term	51	52
Total liabilities held for sale	$ 62	$ 63

4. COVID-19 PANDEMIC

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

The CARES Act provides stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. CommonSpirit received approximately $478 million and $1.1 billion in fiscal years 2021 and 2020, respectively, of which $690 million and $826 million was recognized in fiscal years 2021 and 2020, respectively, within other operating revenues, under the CARES Act in the form of provider relief grants as reimbursement through the Public Health and Social Services Emergency Fund for lost revenues attributable to COVID-19 ("CARES PRF"). An additional $2.7 million was received in the three month period ending September 30, 2021. These payments are recorded as other operating revenues, as earned. These funds are not required to be repaid upon attestation and compliance with certain terms and conditions. For the three-month periods ended September 30, 2021 and 2020, $2 million and $192 million, respectively, has been recognized within other operating revenue. As of September 30, 2021, and June 30, 2021, $16 million and $15 million, respectively, of deferred revenue is included within other accrued liabilities - current, in the condensed consolidated balance sheets. CommonSpirit will continue to monitor the terms and conditions of the CARES PRF funding and the impact of the pandemic on revenues and expenses.

To date, CommonSpirit has also received $2.8 billion in funds under the Medicare Accelerated and Advance Payment Program, of which $2.6 billion was received as of June 30, 2020, and the remainder in fiscal year 2021. No additional funds have been received in fiscal year 2022. These payments are advances that will be recouped by withholding future Medicare fee-for-service payments for claims until such time as the full accelerated payment has been recouped. As of September 30, 2021, and June 30, 2021, the terms and conditions in effect at that time prescribed that any outstanding balance remaining after 29 months from date of receipt are subject to interest of 4%. As such, $1.8 billion is recorded as a current liability in Medicare advances, and $434 million is recorded in Medicare advances – long-term, as of September 30, 2021. As of June 30, 2021, $1.4 billion was recorded as a current liability in Medicare advances, and $1.1 billion was recorded in Medicare advances – long-term.

CommonSpirit has deferred approximately $416 million of employer payroll taxes through September 30, 2021, pursuant to the Paycheck Protection Program and Health Care Enhancement Act, of which $208 million is recorded as a current liability in accrued salaries and benefits, and $208 million is recorded in other accrued liabilities - long-term.

CommonSpirit recorded $64 million of Employee Retention Credits under the CARES Act during the three month period ended September 30, 2021. These funds relate to qualified wages paid between April 1, 2020, and June 30, 2020, and are recorded in other operating revenue.

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

5. NET PATIENT REVENUE

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

	Three-Month Periods Ended September 30, 2021	Three-Month Periods Ended September 30, 2020
Government	$ 3,850	$ 3,462
Contracted	3,125	2,803
Self-pay and other	724	549
	$ 7,699	$ 6,814

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

6. CASH AND INVESTMENTS

CommonSpirit's cash and investments include consolidated membership interests in the CommonSpirit Health Operating Investment Pool, LLC as of September 30, 2021, and June 30, 2021. 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):

	As of September 30, 2021	As of June 30, 2021
Cash and cash equivalents	$ 2,380	$ 3,329
Short-term investments	1,348	1,124
Long-term investments	19,126	19,480
Total cash and investments	22,854	23,933
Less:		
Held for self-insured claims	1,954	1,888
Under bond indenture agreements for debt service	120	85
Donor-restricted	593	590
Other	767	707
Total assets limited as to use	3,434	3,270
Unrestricted cash and investments	$ 19,420	$ 20,663

7. 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 net asset value ("NAV") practical expedient on a recurring basis as of September 30, 2021, and June 30, 2021, respectively (in millions):

	September 30, 2021			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Cash and short-term investments	$ 2,906	$ 398	$ -	$ 3,304
U.S. government securities	1,372	391	-	1,763
U.S. corporate bonds	87	1,179	-	1,266
U.S. equity securities	2,455	5	-	2,460
Foreign government securities	-	225	-	225
Foreign corporate bonds	-	701	-	701
Foreign equity securities	2,560	1	-	2,561
Asset-backed securities	-	143	-	143
Private equity	-	-	64	64
Real estate	45	1	-	46
Community Investment Program	-	-	128	128
Other investments	185	183	-	368
Assets measured at fair value	$ 9,610	$ 3,227	$ 192	13,029
Assets at NAV				9,825
Total assets				$ 22,854
Liabilities				
Derivative instruments	$ -	$ 436	$ -	$ 436
Other	4	-	92	96
Total liabilities	$ 4	$ 436	$ 92	$ 532

	June 30, 2021			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Cash and short-term investments	$ 3,543	$ 289	$ -	$ 3,832
U.S. government securities	1,350	489	-	1,839
U.S. corporate bonds	120	1,314	-	1,434
U.S. equity securities	2,969	5	-	2,974
Foreign government securities	-	256	-	256
Foreign corporate bonds	1	825	-	826
Foreign equity securities	3,008	1	-	3,009
Asset-backed securities	-	146	-	146
Private equity	-	-	65	65
Real estate	49	1	-	50
Community Investment Program	-	-	132	132
Other investments	217	182	-	399
Assets measured at fair value	$ 11,257	$ 3,508	$ 197	14,962
Assets at NAV				8,971
Total assets				$ 23,933
Liabilities				
Derivative instruments	$ -	$ 472	$ -	$ 472
Other	4	-	90	94
Total liabilities	$ 4	$ 472	$ 90	$ 566

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 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 $144 million and $209 million as of September 30, 2021, and June 30, 2021, respectively.

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

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

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 September 30, 2021 (in millions):

		NAV Practical Expedient	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private equity	(1)	$ 1,283	$ 558	-	-
Multi-strategy hedge funds	(2)	2,908	-	Weekly, Monthly, Quarterly, Annually	3 - 90 days
Real estate	(3)	852	68	Quarterly	60 - 90 days
Commingled funds - debt securities	(4)	1,913	36	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	2,869	-	Daily, Weekly, Bi-Weekly, Monthly, Bi-Monthly, Quarterly	2 - 90 days
Total		$ 9,825	$ 662		

(1) This category includes private equity funds that specialize in providing capital to a variety of investment groups, including, but not limited to, venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at September 30, 2021, to be over the next 11 years.

(2) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term, risk-adjusted absolute returns. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. The following table reflects the various redemption frequencies, notice periods, and any applicable lock-up periods or gates to redemption as of September 30, 2021:

Percentage of the Value of Category (2)			Redemption	Redemption	Redemption
Total	Subtotal	Redemption Frequency	Notice Period	Locked Up Until (if applicable)	Gate % of Account (if applicable)
6.1%	5.2%	Annually	60 days	up to 2 years	up to 50.0%
	0.9%	Annually	75 days	-	-
29.5%	2.0%	Quarterly	45 days	up to 2 years	up to 20.0%
	17.2%	Quarterly	60 - 65 days	up to 2 years	up to 10.0% - 50.0%
	10.3%	Quarterly	90 days	-	up to 12.5% - 25.0%
49.2%	5.7%	Monthly	5 days	-	up to 20.0%
	35.9%	Monthly	30 - 45 days	-	up to 16.7% - 20.0%
	7.6%	Monthly	60 - 90 days	-	up to 10.0% - 20.0%
15.2%	15.2%	Weekly	3 days	-	-

(3) This category includes investments in real estate funds that invest primarily in institutional-quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts. Investments representing 20.2% 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 September 30, 2021, to be over the next 11 years.

(4) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets. Also included in this category are commingled fixed income funds that provide capital in a variety of mezzanine debt, distressed debt and other special debt securities situations. Investments representing approximately 8.8% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at September 30, 2021, to be over the next 4 years.

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

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

8. OTHER LONG-TERM ASSETS, NET

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

	As of September 30, 2021	As of June 30, 2021
Notes receivable, primarily secured	$ 51	$ 54
Goodwill	302	287
Intangible assets - definite-lived, net	119	122
Intangible assets - indefinite-lived	660	660
Donor-restricted assets	450	451
Other	261	211
Total other long-term assets, net	$ 1,843	$ 1,785

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.

The aggregate amortization expense related to intangible assets is $3 million and $2 million for the three-month periods ended September 30, 2021 and 2020, respectively, and is recorded in depreciation and amortization in the unaudited condensed consolidated statements of operations and changes in net assets.

9. DEBT

In August 2019, the CommonSpirit Health Master Trust Indenture (the "CommonSpirit MTI") was formed, with CHI and the Dignity Health Obligated Group each obtaining the necessary consents. The CommonSpirit MTI has an Obligated Group that is comprised of the former Dignity Health Obligated Group and CHI entities (collectively, the "CommonSpirit Obligated Group").

2022 Financing Activity – In November 2021, CommonSpirit drew $102 million on its syndicated line of credit for the redemption in full, of the Kentucky Economic Development Finance Authority Fixed Rate Put Bonds, Series 2009B, and the Colorado Health Facilities Authority Fixed Rate Put Bonds, Series 2008D-3.

2021 Financing Activity – In August 2020, CommonSpirit renewed a $125 million line of credit used to support its self-liquidity program scheduled to mature in August 2020, to August 2023.

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

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

10. 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):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			As of September 30, 2021	
Derivatives not designated as hedges				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 2,050	$ (437)
Risk participation agreements	2022 - 2025 with extension options	SIFMA plus spread	510	-
Total return swaps	2024 - 2030	SIFMA plus spread	322	1
Total derivative instruments			2,882	(436)
Cash collateral			-	210
Derivative instruments, net			$ 2,882	$ (226)
			As of June 30, 2021	
Derivatives not designated as hedges				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 2,117	$ (473)
Risk participation agreements	2022 - 2025 with extension options	SIFMA plus spread	510	-
Total return swaps	2024 - 2030	SIFMA plus spread	322	1
Total derivative instruments			2,949	(472)
Cash collateral			-	185
Derivative instruments, net			$ 2,949	$ (287)

CommonSpirit held $2.1 billion notional amount of interest rate swaps and $832 million notional amount of total return swaps at September 30, 2021, which have a negative fair value of $437 million and fair value of $1 million, respectively. CommonSpirit posted $210 million of collateral against the fair value of the interest rate swaps as of September 30, 2021.

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 amount of interest rate swaps that are insured and have a negative fair value of $55 million as of September 30, 2021. In the event the insurer is downgraded below a specified minimum credit rating, the counterparties have the right to terminate the swaps if CommonSpirit does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If both the insurer and CommonSpirit are downgraded below a specified minimum credit rating, the counterparties have the right to terminate the swaps.

CommonSpirit has $1.9 billion notional amount of interest rate swaps that are not insured, of which the counterparties have various rights to terminate $341 million notional. The interest rate swaps with rights to terminate include the outstanding notional amounts of $100 million and $181 million at each five-year anniversary date commencing in March 2023 and September 2023, respectively. Swaps in the outstanding notional amounts of $60 million have mandatory puts 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 $67 million as of September 30, 2021. The remaining uninsured swaps in the notional amount of $1.6 billion have a negative fair value of $315 million as of September 30, 2021.

CommonSpirit has floating rate derivatives in the notional amount of $832 million as of September 30, 2021. These include $510 million of risk participation agreements which have a fair value deemed immaterial and $322 million notional of total return swaps with a fair value of $1 million as of September 30, 2021.

In July 2021, CommonSpirit novated swaps in the outstanding amount of $322 million held with one counterparty to another. The swap notional amount of $68 million with the mandatory put in March 2023 was removed as part of this transaction.

All swaps and derivative bank counterparties have consented to the CommonSpirit Health MTI.

11. LEASES

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

Following is supplemental condensed consolidated balance sheet information related to leases as of September 30, 2021, and June 30, 2021 (in millions):

Lease Type	Balance Sheet Classification	As of September 30, 2021	As of June 30, 2021
Operating Leases:			
Operating lease ROU assets	Right-of-use operating lease assets	$ 1,842	$ 1,863
Operating lease obligations - current	Current liabilities: Operating lease liabilities	272	270
Operating lease obligations - long-term	Other liabilities: Operating lease liabilities	1,727	1,750
Finance Leases:			
Finance lease ROU assets	Property and equipment, net	$ 289	$ 292
Current finance lease liabilities	Current portion of long-term debt	38	36
Long-term finance lease liabilities	Long-term debt, net of current portion	329	334

12. INTEREST EXPENSE, NET

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

	Three-Month Periods Ended September 30, 2021	2020
Interest and fees on debt	$ 121	$ 114
Capitalized interest expense	(5)	(9)
Interest expense, net	$ 116	$ 105

13. RETIREMENT PROGRAMS

Total expense for all CommonSpirit retirement and postretirement 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 postretirement plans expense includes the following (in millions):

	Three-Month Periods Ended September 30, 2021	2020
Service cost	$ 206	$ 193
Other nonservice net benefit credits	(71)	(15)
Retirement and postretirement plans expense	$ 135	$ 178

14. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

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

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

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

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

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

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

Based on the Supreme Court's decision, the Ninth Circuit returned the case to the District Court to continue the proceedings with regard to the two outstanding questions and other claims that were not decided by the Supreme

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

The parties agreed in principle to resolve the litigation. An unopposed motion for approval of the terms of settlement was preliminarily approved by the court in October 2021. Various notifications, filings, and comments regarding the settlement will occur over the next few months, with the final approval hearing on the settlement currently scheduled for March 2022. Management does not believe that the settlement will have a material adverse effect on the financial position or results of operations of CommonSpirit.

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