CommonSpirit

This document is dated February 14, 2025

UNAUDITED QUARTERLY REPORT

For the Three and Six-Month Periods Ended
December 31, 2024 and 2023

The information in this report
has been provided by
CommonSpirit Health

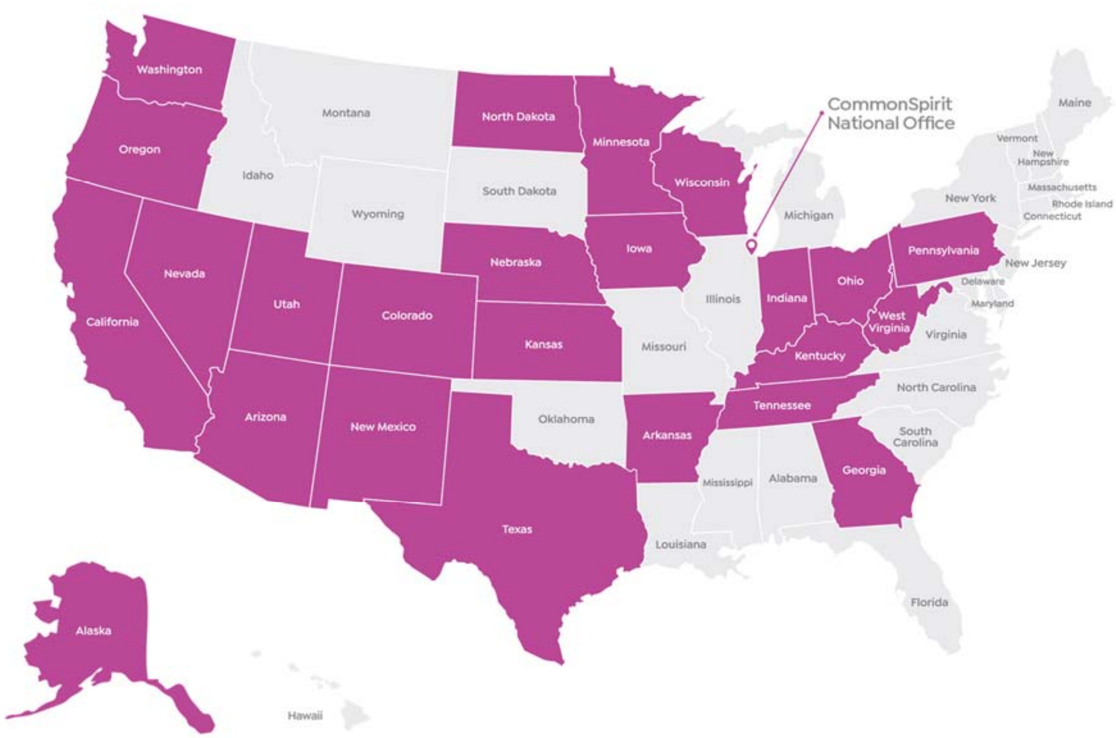
CommonSpirit Health
TABLE OF CONTENTS

Management Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

CommonSpirit Health owns and operates health care facilities in 24 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations. CommonSpirit Health and substantially all of its direct affiliates and subsidiaries have been granted exemptions from federal income tax as charitable organizations under Section 501(c)(3) of the Internal Revenue Code. With its national office in Chicago, and a team of approximately 157,000 employees and over 25,000 physicians and advanced practice clinicians, as of February 14, 2025, CommonSpirit Health is comprised of approximately 2,300 care sites, including 137 hospitals accounted for in continuing operations, consisting of academic health centers, major teaching hospitals, and critical access facilities; community health services organizations; accredited nursing colleges; home health agencies; living communities; a medical foundation and other affiliated medical groups; and other facilities and services that span the inpatient and outpatient continuum of care. An additional 20 hospitals are operated through unconsolidated joint ventures. The condensed consolidated financial statements in Exhibit I include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit" or the "System").



Forward-Looking Statements

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

CommonSpirit has presented its operating results for the three and six-month periods ended December 31, 2024 and 2023, in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and on a non-GAAP basis for EBITDA (earnings before interest, tax, depreciation and amortization, and nonoperating income). The non-GAAP financial measures are in addition to, not a substitute for, measures of financial performance prepared in accordance with GAAP.

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

Financial Highlights and Summary

CommonSpirit recorded operating income of $135 million and an operating loss of $196 million during the three and six-month periods ended December 31, 2024, respectively, compared to operating income of $356 million and an operating loss of $46 million, as reported, or a loss of $87 million and a loss of $340 million, when normalized for the California provider fee program, during the same periods in the prior year, respectively.

CommonSpirit’s EBITDA was $682 million for the three-month period ended December 31, 2024, a decrease from $927 million as reported during the same period in the prior year, but an increase from $484 million when normalized for the California provider fee program. The EBITDA margin for the three-month period ended December 31, 2024, was 6.7%, a decrease from 9.1% as reported, but an increase from 5.2% when normalized for the California provider fee program, during the same period in the prior year. EBITDA for the three-month period ended December 31, 2024, includes $352 million of Federal Emergency Management Agency (“FEMA”) grant revenue recognized and prior year results include a $234 million 340(b) program settlement from the Centers for Medicare and Medicaid services (“CMS”) related to underpayments in prior years.

CommonSpirit’s EBITDA was $882 million for the six-month period ended December 31, 2024, a decrease from $1.0 billion as reported during the same period in the prior year, but an increase from $746 million when normalized for the California provider fee program. The EBITDA margin for the six-month period ended December 31, 2024, was 4.5%, a decrease from 5.6% as reported, but an increase from 4.1% when normalized for the California provider fee program, during the same period in the prior year. Results for the six-month period ended December 31, 2024, include $379 million of FEMA grant revenue.

CommonSpirit’s EBITDA results improved during the quarter ended December 31, 2024, over the prior year, but continues to be impacted by expenses growing at a faster pace than revenue, despite strong volume, lower length-of-stay and higher productivity. Normalized revenue increases continue to be impacted by challenges with payors on denials and timely payments as well as payment increases from both government and non-government payors that are less than inflation. The major challenges the organization continues to face are limited increases in revenue levels and ensuring the organization receives the revenue and cash flow it is entitled to for services provided given the continued inflationary pressures on salaries and other costs. Despite the high inflation in supplies and other expenses and the challenges in revenue reimbursements, the second quarter financial results have improved compared to the first quarter of the current fiscal year and the second quarter of the prior year.

CommonSpirit Health has multiple efforts underway to improve operating performance, including but not limited to:

- Volume growth with an emphasis on improving network integrity, expansion of ambulatory services, and capacity optimization for perioperative and imaging services.
- Improved revenue realization through a focus on clinical denials prevention, escalation and resolution of disputes with payors, collaboration with the organization's revenue cycle vendor partners, and ongoing managed care negotiations to reflect performance.
- Labor cost management via deployment of standard department staffing models across the organization as well as reduced contract labor utilization and spend.
- Other expense reduction efforts through renegotiation of supply chain contracts, rationalization of purchased service contracts and other expenses, and improved management of out of network expenses for at risk contracts.
- Focused improvement efforts, including service rationalization, for those markets where performance is currently below requirements.

Key Indicators Financial Summary

($ in millions)	Three-Month Periods Ended December 31, 2024	2023	2023*	Change**
	As Recorded	As Recorded	As Adjusted	As Adjusted Comparison
EBITDA	$ 682	$ 927	$ 484	$ 198
Margin %	6.7%	9.1%	5.2%	1.5%
Operating income (loss)	$ 135	$ 356	$ (87)	$ 222
Margin %	1.3%	3.5%	(0.9%)	2.2%
Excess (deficit) of revenues over expenses	$ 100	$ 1,179	$ 736	$ (636)
Margin %	1.0%	10.6%	7.2%	(6.2%)

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

*** Comparing December 31, 2024, as recorded to the same period in the prior year as adjusted.*

Key Indicators Financial Summary				
	Six-Month Periods Ended December 31,			
($ in millions)	2024	2023	2023*	Change**
	As Recorded	As Recorded	As Adjusted	As Adjusted Comparison
EBITDA	$ 882	$ 1,040	$ 746	$ 136
Margin %	4.5%	5.6%	4.1%	0.4%
Operating income (loss)	$ (196)	$ (46)	$ (340)	$ 144
Margin %	(1.0%)	(0.2%)	(1.9%)	0.9%
Excess of revenues over expenses	$ 367	$ 480	$ 186	$ 181
Margin %	1.8%	2.5%	1.0%	0.8%

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

*** Comparing December 31, 2024, as recorded to the same period in the prior year as adjusted.*

California Provider Fee Program

In March 2023, the State of California submitted a State Plan Amendment ("SPA") to CMS for approval of the new 24-month provider fee program beginning January 1, 2023. CMS approval of this program was received in December 2023. As such, during the three and six-month period ended December 31, 2024, CommonSpirit recognized provider fee net income from continuing operations of $155 million and $311 million, compared to $598 million recorded in December 2023 ($304 million related to the six-month period ended December 31, 2023, and $294 million related to the six-month period ended June 30, 2023). With the culmination of the program as of December 31, 2024, the state of California submitted an initial SPA to CMS on December 11, 2024, for approval of the new 12-month provider fee program beginning January 1, 2025. Approval of this new program is expected to be received under a similar timeframe.

As a result of the CMS approval timing, EBITDA, operating revenues, and expenses for the three and six-month periods ended December 31, 2023, have been adjusted where indicated in this report to normalize the California provider fee program revenue and expenses as though CMS approval had occurred as of January 1, 2023.

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

California Provider Fee Program	Three-Month Periods Ended December 31,			Six-Month Periods Ended December 31,		
($ in millions)	2024	2023	Change	2024	2023	Change
California Provider Fee as Recorded						
Net patient and premium revenues	$ 319	$ 1,169	$ (850)	$ 638	$ 1,169	$(531)
Operating expenses	164	571	(407)	327	571	(244)
Provider Fee net income	$ 155	$ 598	$ (443)	$ 311	$ 598	$(287)
Normalized California Provider Fee						
Net patient and premium revenues	$ 319	$ 318	$ 1	$ 638	$ 602	$ 36
Operating expenses	164	163	1	327	298	29
Provider Fee net income	$ 155	$ 155	$ -	$ 311	$ 304	$ 7
Impact of Normalizing California Provider Fee						
Net patient and premium revenues	$ -	$ (851)	$ 851	$ -	$ (567)	$ 567
Operating expenses	-	(408)	408	-	(273)	273
Provider Fee net income (loss)	$ -	$ (443)	$ 443	$ -	$ (294)	$ 294

Acquisitions, Affiliations and Divestitures

In February 2024, CommonSpirit entered into an agreement to transfer two hospitals, along with associated clinics in San Francisco, to The University of California - San Francisco Health. The associated assets and liabilities were classified as held for sale as of June 30, 2024, within other current assets and other accrued liabilities – current, respectively, in the associated condensed consolidated balance sheets. The transfer was finalized in August 2024 and the operations of the facilities held for sale are not material to the condensed statement of operations and changes in net assets.

Results of Operations

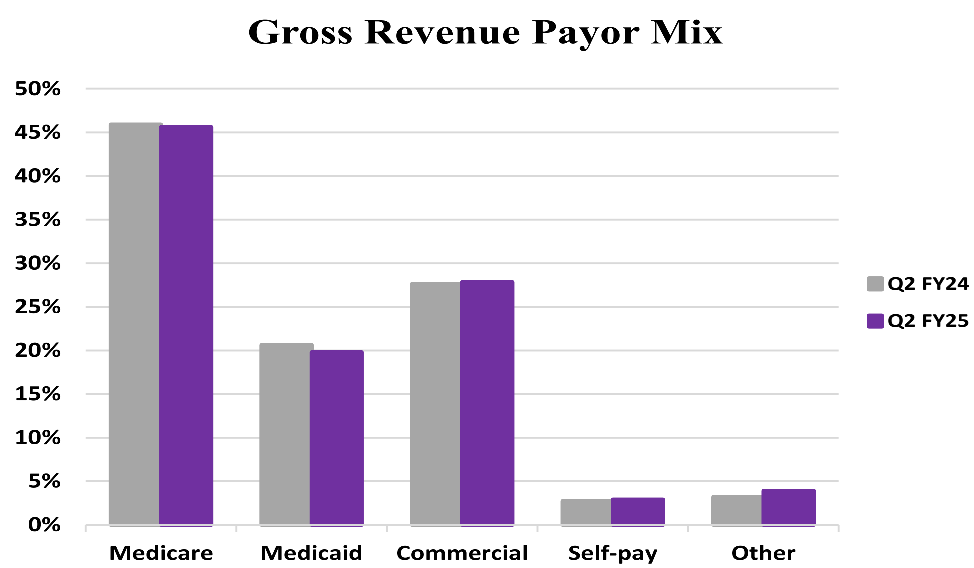
Operating Revenues and Volume Trends

Net patient and premium revenues decreased $431 million, or 4.4%, and increased $412 million, 2.3%, over the same periods in the prior year for the three and six-month periods ended December 31, 2024 and 2023, respectively. Normalizing for the California provider fee revenues, net patient and premium revenue increased $420 million, or 4.7%, and $979 million, or 5.7%, over the same periods in the prior year, for the three and six-month periods ended December 31, 2024, respectively. Normalized net patient and premium revenue per adjusted admission increased 1.8% and 2.7% over the same periods in the prior year, for the three and six-month periods ended December 31, 2024, respectively. The increase is primarily due to higher volume levels.

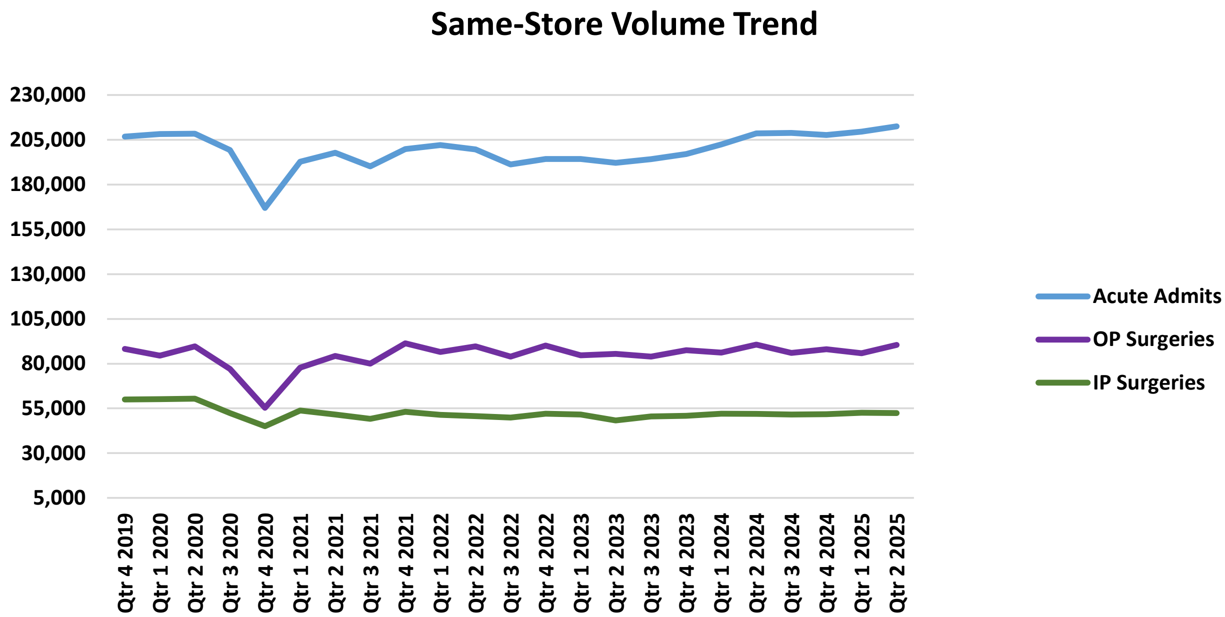
For the three and six-month periods ended December 31, 2024, CommonSpirit's volumes on an adjusted admission basis were favorable to the same period in the prior year by 2.8% and 2.9%, respectively. The acute average length of stay (ALOS) of 4.70 days and 4.69 days for the three and six-month periods ended December 31, 2024, were lower than the same periods in the prior year of 4.76 and 4.74, respectively.

Volumes								
	Three-Month Periods Ended December 31,				Six-Month Periods Ended December 31,			
	2024	2023	Change	%	2024	2023	Change	%
Acute admissions	212,462	208,530	3,932	1.9%	421,956	410,931	11,025	2.7%
Adjusted admissions	444,046	431,747	12,299	2.8%	882,871	858,125	24,746	2.9%
Acute inpatient days	997,622	991,961	5,661	0.6%	1,977,657	1,948,443	29,214	1.5%
Adjusted patient days	2,177,049	2,153,016	24,033	1.1%	4,318,304	4,261,707	56,597	1.3%
Acute average length of stay	4.70	4.76	(0.06)	(1.3%)	4.69	4.74	(0.05)	(1.1%)
Outpatient visits	7,253,401	6,958,284	295,117	4.2%	14,444,277	13,892,750	551,527	4.0%
ED visits	998,027	1,012,178	(14,151)	(1.4%)	2,035,518	2,009,520	25,998	1.3%
Gross outpatient revenue as a % of total gross patient services revenue	52.0%	51.5%	0.5%	1.0%	52.1%	52.0%	0.1%	0.2%

Payor mix based on gross revenues for the six-month period ended December 31, 2024, improved slightly compared to the prior year. The following chart represents the gross revenue payor mix for consolidated operations for the six-month periods ended December 31, 2024 and 2023:



The following table is a summary of key volume metrics on a same-store basis (excluding surgical volumes in joint ventures with a minority interest):



All other operating revenues increased $368 million, or 77.0%, and $434 million, or 47.0%, from the same periods in the prior year, for the three and six-month periods ended December 31, 2024, respectively. The three-month period increase is primarily due to higher grant revenue, including $352 million related to FEMA grant revenue recorded for the COVID-19 pandemic, and a $29 million increase in pharmaceutical revenue, partially offset by a decrease of $32 million in gain on sale of assets. The six-month period increase is primarily due to higher grant revenue, including $379 million of FEMA grants, and a $49 million increase in pharmaceutical revenue. As of the issuance of this report, an additional $272 million in FEMA grants have been obligated subsequent to December 31, 2024, and will be recognized in the quarter ending March 31, 2025.

Operating Revenues				
	Three-Month Periods Ended December 31,			
($ in millions)	2024	2023	2023*	Change**
	As Recorded	As Recorded	As Adjusted	As Adjusted Comparison
Net patient and premium revenues	$ 9,291	$ 9,722	$ 8,871	$ 420
All other operating revenues	846	478	478	368
Total operating revenues	$ 10,137	$ 10,200	$ 9,349	$ 788

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

*** Comparing December 31, 2024, as recorded to the same period in the prior year as adjusted.*

Operating Revenues				
	Six-Month Periods Ended December 31,			
($ in millions)	**2024**	**2023**	**2023***	**Change****
	As Recorded	**As Recorded**	**As Adjusted**	**As Adjusted Comparison**
Net patient and premium revenues	$ 18,177	$ 17,765	$ 17,198	$ 979
All other operating revenues	1,357	923	923	434
Total operating revenues	$ 19,534	$ 18,688	$ 18,121	$ 1,413

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

*** Comparing December 31, 2024, as recorded to the same period in the prior year as adjusted.*

Operating Revenues by Region

The following table presents operating revenues by region for the three and six-month periods ended December 31, 2024 and 2023. The results by region are presented consistent with the organization's recent consolidation of eight operating divisions into five regions, as shown below:

Operating Revenues By Region				
	Three-Month Periods Ended December 31,			
($ in millions)	**2024**	**2023**	**2023****	**Change*****
	As Recorded	**As Recorded**	**As Adjusted**	**As Adjusted Comparison**
California	$ 3,384	$ 4,080	$ 3,228	$ 156
Central	2,093	1,996	1,996	97
South	1,860	1,758	1,758	102
Mountain	965	967	967	(2)
Northwest	1,338	1,249	1,249	89
National Business Lines*	82	80	80	2
Others	10	6	7	3
Subtotal	9,732	10,136	9,285	447
Corporate Services	405	64	64	341
CommonSpirit Total	$ 10,137	$ 10,200	$ 9,349	$ 788

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

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

**** Comparing December 31, 2024, as recorded to the same period in the prior year as adjusted.*

Operating Revenues By Region				
	Six-Month Periods Ended December 31,			
($ in millions)	2024	2023	2023**	Change***
	As Recorded	As Recorded	As Adjusted	As Adjusted Comparison
California	$ 6,640	$ 6,796	$ 6,229	$ 411
Central	4,054	3,810	3,810	244
South	3,658	3,492	3,492	166
Mountain	1,909	1,906	1,906	3
Northwest	2,615	2,399	2,399	216
National Business Lines*	163	158	158	5
Others	12	33	33	(21)
Subtotal	19,051	18,594	18,027	1,024
Corporate Services	483	94	94	389
CommonSpirit Total	$ 19,534	$ 18,688	$ 18,121	$ 1,413

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

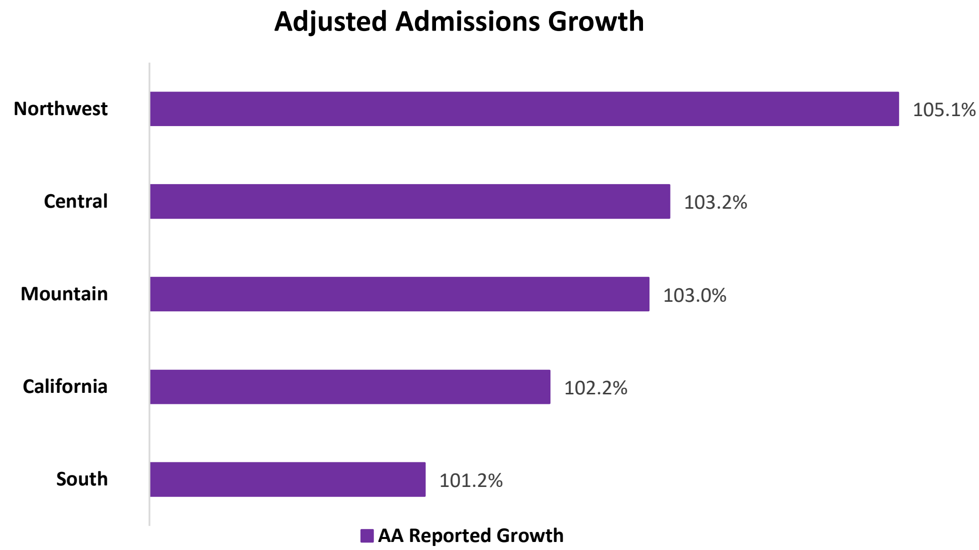
*** Adjusted to normalize the California Provider Fee Program revenues.*

**** Comparing December 31, 2024, as recorded to the same period in the prior year as adjusted.*

Following are the significant performance drivers related to operating revenues normalized for the California Provider Fee, for the six-month period ended December 31, 2024, compared to the prior year:

- California – normalized operating revenues increased $411 million from the prior year, primarily due to higher normalized provider fee revenue, a 2.2% increase in adjusted admissions, slight improvement in payor mix, and higher surgical and emergency department volume, partially offset by continued revenue yield challenges and a decrease related to a 340(b) settlement recorded in the prior year.
- Central – operating revenues increased $244 million from the prior year, primarily due to a 3.2% increase in adjusted admissions, payor mix improvement, higher disproportionate share ("DSH") and provider fee revenue, and higher emergency department volumes, partially offset by lower revenue from interests in health-related activities and a decrease related to a 340(b) settlement recorded in the prior year.
- South – operating revenues increased $166 million from the prior year, primarily due to additional volumes, with adjusted admissions increasing by 1.2% over the same period in the prior year, improved payor mix, and higher provider fee program revenue, partially offset by lower DSH revenue, continued revenue yield challenges, and a decrease related to a 340(b) settlement recorded in the prior year.
- Mountain – operating revenues increased $3 million from the prior year, primarily due to adjusted admissions increasing by 3.0% and a gain on sale of assets, offset by an unfavorable shift in payor mix, lower outpatient surgical and emergency department volumes, and a decrease related to a 340(b) settlement recorded in the prior year.
- Northwest – operating revenues increased $216 million from the prior year, primarily due to a 5.1% increase in adjusted admissions, higher outpatient volume, and higher provider fee revenue, partially offset by continued revenue yield challenges and a decrease related to a 340(b) settlement recorded in the prior year.
- Corporate – operating revenues increased $389 million from prior year, primarily due to $379 million of FEMA grant revenue in the current year.

The table below reflects the adjusted admissions growth reported for the six-month period ended December 31, 2024, compared to the same period in the prior year:



Uncompensated Care	Three-Month Periods Ended December 31,			Six-Month Periods Ended December 31,		
($ in millions)	2024	2023	Change	2024	2023	Change
Uncompensated Care:						
Charity care, at customary charges	$ 664	$ 530	$ 134	$ 1,279	$ 1,028	$ 251
Charity care, at cost, net	$ 160	$ 137	$ 23	$ 308	$ 256	$ 52
Charity care, at cost, as a percentage of total expenses	1.6%	1.4%	0.2%	1.6%	1.4%	0.2%

Operating Expenses

Salaries and benefits increased $205 million, or 4.2%, and $494 million, or 5.2%, over the same periods in the prior year, for the three and six-month periods ended December 31, 2024, respectively. The increase is primarily due to an increase in adjusted admissions and continued salary inflation costs, partially offset by improved labor productivity and reduced contract labor spend. Salaries and benefits per adjusted admission increased by 1.3% and 2.3%, from the same periods in the prior year, for the three and six-month periods ended December 31, 2024, respectively.

Supplies increased $158 million, or 11.1%, and $303 million, or 10.7%, during the three and six-month periods ended December 31, 2024, compared to the same periods in the prior year, respectively. Supplies per adjusted admission increased 8.0% and 7.7%, compared to the same periods in the prior year, for the three and six-month periods ended December 31, 2024, respectively. The increase on a volume adjusted basis is primarily due to the continued inflationary impact on pharmaceuticals and surgical and medical supplies. CommonSpirit is working on reducing supply costs through renegotiation of supply chain contracts and vendor consolidations.

Purchased services and other increased $227 million, or 6.0%, and $480 million, or 9.4%, for the three and six-month periods ended December 31, 2024, respectively, compared to the same periods in the prior year, when normalizing for the California provider fee program costs. Purchased services and other per adjusted admission on a normalized basis increased 5.7% and 6.3%, compared to the same periods in the prior year, for the three and six-month periods ended

December 31, 2024, respectively, primarily due to higher medical fees and out-of-network and insurance costs, partially offset by lower collection agency costs and lease expenses.

Operating Expenses				
	Three-Month Periods Ended December 31,			
($ in millions)	**2024**	**2023**	**2023***	**Change****
	As Recorded	**As Recorded**	**As Adjusted**	**As Adjusted Comparison**
Salaries and benefits	$ 5,051	$ 4,846	$ 4,846	$ 205
Supplies	1,587	1,429	1,429	158
Purchased services and other	2,817	2,998	2,590	227
Depreciation and amortization	360	392	392	(32)
Interest expense, net	187	179	179	8
Total operating expenses	$ 10,002	$ 9,844	$ 9,436	$ 566

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

*** Comparing December 31, 2024, as recorded to the same period in the prior year as adjusted.*

Operating Expenses				
	Six-Month Periods Ended December 31,			
($ in millions)	**2024**	**2023**	**2023***	**Change****
	As Recorded	**As Recorded**	**As Adjusted**	**As Adjusted Comparison**
Salaries and benefits	$ 9,937	$ 9,443	$ 9,443	$ 494
Supplies	3,122	2,819	2,819	303
Purchased services and other	5,593	5,386	5,113	480
Depreciation and amortization	706	735	735	(29)
Interest expense, net	372	351	351	21
Total operating expenses	$ 19,730	$ 18,734	$ 18,461	$ 1,269

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

*** Comparing December 31, 2024, as recorded to the same period in the prior year as adjusted.*

Expense Management and Productivity	Three-Month Periods Ended December 31,			Six-Month Periods Ended December 31,		
	2024	2023	2023*	2024	2023	2023*
	As Recorded	As Recorded	As Adjusted	As Recorded	As Recorded	As Adjusted
Expense Management:						
Supply expense as a % of net patient and premium revenue	17.1%	14.7%	16.1%	17.2%	15.9%	16.4%
Purchased services and other as a % of net patient and premium revenue	30.3%	30.8%	29.2%	30.8%	30.3%	29.7%
Capital expense as a % of net patient and premium revenue	5.9%	5.9%	6.4%	5.9%	6.1%	6.3%
Non-capital cost per adjusted admission	$21,293	$21,479	$20,533	$21,128	$20,566	$20,248
Productivity:						
Salaries, wages and benefits as a % of net patient and premium revenue	54.4%	49.8%	54.6%	54.7%	53.2%	54.9%
Number of FTEs	137,364	134,199	134,199	136,627	132,893	132,893
FTEs per adjusted admission	25.20	25.56	25.56	25.19	25.49	25.49

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

Nonoperating Results

CommonSpirit recorded investment losses, net, of $102 million and investment income of $516 million during the three and six-month periods ended December 31, 2024, compared to investment income, net, of $899 million and $610 million during the same periods in the prior year, respectively, due to market fluctuations.

Income tax expense was $13 million and $21 million during the three and six-month periods ended December 31, 2024, compared to $12 million and $15 million during the same periods in the prior year, respectively.

The change in market value and cash payments of interest rate swaps was a favorable result of $49 million and $6 million during the three and six-month periods ended December 31, 2024, compared to an unfavorable result of $31 million and $4 million during the same periods in the prior year, respectively.

Net periodic postretirement credits amounted to $27 million and $54 million of income during the three and six-month periods ended December 31, 2024, compared to $33 million and $66 million of costs during the same periods in the prior year, respectively.

Nonoperating Results	Three-Month Periods Ended December 31,			Six-Month Periods Ended December 31,		
($ in millions)	2024	2023	Change	2024	2023	Change
Investment income (loss), net	$ (102)	$ 899	$ (1,001)	$ 516	$ 610	$ (94)
Gain on early extinguishment of debt	2	-	2	2	-	2
Income tax expense	(13)	(12)	(1)	(21)	(15)	(6)
Change in fair value and cash payments of interest rate swaps	49	(31)	80	6	(4)	10
Other components of net periodic postretirement credits (costs)	27	(33)	60	54	(66)	120
Other	2	-	2	6	1	5
Total nonoperating income (loss), net	$ (35)	$ 823	$ (858)	$ 563	$ 526	$ 37

The detail of investment earnings is as follows:

Investment income (loss), net	Three-Month Periods Ended December 31,			Six-Month Periods Ended December 31,		
($ in millions)	2024	2023	Change	2024	2023	Change
Net realized gains on sale of securities	$ 32	$ 101	$ (69)	$ 280	$ 188	$ 92
Net unrealized gains (losses) on securities	(205)	744	(949)	84	304	(220)
Other, net of capitalized investment income	71	54	17	152	118	34
Total investment income (loss), net	$ (102)	$ 899	$ (1,001)	$ 516	$ 610	$ (94)

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

Balance Sheet Metrics

The following table provides key balance sheet metrics for CommonSpirit:

Key Balance Sheet Metrics	December 31,	June 30,	
($ in millions)	2024	2024	Change
Consolidated Balance Sheet Summary			
Total assets	$ 55,033	$ 54,734	$ 299
Total liabilities	$ 32,421	$ 32,482	$ (61)
Total net assets	$ 22,612	$ 22,252	$ 360
Financial Position Ratios			
Unrestricted cash and investments	$ 15,390	$ 15,550	$ (160)
Days cash on hand normalized	150	156	(6)
Total debt	$ 19,683	$ 18,803	$ 880
Debt to capitalization	49.1%	48.4%	0.7%

Liquidity

Unrestricted cash and investments were $15.4 billion at December 31, 2024, and $15.6 billion at June 30, 2024. CommonSpirit is actively monitoring liquidity given continued inflationary pressures, cash flow disruptions related to denials, timing related to employee retention credits, FEMA grant revenues, and provider fee receipts and payments.

Liquidity and Capital Resources ($ in millions)	December 31, 2024	June 30, 2024	Change
Cash	$ 1,726	$ 1,983	$ (257)
Short-term investments	178	300	(122)
Long-term investments, excluding assets limited as to use	13,486	13,267	219
Total unrestricted cash and investments	$ 15,390	$ 15,550	$ (160)

Capital Resources

Cash used by operating activities totaled $76 million for the six-month period ended December 31, 2024, compared to cash provided of $346 million for the same period in the prior year. Significant activity for the six-month period ended December 31, 2024, includes the following:

- Investments increased $113 million during the six-month period ended December 31, 2024, compared to a decrease of $536 million during the same period in the prior year.
- Accrued salaries and benefits decreased $64 million during the six-month period ended December 31, 2024, compared to a decrease of $108 million during the same period in the prior year.
- Accounts receivable, net, increased $16 million during the six-month period ended December 31, 2024, compared to an increase of $346 million for the same period in the prior year.
- Accounts payable decreased $281 million during the six-month period ended December 31, 2024, compared to an increase of $46 million for the same period in the prior year.
- Provider fee program net receivables increased $63 million during the six-month period ended December 31, 2024, compared to an increase of $432 million for the same period in the prior year.
- Prepaid and other current assets increased $270 million during the six-month period ended December 31, 2024, compared to an increase of $429 million for the same period in the prior year.
- Other accrued liabilities decreased $238 million during the six-month period ended December 31, 2024, compared to an increase of $63 million during the same period in the prior year.

Cash used in investing activities totaled $930 million for the six-month period ended December 31, 2024, compared to $484 million during the same period in the prior year, primarily related to the following:

- Capital expenditures were $955 million during the six-month period ended December 31, 2024, compared to $474 million for the same period in the prior year. Such capital expenditures primarily relate to growth in ambulatory and inpatient services, equipment and systems additions and replacements, purchase of previously leased real estate, and various other capital improvements.
- Proceeds from the sale of assets were $112 million during the six-month period ended December 31, 2024, compared to $52 million during the same period in the prior year, primarily due to the San Francisco transaction.

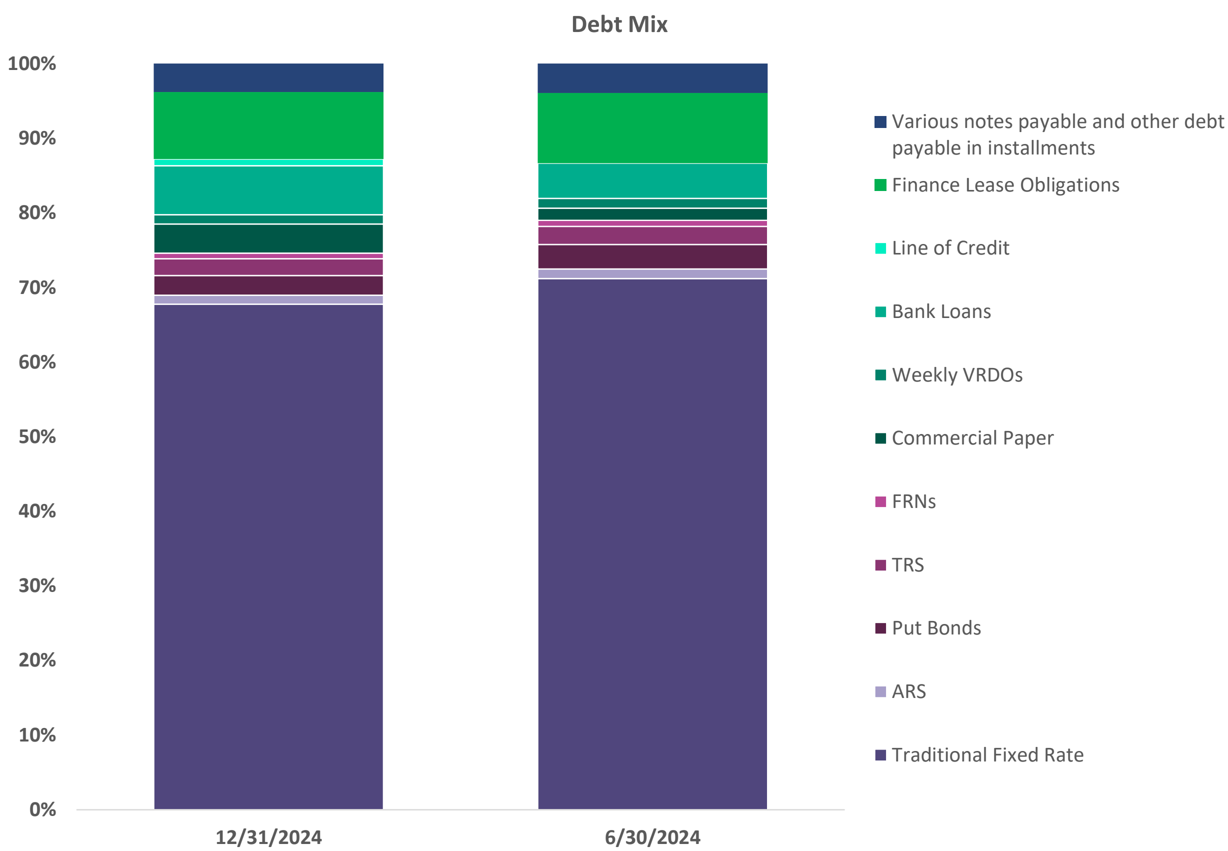
Cash provided by financing activities totaled $749 million for the six-month period ended December 31, 2024, compared to cash used of $172 million for the same period in the prior year, primarily due to the following:

- Net borrowings of debt were $802 million during the six-month period ended December 31, 2024, compared to net repayments of $70 million during the same period in the prior year. The increase in debt is primarily due to additional line of credit draws used in providing additional working capital and Change Healthcare advance repayment.
- Distributions to noncontrolling interests were $52 million for the six-month period ended December 31, 2024, compared to $138 million during the same period in the prior year.

Debt Portfolio

The CommonSpirit Obligated Group represents approximately 87% of consolidated revenues of CommonSpirit as of December 31, 2024. The debt portfolio remains well diversified, with a high proportion of long-term fixed rate debt providing stability.

The chart below depicts CommonSpirit's debt mix as of December 31, 2024, as compared to June 30, 2024:



Strategic Focus and Priorities

Under the leadership of CEO Wright Lassiter III, the organization has established a set of five critical focus areas referred to as “5 for 25” to accelerate CommonSpirit 2026, the strategic road map created at the time of the 2019 merger. These focus areas are not just about change; they are about transformation, about enhancing quality of care, broadening access to care, reducing cost of care, ensuring financial viability, and propelling our mission and operations. Implementing these initiatives across the ministry is designed to help position CommonSpirit to create a stronger, successful, sustainable and more unified CommonSpirit and set the foundation for launching into a new strategic plan for CommonSpirit the following year:

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

The organization continues to make progress and build on a range of initiatives put in place to address the five areas of critical focus. A few examples of progress made through the first half of fiscal year 2025 are described below.

Achieve a Unified Ministry: This defines our strategic imperative to rapidly complete the integration of all aspects of our ministry – clinical, operational, and technological – across our entire footprint while aligning our geographic markets. It includes further work to centralize or standardize processes to ensure the delivery of a consistently superior patient experience, while maintaining exceptional clinical standards. It also includes evolving the design and operating model of CommonSpirit, as well as cultivating a consistent identity and culture. Under the banner of *One CommonSpirit*, the following initiatives continued to be built upon during the second quarter:

- **Clinical Quality and Patient Satisfaction:** CommonSpirit seeks to 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 and continue to improve and provide excellent quality of care. As an example, 83% of our hospitals are Leapfrog grade A or B with six hospitals being designated as top performers in the areas of general, rural and teaching facilities. CommonSpirit’s patient experience also continues to improve and has an average Provider Star Rating of 4.9 and a 68.3 Net Promoter Score in fiscal year 2024.
- **Continuing to Refine the Operating Model:** With the completion of the Region and market structures and leadership changes, the focus is on leveraging this model with an aim to strengthen relevance across CommonSpirit markets. In concert with this, the focus at the system level is in realizing economies of scale nationally, including coordinated supply chain, clinical equipment and infrastructure programs which are being implemented this fiscal year.
- **Integrated Information Technology (IT) Platforms:** CommonSpirit’s IT roadmap identified opportunities to lower costs over the long term, improve clinical and operational challenges, reduce staff and clinician burnout, and standardize clinical platforms. One major pillar of this work includes standardization to a single electronic health record (“EHR”) system. The first step toward a new standard across CommonSpirit will be in the South region in June 2025, and this work is well underway during the first half of fiscal year 2025.
- **Creating and Retaining the Workforce of the Future:** CommonSpirit recognizes that our people are our most valuable asset and is focusing 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. CommonSpirit is also investing in attracting and retaining leaders who find purpose in their work, and building competencies that reflect CommonSpirit’s focus on well-being across a continuum of care and the enhanced importance of an agile, collaborative culture. CommonSpirit has a range of programs, initiatives and areas of focus to support our workforce. Our employee engagement scores

continue to improve year over year and CommonSpirit was recently ranked #26 in Forbes America's Dream Employers list.

Ensure We Are Paid for the Care We Provide: One of the most critical levers is to receive the revenue and cash flow CommonSpirit is entitled to for services provided. We are focused on improving our commercial contracting to meet financial goals and optimizing rates and settlements. We are ensuring that our payor agreements and rates are accurate with a strong contract modeling policy, and implementing a new system for better contract visibility to ensure proper payments. We are also focused on selecting the right marketplace plans to stay in-network and reduce out-of-network costs. CommonSpirit is aiming to grow commercial revenue by pursuing direct contracts with employers. On the government side, we are focused on improving Medicare and Medicaid rates and terms. CommonSpirit will continue participating in value-based models to support population health and prepare for future health care changes.

Transform Our Portfolio:

- **Enhancing the Continuum of Care and Focused Ambulatory Development**: CommonSpirit's goal is to seamlessly care for patients across all care settings, either at an individual care setting or by managing a patient's journey across multiple settings. In addition to the horizontal alignment around markets and geographies, CommonSpirit is focusing time and effort on aligning the portfolio vertically across a range of pre- and post-acute services. CommonSpirit is ranked one or two in acute market share in 25 of our 35 markets and is focused on growing the continuum of our network integrity to deliver greater value. CommonSpirit continues to expand our ambulatory and virtual care points and enhance connections across the continuum of care. As clinical innovation drives the continued transition of a range of traditionally acute-care services to lower acuity settings, we are expanding ambulatory care capacity. During the six-months ended December 31, 2024, CommonSpirit added 18 new ambulatory care sites across 10 states. Additionally, CommonSpirit has new partnerships with LifePoint for acute behavioral and rehabilitation services with two new sites underway in Houston and Tennessee and two additional sites to be announced within the year. CommonSpirit is also focused on its Home Health and Senior Living services where work is underway to better align with and support our markets' needs for the full continuum of care to best transition and serve our patients in the most appropriate care settings.

- **Innovative Partnerships Advance the Care Continuum:** CommonSpirit has a range of partnerships in areas such as novel care models in primary care, behavioral health, micro hospitals, hospitals at home, and other care models. New areas of focus include an effort to aid the need for transparent Pharmacy Benefit Managers ("PBM") and Artificial Intelligence ("AI") with the goal to stay ahead of the ecosystem and partner with mission aligned companies to serve CommonSpirit's ministry. CommonSpirit is the first health system of its scale to adopt a transparent PBM solution and a new Generative AI partnership focused on leveraging data to create a more efficient supply chain. Additionally, CommonSpirit supports diversification through a successful co-investment program where we may invest alongside leading venture firms in the companies we are partnering with and recently added two additional companies to its portfolio. One of these partners is the only company approved by CMS to deliver the new "GUIDE" model for neurology patients across nearly 50 states and the other is an emerging player for last-mile delivery services in healthcare. Both investments are bringing innovative approaches to serve the healthcare ecosystem at large. This co-investment program has had very strong results and has generated financial and operational returns.

- **Portfolio Assessment and Management:** CommonSpirit is enhancing its portfolio analysis and investment strategy to focus on its service profile across the organization, as well as improve market essentiality in existing markets. A primary focus in this evaluation is identifying diversified revenue opportunities that expand CommonSpirit from a heavier weighting in acute care, to quickly scale critical ambulatory services that support CommonSpirit's ability to reach out into each of the communities it serves to care for its patients. CommonSpirit is assessing each market's current position and market potential, defining market-based strategies, and aligning and prioritizing our capital investments for maximum impact. A recent example of market-based investments is the expanded relationship with Kaiser Permanente ("Kaiser") under a new long-term agreement in Colorado. This unique arrangement with Kaiser will include integrating Kaiser physicians and employees into CommonSpirit hospitals to care for Kaiser members. This approach is integrated in CommonSpirit's Long Range Strategic Planning process, which commenced in the second quarter, and will inform strategic investments for fiscal year 2026. In addition, while not the primary intent, this may result in other transactions where CommonSpirit discerns that communities may be better served by another provider. An example of a recent action includes the transfer of ownership of its San Francisco facilities to The University of California - San Francisco Health, a transaction that closed in August 2024.

Drive Organic Growth Through Network Integrity and Access: In terms of volume growth, better utilizing the costly physical and people resources CommonSpirit already has is the most efficient way to grow. Several initiatives are in place to improve care continuity and improve organic growth, including:

- CommonSpirit's Patient Connection Centers ("PCCs"), use efficient resources to improve patient access and physician productivity, and our network integrity tools help improve care continuity within our network.
- Improved Network Integrity and Growth: CommonSpirit is enhancing efforts to track care continuity and enhance practice patterns to ensure we are serving our patients in-network, and implementing solutions unique to each market when necessary. These efforts are enhanced by tools that provide consistent, detailed analysis and trending of data to assess continuity of care and network integrity, PCC and digital front door enhancements, and improved use of our electronic health records to facilitate referrals and follow-up care. To date, all of CommonSpirit's markets are using a range of these tools and results are provided and tracked on a quarterly basis.

Launch a Reimagined Digital Consumer Experience: Implementation of "one digital front door" to our services will provide a consistent landing page with search and scheduling features across all of our regions. In addition to CommonSpirit's PCCs, which help connect patients to their providers through a single point of access, in April 2024, CommonSpirit launched the first phase of its Consumer Digital Experience at https://www.commonspirit.org that provides an integrated, consistent and seamless consumer experience. The reimagined digital experience features one content engine, one scheduling platform and the first ministry-wide Find a Doctor and Find a Location service, offering an intuitive way to compare and find the right provider and request an appointment with ease. As of June 2024, CommonSpirit launched enhanced online scheduling for our employed physicians and advanced practice providers in California, Arizona and Nevada. The next phase in this milestone achievement involves integrating all market-based sites onto the platform. Additionally, CommonSpirit in partnership with ZocDoc, launched a pilot in the Texas market. As of the launch date of August 2024, nearly 2,000 patient reviews through ZocDoc provided an average rating of 4.7%. CommonSpirit plans to scale these pilots across its five regions.

The 5 for 25 priorities for fiscal year 2025 are geared toward putting CommonSpirit on an improved trajectory to maintain and grow its financial strength and achievement of its strategic objectives. CommonSpirit continues to build on the achievements made in fiscal year 2024 to drive improved performance through revenue and cost levers by continuing to optimize large areas of opportunity in the areas of labor, revenue cycle, supply chain, contract labor and corporate and administrative services. Given continued inflationary and revenue pressures, the organization continues to focus on value capture initiatives, and has identified a set of actions to further address and improve operating performance in fiscal year 2025, including supply chain, pharmacy, payor contracting and adherence, purchased services, overhead functions, ancillary services, and a range of other areas.

Updates to these priorities and specific accomplishments will continue to be highlighted in these quarterly reports as appropriate.

****

Exhibit I

Unaudited Condensed Consolidated Financial Statements

For the Three and Six-Month Periods Ended December 31, 2024 and 2023

(Attached)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

For the Three and Six-Month Periods Ended December 31, 2024 and 2023

COMMONSPIRIT HEALTH

TABLE OF CONTENTS

COMMONSPIRIT HEALTH

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2024 AND JUNE 30, 2024 (in millions)

Assets	**As of December 31, 2024 (Unaudited)**	**As of June 30, 2024**
Current assets:		
Cash and cash equivalents	$ 1,726	$ 1,983
Short-term investments	178	300
Patient accounts receivable, net	5,434	5,407
Provider fee receivable	926	1,189
Other current assets	3,621	3,534
Total current assets	11,885	12,413
Long-term investments	17,318	16,879
Property and equipment, net	17,403	17,165
Right-of-use operating lease assets	1,549	1,687
Ownership interests in health-related activities	3,169	3,228
Other long-term assets, net	3,709	3,362
Total assets	$ 55,033	$ 54,734

(Continued)

COMMONSPIRIT HEALTH

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2024 AND JUNE 30, 2024 (in millions)

Liabilities and Net Assets	**As of December 31, 2024 (Unaudited)**	**As of June 30, 2024**
Current liabilities:		
Current portion of long-term debt	$ 2,466	$ 1,006
Demand bonds subject to short-term liquidity arrangements	247	247
Accounts payable	1,178	1,456
Accrued salaries and benefits	1,623	1,688
Provider fee payables	374	643
Other accrued liabilities - current	3,850	4,352
Total current liabilities	9,738	9,392
Other liabilities - long-term:		
Self-insured reserves and claims	1,171	1,169
Pension and other postretirement benefit liabilities	2,106	1,991
Derivative instruments, net	54	70
Operating lease liabilities	1,462	1,582
Other accrued liabilities - long-term	920	728
Total other liabilities - long-term	5,713	5,540
Long-term debt, net of current portion	16,970	17,550
Total liabilities	32,421	32,482
Net assets:		
Without donor restrictions - attributable to CommonSpirit Health	20,443	20,043
Without donor restrictions - noncontrolling interests	1,029	1,012
With donor restrictions	1,140	1,197
Total net assets	22,612	22,252
Total liabilities and net assets	$ 55,033	$ 54,734

See notes to unaudited condensed consolidated financial statements.

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2024 AND 2023 (in millions)

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2024	2023	2024	2023
Operating revenues:				
Net patient revenue	$ 8,882	$ 9,341	$ 17,367	$ 16,989
Premium revenue	409	381	810	776
Revenue from health-related activities, net	52	45	89	96
Other operating revenue	777	416	1,236	795
Contributions	17	17	32	32
Total operating revenues	10,137	10,200	19,534	18,688
Operating expenses:				
Salaries and benefits	5,051	4,846	9,937	9,443
Supplies	1,587	1,429	3,122	2,819
Purchased services and other	2,817	2,998	5,593	5,386
Depreciation and amortization	360	392	706	735
Interest expense, net	187	179	372	351
Total operating expenses	10,002	9,844	19,730	18,734
Operating income (loss)	135	356	(196)	(46)
Nonoperating income (loss):				
Investment income (loss), net	(102)	899	516	610
Gain on early extinguishment of debt	2	-	2	-
Income tax expense	(13)	(12)	(21)	(15)
Change in fair value and cash payments of interest rate swaps	49	(31)	6	(4)
Other components of net periodic postretirement credits (costs)	27	(33)	54	(66)
Other	2	-	6	1
Total nonoperating income (loss), net	(35)	823	563	526
Excess of revenues over expenses	$ 100	$ 1,179	$ 367	$ 480
Less excess of revenues over expenses attributable to noncontrolling interests	13	49	91	49
Excess of revenues over expenses attributable to CommonSpirit Health	$ 87	$ 1,130	$ 276	$ 431

(Continued)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2024 AND 2023 (in millions)

	Without Donor Restrictions			
	Attributable to CommonSpirit Health	Noncontrolling Interests	With Donor Restrictions	Total Net Assets
Balance, September 30, 2023	$ 18,229	$ 969	$ 1,139	$ 20,337
Excess of revenues over expenses	1,130	49	-	1,179
Contributions	-	-	38	38
Net assets released from restrictions for capital	7	-	(7)	-
Net assets released from restrictions for operations and other	-	-	(15)	(15)
Other	(220)	(15)	9	(226)
Increase in net assets	917	34	25	976
Balance, December 31, 2023	$ 19,146	$ 1,003	$ 1,164	$ 21,313
Balance, September 30, 2024	$ 20,315	$ 1,038	$ 1,116	$ 22,469
Excess of revenues over expenses	87	13	-	100
Contributions	-	-	30	30
Net assets released from restrictions for capital	20	-	(20)	-
Net assets released from restrictions for operations and other	-	-	(5)	(5)
Other	21	(22)	19	18
Increase (decrease) in net assets	128	(9)	24	143
Balance, December 31, 2024	$ 20,443	$ 1,029	$ 1,140	$ 22,612

(Continued)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2024 AND 2023 (in millions)

	Without Donor Restrictions			
	Attributable to CommonSpirit Health	Noncontrolling Interests	With Donor Restrictions	Total Net Assets
Balance, June 30, 2023	$ 18,960	$ 1,062	$ 1,117	$ 21,139
Excess of revenues over expenses	431	49	-	480
Contributions	-	-	78	78
Net assets released from restrictions for capital	11	-	(11)	-
Net assets released from restrictions for operations and other	-	-	(22)	(22)
Other	(256)	(108)	2	(362)
Increase (decrease) in net assets	186	(59)	47	174
Balance, December 31, 2023	$ 19,146	$ 1,003	$ 1,164	$ 21,313
Balance, June 30, 2024	$ 20,043	$ 1,012	$ 1,197	$ 22,252
Excess of revenues over expenses	276	91	-	367
Contributions	-	-	58	58
Net assets released from restrictions for capital	28	-	(28)	-
Net assets released from restrictions for operations and other	-	-	(14)	(14)
Other	96	(74)	(73)	(51)
Increase (decrease) in net assets	400	17	(57)	360
Balance, December 31, 2024	$ 20,443	$ 1,029	$ 1,140	$ 22,612

See notes to unaudited condensed consolidated financial statements.

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2024 AND 2023
(in millions)

	Six-Month Periods Ended December 31, 2024	Six-Month Periods Ended December 31, 2023
Cash flows from operating activities:		
Change in net assets	$ 360	$ 174
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	706	735
Changes in equity of health-related entities	(93)	(125)
Net gain on sales of assets and investments in unconsolidated organizations	(32)	(30)
Noncash operating expenses related to restructuring, impairment and other losses	-	180
Change in fair value of swaps	(11)	3
Noncash adjustments of pension and other postretirement benefit plans	46	116
Changes in certain assets and liabilities:		
Accounts receivable, net	(16)	(346)
Prepaid and other current assets	(270)	(429)
Broker receivables/payables for unsettled investment trades	-	(48)
Provider fee assets and liabilities, net	(63)	(432)
Accounts payable	(281)	46
Accrued salaries and benefits	(64)	(108)
Other accrued liabilities	(238)	63
Self-insured reserves and claims	(17)	(22)
Other, net	10	33
Cash provided by (used in) operating activities before net change in investments	37	(190)
Net (increase) decrease in investments	(113)	536
Cash provided by (used in) operating activities	(76)	346

(Continued)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2024 AND 2023
(in millions)

	Six-Month Periods Ended December 31, 2024	Six-Month Periods Ended December 31, 2023
Cash flows from investing activities:		
Purchases of property and equipment	(955)	(474)
Investments in health-related activities	(72)	(62)
Business acquisitions, net of cash acquired	(6)	(21)
Proceeds from asset sales, net	112	52
Cash distributions from health-related activities	46	37
Other, net	(55)	(16)
Cash used in investing activities	(930)	(484)
Cash flows from financing activities:		
Borrowings	1,543	531
Repayments	(741)	(601)
Swaps cash collateral received (posted)	(5)	7
Distributions to noncontrolling interests	(52)	(138)
Contribution by noncontrolling interests	4	29
Cash provided by (used in) financing activities	749	(172)
Net decrease in cash and cash equivalents	(257)	(310)
Cash and cash equivalents at beginning of period	1,983	1,677
Cash and cash equivalents at end of period	$ 1,726	$ 1,367
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 363	$ 339
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through finance lease or note payable	$ 50	$ 16
Investments in health-related activities	$ 61	$ 41
Accrued purchases of property and equipment	$ 66	$ 56

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 is a Catholic health care system sponsored by the public juridic person, Catholic Health Care Federation.

CommonSpirit Health owns and operates health care facilities in 24 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations. CommonSpirit Health and substantially all of its direct affiliates and subsidiaries have been granted exemptions from federal income tax as charitable organizations under Section 501(c)(3) of the Internal Revenue Code. As of February 14, 2025, CommonSpirit Health is comprised of approximately 2,300 care sites, consisting of 137 hospitals, including academic health centers, major teaching hospitals, and critical access facilities, community health services organizations, accredited nursing colleges, home health agencies, living communities, a medical foundation and other affiliated medical groups, and other facilities and services that span the inpatient and outpatient continuum of care. An additional 20 hospitals are operated through unconsolidated joint ventures. 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").

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. These unaudited condensed consolidated financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, refer to the audited consolidated financial statements as of and for the years ended June 30, 2024 and 2023. Operating results for the three and six-month periods ended December 31, 2024, are not necessarily indicative of the results to be expected during the year ending June 30, 2025.

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

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

Performance obligations are generally satisfied over a period of less than one year. As such, CommonSpirit has elected to apply the optional exemption provided in Financial Accounting Standards Board Accounting Standards Codification, *Revenue from Contracts with Customers*, and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

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

Subsequent changes that are determined to be the result of an adverse change in a third-party payor's ability to pay are recorded as bad debt expense in purchased services and other in the accompanying unaudited condensed consolidated statements of operations and changes in net assets. Bad debt expense the three and six-month periods ended December 31, 2024 and 2023, were 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.

Subsequent Events – CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal year and February 14, 2025, the date the unaudited condensed consolidated financial statements were issued. See Note 9.

3. ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

In February 2024, CommonSpirit entered into an agreement to transfer two hospitals, along with associated clinics in San Francisco, to The University of California- San Francisco Health. The associated assets and liabilities were classified as held for sale as of June 30, 2024, within other current assets and other accrued liabilities – current, respectively, in the associated condensed consolidated balance sheets. The transfer was finalized in August 2024 and the operations of the facilities held for sale are not material to the condensed consolidated statement of operations and changes in net assets.

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

4. NET PATIENT REVENUE

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

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2024	2023	2024	2023
Government	$ 4,684	$ 5,286	$ 9,128	$ 9,188
Contracted	3,191	3,280	6,558	6,259
Self-pay and other	1,007	775	1,681	1,542
	$ 8,882	$ 9,341	$ 17,367	$ 16,989

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.

5. OTHER CURRENT ASSETS

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

	As of December 31, 2024	As of June 30, 2024
Inventories	$ 848	$ 839
Receivables, other than patient accounts receivable	1,287	1,048
Broker receivables for unsettled investment trades	868	962
Assets held for sale	-	133
Prepaid expenses	511	468
Other	107	84
Total other current assets	$ 3,621	$ 3,534

6. CASH AND INVESTMENTS

CommonSpirit's cash and investments include consolidated membership interests in the CommonSpirit Health Operating Investment Pool, LLC ("CSH OIP") as of December 31, 2024, and June 30, 2024. 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 December 31, 2024	As of June 30, 2024
Cash and cash equivalents	$ 1,726	$ 1,983
Short-term investments	178	300
Long-term investments	17,318	16,879
Total cash and investments	19,222	19,162
Less:		
Held for self-insured claims	1,923	1,963
Under bond indenture agreements for debt service	184	102
Donor-restricted	621	596
Other	1,104	951
Total assets limited as to use	3,832	3,612
Unrestricted cash and investments	$ 15,390	$ 15,550

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 NAV practical expedient on a recurring basis (in millions) as of:

	December 31, 2024			
	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	$ 2,333	$ 103	$ -	$ 2,436
U.S. government securities	888	500	-	1,388
U.S. corporate bonds	52	523	-	575
U.S. equity securities	1,692	-	-	1,692
Foreign government securities	-	75	-	75
Foreign corporate bonds	3	172	-	175
Foreign equity securities	1,360	1	-	1,361
Structured debt	-	833	-	833
Private equity	-	-	156	156
Real estate	23	1	-	24
Community Investment Program	-	-	250	250
Other investments	253	27	-	280
Assets measured at fair value	$ 6,604	$ 2,235	$ 406	9,245
Assets at NAV				9,977
Total assets				$ 19,222
Liabilities				
Derivative instruments	$ -	$ 86	$ -	$ 86
Other	2	-	94	96
Total liabilities	$ 2	$ 86	$ 94	$ 182

	June 30, 2024							
	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	$	2,288	$	197	$	-	$	2,485
U.S. government securities		792		888		-		1,680
U.S. corporate bonds		50		629		-		679
U.S. equity securities		1,586		1		-		1,587
Foreign government securities		-		71		-		71
Foreign corporate bonds		3		228		-		231
Foreign equity securities		1,464		3		-		1,467
Structured debt		-		478		-		478
Private equity		-		-		118		118
Multi-strategy hedge funds		30		-		-		30
Real estate		5		7		-		12
Community Investment Program		-		-		198		198
Other investments		217		9		-		226
Assets measured at fair value	$	6,435	$	2,511	$	316		9,262
Assets at NAV								9,900
Total assets							$	19,162
Liabilities								
Derivative instruments	$	-	$	97	$	-	$	97
Other		2		-		91		93
Total liabilities	$	2	$	97	$	91	$	190

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, derivative instruments, net current liabilities and other liabilities – long-term in the accompanying unaudited 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 $539 million and $596 million as of December 31, 2024 and June 30, 2024, respectively.

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

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

The following table and explanations identify attributes relating to the nature and risk of investments for which fair value is determined using a calculated NAV as of December 31, 2024 (in millions):

		NAV Practical Expedient	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private equity	(1)	$ 1,677	$ 1,773	-	-
Multi-strategy hedge funds	(2)	2,281	-	Weekly, Monthly, Quarterly, Semi-annually, Annually	1- 90 days
Real estate	(3)	1,022	1,491	Quarterly	45 - 90 days
Commingled funds - debt securities	(4)	929	105	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	4,068	-	Daily, Weekly, Bi-Weekly, Monthly, Quarterly	1 - 90 days
Total		$ 9,977	$ 3,369		

(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 as of December 31, 2024, to be over the next 13 years.

(2) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term, risk-adjusted absolute returns. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. The following table reflects the various redemption frequencies, notice periods and any applicable lock-up periods or gates to redemption as of December 31, 2024:

Percentage of the Value of Category (2)		Redemption	Redemption Notice	Redemption Locked Up Until	Redemption Gate % of Account
Total	**Subtotal**	**Frequency**	**Period**	**(if applicable)**	**(if applicable)**
8.0%	8.0%	Annually	60 days	up to 2 years	up to 50.0%
46.3%	2.1%	Quarterly	45 days	up to 2 years	up to 20.0%
	31.4%	Quarterly	55- 65 days	up to 2 years	up to 12.5% - 50.0%
	12.8%	Quarterly	90 days	up to 1 year	up to 12.5% - 25.0%
39.4%	6.1%	Monthly	5 days	-	up to 20.0%
	22.2%	Monthly	30 - 45 days	-	up to 16.7 - 25.0%
	11.1%	Monthly	90 days	-	up to 20.0%
5.6%	5.6%	Weekly	3 days	-	-
0.7%	0.7%	Daily	1 day	-	-

(3) This category includes investments in real estate funds that invest primarily in institutional-quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts. Investments representing 18% 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 as of December 31, 2024, to be over the next 13 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 17% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated as of December 31, 2024, to be over the next four years.

(5) This category includes investments in commingled funds that invest primarily in domestic or foreign equity securities with multiple investment strategies. A majority of the funds attempt to match or exceed the returns of specific equity indices. Investments representing approximately 69% of the value of investments in this category do not have provisions for redemptions during the life of these funds.

8. OTHER LONG-TERM ASSETS, NET

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

	As of December 31, 2024	As of June 30, 2024
Notes receivable, primarily secured	$ 101	$ 92
Provider fee receivable, long-term	958	675
Goodwill	984	964
Intangible assets - definite-lived, net	96	101
Intangible assets - indefinite-lived	674	672
Donor-restricted assets	493	573
Other	403	285
Total other long-term assets, net	$ 3,709	$ 3,362

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

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

Goodwill and intangible assets whose lives are indefinite are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist. No impairment on goodwill or intangible assets was recorded for the three and six-month periods ended December 31, 2024 and 2023.

The aggregate amortization expense related to intangible assets is $2 million and $5 million for the three and six-month periods ended December 31, 2024, respectively, and $3 million and $6 million for the three and six-month periods ended December 31, 2023, respectively. These amounts are recorded in depreciation and amortization in the accompanying unaudited condensed consolidated statements of operations and changes in net assets.

9. DEBT

Debt activity for the six-month periods ended December 31, 2024 and 2023, consist of the following:

2025 Financing Activity – In July 2024, CommonSpirit entered into a term loan agreement with a total commitment amount of $255 million, in which $103 million was borrowed to redeem in full the Washington Health Care Facilities Authority Revenue Bonds Series 2019B-1. The term loan is scheduled to mature in July 2026.

In July 2024, CommonSpirit issued $160 million of taxable commercial paper notes. Proceeds were used to finance the purchase of certain previously leased real estate.

In August 2024, CommonSpirit drew $200 million on its syndicated line of credit for working capital purposes.

In October 2024, CommonSpirit drew $300 million on its syndicated line of credit for working capital purposes.

In October 2024, $28 million of outstanding bond obligations were legally defeased due to the transferred ownership and control of associated clinics in San Francisco to The University of California-San Francisco Health.

In November 2024, CommonSpirit drew $175 million on its syndicated line of credit for working capital purposes.

In December 2024, CommonSpirit issued $300 million of taxable commercial paper notes. Proceeds were used to repay outstanding balances on its syndicated line of credit.

In December 2024, CommonSpirit amended the term loan agreement entered into in July 2024 to increase the total commitment amount to $630 million. CommonSpirit made two borrowings on the amended term loan totaling $300 million. Of which, $200 million was borrowed to repay outstanding balances on its syndicated line of credit and $100 million was used to redeem in full the Washington Health Care Facilities Authority Bonds Series 2013B-2.

In January 2025, CommonSpirit borrowed on the amended term loan, discussed above, $175 million to repay outstanding balances on its syndicated line of credit.

In January 2025, CommonSpirit borrowed $53 million from the amended term loan, discussed above, to redeem in full the Kentucky Economic Development Financing Authority Bonds Series 2011B-3.

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

In August 2023, CommonSpirit entered into a $265 million term loan to refinance the $265 million draw on its syndicated line of credit. The term loan is scheduled to mature in August 2024.

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

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

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 unaudited condensed consolidated balance sheets (in millions):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			As of December 31, 2024	
Derivatives not designated as hedges				
Interest rate swaps	2025 - 2047	3.2% - 4.0%	$ 1,771	$ (86)
Total return swaps	2028 - 2030	SIFMA plus spread	449	-
Total derivative instruments			2,220	(86)
Cash collateral			-	32
Derivative instruments, net			$ 2,220	$ (54)
			As of June 30, 2024	
Derivatives not designated as hedges				
Interest rate swaps	2025 - 2047	3.2% - 4.0%	$ 1,793	$ (97)
Total return swaps	2028 - 2030	SIFMA plus spread	451	-
Total derivative instruments			2,244	(97)
Cash collateral			-	27
Derivative instruments, net			$ 2,244	$ (70)

CommonSpirit's interest rate swaps mature between 2025 and 2047. CommonSpirit has the right to terminate the swaps prior to maturity for any reason. The termination value would be the fair value or the replacement cost of the swaps, depending on circumstances. The derivative agreements have certain early termination triggers caused by an event of default or a termination event. The events of default include failure to make payment when due, failure to give notice of a termination event, cash on hand dropping below a specified number of days and defaults under other agreements (cross-default provision). Termination events can include credit ratings dropping below a defined minimum credit rating threshold by either party.

CommonSpirit has $160 million notional of interest rate swaps that are insured and have a negative fair value of $12 million as of December 31, 2024. In the event the insurer is downgraded below specified minimum credit rating, the counterparties have the right terminate the swaps if CommonSpirit Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If both the insurer and CommonSpirit Health are downgraded below a specified minimum credit rating, the counterparties have the right to terminate the swaps.

CommonSpirit has $1.6 billion notional amount of interest rate swaps that are not insured, of which the counterparties have various rights to terminate $251 million notional amounts outstanding. These include the outstanding notional amounts of $100 million and $91 million at each five-year anniversary date commencing in March 2028 and September 2028, respectively. Swaps in the outstanding notional amounts of $60 million have a mandatory put in March 2028. The termination value would be the fair value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps with the optional and mandatory put options have a negative fair value of $13 million as of December 31, 2024. The remaining uninsured swaps in the notional amount of $1.4 billion have a negative fair value of $61 million as of December 31, 2024.

In October 2024, CommonSpirit terminated $10 million notional amount of total return swaps in connection with the defeased debt, as discussed in Note 9. The total return swaps were terminated at par with no gain or loss realized in connection with the early terminations.

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

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

Lease Type	Balance Sheet Classification	As of December 31, 2024	As of June 30, 2024
Operating Leases:			
Operating lease ROU assets	Right-of-use operating lease assets	$ 1,549	$ 1,687
Operating lease obligations - current	Other accrued liabilities - current	257	269
Operating lease obligations - long-term	Other liabilities: Operating lease liabilities	1,462	1,582
Finance Leases:			
Finance lease ROU assets	Property and equipment, net	$ 1,657	$ 1,680
Current finance lease liabilities	Current portion of long-term debt	112	104
Long-term finance lease liabilities	Long-term debt, net of current portion	1,660	1,670

12. INTEREST EXPENSE, NET

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

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2024	2023	2024	2023
Interest and fees on debt	$ 200	$ 186	$ 396	$ 369
Capitalized interest expense	(13)	(7)	(24)	(18)
Interest expense, net	$ 187	$ 179	$ 372	$ 351

13. RETIREMENT PROGRAMS

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

Total retirement and post retirement plans expense includes the following (in millions):

	Three-Month Periods Ended December 31,		Six-Month Periods Ended December 31,	
	2024	2023	2024	2023
Service cost	$ 194	$ 177	$ 382	$ 357
Other nonservice net benefit expense (credits)	(27)	33	(54)	66
Retirement and postretirement plans expense	$ 167	$ 210	$ 328	$ 423

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 unaudited condensed consolidated financial statements.

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

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

The Cybersecurity Incident has had an estimated adverse financial impact of approximately $160 million to date, which includes lost revenues from the associated business interruption, the costs incurred to remediate the issues and other related business expenses, and is exclusive of any potential insurance related recoveries. CommonSpirit's cyber insurers were immediately notified and CommonSpirit recorded insurance recoveries within unrestricted revenue of $60 million during the quarter ended June 30, 2024, and $5 million and $10 million in the three and six-month periods ended December 31, 2024, respectively. The insurance recovery process will continue through fiscal year 2025. CommonSpirit is unable to predict the final amount of insurance recoveries at this time.

* * *