CommonSpirit™

**This document is dated November 15, 2023**

UNAUDITED QUARTERLY REPORT

For the Three-Month Periods Ended
September 30, 2023 and 2022

The information in this report
has been provided by
CommonSpirit Health

# COMMONSPIRIT HEALTH

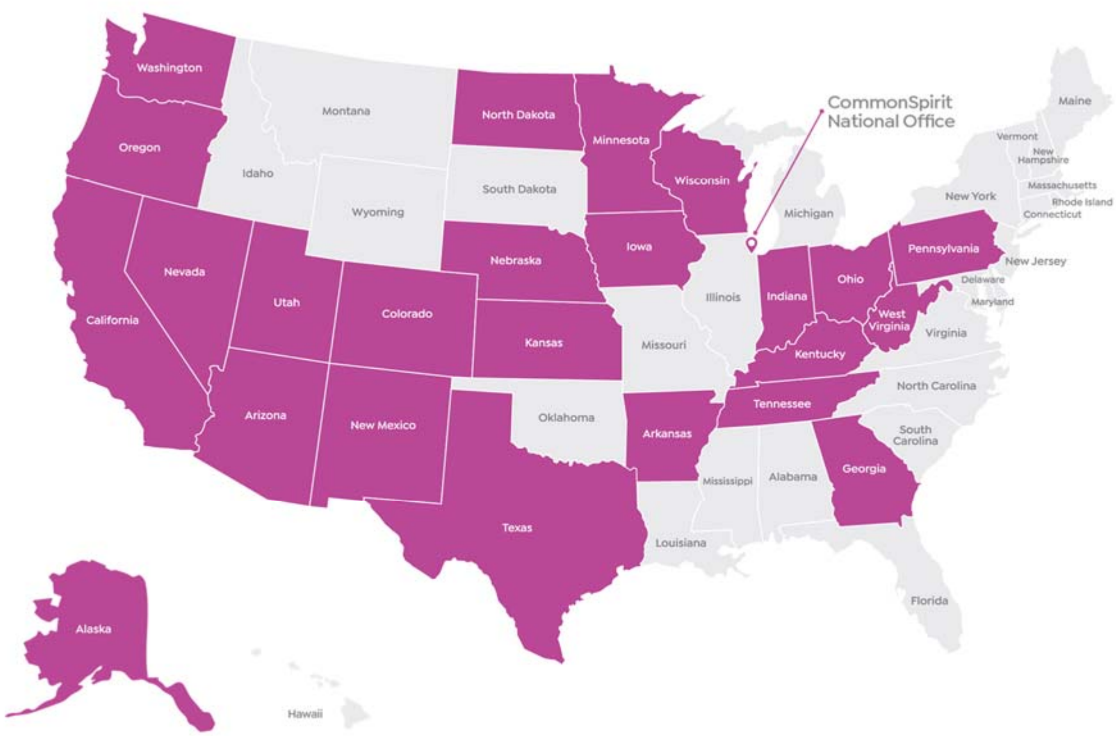
## TABLE OF CONTENTS

# 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 over 150,000 employees and over 25,000 physicians and advanced practice clinicians, as of November 15, 2023, CommonSpirit Health is comprised of approximately 2,200 care sites, including 142 hospitals, consisting of academic health centers, major teaching hospitals, and critical access facilities; community health services organizations; accredited nursing colleges; home health agencies; living communities; a medical foundation and other affiliated medical groups; and other facilities and services that span the inpatient and outpatient continuum of care. An additional 20 hospitals are operated through unconsolidated joint ventures. The unaudited condensed consolidated financial statements in Exhibit I include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit", or the "System").



## Forward-Looking Statements

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

CommonSpirit has presented its operating results for the three-month periods ended September 30, 2023 and 2022, in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and on a non-GAAP basis for EBITDA (earnings before interest, tax, depreciation and amortization, and nonoperating income). The non-GAAP financial measures are in addition to, not a substitute for, measures of financial performance prepared in accordance with GAAP.

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

## Financial Highlights and Summary

CommonSpirit recorded an operating loss of $441 million during the three-month period ended September 30, 2023, compared to a $23 million operating gain during the same period in the prior year. Normalized for the California provider fee program, operating losses for the three-month periods ended September 30, 2023 and 2022, were $291 million and $227 million, respectively. Operating results reflect the continued impact of salary and supply cost inflation increasing at a higher rate than payor reimbursement rates, partially offset by improved volume levels and productivity. Prior year results include $375 million in net California provider fee income and $259 million of CARES Act Provider Relief Funding (“CARES PRF”).

CommonSpirit’s EBITDA decreased to $87 million for the three-month period ended September 30, 2023, from $495 million during the same period in the prior year. The EBITDA margin for the three-month period September 30, 2023, decreased to 1.0% from 5.5% for the same period in the prior year. Normalized for the California provider fee program, EBITDA for the three-month period ended September 30, 2023, was $237 million, or an EBITDA margin of 2.7%, compared to $245 million, or an EBITDA margin of 2.9%, during the same period in the prior year. The decrease is primarily related to $259 million in CARES PRF funds recorded in the prior year, continued staffing and revenue yield challenges, and general inflation, partially offset by improved volume levels and productivity.

For the three-month period ended September 30, 2023, CommonSpirit’s volumes on an adjusted admission basis were favorable to the same period in the prior year by 5.0%. On a same-store basis, adjusted admissions were favorable to the same period in the prior year by 4.8%. Adjusted patient days for the three-month period ended September 30, 2023, were higher than the prior year by 1.0%. The acute average length of stay (ALOS) of 4.74 days for the three-month period ended September 30, 2023, was lower than the same period in the prior year of 4.92, primarily due to continued length-of-stay reduction efforts.

| **Key Indicators Financial Summary** | | | | | |
|---|---|---|---|---|---|
| | **Three-Month Periods Ended September 30,** | | | | |
| **($ in millions)** | **2023** | **2023*** | **2022** | **2022*** | **Change**** |
| | **As Recorded** | **As Adjusted** | **As Recorded** | **As Adjusted** | **As Adjusted Comparison** |
| EBITDA | $ 87 | $ 237 | $ 495 | $ 245 | $ (8) |
| Margin % | 1.0% | 2.7% | 5.5% | 2.9% | (0.2%) |
| Operating gain (loss) | $ (441) | $ (291) | $ 23 | $ (227) | $ (64) |
| Margin % | (5.1%) | (3.3%) | 0.3% | (2.7%) | (0.6%) |
| Deficit of revenues over expenses | $ (738) | $ (588) | $ (413) | $ (663) | $ 75 |
| Margin % | (8.9%) | (6.9%) | (4.9%) | (8.3%) | 1.4% |

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

*** Comparing September 30, 2023, as adjusted to the prior year as adjusted.*

## Acquisitions, Affiliations and Divestitures

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

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

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

Same-store results reported herein exclude the impact of the Utah transaction and the divestiture of MercyOne, as noted above.

## California Provider Fee Program

In September 2022, the Centers for Medicare and Medicaid Services (“CMS”) approved the State Plan Amendment (“SPA”) and allocation model previously submitted by the State of California for the 12-month provider fee program beginning January 1, 2022. With the culmination of the program as of December 31, 2022, the State of California submitted a SPA to CMS for approval of a new 24-month provider fee program beginning January 1, 2023. CMS approval of the new program is expected to be received in the late fall of 2023, and current modeling by the California Hospital Association (“CHA”) reflects a $100 million annual increase in net income for the organization under the new program compared to the prior program. As a result of the CMS approval timing, EBITDA, operating revenues, and expenses for three-month periods ended September 30, 2023 and 2022, have been adjusted where indicated in this report to normalize the California provider fee program revenue and expenses as though CMS approval had occurred on January 1, 2023 and 2022, respectively.

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

| California Provider Fee Program | | | |
|---|---|---|---|
| | Three-Month Periods Ended September 30, | | |
| ($ in millions) | 2023 | 2022 | Change |
| ***California Provider Fee as Recorded*** | | | |
| Net patient and premium revenues | $ - | $ 729 | $ (729) |
| Operating expenses | - | 354 | (354) |
| Provider Fee net income | $ - | $ 375 | $ (375) |
| ***Normalized California Provider Fee*** | | | |
| Net patient and premium revenues | $ 292 | $ 243 | $ 49 |
| Operating expenses | 142 | 118 | 24 |
| Provider Fee net income | $ 150 | $ 125 | $ 25 |
| ***Impact of Normalizing California Provider Fee*** | | | |
| Net patient and premium revenues | $ 292 | $ (486) | $ 778 |
| Operating expenses | 142 | (236) | 378 |
| Provider Fee net income | $ 150 | $ (250) | $ 400 |

With the approval of the provider fee program in September 2022, CommonSpirit recorded provider fee net income totaling $375 million ($250 million related to the six-month period ended June 30, 2022, and $125 million related to the three-month period ended September 30, 2022).

## Cybersecurity Incident

On October 2, 2022, CommonSpirit experienced a ransomware attack ("the Cybersecurity Incident") that impacted certain of its IT systems. Upon discovering the attack, CommonSpirit took immediate steps to protect its IT systems, contain the incident, begin an investigation, 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. As of September 30, 2023, substantially all of the applicable accounts receivable related to the Cybersecurity Incident have been billed and collected.

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

## Results of Operations

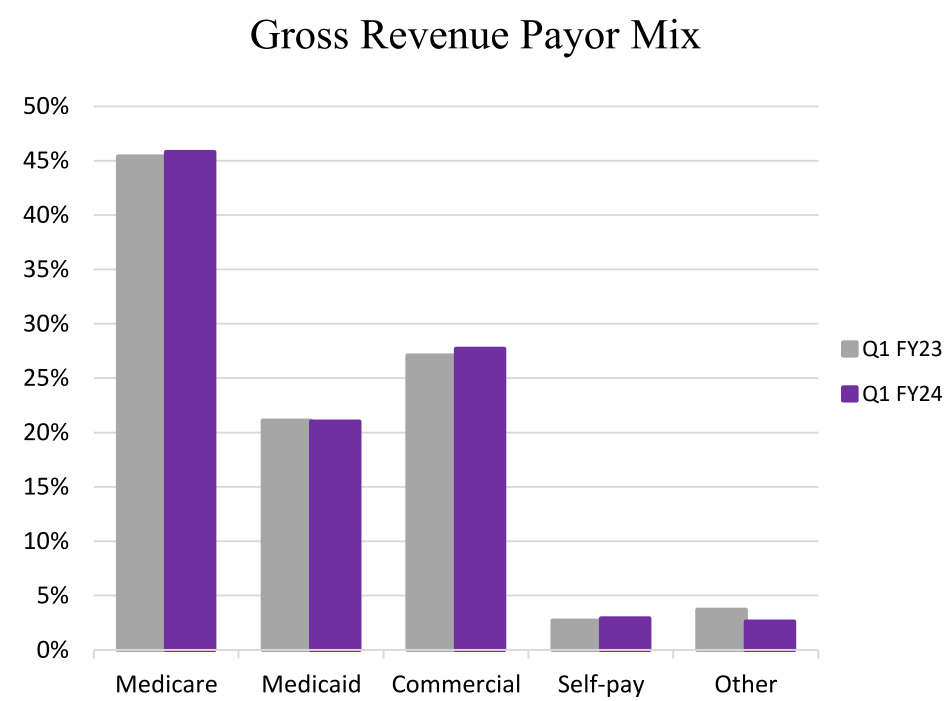
### Operating Revenues and Volume Trends

Net patient and premium revenues decreased $243 million, or 2.9% over the prior year for the three-month period ended September 30, 2023. Normalizing the California provider fee revenues, net patient and premium revenue increased $535 million, or 6.8%. On a same-store basis, normalized net patient and premium revenues increased $500 million, or 6.5%, over the same period in the prior year. Same-store normalized net patient and premium revenue per adjusted admission increased 1.8% over the same period in the prior year. The increase is primarily due to improved volume levels.

| Volumes | Three-Month Periods Ended September 30, | | | |
|---|---|---|---|---|
| | 2023 | 2022 | Change | % |
| Acute admissions | 204,312 | 196,331 | 7,981 | 4.1% |
| Adjusted admissions | 428,872 | 408,512 | 20,360 | 5.0% |
| Acute inpatient days | 968,500 | 966,485 | 2,015 | 0.2% |
| Adjusted patient days | 2,126,240 | 2,104,689 | 21,551 | 1.0% |
| Acute average length of stay | 4.74 | 4.92 | (0.18) | (3.7%) |
| Outpatient visits | 6,992,523 | 6,733,761 | 258,762 | 3.8% |
| ED visits | 1,006,882 | 987,330 | 19,552 | 2.0% |
| Gross outpatient revenue as a % of total gross patient services revenue | 52.2% | 51.7% | 0.5% | 0.5% |

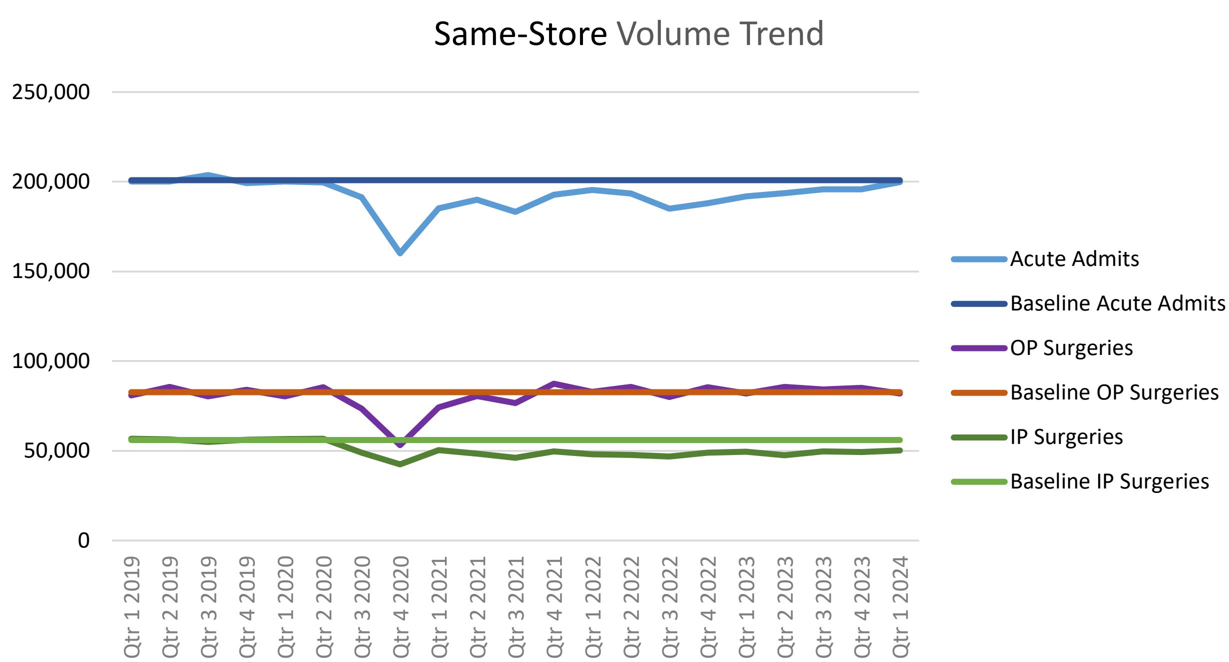
| Same-Store Volumes | Three-Month Periods Ended September 30, | | | |
|---|---|---|---|---|
| | 2023 | 2022 | Change | % |
| Acute admissions | 200,296 | 192,342 | 7,954 | 4.1% |
| Adjusted admissions | 418,861 | 399,643 | 19,218 | 4.8% |
| Acute inpatient days | 952,380 | 943,315 | 9,065 | 1.0% |
| Adjusted patient days | 2,084,512 | 2,053,579 | 30,933 | 1.5% |
| Acute average length of stay | 4.75 | 4.90 | (0.15) | (3.1%) |
| Outpatient visits | 6,892,169 | 6,431,768 | 460,401 | 7.2% |
| ED visits | 984,115 | 973,005 | 11,110 | 1.1% |
| Gross outpatient revenue as a % of total gross patient services revenue | 52.0% | 51.7% | 0.3% | 0.3% |

Payor mix based on gross revenues for the three-month period ended September 30, 2023, has slightly improved compared to the same period in the prior year. The following chart represents the gross revenue payor mix for consolidated operations for the three-month periods ended September 30, 2023 and 2022:




Same-store adjusted admissions increased 4.8% during the three-month period ended September 30, 2023, compared to the same period in the prior year, with acute admissions and outpatient surgeries near pre-pandemic levels.

The following table is a summary of key volume metrics on a same-store basis compared to pre-pandemic baselines:



All other operating revenues decreased $190 million, or 30.2%, from the same period in the prior year for the three-month period ended September 30, 2023. Same-store other operating revenues decreased $229 million, or 34.4%, primarily due to CARES PRF grant revenue totaling $259 million recorded during the three-month period ended September 30, 2022, offset by an increase of $35 million in revenue from health-related activities, net. The increase in revenue from health-related activities, net, is primarily related to improvements in operations and the financial market performance at joint ventures accounted for on the equity method.

| Operating Revenues | | | | | |
|---|---|---|---|---|---|
| | Three-Month Periods Ended September 30, | | | | |
| ($ in millions) | 2023 | 2023* | 2022 | 2022* | Change** |
| | As Recorded | As Adjusted | As Recorded | As Adjusted | As Adjusted Comparison |
| Net patient and premium revenues | $ 8,138 | $ 8,430 | $ 8,381 | $ 7,895 | $ 535 |
| All other operating revenues | 440 | 440 | 630 | 630 | (190) |
| Total operating revenues | $ 8,578 | $ 8,870 | $ 9,011 | $ 8,525 | $ 345 |

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

*** Comparing September 30, 2023, as adjusted to the prior year as adjusted.*

## Operating Revenues by Region

The following tables present operating revenues by region for the three-month periods ended September 30, 2023 and 2022. The results by region are presented consistent with the organization's recent consolidation of eight operating divisions into five regions, as show below:

| Operating Revenues By Region | | | | | |
|---|---|---|---|---|---|
| | Three-Month Periods Ended September 30, | | | | |
| ($ in millions) | 2023 | 2023** | 2022 | 2022** | Change*** |
| | As Recorded | As Adjusted | As Recorded | As Adjusted | As Adjusted Comparison |
| *Southern California* | $ 1,529 | $ 1,737 | $ 1,995 | $ 1,650 | $ 87 |
| *Northern California* | 1,287 | 1,371 | 1,478 | 1,337 | 34 |
| **California** | **2,816** | **3,108** | **3,473** | **2,987** | **121** |
| *Southwest* | 1,038 | 1,038 | 1,054 | 1,054 | (16) |
| *Midwest* | 776 | 776 | 755 | 755 | 21 |
| **Central** | **1,814** | **1,814** | **1,809** | **1,809** | **5** |
| *Southeast* | 1,028 | 1,028 | 952 | 952 | 76 |
| *Texas* | 706 | 706 | 675 | 675 | 31 |
| **South** | **1,735** | **1,735** | **1,627** | **1,627** | **108** |
| **Mountain** | **939** | **939** | **717** | **717** | **222** |
| **Northwest** | **1,151** | **1,151** | **1,147** | **1,147** | **4** |
| National Business Lines* | 78 | 78 | 109 | 109 | (31) |
| Others | 15 | 15 | 123 | 123 | (108) |
| Subtotal | 8,548 | 8,840 | 9,005 | 8,519 | 321 |
| Corporate Services | 30 | 30 | 6 | 6 | 24 |
| CommonSpirit Total | $ 8,578 | $ 8,870 | $ 9,011 | $ 8,525 | $ 345 |

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

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

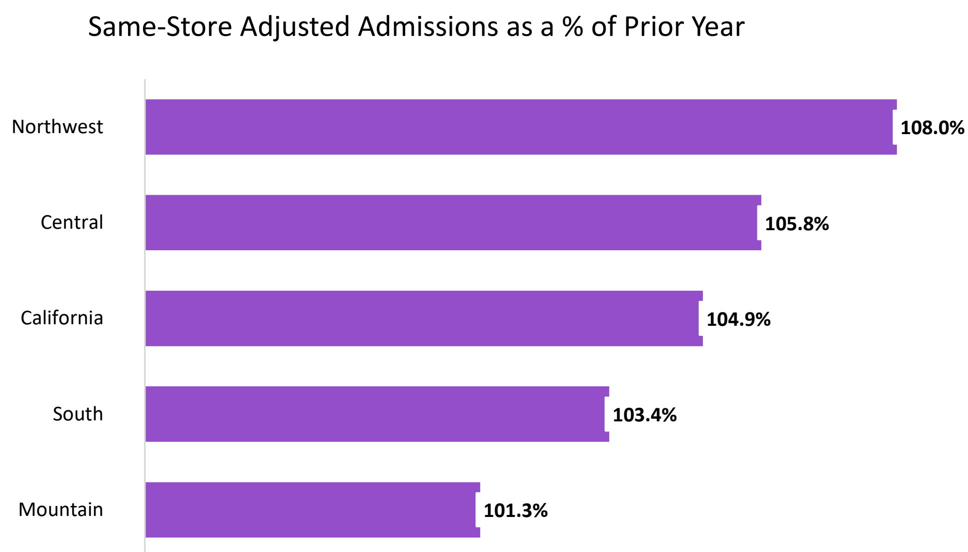
**** Comparing September 30, 2023, as adjusted to the prior year as adjusted.*

Following are the significant performance drivers related to operating revenues normalized for the California Provider Fee for the three-month period ended September 30, 2023, compared to the same period in the prior year:

- California – normalized operating revenues increased $121 million from the prior year, primarily due to a 4.9% increase in adjusted admissions, improved length of stay, and higher Medicaid disproportionate share payments, partially offset by CARES PRF funds recorded in the prior year and weak revenue yields.
- Central – operating revenues increased $5 million, primarily due to a 5.8% increase in adjusted admissions, higher surgical volumes, and higher revenue from interests in health-related activities, partially offset by CARES PRF funds recorded in the prior year and unfavorable payor mix.
- South – operating revenues increased $108 million from the prior year, primarily due to higher volumes, with adjusted admissions increasing by 3.4% over the prior year, and higher disproportional share settlements, partially offset by CARES PRF funds recorded in the prior year and continued revenue yield challenges.
- Mountain – operating revenues increased $222 million from the prior year, primarily due to the Utah transaction and slightly higher volumes with same-store adjusted admissions increasing by 1.3% over the prior year, partially offset by continued revenue yield challenges.

- Northwest – operating revenues increased $4 million from the prior year, primarily due to an 8.0% increase in adjusted admissions, partially offset by CARES PRF funds recorded in the prior year and continued revenue yield challenges.

The table below reflects the same-store adjusted admissions (excluding the impact of the Utah and Iowa transactions) as a percentage of prior year, for the three-month period ended September 30, 2023:




| **Uncompensated Care** | | | |
|---|---|---|---|
| | **Three-Month Periods Ended September 30,** | | |
| **($ in millions)** | **2023** | **2022** | **Change** |
| **Uncompensated Care:** | | | |
| Charity care, at customary charges | $ 506 | $ 543 | $ (37) |
| Charity care, at cost, net | $ 121 | $ 139 | $ (18) |
| Charity care, at cost, as a percentage of total expenses | 1.3% | 1.5% | (0.2%) |

### Operating Expenses

Salaries and benefits increased $174 million, or 3.9%, over the same period in the prior year, for the three-month period ended September 30, 2023. On a same-store basis, salaries and benefits increased $209 million, or 4.8%, over the same period in the prior year, primarily due to higher salary costs, partially offset by FTE reductions implemented during fiscal year 2023. Salaries and benefits per adjusted admission on a same-store basis was equivalent to prior year.

Supplies increased $48 million, or 3.5%, during the three-month period ended September 30, 2023, compared to the same period in the prior year. On a same-store basis, supplies increased $54 million, or 4.1%, over the same period in the prior year. The increase is primarily due to volume increases, higher than anticipated inflation and higher pharmaceuticals. Supplies per adjusted admission on a same-store basis decreased 0.7%, compared to the same period in the prior year.

Purchased services and other increased $131 million, or 5.4%, for the three-month period ended September 30, 2023, compared to the same period in the prior year, when normalizing for the California provider fee program costs. On a normalized same-store basis, purchased services and other increased $131 million, or 5.5%, primarily due to higher medical fees, hardware and software maintenance, collection agency costs, insurance costs, and out-of-network costs, partially offset by lower special charges.

| Expense Management and Productivity | Three-Month Periods Ended September 30, | | | |
|---|---|---|---|---|
| | 2023 | 2023* | 2022 | 2022* |
| | As Recorded | As Adjusted | As Recorded | As Adjusted |
| **Expense Management:** | | | | |
| Supply expense as a % of net patient and premium revenue | 17.2% | 16.6% | 16.1% | 17.1% |
| Purchased services and other as a % of net patient and premium revenue | 29.7% | 30.4% | 31.8% | 30.8% |
| Capital expense as a % of net patient and premium revenue | 6.5% | 6.3% | 5.6% | 6.0% |
| Non-capital cost per adjusted admission | $ 19,799 | $ 20,129 | $ 20,847 | $ 20,270 |
| **Productivity:** | | | | |
| Salaries, wages and benefits as a % of net patient and premium revenue | 57.4% | 55.4% | 53.6% | 56.9% |
| Number of FTEs | 133,020 | 133,020 | 133,002 | 133,002 |
| FTEs per adjusted admission | 24.76 | 24.76 | 26.65 | 26.65 |

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

## Same-Store Expense Management and Productivity

| | Three-Month Periods Ended September 30, 2023 | 2023* | 2022 | 2022* |
|---|---|---|---|---|
| | As Recorded | As Adjusted | As Recorded | As Adjusted |
| **Expense Management:** | | | | |
| Supply expense as a % of net patient and premium revenue | 17.3% | 16.7% | 16.1% | 17.1% |
| Purchased services and other as a % of net patient and premium revenue | 29.8% | 30.5% | 31.8% | 30.8% |
| Capital expense as a % of net patient and premium revenue | 6.1% | 5.9% | 5.7% | 6.1% |
| Non-capital cost per adjusted admission | $ 19,940 | $ 20,279 | $ 20,858 | $ 20,268 |
| **Productivity:** | | | | |
| Salaries, wages and benefits as a % of net patient and premium revenue | 57.9% | 55.8% | 53.4% | 56.7% |
| Number of FTEs | 130,765 | 130,765 | 127,886 | 127,886 |
| FTEs per adjusted admission | 25.35 | 25.35 | 26.07 | 26.07 |

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

## Operating Expenses

| ($ in millions) | Three-Month Periods Ended September 30, 2023 | 2023* | 2022 | 2022* | Change** |
|---|---|---|---|---|---|
| | As Recorded | As Adjusted | As Recorded | As Adjusted | As Adjusted Comparison |
| Salaries and benefits | $ 4,670 | $ 4,670 | $ 4,496 | $ 4,496 | $ 174 |
| Supplies | 1,401 | 1,401 | 1,353 | 1,353 | 48 |
| Purchased services and other | 2,420 | 2,562 | 2,667 | 2,431 | 131 |
| Depreciation and amortization | 349 | 349 | 359 | 359 | (10) |
| Interest expense, net | 179 | 179 | 113 | 113 | 66 |
| Total operating expenses | $ 9,019 | $ 9,161 | $ 8,988 | $ 8,752 | $ 409 |

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

*** Comparing September 30, 2023, as adjusted to the prior year as adjusted.*

## Nonoperating Results

CommonSpirit recorded investment losses, net, of $289 million during the three-month period ended September 30, 2023, compared to a loss of $517 million during the same period in the prior year.

Income tax expense was $3 million during the three-month period ended September 30, 2023, compared to $5 million during the same period in the prior year.

The change in market value and cash payments of interest rate swaps was a favorable result of $28 million during the three-month period ended September 30, 2023, compared to $48 million during the same period in the prior year.

Net periodic postretirement costs amounted to $32 million of expense during the three-month period ended September 30, 2023, compared to $46 million of income during the same period in the prior year.

| Nonoperating Results | Three-Month Periods Eneded September 30, | | |
|---|---|---|---|
| ($ in millions) | 2023 | 2022 | Change |
| Investment loss, net | $ (289) | $ (517) | $ 228 |
| Income tax expense | (3) | (5) | 2 |
| Change in fair value and cash payments of interest rate swaps | 28 | 48 | (20) |
| Other components of net periodic postretirement costs | (32) | 46 | (78) |
| Other | (1) | (8) | 7 |
| Total nonoperating loss, net | $ (297) | $ (436) | $ 139 |

## Balance Sheet Metrics

The following table provides key balance sheet metrics for CommonSpirit:

| Key Balance Sheet Metrics<br>($ in millions) | September 30, 2023 | June 30, 2023 | Change |
|---|---|---|---|
| **Consolidated Balance Sheet Summary** | | | |
| Total assets | $ 51,456 | $ 51,872 | $ (416) |
| Total liabilities | $ 31,119 | $ 30,733 | $ 386 |
| Total net assets | $ 20,337 | $ 21,139 | $ (802) |
| **Financial Position Ratios** | | | |
| Unrestricted cash and investments | $ 14,558 | $ 15,456 | $ (898) |
| Days cash on hand | 154 | 164 | (10) |
| Total debt | $ 18,328 | $ 18,360 | $ (32) |
| Debt to capitalization | 50.1% | 49.2% | 0.9% |

## Liquidity

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

| Liquidity and Capital Resources<br>($ in millions) | September 30, 2023 | June 30, 2023 | Change |
|---|---|---|---|
| Cash | $ 1,607 | $ 1,677 | $ (70) |
| Short-term investments | 437 | 539 | (102) |
| Long-term investments, excluding assets limited as to use | 12,514 | 13,240 | (726) |
| Total unrestricted cash and investments | $ 14,558 | $ 15,456 | $ (898) |

## Capital Resources

Cash provided by operating activities totaled $325 million for the three-month period ended September 30, 2023, compared to cash used of $481 million for the same period in the prior year. Significant activity for the three-month period ended September 30, 2023, includes the following:

- Investments decreased $800 million during the three-month period ended September 30, 2023, compared to a decrease of $847 million during the same period in the prior year.
- Medicare advances to be withheld from future Medicare fee-for-service payments were zero during the three-month period ended September 30, 2023, compared to a $530 million decrease for the same period in the prior year.
- Accounts receivable, net, increased $182 million during the three-month period ended September 30, 2023, compared to a $98 million increase for the same period in the prior year.
- Accounts payable, net, decreased $161 million during the three-month period ended September 30, 2023, compared to a $43 million decrease for the same period in the prior year.
- Accrued salaries and benefits increased $239 million during the three-month period ended September 30, 2023, compared to a $13 million increase for the same period in the prior year.
- Prepaids and other current assets increased $55 million during the three-month period ended September 30, 2023, compared to an increase of $193 million for the same period in the prior year.

Cash used in investing activities totaled $304 million for the three-month period ended September 30, 2023, compared to cash provided of $284 million for the same period in the prior year, primarily related to the following:

- Capital expenditures were $222 million during the three-month period ended September 30, 2023, compared to $204 million for the same period in the prior year. Such capital expenditures primarily relate to growth in ambulatory and inpatient services, general maintenance of facilities, equipment and systems additions and replacements, and various other capital improvements.
- Proceeds from the sale of assets were $3 million during the three-month period ended September 30, 2023, compared to $508 million during the same period in the prior year, primarily due to the Iowa transaction in the prior year.
- Cash distributions from health-related activities were $22 million during the three-month period ended September 30, 2023, compared to $28 million during the same period in the prior year.
- Investments in health-related activities were $34 million during the three-month period ended September 30, 2023, compared to $14 million during the same period in the prior year.

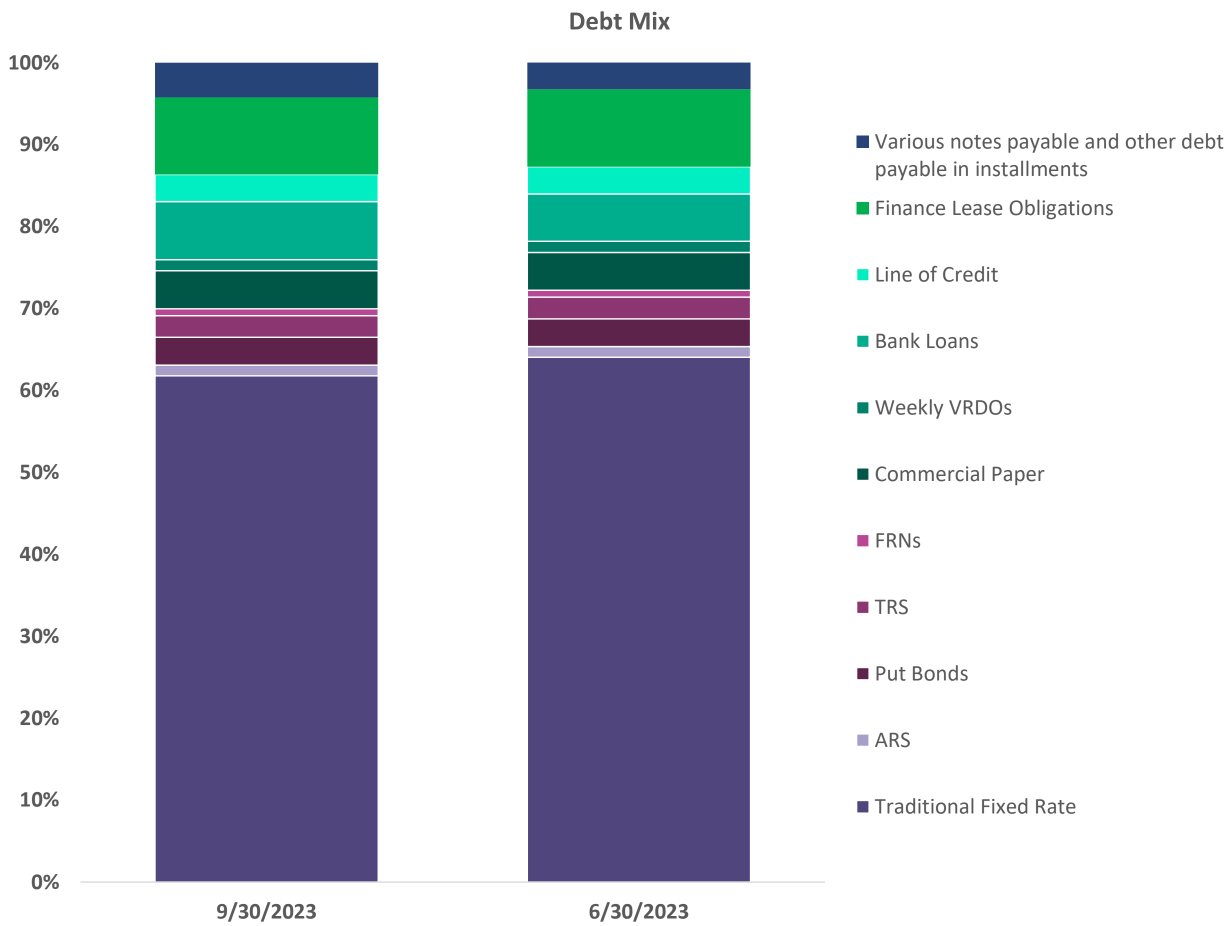
Cash used in financing activities totaled $91 million for the three-month period ended September 30, 2023, compared to $36 million for the same period in the prior year, primarily due to the following:

- Net repayments of debt were $20 million during the three-month period ended September 30, 2023, compared to net repayments of $22 million during the same period in the prior year.
- Distributions to noncontrolling interests were $109 million for the three-month period ended September 30, 2023, compared to $74 million during the same period in the prior year.

## Debt Portfolio

The CommonSpirit Obligated Group represents approximately 85% of consolidated revenues of CommonSpirit as of September 30, 2023. The debt portfolio remains well diversified, with a high proportion of long-term fixed rate debt providing stability.

The chart below depicts CommonSpirit's debt mix as of September 30, 2023, as compared to June 30, 2023:



## Strategic Focus and Priorities

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

With several new executive leaders now on board at CommonSpirit, and under the leadership of CEO Wright Lassiter III, the organization's efforts related to CommonSpirit 2026 have been infused with fresh perspectives and new strategies. Of all of the initiatives contained in CommonSpirit 2026, the leadership team is prioritizing the following areas in FY24:

- Creating an environment to attract and retain a high performing workforce;
- An enhanced focus on market-based strategies and growth;
- Continued expansion of our ambulatory offerings and development of our integrated delivery networks, making markets more essential;
- Standardizing our many technology tools to fewer, integrated platforms;
- Providing consumers with exceptional experiences at all touchpoints; and
- Continuing on a path to financial sustainability.

**Recent Accomplishments**

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

- Improved its ministry-wide Employee Engagement scores year-over-year (including Overall Employee Engagement, Resilience and Culture of Safety);
- Developed and offered a robust set of well-being benefits to all of its employees, including comprehensive mental health resources, financial planning resources, and an award-winning monthly wellness newsletter;
- Sharpened its focus on employee retention by effectively addressing market-specific retention trends; and
- Expanded its already successful national Nurse Residency (NNRP) and Nurse Fellowship programs to more markets, growing to 50 sites (as of September 30, 2023) with over 500 nurse residents enrolled. To date, the NNRP retention rate is 98%.

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

- **One CommonSpirit**: This defines our strategic imperative to rapidly complete the integration of all aspects of our ministry – clinical, operational, and technological – across our entire footprint while aligning our geographic markets. It requires us to further centralize or standardize processes to ensure the delivery of a consistently superior patient experience, while maintaining exceptional clinical standards. It also includes evolving the design and operating model of CommonSpirit, as well as cultivating a consistent identity and culture. Under the banner of *One CommonSpirit*, the following milestones have been reached:
    - **Refining the Operating Model:** Management consolidated eight operating divisions into five regions (California, Central, Mountain, Northwest, and South), to enhance efficiency, further reduce overhead, and implement standardized leadership structures for our operating regions. The operating model changes being implemented will create clarity around decision rights and accountabilities for how CommonSpirit operates nationally and regionally, improving effectiveness as a system.
    - **Information Technology (IT) Roadmap:** Under the leadership of CommonSpirit's Chief Information Officer, a new IT Roadmap has been developed to facilitate efficiencies, streamline and reduce redundant technologies, generate economies of scale and enhance system capabilities. The roadmap is a comprehensive multi-year plan to address key infrastructure and software needs

to align fragmented platforms and third-party applications. The roadmap identifies opportunities to lower long term costs, improve clinical and operational challenges, reduce staff and clinician burnout/turnover, increase our speed to market, and realize a greater ROI through standardization of clinical platforms. Other technology investments are being made in data/analytics, consumer engagement, quality, AI, and cybersecurity.

- **Financial Sustainability**: Maintaining financial strength is a critical component of excellence and supports the ministry's achievement of its strategic objectives. CommonSpirit identified $2 billion in synergies at the time of the merger; with the achievement of $540 million in synergies and best practice realization in FY23, this goal has been achieved. In addition to this work, the organization took actions in FY23 to address continued inflation pressures impacting operating performance, reducing the non-clinical workforce by approximately 2,000 FTEs. Other operating efficiencies achieved include improved length of stay (3.9% year-over-year versus FY22) and a reduction in contract labor (down 43% from peak usage in 2022). Given the increasing industry headwinds, the organization has identified additional initiatives and opportunities in supply chain, pharmacy, payer contracting and adherence, purchased services and a range of other areas to help the organization meet its financial goals in 2024 and beyond.

**Our Future:** This pillar defines the initiatives and workstreams needed to bridge the gaps between CommonSpirit's current state and the delivery system of the future, to create a seamless, convenient, high-quality and effective patient experience. Highlights here include focusing on personalized experiences for our patients, increasing access, optimizing our diverse portfolio, integrating across the care continuum, and appropriately scaling value-based care arrangements. Some highlights of this work include:

- **Portfolio Assessment and Management:** CommonSpirit is enhancing its portfolio analysis to focus on market essentiality in evaluating its portfolio of health care markets. This includes assessing each market's current position and market potential, defining market-based strategies and aligning and prioritizing our capital investments for maximum impact. Although not the primary intent, this may result in acquisitions and divestitures where appropriate. An example of recent and ongoing actions includes the acquisition of the Holy Cross facilities in Utah in May 2023 which better aligns CommonSpirit's Colorado and Kansas operations within the One CommonSpirit framework. CommonSpirit also recently announced the potential transfer of ownership of its San Francisco facilities to University of California San Francisco, which will create a stronger network of care for the residents of the San Francisco Bay Area.
- **Essentiality in Key Markets:** Aligned with the portfolio work, CommonSpirit is focused on the needs and opportunities in each of our regions and markets and in most cases, addressing this through further development of our integrated delivery networks (IDNs), with a goal to increased access, capacity, and sustainable growth, improved market share and financial improvement. Some initiatives in this area include:
    - **Improved Network Integrity and Growth**: CommonSpirit is enhancing efforts to track care continuity and enhance practice patterns, to ensure we are serving our patients in-network, and implementing solutions unique to each market when necessary. These efforts are enhanced by tools that provide consistent, detailed analysis and trending of data to assess continuity of care and network integrity, Patient Connection Centers and digital front door enhancements, and improved use of our electronic health records to facilitate referrals and follow up care. To date, 29 of our markets are using a range of these tools and results are provided and tracked on a quarterly basis.
    - **Enhancing the Continuum of Care and Focused Ambulatory Development**: CommonSpirit's goal is to seamlessly care for patients across all care settings, either at an individual care setting or by managing a patient's journey across multiple settings. To accommodate that, CommonSpirit continues to expand our ambulatory and virtual care points and enhance connections across the continuum of care. As clinical innovation drives the continued transition of a range of traditionally acute-care services to lower acuity settings, we are expanding ambulatory care capacity. This includes the recent addition of 19 ambulatory imaging centers across California and Texas, seven ambulatory surgery centers in Arizona and California, six new primary and urgent care sites in California and Washington, and the planned partnership for behavioral health services across four locations in 2024, with up to eight further sites planned through 2028.

- **Aligning Services to Deliver a Differentiated Consumer Experience:** In anticipation of, and response to, changing consumer expectations, CommonSpirit is further aligning our services to meet and exceed consumers' expectations. Initiatives underway include those to provide "one digital front door" to our services, which provides a consistent landing page and search/schedule feature across all of our regions. Also, our Patient Connection Centers (PCC) help connect patients to their providers, through a single point of access for the 38 million calls received annually. The PCC hubs enable CommonSpirit to leverage best practices in scheduling, authorization and referral management, nurse triage and prescription refills. The PCCs are delivering on customer needs in significantly less time than the national average, and most (92%) patient needs are resolved within the first phone call, also well ahead of industry averages.

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

*******

# Exhibit I

Unaudited Condensed Consolidated Financial Statements
for the Three-Month Periods Ended September 30, 2023 and 2022

(Attached)

# COMMONSPIRIT HEALTH

## UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three-Month Periods Ended September 30, 2023 and 2022

# COMMONSPIRIT HEALTH

## TABLE OF CONTENTS

QUARTERLY FINANCIAL STATEMENTS

# COMMONSPIRIT HEALTH

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

| **Assets** | **As of September 30, 2023 (Unaudited)** | **As of June 30, 2023** |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 1,607 | $ 1,677 |
| Short-term investments | 437 | 539 |
| Patient accounts receivable, net | 5,081 | 4,899 |
| Provider fee receivable | 916 | 931 |
| Other current assets | 2,813 | 2,733 |
| Total current assets | 10,854 | 10,779 |
| Long-term investments | 15,842 | 16,483 |
| Property and equipment, net | 17,303 | 17,189 |
| Right-of-use operating lease assets | 1,875 | 1,676 |
| Ownership interests in health-related activities | 3,046 | 3,114 |
| Other long-term assets, net | 2,536 | 2,631 |
| Total assets | $ 51,456 | $ 51,872 |

(Continued)

## COMMONSPIRIT HEALTH

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

| Liabilities and Net Assets | As of September 30, 2023 (Unaudited) | As of June 30, 2023 |
|---|---|---|
| Current liabilities: | | |
| Current portion of long-term debt | $ 1,966 | $ 1,966 |
| Demand bonds subject to short-term liquidity arrangements | 247 | 247 |
| Accounts payable | 1,210 | 1,342 |
| Accrued salaries and benefits | 1,826 | 1,512 |
| Provider fee payables | 209 | 342 |
| Other accrued liabilities - current | 3,704 | 3,473 |
| Total current liabilities | 9,162 | 8,882 |
| Other liabilities - long-term: | | |
| Self-insured reserves and claims | 1,107 | 1,138 |
| Pension and other postretirement benefit liabilities | 2,264 | 2,255 |
| Derivative instruments | 54 | 77 |
| Operating lease liabilities | 1,783 | 1,586 |
| Other accrued liabilities - long-term | 634 | 648 |
| Total other liabilities - long-term | 5,842 | 5,704 |
| Long-term debt, net of current portion | 16,115 | 16,147 |
| Total liabilities | 31,119 | 30,733 |
| Net assets: | | |
| Without donor restrictions - attributable to CommonSpirit Health | 18,229 | 18,960 |
| Without donor restrictions - noncontrolling interests | 969 | 1,062 |
| With donor restrictions | 1,139 | 1,117 |
| Total net assets | 20,337 | 21,139 |
| Total liabilities and net assets | $ 51,456 | $ 51,872 |

See notes to unaudited condensed consolidated financial statements.

**COMMONSPIRIT HEALTH**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2023 AND 2022**
**(in millions)**

| | Three-Month Periods Ended September 30, 2023 | Three-Month Periods Ended September 30, 2022 |
|---|---|---|
| Operating revenues: | | |
| Net patient revenue | $ 7,744 | $ 8,035 |
| Premium revenue | 394 | 346 |
| Revenue from health-related activities, net | 51 | 16 |
| Other operating revenue | 373 | 600 |
| Contributions | 16 | 14 |
| Total operating revenues | 8,578 | 9,011 |
| Operating expenses: | | |
| Salaries and benefits | 4,670 | 4,496 |
| Supplies | 1,401 | 1,353 |
| Purchased services and other | 2,420 | 2,667 |
| Depreciation and amortization | 349 | 359 |
| Interest expense, net | 179 | 113 |
| Total operating expenses | 9,019 | 8,988 |
| Operating income (loss) | (441) | 23 |
| Nonoperating income (loss): | | |
| Investment loss, net | (289) | (517) |
| Income expense | (3) | (5) |
| Change in fair value and cash payments of interest rate swaps | 28 | 48 |
| Other components of net periodic postretirement costs | (32) | 46 |
| Other | (1) | (8) |
| Total nonoperating loss, net | (297) | (436) |
| Deficit of revenues over expenses | $ (738) | $ (413) |
| Less deficit of revenues over expenses attributable to noncontrolling interests | - | (16) |
| Deficit of revenues over expenses attributable to CommonSpirit Health | $ (738) | $ (397) |

(Continued)

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2023 AND 2022
**(in millions)**

| | Without Donor Restrictions | | | |
|---|---|---|---|---|
| | Attributable to CommonSpirit Health | Noncontrolling Interests | With Donor Restrictions | Total Net Assets |
| Balance, June 30, 2022 | $ 18,808 | $ 1,079 | $ 1,142 | $ 21,029 |
| Deficit of revenues over expenses | (397) | (16) | - | (413) |
| Contributions | - | - | 21 | 21 |
| Net assets released from restrictions for capital | 6 | - | (6) | - |
| Net assets released from restrictions for operations and other | - | - | (13) | (13) |
| Other | (12) | (19) | (35) | (66) |
| Decrease in net assets | (403) | (35) | (33) | (471) |
| Balance, September 30, 2022 | $ 18,405 | $ 1,044 | $ 1,109 | $ 20,558 |
| Balance, June 30, 2023 | $ 18,960 | $ 1,062 | $ 1,117 | $ 21,139 |
| Deficit of revenues over expenses | (738) | - | - | (738) |
| Contributions | - | - | 40 | 40 |
| Net assets released from restrictions for capital | 5 | - | (5) | - |
| Net assets released from restrictions for operations and other | - | - | (8) | (8) |
| Other | 2 | (93) | (5) | (96) |
| Increase (decrease) in net assets | (731) | (93) | 22 | (802) |
| Balance, September 30, 2023 | $ 18,229 | $ 969 | $ 1,139 | $ 20,337 |

See notes to unaudited condensed consolidated financial statements.

# COMMONSPIRIT HEALTH

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2023 AND 2022
## (in millions)

| | Three-Month Periods Ended September 30, 2023 | 2022 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ (802) | $ (471) |
| Adjustments to reconcile change in net assets to cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 349 | 359 |
| Changes in equity of health-related entities | (68) | (71) |
| Net gain on sales of facilities and investments in unconsolidated organizations | - | 51 |
| Change in fair value of swaps | (45) | (58) |
| Noncash adjustments of pension and other postretirement benefit plans | 69 | (41) |
| Changes in certain assets and liabilities: | | |
| Accounts receivable, net | (182) | (98) |
| Prepaid and other current assets | (55) | (193) |
| Changes in broker receivables/payables for unsettled investment trades | 105 | (48) |
| Provider fee assets and liabilities, net | (117) | (354) |
| Accounts payable | (161) | (43) |
| Accrued salaries and benefits | 239 | 13 |
| Medicare advances | - | (530) |
| Other accrued liabilities | 46 | 156 |
| Self-insured reserves and claims | (29) | (68) |
| Other, net | 176 | 68 |
| Cash used in operating activities before net change in investments | (475) | (1,328) |
| Net decrease in investments | 800 | 847 |
| Cash provided by (used in) operating activities | 325 | (481) |

(Continued)

## COMMONSPIRIT HEALTH

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
### FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2023 AND 2022
### (in millions)

| | Three-Month Periods Ended September 30, 2023 | 2022 |
|---|---|---|
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (222) | (204) |
| Investments in health-related activities | (34) | (14) |
| Business acquisitions, net of cash acquired | (21) | - |
| Proceeds from asset sales, net | 3 | 508 |
| Cash distributions from health-related activities | 22 | 28 |
| Other, net | (52) | (34) |
| Cash provided by (used in) investing activities | (304) | 284 |
| Cash flows from financing activities: | | |
| Borrowings | 531 | 1 |
| Repayments | (551) | (23) |
| Swaps cash collateral received | 22 | 4 |
| Distributions to noncontrolling interests | (109) | (74) |
| Contribution by noncontrolling interests | 16 | 56 |
| Cash used in financing activities | (91) | (36) |
| Net decrease in cash and cash equivalents | (70) | (233) |
| Cash and cash equivalents at beginning of period | 1,677 | 2,592 |
| Cash and cash equivalents at end of period | $ 1,607 | $ 2,359 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest, net of capitalized interest | $ 141 | $ 98 |
| Supplemental schedule of noncash investing and financing activities: | | |
| Property and equipment acquired through finance lease or note payable | $ 7 | $ 6 |
| Investments in health-related activities | $ 73 | $ 8 |
| Accrued purchases of property and equipment | $ 65 | $ 47 |

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 ("CHCF").

CommonSpirit Health owns and operates health care facilities in 24 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations. CommonSpirit Health and substantially all of its direct affiliates and subsidiaries have been granted exemptions from federal income tax as charitable organizations under Section 501(c)(3) of the Internal Revenue Code. As of September 30, 2023, CommonSpirit Health is comprised of approximately 2,200 care sites, consisting of 142 hospitals, including academic health centers, major teaching hospitals, and critical access facilities, community health services organizations, accredited nursing colleges, home health agencies, living communities, a medical foundation and other affiliated medical groups, and other facilities and services that span the inpatient and outpatient continuum of care. An additional 20 hospitals are operated through unconsolidated joint ventures. CommonSpirit Health also has offshore and onshore captive insurance companies. The accompanying condensed consolidated financial statements include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit").

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Presentation*** – The accompanying condensed consolidated financial statements of CommonSpirit were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the accounts of all wholly-owned affiliates and affiliates over which CommonSpirit exercises control or has a controlling financial interest, after elimination of intercompany transactions and balances. These unaudited condensed consolidated financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, refer to the audited consolidated financial statements as of and for the years ended June 30, 2023 and 2022. Operating results for the three-month periods ended September 30, 2023, are not necessarily indicative of the results to be expected for the year ending June 30, 2024.

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

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

Performance obligations are generally satisfied over a period of less than one year. As such, CommonSpirit has elected to apply the optional exemption provided in Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 2015-14, *Revenue From Contracts with Customers (Topic 606)*, and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

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

Subsequent changes that are determined to be the result of an adverse change in a third-party payor's ability to pay are recorded as bad debt expense in purchased services and other in the accompanying condensed consolidated statements of operations and changes in net assets. Bad debt expense for the three-month periods ended September 30, 2023 and 2022 was not significant.

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

> Medicare: Payments for inpatient services are generally made on a prospectively determined rate based on clinical diagnosis. Certain facilities receive cost-based reimbursement. Hospital outpatient services are generally paid based on prospectively determined rates. Physician services are paid based upon established fee schedules.
>
> Medicaid: Payments for inpatient services are generally made on a prospectively determined rate based on clinical diagnosis or on a per case or per diem basis. Hospital outpatient services and physician services are paid based upon established fee schedules, a cost basis reimbursement methodology, or discounts from established charges.
>
> Commercial: Payments for inpatient and outpatient services provided to patients covered under commercial insurance policies are paid using a variety of payment methodologies, including per diem and case rates.
>
> Self-Pay and Other: Payment agreements with uninsured or underinsured patients, along with other responsible entities, including institutions, other hospitals and other government payors, are based on a variety of payment methodologies.

Net patient revenue includes estimated settlements under payment agreements with third-party payors. Settlements with third-party payors are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined. These settlements are estimated and evaluated based on the terms of the payment agreement with the payor, correspondence from the payor, and historical settlement activity.

***Special Charges*** - Included within purchased services and other are certain non-routine, nonrecurring costs that are unusual in nature. These costs, referred to as special charges, primarily relate to impairment of long-lived assets, certain contract termination costs, certain integration activities that are specific to long-term value capture efforts, and severance costs related to system-wide reductions in force. Amounts recorded for the three-month periods ended September 30, 2023 and 2022, are not material to the condensed consolidated financial statements.

***Subsequent Events –*** CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal quarter and November 15, 2023, the date the unaudited condensed consolidated financial statements were issued.

## 3. ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

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

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

| | | |
|---|---|---|
| Current assets | $ | 34 |
| Property and equipment, net | | 75 |
| Right of us operating lease assets | | 1 |
| Other long-term assets, net | | 610 |
| Other accrued liabilities - current | | (9) |
| Operating lease liabilities | | (6) |
| Total contribution of net assets | $ | 705 |

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

***Iowa*** – In September 2022, CommonSpirit sold the facilities and assets of MercyOne, a regional health system in Iowa, to Trinity Health for a gross purchase price of $613 million. MercyOne had operated under a JOA between Trinity Health and CommonSpirit. A net loss on sale of $34 million was recognized in the three-month period ended September 30, 2022.

## 4. COVID-19 PANDEMIC

The Provider Relief Funds ("CARES PRF") funds provided stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. For the three-month period ended September 30, 2022, $259 million has been recognized within other operating revenue as earned. No funds have been received and recognized as revenue in the three-month period ended September 30, 2023.

Employee Retention Credit ("ERC") funds of $194 million, net, were recorded in the year ended June 30, 2023, of which $131 million remains recorded as a current asset as of September 30, 2023. These payroll tax credits relate to qualified wages paid from March 13, 2020, through September 30, 2021.

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

## 5. NET PATIENT REVENUE

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

| | Three-Month Periods Ended September 30, 2023 | Three-Month Periods Ended September 30, 2022 |
|---|---|---|
| Government | $ 3,956 | $ 4,461 |
| Contracted | 3,002 | 2,963 |
| Self-pay and other | 786 | 611 |
| | $ 7,744 | $ 8,035 |

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

## 6. OTHER CURRENT ASSETS

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

| | As of September 30, 2023 | As of June 30, 2023 |
|---|---|---|
| Inventories | $ 835 | $ 819 |
| Receivables, other than patient accounts receivable | 796 | 883 |
| Broker receivables for unsettled investment trades | 602 | 535 |
| Prepaid expenses | 535 | 440 |
| Other | 45 | 56 |
| Total other current assets | $ 2,813 | $ 2,733 |

## 7. CASH AND INVESTMENTS

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

| | As of September 30, 2023 | As of June 30, 2023 |
|---|---|---|
| Cash and cash equivalents | $ 1,607 | $ 1,677 |
| Short-term investments | 437 | 539 |
| Long-term investments | 15,842 | 16,483 |
| Total cash and investments | 17,886 | 18,699 |
| Less: | | |
| Held for self-insured claims | 1,853 | 1,885 |
| Under bond indenture agreements for debt service | 159 | 66 |
| Donor-restricted | 608 | 589 |
| Other | 708 | 703 |
| Total assets limited as to use | 3,328 | 3,243 |
| Unrestricted cash and investments | $ 14,558 | $ 15,456 |

## 8. FAIR VALUE MEASUREMENTS

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

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

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

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

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

| | September 30, 2023 | | | |
|---|---|---|---|---|
| | 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 | $ 2,045 | $ 241 | $ - | $ 2,286 |
| U.S. government securities | 760 | 746 | - | 1,506 |
| U.S. corporate bonds | 40 | 585 | - | 625 |
| U.S. equity securities | 1,494 | 1 | - | 1,495 |
| Foreign government securities | - | 67 | - | 67 |
| Foreign corporate bonds | 3 | 218 | - | 221 |
| Foreign equity securities | 1,425 | 4 | - | 1,429 |
| Asset-backed securities | - | 161 | - | 161 |
| Private equity | - | - | 73 | 73 |
| Multi-strategy hedge funds | 1 | - | - | 1 |
| Real estate | 24 | 7 | - | 31 |
| Community Investment Program | - | - | 169 | 169 |
| Other investments | 161 | 361 | - | 522 |
| Assets measured at fair value | $ 5,953 | $ 2,391 | $ 242 | 8,586 |
| Assets at NAV | | | | 9,300 |
| Total assets | | | | $ 17,886 |
| | | | | |
| Liabilities | | | | |
| Derivative instruments | $ - | $ 90 | $ - | $ 90 |
| Other | 2 | - | 97 | 99 |
| Total liabilities | $ 2 | $ 90 | $ 97 | $ 189 |

| | June 30, 2023 | | | |
|---|---|---|---|---|
| | 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 | $ 1,961 | $ 258 | $ - | $ 2,219 |
| U.S. government securities | 911 | 673 | - | 1,584 |
| U.S. corporate bonds | 44 | 598 | - | 642 |
| U.S. equity securities | 1,867 | 1 | - | 1,868 |
| Foreign government securities | - | 72 | - | 72 |
| Foreign corporate bonds | 4 | 224 | - | 228 |
| Foreign equity securities | 1,769 | 5 | - | 1,774 |
| Asset-backed securities | - | 172 | - | 172 |
| Private equity | 5 | - | 73 | 78 |
| Multi-strategy hedge funds | 1 | - | - | 1 |
| Real estate | 28 | 7 | - | 35 |
| Community Investment Program | - | - | 155 | 155 |
| Other investments | 169 | 267 | - | 436 |
| Assets measured at fair value | $ 6,759 | $ 2,277 | $ 228 | 9,264 |
| Assets at NAV | | | | 9,435 |
| Total assets | | | | $ 18,699 |
| Liabilities | | | | |
| Derivative instruments | $ - | $ 135 | $ - | $ 135 |
| Other | 2 | - | 97 | 99 |
| Total liabilities | $ 2 | $ 135 | $ 97 | $ 234 |

Assets and liabilities measured at fair value on a recurring basis reflected in the table above are reported in short-term investments, long-term investments, current liabilities and other liabilities – long term in the accompanying condensed consolidated balance sheets.

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

For marketable securities, such as U.S. and foreign government securities, U.S. and foreign corporate bonds, U.S. and foreign equity securities, mortgage and asset-backed securities, and structured debt, in the instances where identical quoted market prices are not readily available, fair value is determined using quoted market prices and/or other market data for comparable instruments and transactions in establishing prices, discounted cash flow models and other pricing models. These inputs to fair value are included in industry-standard valuation techniques, such as the income or market approach. CommonSpirit classifies all such investments as Level 2.

For private equity investments where no fair value is readily available, the fair value is determined using models that take into account relevant information considered material. Due to the significant unobservable inputs present in these valuations, CommonSpirit classifies all such investments as Level 3.

The fair value of collateral held under securities lending program is classified as Level 2. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include noncash collateral of $683 million and $561 million as of September 30, 2023 and June 30, 2023, respectively.

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

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

The following table and explanations identify attributes relating to the nature and risk of investments for which fair value is determined using a calculated NAV as of September 30, 2023 (in millions):

| | | NAV Practical Expedient | Unfunded Commitments | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|---|
| Private equity | (1) | $ 1,451 | $ 1,388 | - | - |
| Multi-strategy hedge funds | (2) | 2,341 | - | Weekly, Monthly, Quarterly, Semi-annually, Annually | 3 - 90 days |
| Real estate | (3) | 1,173 | 134 | Quarterly | 60 - 90 days |
| Commingled funds - debt securities | (4) | 995 | 78 | Daily, Monthly, Quarterly | 1 - 90 days |
| Commingled funds - equity securities | (5) | 3,340 | - | Daily, Weekly, Bi-Weekly, Monthly, Quarterly | 2 - 90 days |
| Total | | $ 9,300 | $ 1,600 | | |

(1) This category includes private equity funds that specialize in providing capital to a variety of investment groups, including, but not limited to, venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at September 30, 2023, to be over the next 14 years.

(2) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term, risk-adjusted absolute returns. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. The following table reflects the various redemption frequencies, notice periods, and any applicable lock-up periods or gates to redemption as of September 30, 2023:

| **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)** |
| 6.8% | 6.8% | Annually | 60 days | up to 2 years | up to 50.0% |
| 48.0% | 2.3% | Quarterly | 45 days | up to 2 years | up to 20.0% |
| | 30.1% | Quarterly | 55- 65 days | up to 2 years | up to 12.5% - 25.0% |
| | 15.6% | Quarterly | 90 days | up to 1 year | up to 12.5% - 25.0% |
| 30.9% | 19.5% | Monthly | 30 - 45 days | - | up to 16.7 - 25.0% |
| | 11.4% | Monthly | 90 days | - | up to 20.0% |
| 3.4% | 3.4% | Weekly | 3 days | - | - |
| 1.5% | 1.5% | Daily | 1 day | - | - |
| 9.4% | 9.4% | None | 5 days | up to 2 years | - |

(3) This category includes investments in real estate funds that invest primarily in institutional-quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts. Investments representing 17% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at September 30, 2023, to be over the next 14 years.

(4) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets. Also included in this category are commingled fixed income funds that provide capital in a variety of mezzanine debt, distressed debt and other special debt securities situations. Investments representing approximately 18 % of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at September 30, 2023, to be over the next seven years.

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

## 9. OTHER LONG-TERM ASSETS, NET

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

| | As of September 30, 2023 | As of June 30, 2023 |
|---|---|---|
| Notes receivable, primarily secured | $ 56 | $ 56 |
| Goodwill | 961 | 962 |
| Intangible assets - definite-lived, net | 120 | 123 |
| Intangible assets - indefinite-lived | 661 | 661 |
| Donor-restricted assets | 512 | 517 |
| Other | 226 | 312 |
| Total other long-term assets, net | $ 2,536 | $ 2,631 |

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. See Note 3.

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-month periods ended September 30, 2023 and 2022.

The aggregate amortization expense related to intangible assets is $3 million for the three-month periods ended September 30, 2023 and 2022, and is recorded in depreciation and amortization on the accompanying condensed consolidated statements of operations and changes in net assets.

## 10. DEBT

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

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

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

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

## 11. DERIVATIVE INSTRUMENTS

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

| | Maturity Date of Derivatives | Interest Rate | Notional Amount Outstanding | Fair Value |
|---|---|---|---|---|
| | | | **As of September 30, 2023** | |
| Derivatives not designated as hedges | | | | |
| Interest rate swaps | 2024 - 2047 | 3.2% - 4.0% | $ 1,856 | $ (74) |
| Total return swaps | 2024 - 2030 | SIFMA plus spread | 482 | (16) |
| Total derivative instruments | | | 2,338 | (90) |
| Cash collateral | | | - | 36 |
| Derivative instruments, net | | | $ 2,338 | $ (54) |
| | | | **As of June 30, 2023** | |
| Derivatives not designated as hedges | | | | |
| Interest rate swaps | 2024 - 2047 | 3.2% - 4.0% | $ 1,877 | $ (135) |
| Total return swaps | 2024 - 2030 | SIFMA plus spread | 485 | - |
| Total derivative instruments | | | 2,362 | (135) |
| Cash collateral | | | - | 58 |
| Derivative instruments, net | | | $ 2,362 | $ (77) |

CommonSpirit held $1.9 billion notional amount of interest rate swaps and $482 million notional amount of total return swaps at September 30, 2023, which have a negative fair value of $74 million and $16 million, respectively. CommonSpirit posted $36 million of collateral against the fair value of the interest rate swaps as of September 30, 2023.

CommonSpirit's interest rate swaps mature between 2024 and 2047. CommonSpirit has the right to terminate the swaps prior to maturity for any reason. The termination value would be the fair value or the replacement cost of the swaps, depending on circumstances. The derivative agreements have certain early termination triggers caused by an event of default or a termination event. The events of default include failure to make payment when due, failure to give notice of a termination event, cash on hand dropping below a specified number of days, and defaults under other agreements (cross-default provision). Termination events can include credit ratings dropping below a defined minimum credit rating threshold by either party.

CommonSpirit has $160 million notional of interest rate swaps that are insured and have a negative fair value of $11 million as of September 30, 2023. In the event the insurer is downgraded below a specified minimum credit rating, the counterparties have the right to terminate the swaps if CommonSpirit Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If both the insurer and CommonSpirit Health are downgraded below a specified minimum credit rating, the counterparties have the right to terminate the swaps.

CommonSpirit has $1.7 billion notional amount of interest rate swaps that are not insured, of which the counterparties have various rights to terminate $256 million notional. These include the outstanding notional amounts of $100 million and $196 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 $11 million as of September 30, 2023. The remaining uninsured swaps in the notional amount of $1.4 billion have a negative fair value of $52 million as of September 30, 2023.

CommonSpirit has total return swaps in the notional amount of $482 million with a negative fair value of $16 million as of September 30, 2023.

## 12. LEASES

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

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

| **Lease Type** | **Balance Sheet Classification** | **As of September 30, 2023** | **As of June 30, 2023** |
|---|---|---|---|
| **Operating Leases:** | | | |
| Operating lease ROU assets | Right-of-use operating lease assets | $ 1,875 | $ 1,676 |
| Operating lease obligations - current | Other accrued liabilities - current | 260 | 264 |
| Operating lease obligations - long-term | Other liabilities: Operating lease liabilities | 1,783 | 1,586 |
| **Finance Leases:** | | | |
| Finance lease ROU assets | Property and equipment, net | $ 1,674 | $ 1,700 |
| Current finance lease liabilities | Current portion of long-term debt | 88 | 88 |
| Long-term finance lease liabilities | Long-term debt, net of current portion | 1,633 | 1,649 |

## 13. INTEREST EXPENSE, NET

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

| | Three-Month Periods Ended September 30, 2023 | 2022 |
|---|---|---|
| Interest and fees on debt | $ 190 | $ 122 |
| Capitalized interest expense | (11) | (9) |
| Interest expense, net | $ 179 | $ 113 |

## 14. RETIREMENT PROGRAMS

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

| | Three-Month Periods Ended September 30, 2023 | 2022 |
|---|---|---|
| Service cost | $ 183 | $ 184 |
| Other nonservice net benefit expense (credits) | 32 | (46) |
| Retirement and postretirement plans expense | $ 215 | $ 138 |

## 15. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

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

***General*** – The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, the rules governing licensure, accreditation, controlled substances, privacy, government program participation, government reimbursement, antitrust, anti-kickback, prohibited referrals by physicians, false claims, and in the case of tax-exempt organizations, the requirements of tax exemption. Management believes CommonSpirit is materially in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to future governmental interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Certain CommonSpirit entities have been contacted by governmental agencies regarding alleged violations of Medicare practices for certain services. Additionally, certain CommonSpirit entities have identified and self-disclosed potential instances of noncompliance with applicable regulations. In the opinion of management after consultation with legal counsel, the ultimate outcome of these matters will not have a material adverse effect on CommonSpirit's condensed consolidated financial statements.

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

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

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

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

* * *