CommonSpirit™

This document is dated September 22, 2022

UNAUDITED ANNUAL REPORT

For the Years Ended
June 30, 2022 and 2021

The information in this report
has been provided by
CommonSpirit Health

COMMONSPIRIT HEALTH

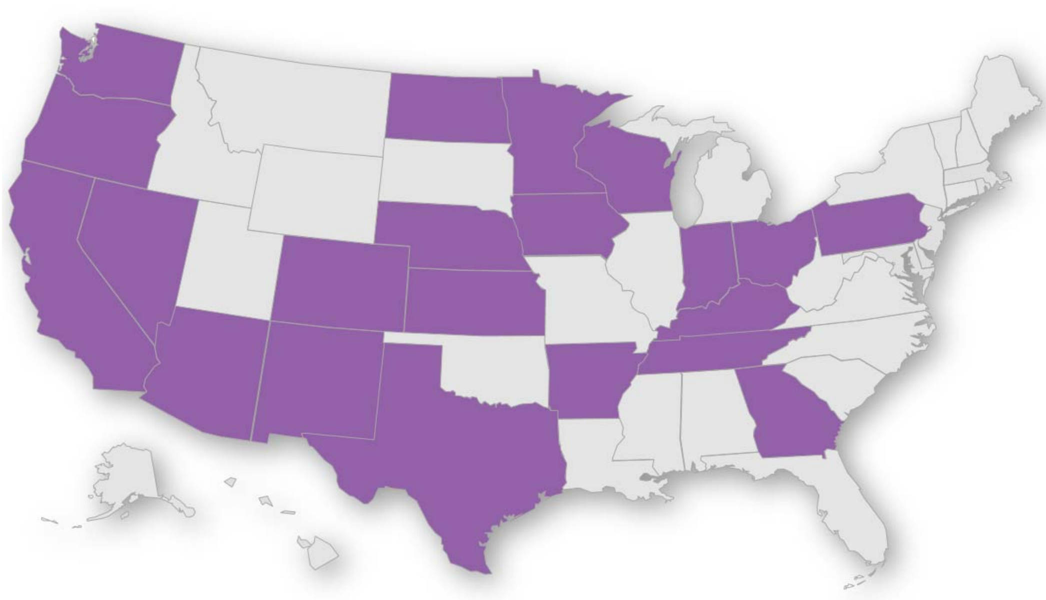
TABLE OF CONTENTS

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 21 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations that are exempt from federal and state income taxes. With its national office in Chicago, and a team of over 150,000 employees and over 25,000 physicians and advanced practice clinicians, as of June 30, 2022, 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. The audited 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 years ended June 30, 2022 and 2021, in accordance with accounting principles generally accepted in the United States of America ("GAAP") and on a non-GAAP basis for

EBITDA (earnings before interest, tax, depreciation and amortization, and nonoperating income). The non-GAAP financial measures are in addition to, not a substitute for, measures of financial performance prepared in accordance with GAAP.

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

COVID-19 Pandemic – Response and Impact on Operations

During fiscal year 2022, CommonSpirit experienced COVID-19 trends in its hospitals similar to the nationwide trend. The surge in early calendar 2022 spiked in January then dropped off steeply. By fiscal year end, the average daily census of COVID-19 positive patients was relatively low at around 900, up from a pandemic low of around 200 in spring 2022. Similar to national trends, the seriously ill are mostly those who are unvaccinated or have underlying health issues.

The high transmissibility of the Omicron variants continues to bring challenges nationwide for our caregivers and other employees as well as within the industries CommonSpirit relies upon daily. Although the vaccination rate across the organization is extremely high, many staff were required to be placed on leave under the Centers for Disease Control and Prevention ("CDC") guidelines related to exposure concerns. With the updated CDC guidelines (August 11, 2022), COVID related restriction policies are currently under review and may alleviate this issue. The organization is poised to manage any subsequent surges.

CommonSpirit continues to closely monitor COVID-19 case trends nationwide along with the now dominant BA.5 subvariant of Omicron. While cases are anticipated to increase nationally, the overall hospitalization rates are projected to remain at current levels or even decline slightly. CommonSpirit continues to believe that the best defense against severe illness of COVID-19 is to be up-to-date with all doses of the vaccine. CommonSpirit continues to strongly encourage boosters for its staff, patients, and community members.

Staffing remains a pressing issue across the industry - CommonSpirit is focused on maintaining appropriate staffing at its care sites, including acceleration of the hiring and onboarding processes, leveraging traveling nurse lists, and in some locations, retraining or moving staff between care sites. Fatigue and burnout among health care workers continues to be a major challenge currently facing CommonSpirit and the nation. Supporting staff resilience and working to expand the health care workforce are key strategic priorities for the organization. CommonSpirit has established internal programs focused on staff retraining, wellness, and resilience, and is aggressively working to identify new staff in key specialty areas.

CommonSpirit is also focused on the long-term pipeline and has developed new graduate medical education ("GME") relationships and residency programs, with the goal of being a leading GME partner. Through these relationships, CommonSpirit is expanding new undergraduate and graduate medical education to train the next generation of culturally competent health clinicians and researchers, improving the talent acquisition process and more importantly, improving mentoring and advising to reduce first year turnover. CommonSpirit believes that creating strong manager engagement with staff is critical to retention efforts.

Operational Impact

The pandemic continues to create financial challenges for health care providers, particularly with labor shortages resulting in higher contract labor usage, but there are near-term favorable trends from a volume perspective. CommonSpirit volumes have increased when compared to prior year, with acute admissions increasing 1.1% and outpatient surgeries increasing 5.1%. The challenge now is the impact of inflation on expenses as they continue to grow at a greater rate than revenue.

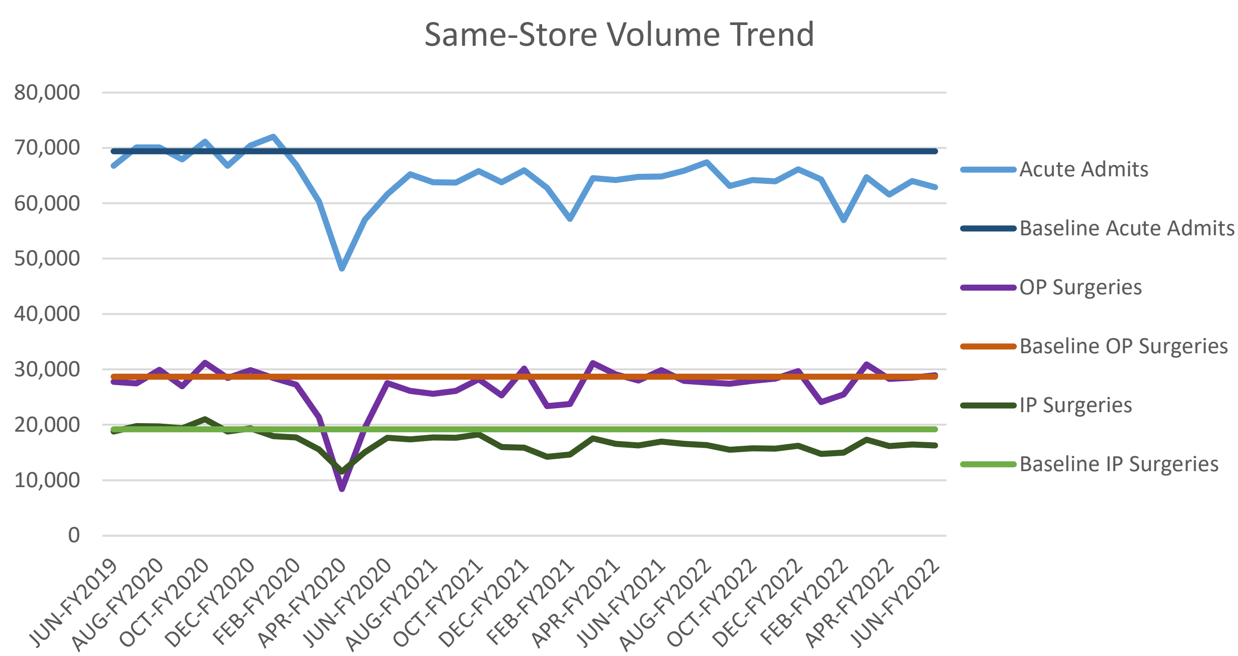
As CommonSpirit continues to manage through the COVID-19 pandemic, the organization has taken steps to mitigate the evolving financial and operational challenges on the System. Leadership believes the System's size and geographic diversity have helped smooth the impact of the crisis on the System. Specifically:

- Expense and Liquidity Management – CommonSpirit had been on a path to improving efficiency and realizing synergies as part of its alignment and was well positioned to take a disciplined approach to expense management during the pandemic. As the industry grapples with escalating salary costs for travelers and staff alike due to staffing issues brought on by COVID-19 and exacerbated by increasing inflationary pressures, CommonSpirit has developed programs to encourage retention and has created internal float pools and an internal registry.

  To address the increase in length of stay due to lack of access to the post-acute sector, CommonSpirit has extended the reach of hospitalists, expanded relationships with skilled nursing facilities, and redesigned care coordination processes to encourage more timely discharge of patients who do not require post-acute services.

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

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



Governmental Support

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") provides stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. Through June 30, 2022, CommonSpirit has received approximately $1.6 billion in CARES Act Provider Relief Funds ("CARES PRF") in the form of grants as reimbursement through the Public Health and Social Services Emergency Fund for health care expenses and lost revenues attributable to COVID-19. These provider relief payments are recorded as other operating revenues, as earned. For the years ended June 30, 2022 and 2021, $27 million and $690 million has been recorded in other operating revenues in the consolidated statements of operations and changes in net assets, respectively, and $826 million was recognized during the year ended June 30, 2020. Additional CARES PRF Phase IV distributions totaling $259 million were received subsequent to June 30, 2022. These funds are not required to be repaid upon attestation and compliance with certain terms and conditions.

CommonSpirit recorded $149 million of American Rescue Plan Act of 2021 ("ARP Rural") funds during the twelve-month period ended June 30, 2022.

To date, CommonSpirit received $2.8 billion in funds under the Medicare Accelerated and Advance Payment Program, of which $2.6 billion was received as of June 30, 2020, and the remainder in fiscal year 2021. No additional funds have been received in fiscal year 2022. These payments are advances that will be recouped by withholding future Medicare fee-for-service payments for claims until such time as the full accelerated payment has been recouped. As of June 30, 2022, $2.0 billion has been repaid, of which $1.7 billion was repaid during the twelve-month period ended June 30, 2022. Approximately $200 million per month is expected to be recouped going forward, based on historical experience. As of June 30, 2022, $793 million is recorded in current liabilities related to these Medicare advances and $32 million is recorded in other accrued liabilities held for sale - current.

CommonSpirit had deferred $416 million in employer payroll taxes pursuant to the Paycheck Protection Program and Health Care Enhancement Act, of which $208 million was repaid in December 2021, and $208 million is recorded in accrued salaries and benefits within current liabilities as of June 30, 2022.

CommonSpirit recorded $67 million of Employee Retention Credits under the CARES Act during the twelve-month period ended June 30, 2022. These funds relate to qualified wages paid between April 1, 2020, and June 30, 2020, and are recorded within other operating revenue.

In total, the funds received under the Medicare Accelerated and Advance Payment Program and the Paycheck Protection Program and Health Care Enhancement Act represent 11 days cash on hand as of June 30, 2022, and 35 days in the prior year.

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

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

CARES PRF Funding, including assets held for sale					
			As of June 30, 2022		
	Years Ended June 30,		Deferred	Cumulative	Cumulative
	2022	2021	Revenue	CARES PRF	Medicare
($ in millions)	Other Operating Revenue		(Liability)	Grants	Advances, net
Northern California	$ 1	$ 112	$ 2	$ 240	$ 196
Southwest	1	37	-	135	62
Southern California	-	138	2	258	94
Pacific Northwest	1	94	-	172	111
Southeast	6	123	1	231	110
Midwest	2	60	3	161	97
Colorado	11	31	-	123	60
Texas	-	72	-	141	63
Iowa	-	28	-	48	32
National Business Lines*	5	8	-	20	-
Subtotal Divisions	27	703	8	1,529	825
Corporate Services	-	(13)	1	23	-
CommonSpirit Total	$ 27	$ 690	$ 9	$ 1,552	$ 825

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

California Provider Fee Program

In February 2020, the Centers for Medicare and Medicaid Services ("CMS") approved the State Plan Amendment ("SPA") and allocation model previously submitted by the State of California for the 30-month provider fee program beginning July 1, 2019.

Since the last cycle of the California provider fee program ended December 31, 2021, the State of California submitted a SPA to CMS for approval of the new 12-month provider fee program beginning January 1, 2022. CMS has not yet approved the new program as of the issuance of this report. Upon final approval, $43 million in monthly net income will be recorded for the period beginning January 2022 through the month of approval, including six months (approximately $260 million) related to fiscal 2022, continuing monthly through December 2022. As a result of the CMS approval timing, EBITDA, operating revenues, and expenses for fiscal year 2022 have been adjusted where indicated in this report to normalize the 2022 California provider fee program revenue and expenses.

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

Normalized California Provider Fee Program Impact					
($ in millions)	Q1	Q2	Q3	Q4	YTD
Net patient and premium revenues	$ -	$ -	$ 257	$ 256	$ 513
Operating expenses	-	-	128	128	256
Provider Fee net income	$ -	$ -	$ 129	$ 128	$ 257

California Provider Fee Program			
	Years Ended June 30,		
($ in millions)	2022*	2021	Change
Net patient and premium revenues	$ 1,042	$ 1,016	$ 26
Operating expenses	481	493	(12)
Provider Fee net income	$ 561	$ 523	$ 38

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

Financial Highlights and Summary

CommonSpirit recorded an operating loss of $1.3 billion during the year ended June 30, 2022, compared to operating income of $998 million for the prior year. The results for the year ended June 30, 2022, include $190 million in operating income related to a gain on sale of assets/joint-venture shares compared to a $598 million gain in the prior year (including a $523 million pre-tax gain on joint venture shares). Excluding CARES PRF grant revenues and normalized for the California provider fee program, operating losses for the years ended June 30, 2022, were $1.1 billion, compared to a $308 million operating gain in the prior year. CommonSpirit EBITDA continues to be impacted by the pandemic, labor shortages, and inflation. The current fiscal year has experienced continued increases in expense levels along with revenue challenges associated with an unfavorable shift in payor mix, declining acuity, and revenue yields.

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

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

Effective May 1, 2022, Centura Health completed an acquisition of two hospital facilities, St. Elizabeth Hospital in Fort Morgan, Colorado, and St. Catherine Hospital in Dodge City, Kansas. The financial results of these two hospitals are included in the accompanying consolidated financial statements as of the effective date. The acquired facilities will support CommonSpirit's mission and strategy, expanding the scope and quality of care in those rural and surrounding communities.

CommonSpirit's EBITDA decreased to $626 million for year ended June 30, 2022, from $2.9 billion during the prior year. The EBITDA margin for the year ended June 30, 2022, decreased to 1.8% from 8.8% for the prior year. Excluding CARES PRF grant revenues and normalized for the California provider fee program, EBITDA for the year ended June 30, 2022, was $856 million with an EBITDA margin of 2.5%, compared to $2.2 billion with an EBITDA margin of 6.9%, during the prior year. The decrease is primarily related to increased salaries and contract labor expenses due to higher length and stay and continued staffing challenges due to COVID-19, and general inflation.

For the year ended June 30, 2022, CommonSpirit's volumes on an adjusted admission basis improved from the lower volumes during the earlier peaks of the pandemic, and were favorable to the prior year by 3.7%. On a same-store basis, adjusted admissions were favorable to the prior year by 1.9%. Adjusted patient days for the year ended June 30, 2022, were higher than the prior year by 8.1%. The acute average length of stay (ALOS) of 5.21 days for the year ended June 30, 2022, was higher than the prior year of 5.00, primarily due to continued challenges of the pandemic.

Key Indicators Financial Summary

($ in millions)	Years Ended June 30, 2022	2022*	2021	Change**
	As Recorded	As Adjusted	As Recorded	As Adjusted Comparison
EBITDA	$ 626	$ 883	$ 2,936	$ (2,053)
Margin %	1.8%	2.6%	8.8%	(6.2%)
EBITDA - excluding CARES PRF	$ 599	$ 856	$ 2,246	$ (1,390)
Margin % - excluding CARES PRF	1.8%	2.5%	6.9%	(4.4%)
Operating income (loss)	$ (1,296)	$ (1,039)	$ 998	$ (2,037)
Margin %	(3.8%)	(3.0%)	3.0%	(6.0%)
Operating income (loss) - excluding CARES PRF	$ (1,323)	$ (1,066)	$ 308	$ (1,374)
Margin % - excluding CARES PRF	(3.9%)	(3.1%)	0.9%	(4.0%)

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

*** Comparing June 30, 2022, as adjusted to the prior year as recorded.*

Results of Operations

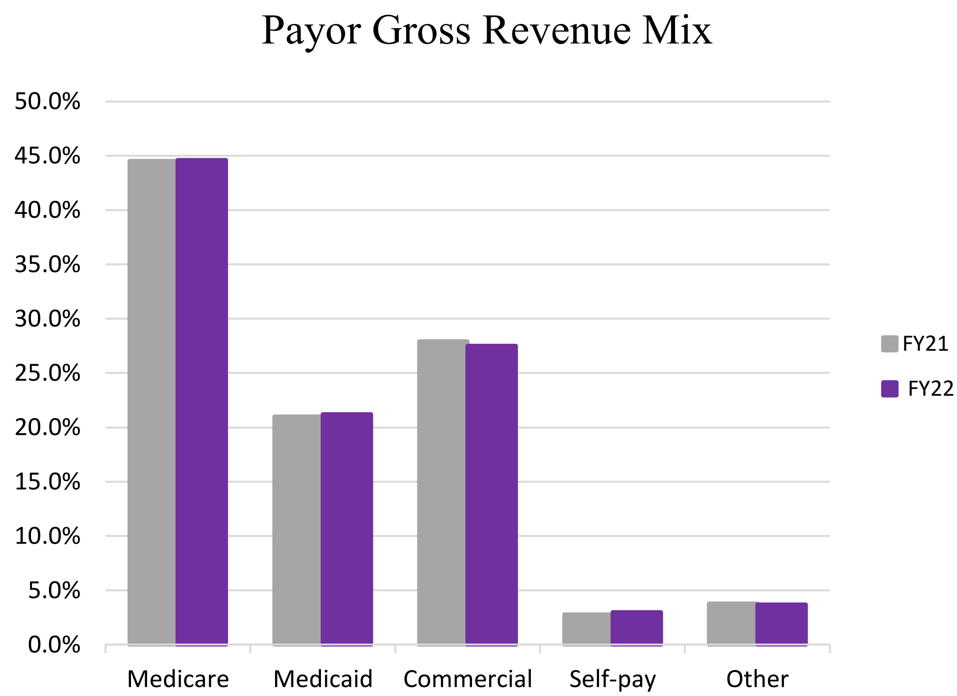
Operating Revenues and Volume Trends

Net patient and premium revenues increased $1.5 billion, or 4.8% over the prior year for the year ended June 30, 2022. Normalizing the California provider fee revenues for the current year ended June 30, 2022, net patient and premium revenue increased $2.0 billion, or 6.5%. The increase is primarily due to higher volumes, rates, and the YRMC and VMHS affiliations. Outpatient volume has returned at a greater rate than inpatient volume with outpatient surgeries above pre-pandemic levels. This partially reflects the continued shift of the site of care change from inpatient to outpatient. Normalized net patient and premium revenue per adjusted admission increased 2.8% during the year ended June 30, 2022. This increase is primarily due to rate changes, service mix and revenue cycle improvements.

Volumes	Years Ended June 30, 2022	2021	Change	%
Acute admissions	788,862	780,437	8,425	1.1%
Adjusted admissions	1,588,884	1,532,867	56,017	3.7%
Acute inpatient days	4,113,429	3,903,919	209,510	5.4%
Adjusted patient days	8,285,052	7,667,743	617,309	8.1%
Acute average length of stay	5.21	5.00	0.21	4.2%
Outpatient visits	28,133,835	26,432,061	1,701,774	6.4%
ED visits	3,873,484	3,361,252	512,232	15.2%
Gross outpatient revenue as a % of total gross patient services revenue	50.4%	49.1%	1.3%	1.3%

Same-Store Volumes	Years Ended June 30, 2022	2021	Change	%
Acute admissions	765,311	766,808	(1,497)	(0.2%)
Adjusted admissions	1,526,240	1,497,995	28,245	1.9%
Acute inpatient days	3,976,139	3,831,621	144,518	3.8%
Adjusted patient days	7,929,517	7,485,250	444,267	5.9%
Acute average length of stay	5.20	5.00	0.20	4.0%
Outpatient visits	26,618,654	25,634,734	983,920	3.8%
ED visits	3,778,524	3,310,932	467,592	14.1%
Gross outpatient revenue as a % of total gross patient services revenue	49.9%	48.8%	1.1%	1.1%

Payor mix based on gross revenues for the year ended June 30, 2022, has softened compared to the prior year. The following chart represents the payor gross revenue mix for consolidated operations for the years ended June 30, 2022 and 2021:



All other operating revenues decreased $807 million, or 26.3%, from the prior year for the year ended June 30, 2022, primarily due to CARES PRF grant revenue totaling $27 million, compared to $690 million for the prior year, partially offset by $149 million in ARP funds and $67 million in ERC funds recorded in the current year, and higher pharmaceutical revenues. Excluding the CARES PRF grants, other operating revenues decreased $144 million, or 6.1%, from the prior year. The decrease from prior year is also largely impacted by a $190 million gain on sale of assets/joint-venture shares recorded during the year ended June 30, 2022, compared to a $598 million gain recorded in the prior year (including a $523 million pre-tax gain on joint venture shares) and a decrease of $175 million in revenue from health-related activities, net, when compared to the prior year, partially offset by higher grant and pharmaceutical revenues. The decrease in revenue from health-related activities, net, is primarily related to investment losses recorded by equity method investments as a result of the financial market performance.

Operating Revenues

($ in millions)	2022	2022*	2021	Change**
	Years Ended June 30,			
	As Recorded	As Adjusted	As Recorded	As Adjusted Comparison
Net patient and premium revenues	$ 31,646	$ 32,159	$ 30,185	$ 1,974
All other operating revenues	2,261	2,261	3,068	(807)
Total operating revenues	$ 33,907	$ 34,420	$ 33,253	$ 1,167

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

*** Comparing June 30, 2022, as adjusted to the prior year as recorded.*

Uncompensated Care

($ in millions)	2022	2021	Change
	Years Ended June 30,		
Uncompensated Care:			
Charity care, at customary charges	$ 1,990	$ 2,041	$ (51)
Charity care, at cost, net	$ 473	$ 482	$ (9)
Charity care, at cost, as a percentage of total expenses	1.3%	1.5%	(0.2%)
Unpaid cost of Medicaid / Medi-Cal, net	$ 1,997	$ 1,558	$ 439
Unpaid cost of Medicare, net	$ 1,731	$ 2,535	$ (804)
Net Community Benefit Expense			
Total community service for the poor	$ 158	$ 209	$ (51)
Total benefits for the broader community	$ 457	$ 281	$ 176
Total community benefits	$ 3,163	$ 2,576	$ 587
Total community benefits including unpaid cost of Medicare	$ 4,894	$ 5,111	$ (217)

Charity care at customary charges for the year ended June 30, 2022, is slightly lower than the prior year as a result of the continued impact of the pandemic.

Operating Expenses

Salaries and benefits increased $2.2 billion, or 13.5%, over the prior year, for the year ended June 30, 2022, with salaries and benefits per adjusted admission increasing 9.5%, primarily due to high registry and contract labor costs, higher staffing costs due to CommonSpirit's premium pay and retention programs, inflationary pressures, overtime, higher length of stay due to COVID-19, and the YRMC and VMHS affiliations.

Supplies increased $502 million, or 9.9%, during the year ended June 30, 2022, compared to the prior year. The increase is primarily due to higher than anticipated inflation, higher volumes (which impacted pharmaceutical, laboratory and other supply costs), the YRMC and VMHS affiliations, and additional supplies and pharmaceutical purchases related to COVID-19.

Purchased services and other increased $554 million, or 6.0%, for the year ended June 30, 2022, compared to the prior year, when normalizing for the California provider fee program costs, primarily due to the YRMC and VMHS affiliations, higher medical fees, higher insurance costs, and inflationary pressures, partially offset by lower repairs and maintenance fees.

Expense Management and Productivity			
	Years Ended June 30,		
	2022	2022*	2021
	As Recorded	As Adjusted	As Recorded
Expense Management:			
Supply expense as a % of net patient and premium revenue	17.7%	17.4%	16.8%
Purchased services and other as a % of net patient and premium revenue	30.1%	30.4%	30.6%
Capital expense as a % of net patient and premium revenue	6.1%	6.0%	6.4%
Non-capital cost per adjusted admission	$ 20,946	$ 21,107	$ 19,778
Productivity:			
Salaries, wages and benefits as a % of net patient and premium revenue	57.4%	56.5%	53.0%
Number of FTEs	134,036	134,036	128,086
FTEs per adjusted admission	27.47	27.47	27.33

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

Operating Expenses				
	Years Ended June 30,			
($ in millions)	2022	2022*	2021	Change**
	As Recorded	As Adjusted	As Recorded	As Adjusted Comparison
Salaries and benefits	$ 18,170	$ 18,170	$ 16,006	$ 2,164
Supplies	5,588	5,588	5,086	502
Purchased services and other	9,523	9,779	9,225	554
Depreciation and amortization	1,463	1,463	1,487	(24)
Interest expense, net	459	459	451	8
Total operating expenses	$ 35,203	$ 35,459	$ 32,255	$ 3,204

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

*** Comparing June 30, 2022, as adjusted to the prior year as recorded.*

Nonoperating Results

CommonSpirit recorded investment losses, net, of $971 million during the year ended June 30, 2022, compared to investment income, net, totaling $3.4 billion during the prior year, due to a decline in the financial markets.

CommonSpirit recorded a loss on early extinguishment of debt of $12 million during the year ended June 30, 2021, related to a debt restructuring in calendar year 2020.

Income tax expense was $72 million during the year ended June 30, 2022, compared to $139 million during the prior year. The decrease is related to estimated tax on the gain on sale of joint venture shares recorded in the prior year.

The change in market value and cash payments of interest rate swaps was a favorable result of $179 million during the year ended June 30, 2022, compared to $86 million during the prior year.

Contribution from business combinations amounted to a gain of $1.0 billion during the year ended June 30, 2021, due to the affiliations with VMHS and YRMC.

Net periodic postretirement costs amounted to $324 million of income during the year ended June 30, 2022, compared to $86 million during the prior year.

Nonoperating Results			
	Years Ended June 30,		
($ in millions)	**2022**	**2021**	**Change**
Investment income, net	$ (971)	$ 3,399	$ (4,370)
Loss on early extinguishment of debt	-	(12)	12
Income tax expense	(72)	(139)	67
Change in fair value and cash payments of interest rate swaps	179	86	93
Contribution from business combination	-	1,018	(1,018)
Other components of net periodic postretirement costs	324	86	238
Other	(11)	14	(25)
Total nonoperating income, net	$ (551)	$ 4,452	$ (5,003)

Operating Revenues by Division

The following tables present operating revenues by division for the years ended June 30, 2022 and 2021:

Division Operating Revenues				
	Years Ended June 30,			
($ in millions)	**2022**	**2022****	**2021**	**Change*****
	As Recorded	**As Adjusted**	**As Recorded**	**As Adjusted Comparison**
Southern California	$ 6,043	$ 6,400	$ 6,303	$ 97
Northern California	5,132	5,288	5,165	123
Pacific Northwest	4,401	4,401	3,736	665
Southwest	4,431	4,431	3,987	444
Southeast	3,838	3,838	3,740	98
Midwest	2,939	2,939	2,976	(37)
Colorado	2,906	2,906	2,705	201
Texas	2,645	2,645	2,593	52
Iowa	1,123	1,123	1,149	(26)
National Business Lines*	366	366	369	(3)
Other	6	6	19	(13)
Subtotal Divisions	33,830	34,343	32,742	1,601
Corporate Services	77	77	511	(434)
CommonSpirit Total	$ 33,907	$ 34,420	$ 33,253	$ 1,167

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

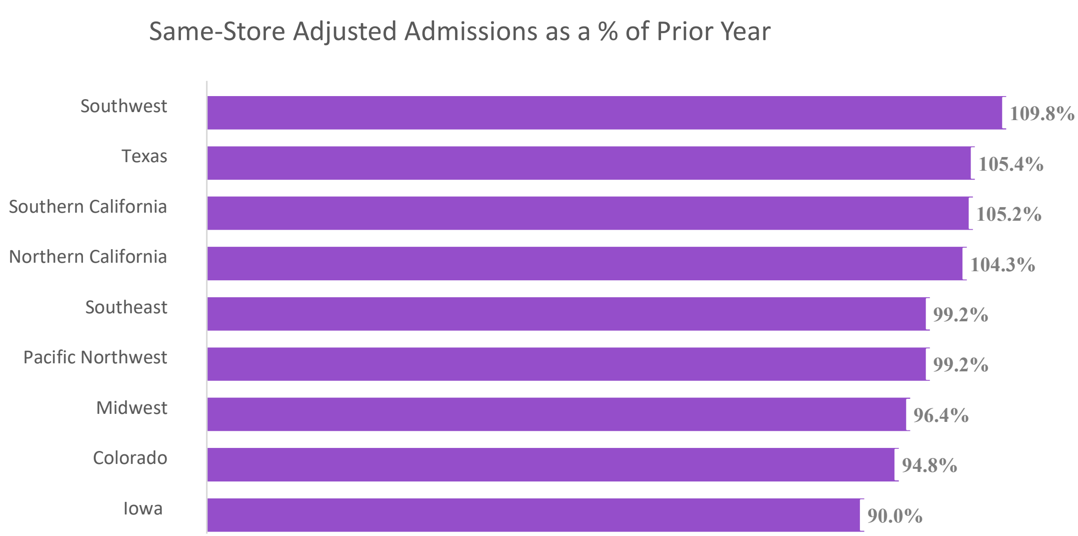
*** Adjusted to normalize the California Provider Fee Program revenues.*

**** Comparing June 30, 2022, as adjusted to the prior year as recorded.*

Following are the significant division performance drivers related to operating revenues compared to prior year for the year ended June 30, 2022:

- Pacific Northwest Division – operating revenues increased $665 million from the prior year, primarily due to additional revenue of $662 million related to the affiliation of VMHS effective January 1, 2021. Same-store adjusted admissions decreased from the prior year by 0.8%.
- Southwest Division – operating revenues increased $444 million from the prior year, primarily due to higher acuity, higher volumes, additional revenue of $182 million related to the affiliation of YRMC effective November 1, 2020, and $39 million of additional provider fee revenue in Arizona. Same-store adjusted admissions increased from the prior year by 9.8%.
- Colorado Division – operating revenues increased $201 million from the prior year, primarily due to slightly higher acuity, partially offset by a 5.2% decrease in adjusted admissions.
- Southeast Division - operating revenues increased $98 million from the prior year, primarily due to stable commercial payor mix and higher outpatient volume. Adjusted admissions decreased from the prior year by 0.8%.
- Southern California Division – normalized operating revenues increased $97 million from the prior year, primarily due to higher volumes and stable payor mix. Adjusted admissions increased from the prior year by 5.2%.
- Northern California – normalized operating revenues increased $123 million from the prior year, primarily due to higher acuity and stable payor mix, and a 4.3% increase in adjusted admissions.
- Texas Division – operating revenues increased $52 million from the prior year, primarily due to higher acuity, a 5.4% increase in adjusted admissions, and stable payor mix.

The table below reflects the same-store adjusted admissions (excluding the impact of the affiliation with YRMC and VMHS) as a percentage of prior year, for the year ended June 30, 2022:



Balance Sheet Metrics

The following table provides key balance sheet metrics for CommonSpirit:

Key Balance Sheet Metrics ($ in millions)	June 30, 2022	June 30, 2021	Change
Consolidated Balance Sheet Summary			
Total assets	$ 50,314	$ 54,876	$ (4,562)
Total liabilities	$ 29,285	$ 32,978	$ (3,693)
Total net assets	$ 21,029	$ 21,898	$ (869)
Financial Position Ratios			
Unrestricted cash and investments	$ 16,247	$ 20,663	$ (4,416)
Days cash on hand	176	245	(69)
Total debt	$ 15,427	$ 15,542	$ (115)
Debt to capitalization	45.1%	44.2%	0.9%

Liquidity

Unrestricted cash and investments were $16.2 billion at June 30, 2022, and $20.7 billion at June 30, 2021. The decrease is primarily due to negative investment returns, the recoupment of Medicare advances, payments of deferred payroll taxes, and changes in operating cash flows. CommonSpirit is actively monitoring liquidity, given the operational disruption related to COVID-19.

Liquidity and Capital Resources ($ in millions)	June 30, 2022	June 30, 2021	Change
Cash	$ 2,592	$ 3,329	$ (737)
Short-term investments	596	1,124	(528)
Long-term investments, excluding assets limited as to use	13,059	16,210	(3,151)
Total unrestricted cash and investments	$ 16,247	$ 20,663	$ (4,416)

Capital Resources

Cash provided by operating activities totaled $724 million for the year ended June 30, 2022, compared to cash used of $2.1 billion for the prior year. Significant activity for the year ended June 30, 2022, includes the following:

- Investments decreased $4.0 billion during the year ended June 30, 2022, compared to an increase of $7.5 billion during the prior year, due to weaker investment market performance in the current year and the addition of YRMC, VMHS and CSH OIP in the prior year.
- Medicare advances to be withheld from future Medicare fee-for-service payments decreased $1.7 billion during the year ended June 30, 2022, compared to a decrease of $137 million during the prior year.
- Accounts receivable, net, increased $345 million during the year ended June 30, 2022, compared to an increase of $540 million during the prior year.
- Accounts payable, net, decreased $170 million during the year ended June 30, 2022, compared to an increase of $178 million during the prior year.
- Accrued salaries and benefits decreased $110 million during the year ended June 30, 2022, compared to an increase of $430 million during the prior year. The decrease includes a $208 million payment of deferred payroll taxes.

Cash used in investing activities totaled $1.4 billion for the year ended June 30, 2022, compared to $267 million for the prior year, primarily due to the following:

- Capital expenditures were $1.5 billion during the years ended June 30, 2022 and 2021. Such capital expenditures primarily relate to general maintenance of facilities, equipment and systems additions and replacements, and various other capital improvements.
- Proceeds from the sale of assets were $276 million during the year ended June 30, 2022, compared to $918 million during the prior year, primarily due to the sale of joint venture shares in the prior year.
- Cash distributions from health-related activities were $86 million during the year ended June 30, 2022, compared to $271 million during the prior year.
- Investments in health-related activities were $105 million during the year ended June 30, 2022, compared to $174 million during the prior year.

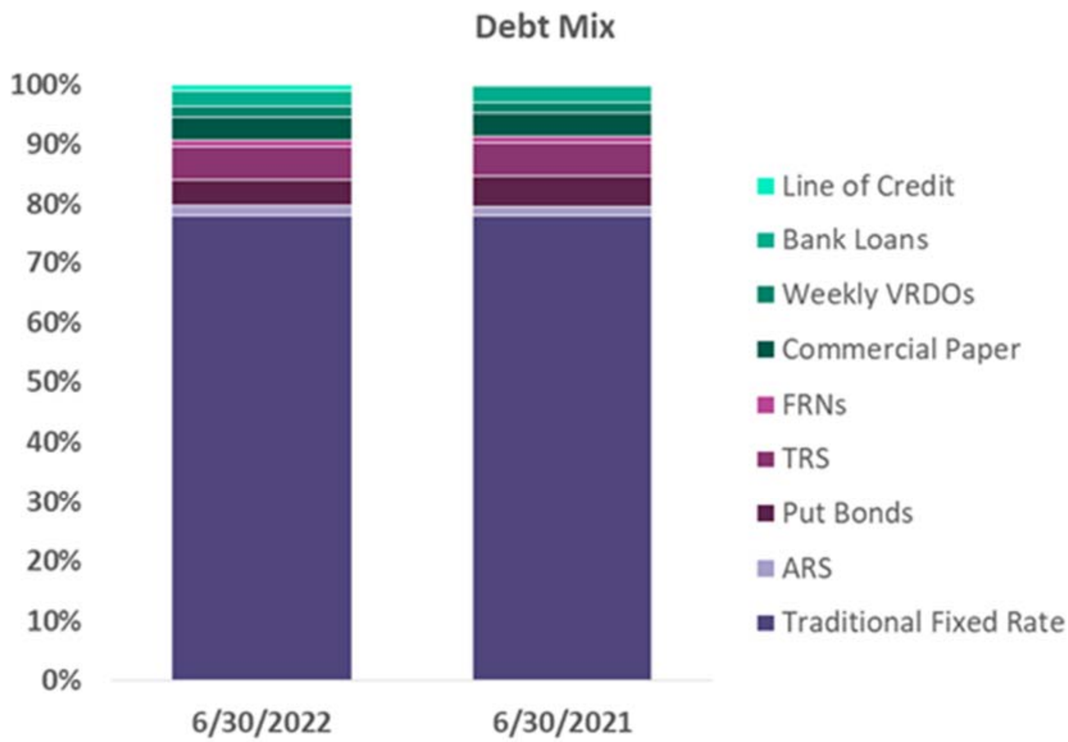
Cash used in financing activities totaled $59 million for the year ended June 30, 2022, compared to $194 million for the prior year, primarily due to the following:

- Net repayments of debt were $93 million during the year ended June 30, 2022, compared to $238 million during the prior year.

Debt Portfolio

CommonSpirit's Obligated Group is comprised of the former Dignity Health Obligated Group and CHI entities (collectively, the "CommonSpirit Obligated Group"). The CommonSpirit Obligated Group represents approximately 85% of consolidated revenues of CommonSpirit as of June 30, 2022. The debt portfolio remains well diversified, with a high proportion of long-term fixed rate debt providing stability.

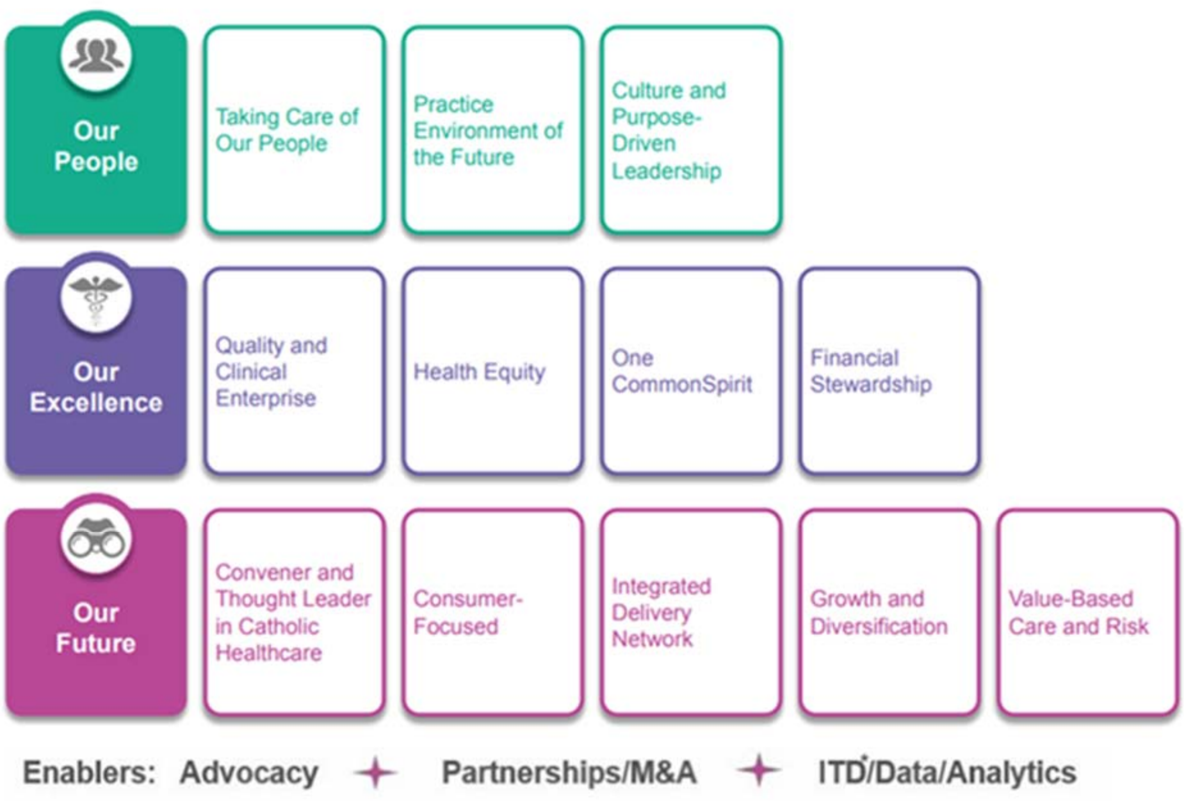
The chart below depicts CommonSpirit's debt mix as of June 30, 2022, as compared to June 30, 2021:



Strategic Focus and Priorities

In fiscal year 2022, CommonSpirit introduced its first five-year integrated strategic plan, CommonSpirit 2026. CommonSpirit 2026 is grounded in our mission, vision and values, informed by the dynamic environment around us, and mobilizes CommonSpirit's prior, current and future work around a common set of strategic priorities and focuses on where CommonSpirit can have the greatest impact. The plan repositions CommonSpirit to lead and transform health care to meet the evolving needs of our communities and consumers, particularly given the rapidly changing health care landscape, accelerated by the COVID-19 pandemic. CommonSpirit 2026 provides flexibility for our diverse operations and communities across 21 states to come together around a common direction and creates a path to maintaining long-term sustainability for the organization.

CommonSpirit 2026 is how we will deliver on our promise and is encapsulated in the form of three pillars, Our People, Our Excellence and Our Future as depicted and described in more detail below. Fiscal 2022 developments in selected areas are also highlighted as appropriate.



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

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

CommonSpirit believes in addressing both the near-term caregiver shortages, as well as addressing the root cause of these shortages through increasing the pipeline, including CommonSpirit's development of a national nurse residency program, and a virtual nursing program. The virtual nursing program uses RNs in remote locations to relieve onsite RNs from administrative tasks, and a new model that utilizes new team members to include pharmacists, LPNs, nursing assistants and paramedics in patient care. The use of these new team members supplements the limited number of RNs as virtual nurses can assist with the supervision and education of non-licensed personnel. The virtual nursing program is live in eight states with plans to roll these programs out at 130 locations systemwide over the next 18 months. The national nurse residency program is expected to launch in October with its first cohort.

CommonSpirit believes in supporting the whole person - physical, emotional, social, financial and spiritual wellness. CommonSpirit has supported the pandemic shift to online learning by piloting and launching a range of programs supporting crisis management, caregiver wellbeing, remote work and virtual facilitation training. CommonSpirit is developing agility to respond to emerging needs by utilizing micro-learning and mobile devices learning to reduce training burnout and offer on-demand training, measuring linkages between learning and engagement and retention, aligning learning to workforce planning to assist in filling key skills gaps and providing open access training for new audiences (talent acquisition applicants, employees' families, patients and their families.)

CommonSpirit's Practice Environment of the Future is clinically led, operationally enhanced, and technologically accelerated, scaling nationally common performance platforms, workflows and design standards that emphasize a synergetic focus on our patients, family, and employees in environments of care that encourage healing and compassion. As an example, a key initiative for this priority, Care of the Future, was put into action in the Arkansas market and has succeeded in reducing patient wait time and unnecessary staff movements, and has improved patient cycle time. The pilot also succeeded in increasing clinic access by 3.5 hours per day, doubling available space for providers and decreasing spend by over $4 million.

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

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

As part of CommonSpirit's commitment to excellence and an expression of its mission and values, in November 2021, the organization announced an industry-leading commitment to achieve net-zero greenhouse gas emissions by 2040 with an interim target to cut operational emissions in half by 2030. As one of the nation's largest, most diverse and leading health systems, CommonSpirit's pledge will impact the climate crisis by delivering more sustainable, resilient, and climate-smart health care across its 21-state footprint. CommonSpirit is focused on systematic efforts to track and report on its Net Zero initiatives as well as other Environmental, Social and Governance initiatives. Following is a link to CommonSpirit's Environmental Stewardship site, which includes its FY2021 Sustainability Report: https://www.commonspirit.org/what-we-do/advancing-health-equity/environmental-stewardship.

Additionally, in November 2021, CommonSpirit launched the Clinical Leadership Council, an inter-professional authority that governs CommonSpirit's Clinical Enterprise. The Council's purpose is to promote collaboration and engagement. The objectives are to 1) create an integrated clinical governance model that will organize and streamline existing and new clinical governance bodies across CommonSpirit, provide oversight and direction, and empower these bodies with appropriate decisional authority; 2) assist clinical leadership in establishing common expectations and a unified care philosophy that aligns with CommonSpirit's mission, vision and values; 3) inform clinical goals and objectives; 4) build pathways for collaboration across clinical and operational disciplines to optimize clinical effectiveness; and 5) establish evidence-based practices to drive outcomes and reduce variation. As a result, CommonSpirit expects to optimize care processes, achieve outstanding clinical outcomes, and provide high-quality, high-value, patient-centered care.

.

CommonSpirit continues to make progress toward its original synergy goal of $2 billion. During FY 2022, CommonSpirit achieved $455 million in areas such as information technology, real estate, human resources, revenue cycle, pharmacy, ancillary services, purchased services and supply chain. As part of CommonSpirit's overall synergy program, we have launched a purchased services transformation initiative to leverage the scale of our enterprise with a unified approach to significantly improve the way we manage our purchased services, positioning CommonSpirit for a more sustainable long-term financial picture. This program's goal is to obtain rapid, sustained savings by implementing strategies that provide for a consistent, coordinated approach to optimize CommonSpirit's vendor partnerships, internal labor footprint, and quality of service delivery. For example, CommonSpirit has been working to implement a unified operational approach across the enterprise on bed fleet management, standardizing suppliers, and specifying when to rent or buy, resulting in up to $3-4 million savings annually.

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

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

As CommonSpirit looks to the future it has committed to a consumer focused stance in order to enhance and build lifelong relationships with our consumers and expand our ability to connect with consumers regardless of where they are in their health journey. The following initiatives are examples of how CommonSpirit is engaging our consumers in new ways.

- The Patient Engagement Program (PEP) provides a more consistent, predictable and valuable outreach to existing and past patients. This past year, CommonSpirit built and launched the PEP across the system. The pilot uses cases for the PEP focused on deferred or lapsed screenings and visits. The PEP looks to re-engage patients more regularly and consistently in order to keep CommonSpirit's services top-of-mind. The PEP has been deployed on a new marketing automation and engagement platform that is leveraged across all divisions and the Physician Enterprise. In the past seven months, the PEP has had 420,000 acute encounters, 215,000 ambulatory encounters and 4.6 million targeted emails

- "Side Door" Growth Partnerships has expanded CommonSpirit's consumer reach by opening connections with access points that occur through partners in key parts of the consumer health care journey. 7 out of every 10 consumers will begin their healthcare journey on sites like Google, healthgrades, ZocDoc, WebMd, etc. Side Doors provides additional exposure and conversion opportunities for CommonSpirit and offers predictable volumes for a predictable costs. CommonSpirit believes it must continue to identify and open these side doors into the consumer healthcare journey. As an example, CommonSpirit has a direct scheduling integration pilot with Google with 320 of Dignity Health Medical Foundation providers connected

- Through Podium, a customer messaging platform, CommonSpirit has increased online consumer ratings and reviews throughout its facilities, clinics and provider profiles on Google listings from an average of 3.61 to 4.21 (5 point scale). As a result, CommonSpirit has realized a 51% increase in click-throughs to our websites and a 34% increase in click-to-call actions from CommonSpirit Google listings.

- CommonSpirit has launched or expanded healthgrades profiles for employed providers across the system, resulting in 3,261 providers with increased exposure to the 5 million healthgrades visitors per month, resulting in over 10,000 new patients within the first 8 months of the program.

- Comment Transparency utilizes patients' feedback from CommonSpirit providers' medical practice Patient Experience survey to calculate ratings. These star ratings along with audited comments are published on each provider's website under "Find a Doctor". As of August 2022, over 3,600 providers are participating in Comment Transparency, which is live in CHI Health (Midwest Division), Baylor St. Luke's Medical Group and St. Joseph Bryan Hospital (Texas Division), Virginia Mason Franciscan Health (Pacific Northwest Division) and Dignity Health Medical Foundation. The majority of CommonSpirits's participating providers have a 98.5% rating of 4 or 5 stars.

As part of its work to expand access to patient-centered, personalized care, CommonSpirit continues to invest in virtual care through video visits, online health assessments, pre-visit screening, and other means to deliver care to our communities. Virtual care extends across the continuum of care (virtual nursing, pharmacy, ICU, health at home, palliative care and other applications). Since the onset of the COVID-19 pandemic through June 30, 2022, CommonSpirit provided approximately 2.5 million virtual visits.

CommonSpirit continues to build upon cross-disciplinary Population Health capabilities, to leverage and accelerate existing investments, and innovate to drive value-based care transformation across CommonSpirit, ignited by the shifting reimbursement landscape. Value-based agreements ("VBAs") contain reimbursement provisions linked to successfully achieving measures designed to improve quality of care, the patient experience, physician and payor alignment, and the cost of health care of an attributed population. As of June 30, 2022, CommonSpirit provides care for approximately 2.6 million people attributed to VBAs. Nearly 50% of these lives are in downside risk, signaling a robust commitment to value-based care. National, coordinated initiatives focused on VBA performance, including improving our population health capabilities and targeted programming at high risk populations, have shown early success. CommonSpirit's accountable care organizations (ACOs) provided 15% more annual wellness visits than the comparison baseline period. The increase in visits allows CommonSpirit's providers to proactively address health concerns, while enabling patients to receive appropriate preventive clinical services. CommonSpirit saw an overall 23.3% improvement across the system in diabetes management, focusing on engaging and educating patients in self-management. These types of initiatives contribute to the success in the Center for Medicare and Medicaid Services ACO programs over the past 3 years, driving over $200 million in shared savings to Medicare and over $136 million in earned shared savings to CommonSpirit, achieving a 98% average quality score. This success is reflected across all of CommonSpirit's VBAs, which have increased their incentive revenue by over 3% year over year. Long-term performance and capacity building initiatives, such as development of an All Payer Value-Based Claims database to provide a holistic view of CommonSpirit's value-based populations, national initiatives to build climate resilient communities, and VBA quality metric standardization projects are well underway.

Exhibit I

Consolidated Financial Statements as of and for the Years Ended June 30, 2022 and 2021
With Report of Independent Auditors

(Attached)

COMMONSPIRIT HEALTH

Consolidated Financial Statements as of and for the Years Ended June 30, 2022 and 2021 With Report of Independent Auditors

COMMONSPIRIT HEALTH

TABLE OF CONTENTS

Ernst & Young LLP
Suite 1700
18101 Von Karman Avenue
Irvine, CA 92612

Tel: +1 949 794 2300
Fax: +1 949 437 0590
ey.com

Report of Independent Auditors

The Board of Stewardship Trustees
CommonSpirit Health

Opinion

We have audited the consolidated financial statements of CommonSpirit Health (CommonSpirit), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CommonSpirit at June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CommonSpirit and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CommonSpirit's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CommonSpirit's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CommonSpirit's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis of Financial Condition and Results of Operations but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Ernst & Young LLP

September 22, 2022

2209-4095816

COMMONSPIRIT HEALTH

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2022 AND 2021 (in millions)

Assets	2022	2021
Current assets:		
Cash and cash equivalents	$ 2,592	$ 3,329
Short-term investments	596	1,124
Patient accounts receivable, net	4,472	4,323
Provider fee receivable	693	1,151
Other current assets	3,296	2,354
Total current assets	11,649	12,281
Long-term investments	16,087	19,497
Property and equipment, net	15,876	16,274
Right-of-use operating lease assets	1,715	1,892
Ownership interests in health-related activities	3,038	3,141
Other long-term assets, net	1,949	1,791
Total assets	$ 50,314	$ 54,876

(Continued)

COMMONSPIRIT HEALTH

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2022 AND 2021 (in millions)

Liabilities and Net Assets	**2022**	**2021**
Current liabilities:		
Current portion of long-term debt	$ 1,619	$ 754
Demand bonds subject to short-term liquidity arrangements	247	247
Accounts payable	1,481	1,705
Accrued salaries and benefits	1,831	1,994
Provider fee payable	225	405
Medicare advances	793	1,422
Other accrued liabilities - current	3,435	2,931
Total current liabilities	9,631	9,458
Other liabilities - long-term:		
Self-insured reserves and claims - long-term	1,066	1,024
Pension and other postretirement benefit liabilities	2,501	3,761
Derivative instruments	150	287
Operating lease liabilities	1,626	1,801
Medicare advances - long-term	-	1,088
Other accrued liabilities - long-term	750	1,018
Total other liabilities - long-term	6,093	8,979
Long-term debt, net of current portion	13,561	14,541
Total liabilities	29,285	32,978
Net assets:		
Without donor restrictions - attributable to CommonSpirit Health	18,808	19,646
Without donor restrictions - noncontrolling interests	1,079	1,187
With donor restrictions	1,142	1,065
Total net assets	21,029	21,898
Total liabilities and net assets	$ 50,314	$ 54,876

See notes to consolidated financial statements.

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2022 AND 2021 (in millions)

	2022	2021
Operating revenues:		
Net patient revenue	$ 30,490	$ 28,996
Premium revenue	1,156	1,189
Revenue from health-related activities, net	139	314
Other operating revenue	2,038	2,690
Contributions	84	64
Total operating revenues	33,907	33,253
Operating expenses:		
Salaries and benefits	18,170	16,006
Supplies	5,588	5,086
Purchased services and other	9,523	9,225
Depreciation and amortization	1,463	1,487
Interest expense, net	459	451
Total operating expenses	35,203	32,255
Operating income (loss)	(1,296)	998
Nonoperating income (loss):		
Investment income (loss), net	(971)	3,399
Loss on early extinguishment of debt	-	(12)
Income tax expense	(72)	(139)
Change in fair value and cash payments of interest rate swaps	179	86
Contribution from business combinations	-	1,018
Other components of net periodic postretirement costs	324	86
Other	(11)	14
Total nonoperating income (loss), net	(551)	4,452
Excess (deficit) of revenues over expenses	$ (1,847)	$ 5,450
Less excess (deficit) of revenues over expenses attributable to noncontrolling interests	(1)	261
Excess (deficit) of revenues over expenses attributable to CommonSpirit Health	$ (1,846)	$ 5,189

(Continued)

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2022 AND 2021 (in millions)

	CommonSpirit Health	Noncontrolling Interests	Donor Restrictions	Total Net Assets
Balance, June 30, 2020	$ 12,317	$ 419	$ 859	$ 13,595
Excess of revenue over expenses	5,189	261	-	5,450
Contributions	-	-	106	106
Contribution from business combinations	-	573	78	651
Net assets released from restrictions for capital	37	-	(37)	-
Net assets released from restrictions for operations and other	-	-	(50)	(50)
Change in funded status of pension and other postretirement benefit plans	2,019	-	-	2,019
Other	84	(66)	109	127
Increase in net assets	7,329	768	206	8,303
Balance, June 30, 2021	$ 19,646	$ 1,187	$ 1,065	$ 21,898
Deficit of revenue over expenses	(1,846)	(1)	-	(1,847)
Contributions	-	-	122	122
Net assets released from restrictions for capital	46	-	(46)	-
Net assets released from restrictions for operations and other	-	-	(75)	(75)
Change in funded status of pension and other postretirement benefit plans	995	-	-	995
Other	(33)	(107)	76	(64)
Increase (decrease) in net assets	(838)	(108)	77	(869)
Balance, June 30, 2022	$ 18,808	$ 1,079	$ 1,142	$ 21,029

See notes to consolidated financial statements.

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021 (in millions)

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ (869)	$ 8,303
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Loss on early extinguishment of debt	-	12
Depreciation and amortization	1,463	1,487
Changes in equity of health-related entities	(189)	(345)
Deconsolidation of joint venture	51	-
Contribution from business combinations	-	(1,018)
Net assets related to business combinations	-	(78)
Noncash special charges and other	52	49
Net (gain) loss on sales of facilities and investments in unconsolidated organizations	(1)	(69)
Change in fair value of swaps	(238)	(158)
Change in funded status of pension and other postretirement benefit plans	(995)	(2,019)
Pension cash contributions	(19)	(139)
Changes in certain assets and liabilities:		
Accounts receivable, net	(345)	(540)
Accounts payable	(170)	178
Self-insured reserves and claims	44	(73)
Accrued salaries and benefits	(110)	430
Changes in broker receivables/payables for unsettled investment trades	206	63
Provider fee assets and liabilities	277	(24)
Other accrued liabilities	(26)	(144)
Medicare advances	(1,719)	(137)
Prepaid and other current assets	5	(162)
Other, net	(703)	(279)
Cash provided by (used in) operating activities before net change in investments	(3,286)	5,337
Net (increase) decrease in investments	4,010	(7,474)
Cash provided by (used in) operating activities	724	(2,137)

(Continued)

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021 (in millions)

	2022	2021
Cash flows from investing activities:		
Purchases of property and equipment	$ (1,486)	$ (1,497)
Investments in health-related activities	(105)	(174)
Business acquisitions, net of cash acquired	(138)	382
Proceeds from asset sales	276	918
Cash distributions from health-related activities	86	271
Other, net	(35)	(167)
Cash used in investing activities	(1,402)	(267)
Cash flows from financing activities:		
Borrowings	118	2,347
Repayments	(211)	(2,585)
Loss on early extinguishment of debt	-	(12)
Swaps cash collateral received	101	104
Distributions to noncontrolling interests	(110)	(76)
Contribution by noncontrolling interests	43	28
Cash used in financing activities	(59)	(194)
Net decrease in cash and cash equivalents	(737)	(2,598)
Cash and cash equivalents at beginning of year	3,329	5,927
Cash and cash equivalents at end of year	$ 2,592	$ 3,329
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 473	$ 445
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease or note payable	$ 33	$ 181
Investments in health-related activities	$ 21	$ 146
Accrued purchases of property and equipment	$ 73	$ 151

See notes to consolidated financial statements.

1. ORGANIZATION

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

CommonSpirit Health owns and operates health care facilities in 21 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations that are exempt from federal and state income taxes. As of June 30, 2022, 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. CommonSpirit Health also has offshore and onshore captive insurance companies. The accompanying consolidated financial statements include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit").

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying consolidated financial statements of CommonSpirit were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the accounts of all wholly-owned affiliates and affiliates over which CommonSpirit exercises control or has a controlling financial interest, after elimination of intercompany transactions and balances.

Reclassification – In the year ended June 30, 2022, CommonSpirit reclassified assets and liabilities previously held for sale, as ministries in North Dakota and Minnesota no longer met the requirements as held for sale. The assets and liabilities were classified as held for sale, within other current assets and other accrued liabilities - current, respectively, in the audited consolidated balance sheet as of June 30, 2021, but have been reclassified for all periods presented to the respective financial statement line items in the accompanying consolidated financial statements. Additional depreciation expense related to the reclassification was recorded in the year ended June 30, 2022, and is immaterial to the consolidated financial statements.

The adjusted balances as of June 30, 2021, in the consolidated financial statement presentation for applicable lines, are included below as a result of the held for sale reclassification above (in millions):

	As Originally Presented	Reclassifications	As Adjusted
Other current assets	$ 2,712	$ (358)	$ 2,354
Long-term investments	19,480	17	19,497
Property and equipment, net	16,002	272	16,274
Right-of-use operating lease assets	1,863	29	1,892
Ownership interests in health-related activitites	3,107	34	3,141
Other long-term assets, net	1,785	6	1,791
Total assets subject to reclassification	$ 44,949	$ -	$ 44,949
Other accrued liabilities - current	$ 2,984	$ (53)	$ 2,931
Operating lease liabilitites	1,750	51	1,801
Other accrued liabilities - long-term	1,017	1	1,018
Long-term debt, net of current portion	14,540	1	14,541
Total liabilities subject to reclassification	$ 20,291	$ -	$ 20,291

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

Cash and Cash Equivalents **–** Cash and cash equivalents consist primarily of cash and liquid marketable securities with an original maturity of three months or less.

Inventories – Inventories, primarily consisting of pharmacy drugs and medical and surgical supplies, are stated at the lower of cost or net realizable value, determined using the first-in, first-out method. Inventories are recorded in other current assets in the accompanying consolidated balance sheets.

Broker Receivables and Payables for Unsettled Investment Trades **–** CommonSpirit accounts for its investments on a trade date basis. Amounts due to/from brokers for investment activity represent transactions that have been initiated prior to the consolidated balance sheet date, but are formally settled subsequent to the consolidated balance sheet date. These balances are recorded within other current assets and other accrued liabilities - current, respectively. See Notes 6 and 12.

Assets and Liabilities Held for Sale **–** Assets and liabilities held for sale represent assets and liabilities that are expected to be sold within one year. A group of assets and liabilities expected to be sold within one year is classified as held for sale if it meets certain criteria. The assets and liabilities held for sale are measured at the lower of carrying value or fair value less cost to sell. Such valuations include estimates of fair values generally based upon firm offers, discounted cash flows and incremental direct costs to transact a sale (Level 2 and Level

3 inputs). These balances are recorded within other current assets and other accrued liabilities - current, respectively. See Notes 3, 6 and 12.

Investments and Investment Income – Short-term investments consist of investments with an original maturity of more than three months up to one year. Long-term investments consist of investments with original maturities greater than one year.

The CommonSpirit Board of Stewardship Trustees Investment Committee establishes guidelines for investment decisions. Within those guidelines, CommonSpirit invests in equity and debt securities which are measured at fair value and are classified as trading securities. Accordingly, unrealized gains and losses on marketable securities are recorded within excess (deficit) of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets, and cash flows from the purchases and sales of marketable securities are reported as a component of operating activities in the accompanying consolidated statements of cash flows.

CommonSpirit also invests in alternative investments through limited partnerships. Alternative investments are comprised of private equity, real estate, hedge fund and other investment vehicles. CommonSpirit receives a proportionate share of the investment gains and losses of the partnerships. The limited partnerships generally contract with managers who have full discretionary authority over the investment decisions, within CommonSpirit's guidelines. These alternative investment vehicles invest in equity securities, fixed income securities, currencies, real estate, commodities, and derivatives.

CommonSpirit accounts for its ownership interests in these alternative investments under the equity method, the value of which is based on the net asset value ("NAV") practical expedient and is determined using investment valuations provided by the external investment managers, fund managers or general partners.

Alternative investments generally are not marketable, and many alternative investments have underlying investments that may not have quoted market values. The estimated value of such investments is subject to uncertainty and could differ had a ready market existed. Such differences could be material. CommonSpirit's risk is limited to its capital investment in each investment and capital call commitments, as discussed in Note 8.

Investment income or loss is included in excess (deficit) of revenues over expenses unless the income or loss is restricted by donor or law. Income earned on tax-exempt borrowings for specific construction projects is offset against interest expense capitalized for such projects during construction.

Also recorded in investments are assets limited as to use set aside by CommonSpirit for future long-term purposes, including amounts held by trustees under bond indenture agreements, funds set aside for self-insurance programs, amounts contributed by donors with stipulated restrictions, and amounts held for mission and ministry purposes.

Liquidity – Cash and cash equivalents, short-term investments, patient and other accounts receivable, broker receivables, and provider fee receivables are the financial assets available to meet expected expenditure needs within the next year. Additionally, although intended to satisfy long-term obligations, management estimates that approximately 80.7% of the CommonSpirit Health Operating Investment Pool, LLC ("CSH OIP"), as stated at June 30, 2022, could be utilized within the next year, if needed. CommonSpirit also has credit facility programs, as described in Note 13, available to meet unanticipated liquidity needs.

Deferred Financing Costs and Original Issue Discounts/Premiums on Bond Indebtedness – CommonSpirit amortizes deferred financing costs and original issue discounts/premiums on bond indebtedness over the estimated average period the related bonds will be outstanding, which approximates the effective interest method. Both deferred financing costs and original issue discounts/premiums are recorded with the related debt.

Property and Equipment – Property and equipment are stated at cost if purchased and at fair market value upon receipt if acquired through a business combination or donated, or upon the date of impairment, if impaired. Depreciation of property and equipment is recorded using the straight-line method. Amortization of finance lease assets is included in depreciation expense. Estimated useful lives by major classification are as follows:

Land improvements	2 to 40 years
Buildings and improvements	5 to 65 years
Equipment	3 to 40 years
Software	3 to 10 years

Asset Impairment – CommonSpirit routinely evaluates the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds the estimated recoverability, an asset impairment charge is recognized. The impairment tests are based on financial projections prepared by management that incorporate anticipated results from programs and initiatives being implemented and market value assessments of the assets. If these projections are not met, or if negative trends occur that impact the future outlook, the value of the long-lived assets may be impaired.

Goodwill and indefinite-lived intangible assets are tested for impairment annually on various dates and when an event or circumstance indicates the value of the reporting unit or intangible asset may be impaired. CommonSpirit uses the income and market approaches to estimate the fair value of its reporting units and uses the income approach to estimate the fair value of its indefinite-lived intangible assets. If the carrying value exceeds the fair value, an impairment charge is recognized. See Note 11.

Fair Value of Financial Instruments – The carrying amounts reported in the accompanying consolidated balance sheets for assets and liabilities, such as cash and cash equivalents, patient accounts receivable, interests in unconsolidated foundations, excess insurance receivables, community investment loans, broker receivables and payables on unsettled investment trades, accounts payable, and accrued expenses approximate fair value due to the nature of these items. The fair value of investments is disclosed in Note 8.

Derivative Instruments – CommonSpirit utilizes derivative arrangements to manage interest costs and the risk associated with changing interest rates. CommonSpirit records derivative instruments on the accompanying consolidated balance sheets as either an asset or liability measured at its fair value. See Notes 8 and 14.

CommonSpirit does not have derivative instruments that are designated as hedges. Interest cost and changes in fair value of derivative instruments are included in change in fair value and cash payments of interest rate swaps in nonoperating income, net, in the accompanying consolidated statements of operations and changes in net assets.

Ownership Interests in Health-Related Activities – Generally, when the ownership interest in a health-related activity is more than 50% and CommonSpirit has a controlling interest, the ownership interest is consolidated, and a noncontrolling interest is recorded in net assets without donor restrictions. When the ownership interest is at least 20%, but not more than 50%, or CommonSpirit has the ability to exercise significant influence over operating and financial policies of the investee, it is accounted for under the equity method, and the income or loss is reflected in revenue from health-related activities, net. Ownership interests for which CommonSpirit's ownership is less than 20% or for which CommonSpirit does not have the ability to exercise significant influence are measured at cost. See Note 10.

Self-Insurance Plans – The liability for self-insured reserves and claims represents the estimated ultimate net cost of all reported and unreported losses incurred through June 30. Actuarial estimates of uninsured losses at June 30, 2022 and 2021, have been accrued as liabilities and include an actuarial estimate for claims incurred but not reported ("IBNR"). CommonSpirit has insurance coverage in place for amounts in excess of the self-insured retention for workers' compensation and professional and general liabilities. The current and long-term portions of these liabilities are reflected accordingly in other accrued liabilities - current and other accrued liabilities - long-term in the accompanying consolidated balance sheets.

CommonSpirit is also self-insured for certain employee medical benefits. The liability for IBNR claims for these benefits is included in other accrued liabilities - current in the accompanying consolidated balance sheets.

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 ("FASB") 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 eighteen-month collection history and write-off data. Subsequent changes to estimates of the transaction price are generally recorded as adjustments to net patient revenue in the period of the change.

Subsequent changes that are determined to be the result of an adverse change in a third-party payor's ability to pay are recorded as bad debt expense in purchased services and other in the accompanying consolidated statements of operations and changes in net assets. Bad debt expense for 2022 and 2021 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.

Premium Revenue – CommonSpirit has at-risk agreements with various payors to provide medical services to enrollees. Under these agreements, CommonSpirit receives monthly payments based on the number of enrollees, regardless of services actually performed by CommonSpirit. CommonSpirit accrues costs when services are rendered under these contracts, including estimates of IBNR claims and amounts receivable/payable under risk-sharing arrangements. The IBNR accrual includes an estimate of the costs of services for which CommonSpirit is responsible, including out-of-network services, and is recorded in other accrued liabilities - current.

Financial Assistance (Charity Care) – Charity care is free or discounted health services provided to persons who cannot afford to pay and who meet CommonSpirit's criteria for financial assistance. The amount of services written off as charity quantified at customary charges was $2.0 billion for 2022 and 2021. CommonSpirit estimates the cost of charity care by calculating a ratio of cost to usual and customary charges and applying that ratio to the usual and customary uncompensated charges associated with providing care to patients who qualify for charity care. This amount is not included in net patient revenue in the accompanying consolidated statements of operations and changes in net assets. The estimated cost of charity care associated with write-offs in 2022 and 2021 was $473 million and $507 million, respectively. See Note 20.

Other Operating Revenue – Other operating revenue includes grant revenues, including funds received from the Coronavirus Aid, Relief, and Economic Security Act ("CARES PRF"), American Rescue Plan Act of 2021 ("ARP Rural"), retail pharmacy revenues, management services revenues, rental revenues, cafeteria revenues, certain contributions released from restrictions, gains on sales of assets and joint venture interests, and other nonpatient care revenues. See Note 4.

Contributions and Net Assets With Donor Restrictions – Gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, net assets with donor restrictions related to capital purchases are reclassified as net assets without donor restrictions and reflected as net assets released from restrictions used for the purchase of property and equipment in the accompanying consolidated statements of operations and changes in net assets, whereas net assets with donor restrictions related to other gifts are reclassified as net assets without restrictions and recorded as other operating revenue. Gifts received with no restrictions are recorded as contributions in operating revenues. Gifts of long-lived operating assets, such as property and equipment, are reported as additions to net assets without donor restrictions, unless otherwise specified by the donor.

Unconditional promises to give cash and other assets to CommonSpirit are recorded at fair value at the date the promise is received using a discount rate based on the U.S. Treasury yield rates and are generally due within five years. Conditional promises to give are recorded when the conditions have been substantially met. Donor indications of intentions to give are not recorded; such gifts are recorded at fair value only upon actual receipt of the gift or pledge. Investment income on net assets with donor restrictions is classified pursuant to the intent or requirement of the donor.

Total net assets with donor restrictions are $1.1 billion as of June 30, 2022 and 2021. Of these net assets with donor restrictions, endowment net assets totaled $295 million and $272 million in 2022 and 2021, respectively. Endowment assets, which are primarily to be used for equipment and expansion, research and education, or charity purposes, include donor-restricted funds that CommonSpirit must hold in perpetuity or for a donor-specified period. Changes in endowment net assets primarily relate to investment returns, contributions, and appropriations for expenditures. CommonSpirit preserves the fair value of these gifts as of the date of donation unless otherwise stipulated by the donor. Donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure. CommonSpirit considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of CommonSpirit, and (7) the investment policies of CommonSpirit.

CommonSpirit has investment and spending policies for endowment assets designed to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets.

Endowment assets are invested in a manner that is intended to produce results that achieve the respective benchmark while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, CommonSpirit relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). CommonSpirit targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Community Benefits – As part of its mission, CommonSpirit provides services to the poor and benefits for the broader community. The costs incurred to provide such services are included in excess (deficit) of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets. CommonSpirit prepares a summary of unsponsored community benefit expense in accordance with Internal Revenue Service Form 990, Schedule H, and the Catholic Health Association of the United States ("CHA") publication, *A Guide for Planning and Reporting Community Benefit*. See Note 20.

Interest Expense – Interest expense on debt issued for construction projects is capitalized until the projects are placed in service. Interest expense, net, includes interest and fees on debt, net of these capitalized amounts. See Note 16.

Income Taxes – CommonSpirit has established its status as an organization exempt from income taxes under Internal Revenue Code Section 501(c)(3) and the laws of the states in which it operates, and as such, is generally not subject to federal or state income taxes. However, CommonSpirit's exempt organizations are subject to income taxes on net income derived from a trade or business, regularly carried on, which does not further CommonSpirit's exempt purposes. No significant income tax provision has been recorded in the accompanying consolidated financial statements for net income derived from an unrelated trade or business.

CommonSpirit's for-profit subsidiaries account for income taxes related to its operations. The for-profit subsidiaries recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of their assets and liabilities, along with net operating loss and tax credit carryovers, for tax positions that meet the more-likely-than-not recognition criteria. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Income tax interest and penalties are recorded as income tax expense. For the years ended June 30, 2022 and 2021, CommonSpirit's taxable entities recorded an immaterial amount of interest and penalties as part of the provision for income taxes. CommonSpirit's taxable entities did not have any material unrecognized income tax expense as of June 30, 2022 and 2021. CommonSpirit reviews its tax positions quarterly and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated financial statements.

Performance Indicator – Management considers excess (deficit) of revenues over expenses to be CommonSpirit's performance indicator. Excess (deficit) of revenues over expenses includes all changes in net assets without donor restrictions except for the effect of contributions with donor restrictions, contribution from business combinations, changes in accounting principles, net assets released from restrictions used for purchase of capital and operations, change in funded status of pension and other postretirement benefit plans, gains and losses from discontinued operations, and other changes, including change in ownership interests held by controlled subsidiaries and change in accumulated unrealized derivative gains and losses.

Operating and Nonoperating Activities – CommonSpirit's primary purpose is to provide a variety of health care-related activities, education and other benefits to the communities in which it operates. Activities directly related to the furtherance of this purpose are recorded as operating activities. Other activities outside of this mission are reported as nonoperating activities. Such activities include net investment income (loss), loss on early extinguishment of debt, income tax expense, interest cost and changes in fair value of interest rate swaps, contributions from business combinations, other components of net periodic postretirement costs, and the nonoperating component of Joint Operating Agreement ("JOA") income share adjustments.

Recent Accounting Pronouncements – In August 2018, the FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20) Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, which applies to employer sponsored defined benefit pension and other postretirement plans. The amendments modify, remove and add certain disclosure requirements. CommonSpirit adopted this updated disclosure requirements for the annual period ended June 30, 2022. See Note 17.

Subsequent Events – CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal year and September 22, 2022, the date the consolidated financial statements were issued. See Notes 3, 4 and 14.

3. ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

Yavapai Regional Medical Center – In November 2020, a consolidated affiliate of CommonSpirit, Dignity Community Care ("DCC"), and Yavapai Community Hospital Association, dba Yavapai Regional Medical Center ("YRMC"), an Arizona nonprofit corporation, effected a business combination which transferred the sole membership of YRMC and its applicable subsidiaries to DCC for no cash consideration. YRMC owns and operates two acute care hospitals, a regional wellness center, an imaging center, a network of primary and specialty physician clinics, and a fundraising foundation in the Prescott, Arizona area. The transaction resulted in the recognition of a $507 million gain in the year ended June 30, 2021, recorded in contribution from business combinations in nonoperating income (loss) in the accompanying consolidated statements of operations and changes in net assets, and $5 million recorded in contribution from business combinations for net assets with donor restrictions, calculated as the fair value of the excess of identifiable assets acquired over liabilities assumed, determined based on Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions.

Virginia Mason Health System – In January 2021, CommonSpirit formed a new integrated health system through the creation of a Joint Operating Company ("JOC"), Virginia Mason Franciscan Health ("VMFH"), a Washington nonprofit corporation, bringing together CommonSpirit Franciscan Health System and Virginia Mason Health System ("VMHS"). With the addition of an acute hospital and other care sites from VMHS, VMFH now operates eleven hospitals and nearly 300 sites of care within the Pacific Northwest. The JOC is a controlled subsidiary of CommonSpirit. Based on the terms of the JOC agreement, CommonSpirit will consolidate the operations of VMHS and accounted for the business combination using the acquisition method of accounting. The agreement did not include consideration and resulted in the recognition of a $511 million gain in the year ended June 30, 2021, recorded in contribution from business combinations in nonoperating income (loss) in the accompanying consolidated statements of operations and changes in net assets, and $73 million recorded in contribution from business combinations for net assets with donor restrictions, calculated as the fair value of the excess of identifiable assets acquired over liabilities assumed, determined based on Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions.

The following summarizes the fair value estimate of YRMC's and VMHS's assets acquired and liabilities assumed as of November 1, 2020, and January 1, 2021, respectively (in millions):

	YRMC	VMHS
Current assets	$ 226	$ 390
Long-term investments	124	429
Property and equipment, net	272	576
Other long-term assets, net	61	161
Current liabilities	(33)	(319)
Other liabilities - long-term	(7)	(180)
Long-term debt, net of current portion	(131)	(473)
Total contribution of net assets	$ 512	$ 584

Other – In February 2022, CommonSpirit entered into a definitive agreement to acquire two hospital facilities, one in western Kansas and one in northern Colorado, and the transaction was finalized in May 2022. The acquired facilities support the mission and strategy to expand the scope and quality of care in those rural and surrounding communities, and will be managed by Centura Health pursuant to the existing JOA. The purchase price is immaterial to the consolidated financial statements.

In March 2021, CommonSpirit sold a portion of its investment in a joint venture resulting in a pretax gain of $523 million, which is included in other operating revenue in the consolidated statements of operations and changes in net assets. Income tax expense of $93 million is recorded in nonoperating income (loss) related to the transaction. CommonSpirit will continue to account for its remaining interest in the joint venture under the equity method.

Held for Sale – In April 2022, CommonSpirit and Trinity Health signed an agreement for Trinity Health to acquire all facilities and assets of MercyOne, a regional health system in Iowa. MercyOne has operated under a JOA between Trinity Health and CommonSpirit. The transaction closed in September 2022, for a purchase price of $613 million. As such, certain assets and liabilities of the Iowa ministries are classified as held for sale, within other current assets and other accrued liabilities - current, respectively, in the accompanying consolidated balance sheet as of June 30, 2022.

A summary of major classes of assets and liabilities held for sale is presented below as of June 30, 2022 (in millions):

Cash and cash equivalents	$	35
Patient accounts receivable, net		148
Other current assets		50
Long-term investments		70
Property and equipment, net		362
Right-of-use operating lease assets		121
Ownership interests in health-related activities		117
Other long-term assets, net		5
Total assets held for sale	$	908
Current portion of long-term debt	$	1
Accounts payable		16
Accrued salaries and benefits		49
Medicare advances		32
Other accrued liabilities - current		45
Operating lease liabilities		104
Other accrued liabilities - long-term		2
Long-term debt, net of current portion		1
Total liabilities held for sale	$	250

4. COVID-19 PANDEMIC

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

The CARES PRF funds provide 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 years ended June 30, 2022 and 2021, CommonSpirit has received approximately $21 million and $478 million, respectively, under CARES PRF in the form of grants as reimbursement through the Public Health and Social Services Emergency Fund for lost revenues attributable to COVID-19. These funds are not required to be repaid upon attestation and compliance with certain terms and conditions. For the years ended June 30, 2022 and 2021, $27 million and $690 million, respectively, has been recognized within other operating revenue as earned. As of June 30, 2022 and 2021, $9 million and $15 million, respectively, of deferred revenue is included within other accrued liabilities - current, in the consolidated balance sheets. CommonSpirit will continue to monitor the terms and conditions of CARES PRF funding and the impact of the pandemic on revenues and expenses. Additional CARES PRF funds totaling $259 million were received in July and August 2022 that will be recognized in 2023.

Additional relief to address the continued impact of COVID-19 was provided through the American Rescue Plan Act of 2021 (“ARP Rural”), in addition to the CARES PRF funds. For the year ended June 30, 2022, CommonSpirit has received approximately $149 million ARP Rural funds in the form of grants recorded as other operating revenues.

To date, CommonSpirit also received $2.8 billion in funds under the Medicare Accelerated and Advance Payment Program, which was received in the entirety prior to fiscal year 2022. These payments are advances that will be recouped by withholding future Medicare fee-for-service payments for claims until such time as the full accelerated payment has been recouped. As of June 30, 2022 and 2021, the terms and conditions in effect at that time prescribed that any outstanding balance remaining after 29 months from date of receipt are subject to interest of 4%. As such, as of June 30, 2022, $793 million is recorded as a current liability in Medicare advances and $32 million is recorded in current liabilities as held for sale. As of June 30, 2021, $1.4 billion was recorded as a current liability in Medicare advances, and $1.1 billion was recorded in Medicare advances – long-term.

CommonSpirit had deferred approximately $416 million of employer payroll taxes through June 30, 2022, pursuant to the Paycheck Protection Program and Health Care Enhancement Act, of which $208 million was paid in December 2021, and $208 million is recorded as a current liability in accrued salaries and benefits.

CommonSpirit recorded $67 million of Employee Retention Credits under CARES PRF during the year ended June 30, 2022. These funds relate to qualified wages paid between April 1, 2020, and June 30, 2020, and are recorded in other operating revenue.

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

5. NET PATIENT REVENUE

The percentage of inpatient and outpatient services, calculated on the basis of usual and customary charges, is as follows for the years ended June 30:

	2022	**2021**
Inpatient services	50%	51%
Outpatient services	50%	49%

Patient revenue, net of contractual discounts and adjustments and implicit price concessions, is comprised of the following for the years ended June 30 (in millions):

	2022	**2021**
Government	$ 15,480	$ 14,780
Contracted	12,787	11,937
Self-pay and other	2,223	2,279
Net patient revenue	$ 30,490	$ 28,996

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.

Total operating revenues by service line are as follows for the years ended June 30 (in millions):

	2022	2021
Hospitals	$ 27,712	$ 26,391
Physician organizations	3,171	2,962
Long-term care and home care	295	302
Other	468	530
Net patient and premium revenue	31,646	30,185
Health plans, accountable care, and other	2,261	3,068
Total operating revenues	$ 33,907	$ 33,253

6. OTHER CURRENT ASSETS

Other current assets consist of the following at June 30 (in millions):

	2022	2021
Inventories	$ 795	$ 822
Receivables, other than patient accounts receivable	583	653
Broker receivables for unsettled investment trades	576	493
Assets held for sale	908	-
Prepaid expenses	372	344
Other	62	42
Total other current assets	$ 3,296	$ 2,354

7. CASH AND INVESTMENTS

CommonSpirit's cash and investments include consolidated membership interests in the CommonSpirit Health Operating Investment Pool, LLC ("CSH OIP") as of June 30, 2022 and 2021. Short-term and long-term investments also include assets limited as to use set aside by CommonSpirit for future long-term purposes as outlined below (in millions):

	2022	2021
Cash and cash equivalents	$ 2,592	$ 3,329
Short-term investments	596	1,124
Long-term investments	16,087	19,497
Total cash and investments	19,275	23,950
Less:		
Held for self-insured claims	1,758	1,888
Under bond indenture agreements for debt service	78	85
Donor-restricted	579	607
Other	613	707
Total assets limited as to use	3,028	3,287
Unrestricted cash and investments	$ 16,247	$ 20,663

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 as of June 30 (in millions):

	2022			
	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	$ 2,963	$ 420	$ -	$ 3,383
U.S. government securities	944	476	-	1,420
U.S. corporate bonds	73	588	-	661
U.S. equity securities	1,553	3	-	1,556
Foreign government securities	-	79	-	79
Foreign corporate bonds	1	192	-	193
Foreign equity securities	1,558	1	-	1,559
Asset-backed securities	-	143	-	143
Private equity	-	-	64	64
Multi-strategy hedge funds	10	-	-	10
Real estate	28	1		29
Community Investment Program	-	-	127	127
Other investments	172	177	-	349
Assets measured at fair value	$ 7,302	$ 2,080	$ 191	9,573
Assets at NAV				9,772
Less: Assets classified as held for sale included above				(70)
Total assets				$ 19,275
Liabilities				
Derivative instruments	$ -	$ 234	$ -	$ 234
Other	1	-	100	101
Total liabilities	$ 1	$ 234	$ 100	$ 335

	2021			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Cash and short-term investments	$ 3,543	$ 289	$ -	$ 3,832
U.S. government securities	1,350	489	-	1,839
U.S. corporate bonds	120	1,314	-	1,434
U.S. equity securities	2,969	5	-	2,974
Foreign government securities	-	256	-	256
Foreign corporate bonds	1	825	-	826
Foreign equity securities	3,008	1	-	3,009
Asset-backed securities	-	146	-	146
Private equity	-	-	65	65
Real estate	49	1	-	50
Community Investment Program	-	-	132	132
Other investments	234	182	-	416
Assets measured at fair value	$ 11,274	$ 3,508	$ 197	14,979
Assets at NAV				8,971
Total assets				$ 23,950
Liabilities				
Derivative instruments	$ -	$ 472	$ -	$ 472
Other	4	-	90	94
Total liabilities	$ 4	$ 472	$ 90	$ 566

Assets and liabilities measured at fair value on a recurring basis reflected in the table above are reported in short-term investments, long-term investments, current liabilities and other liabilities – long term in the accompanying 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 $56 million and $209 million as of June 30, 2022 and 2021, respectively.

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

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

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

Level 3 financial assets totaling $51 million were recorded through contributions from business combinations in 2021 related to the formation of CSH OIP.

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 June 30, 2022 (in millions):

		NAV Practical Expedient	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private equity	(1)	$ 1,394	$ 636	-	-
Multi-strategy hedge funds	(2)	2,997	-	Weekly, Monthly, Quarterly, Semi-annually, Annually	3 - 100 days
Real estate	(3)	1,335	53	Quarterly	45 - 90 days
Commingled funds - debt securities	(4)	1,061	54	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	2,985	-	Daily, Weekly, Bi-Weekly, Monthly, Bi-Monthly, Quarterly	2 - 90 days
Total		$ 9,772	$ 743		

(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 June 30, 2022, to be over the next 12 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 June 30, 2022:

Percentage of the Value of Category (2)		Redemption	Redemption	Redemption	Redemption
Total	**Subtotal**	**Redemption Frequency**	**Notice Period**	**Locked Up Until (if applicable)**	**Gate % of Account (if applicable)**
13.9%	13.9%	Annually	60 days	up to 3 years	up to 50.0%
0.3%	0.3%	Semi-annually	75 -90 days	up to 2 years	-
33.5%	2.3%	Quarterly	30 - 45 days	up to 2 years	up to 20.0%
	21.5%	Quarterly	55 - 65 days	up to 1 year	up to 10.0% - 50.0%
	9.7%	Quarterly	90 days	-	up to 12.5% - 25.0%
44.4%	36.3%	Monthly	30 - 50 days	-	up to 16.7% - 25.0%
	8.1%	Monthly	60 - 90 days	-	up to 20.0%
7.9%	7.9%	Weekly	3 days	-	-

(3) This category includes investments in real estate funds that invest primarily in institutional-quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts. Investments representing 15% 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 June 30, 2022, to be over the next 11 years.

(4) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets. Also included in this category are commingled fixed income funds that provide capital in a variety of mezzanine debt, distressed debt and other special debt securities situations. Investments representing approximately 12% 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 June 30, 2022, 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.

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

9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following at June 30 (in millions):

	2022	2021
Land and improvements	$ 2,098	$ 2,103
Buildings	13,182	12,735
Equipment	9,783	9,656
Total	25,063	24,494
Add: Construction in progress	2,418	2,795
Less: Accumulated depreciation	(11,605)	(11,015)
Property and equipment, net	$ 15,876	$ 16,274

The current year decline in property and equipment, net, is primarily due to balances classified as Held for Sale of $362 million as of June 30, 2022. See Note 3.

10. OWNERSHIP INTERESTS IN HEALTH-RELATED ACTIVITIES

Joint Operating Agreements – CommonSpirit participates in JOAs with hospital-based organizations in three separate markets. The agreements generally provide for, among other things, joint management of the combined operations of the local facilities included in the JOAs through JOCs. CommonSpirit retains ownership of the assets, liabilities, equity, revenues and expenses of the CommonSpirit facilities that participate in the JOAs. The financial statements of the CommonSpirit facilities managed under all JOAs are included in the accompanying consolidated financial statements. Transfers of assets from facilities owned by the JOA participants generally are restricted under the terms of the agreements.

As of June 30, 2022 and 2021, CommonSpirit has investment interests of 65%, 50% and 50% in JOCs based in Colorado, Iowa, and Ohio, respectively. CommonSpirit's interests in the JOCs are included in ownership interests in health-related activities in the accompanying consolidated balance sheets and totaled $523 million and $549 million at June 30, 2022 and 2021, respectively. CommonSpirit recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide varying levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization.

Other Ownership Interests in Health-Related Activities – In addition to the JOCs above, CommonSpirit has significant ownership interests that are accounted for under the equity method and reflected in the accompanying consolidated balance sheets in ownership interests in health-related activities. CommonSpirit's significant ownership interests are as follows:

- CommonSpirit's ownership interest in Conifer was 23.8% as of June 30, 2022 and 2021. Conifer provides revenue cycle services and health information management solutions for CHI's acute care operations.

- CommonSpirit's ownership interest in Premier Health was 22% as of June 30, 2022 and 2021. CHI exchanged it's ownership of the Dayton, Ohio market-based organization for the ownership interest in Premier Health in 2018.

The following table summarizes the financial position and results of operations for the significant health-related activities discussed above, unless otherwise specified, which are accounted for under the equity method, as of and for the 12 months ended June 30, or a portion of the periods thereof while held by CommonSpirit (in millions):

	2022			
	Hospitals	**JOCs**	**Other**	**Total**
Total assets	$ 2,731	$ 1,606	$ 2,358	$ 6,695
Total liabilities	1,484	661	215	2,360
Total net assets	1,247	945	2,143	4,335
Total operating revenues, net	1,959	932	1,257	4,148
Excess (deficit) of revenues over expenses	(138)	(183)	295	(26)
Investment at June 30 recorded in ownership interests in health-related activities	257	523	894	1,674
Income (loss) recorded in revenue from health-related activities, net	(27)	(91)	58	(60)

	2021			
	Hospitals	**JOCs**	**Other**	**Total**
Total assets	$ 3,020	$ 1,691	$ 2,075	$ 6,786
Total liabilities	1,691	726	227	2,644
Total net assets	1,329	965	1,848	4,142
Total operating revenues, net	1,881	947	1,263	4,091
Excess (deficit) of revenues over expenses	128	(134)	294	288
Investment at June 30 recorded in ownership interests in health-related activities	274	549	836	1,659
Income (loss) recorded in revenue from health-related activities, net	17	(65)	60	12

Other than the investments described above, ownership interests totaling $1.4 billion and $1.5 billion as of June 30, 2022 and 2021, respectively, are not material individually to the consolidated financial statements.

11. OTHER LONG-TERM ASSETS, NET

Other long-term assets, net, consist of the following at June 30 (in millions):

	2022	2021
Notes receivable, primarily secured	$ 50	$ 55
Goodwill	358	287
Intangible assets - definite-lived, net	120	76
Intangible assets - indefinite-lived	657	706
Donor-restricted assets	521	451
Other	243	216
Total other long-term assets, net	$ 1,949	$ 1,791

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 years ended June 30, 2022 and 2021.

The aggregate amortization expense related to intangible assets is $11 million for the years ended June 30, 2022 and 2021, respectively, and is recorded in depreciation and amortization on the accompanying consolidated statements of operations and changes in net assets.

Estimated amortization expense related to intangible assets is $8 million in 2023 and 2024, $7 million in 2025, $6 million in 2026 and 2027, and $85 million thereafter.

12. OTHER ACCRUED LIABILITIES - CURRENT

Other accrued liabilities – current consists of the following at June 30 (in millions):

	2022	2021
Deferred revenue - CARES PRF	$ 9	$ 15
Construction retention and contracts payable	140	61
Liabilities held for sale	250	-
Liabilities due to medical groups and physicians	76	75
Capitation claims	110	106
Due to government agencies	119	123
Accrued interest expense	144	150
Operating lease liabilities	263	281
Self-insured reserves and claims	467	452
Broker payables for unsettled investments trades	948	659
Due to unconsolidated affiliates	62	93
Other	847	916
Total other accrued liabilities - current	$ 3,435	$ 2,931

13. DEBT

The CommonSpirit Health Master Trust Indenture ("CommonSpirit MTI") has an Obligated Group, which is comprised of the former Dignity Health Obligated Group and CHI entities (collectively, the "CommonSpirit Obligated Group"). The CommonSpirit Obligated Group represents approximately 85% of consolidated revenues of CommonSpirit as of June 30, 2022 and 2021, respectively.

Debt, net of unamortized debt issuance costs, discounts and premiums consists of the following at June 30 (in millions):

	2022	2021
Under the CommonSpirit MTI:		
Fixed rate debt:		
Fixed rate revenue bonds payable in installments through 2050; interest at 2.70% to 7.00%	$ 4,938	$ 5,093
Fixed rate taxable bonds payable in installments through 2065; interest at 1.55% to 5.27%	7,747	7,747
Taxable term loan payable in 2025; interest at 2.95%	250	250
Total fixed rate debt	12,935	13,090
Variable rate debt:		
Direct purchase bonds payable in installments through 2024; interest set at prevailing market rates (2.08% to 2.09% at June 30, 2022)	101	106
Floating rate notes payable with mandatory tender through 2025; interest set at prevailing market rates (2.31% at June 30, 2022)	153	153
Variable rate demand bonds payable in installments through 2047; interest set at prevailing market rates (0.70% to 1.15% at June 30, 2022)	247	247
Auction rate certificates payable in installments through 2042; interest set at prevailing market rates (0.89% to 1.09% at June 30, 2022)	240	240
Bank line of credit maturing in 2023; interest set at prevaling market rates (2.22% to 2.69% at June 30, 2022)	156	54
Commercial paper notes with maturities ranging from 14 to 105 days at June 30, 2022; interest set at prevailing market rates (1.30% to 2.80% at June 30, 2022)	553	553
Total variable rate debt	1,450	1,353
Total debt under CommonSpirit MTI	14,385	14,443
Other:		
Various notes payable and other debt payable in installments	699	729
Finance lease obligations	343	370
Total debt	15,427	15,542
Less amounts classified as current	(1,619)	(754)
Less demand bonds subject to short-term liquidity arrangements	(247)	(247)
Total long-term debt	$ 13,561	$ 14,541

Scheduled principal debt payments, net of discounts and premiums, and considering obligations subject to short-term liquidity arrangements as due according to their long-term amortization schedule, for the next five years and thereafter, are as follows (in millions):

	Long-Term Debt Other Than Demand Bonds	Demand Bonds Subject to Short-Term Liquidity Arrangements	Total Long-Term Debt
2023	$ 1,582	$ 97	$ 1,679
2024	348	-	348
2025	1,811	-	1,811
2026	629	-	629
2027	141	-	141
Thereafter	9,948	150	10,098
Subtotal	14,459	247	14,706
Finance lease obligations	343	-	343
Premium and Issuance cost, net	378	-	378
Total	$ 15,180	$ 247	$ 15,427

Debt Arrangements – **Fixed Rate Revenue Bonds** – CommonSpirit has fixed rate revenue bonds outstanding, substantially all of which may be redeemed, in whole or in part, prior to the stated maturities without a premium.

Fixed Rate Taxable Bonds – CommonSpirit has taxable fixed rate bonds that are due in August 2023, October 2024, 2025, 2029, 2030, 2049, and 2050 and November 2022, 2024, 2040, 2041, 2042 and 2064. Early redemption of the debt, in whole or in part, may require a premium depending on market rates.

Fixed Rate Taxable Term Loan – CommonSpirit has a taxable fixed rate term loan due in April 2025.

Taxable Commercial Paper – CommonSpirit has a commercial paper program that permits the issuance of up to $881 million in aggregate principal amount outstanding, with maturities limited to 270-day periods. The commercial paper program is backed by CommonSpirit's self-liquidity program, which is comprised of CommonSpirit's cash management and operating investment programs and dedicated bank lines of credit to ensure the availability of funds to purchase any commercial paper that the remarketing agent is unable to remarket.

Floating Rate Notes – CommonSpirit has floating rate notes ("FRNs") that bear interest at variable rates determined weekly and monthly. These FRNs are subject to mandatory tender on predetermined dates.

Variable Rate Direct Purchase Bonds – CommonSpirit has variable rate direct purchase bonds placed with holders that bear interest at variable rates determined monthly based upon a percentage of the London Inter-bank Offered Rate ("LIBOR"), plus a spread. These bonds are subject to mandatory tender on predetermined dates.

Variable Rate Demand Bonds – CommonSpirit has variable rate demand bonds ("VRDBs") that are remarketed weekly and may be put at the option of the holders. Two series of VRDBs totaling $150 million are backed by bank letters of credit, while the remaining two series totaling $97 million are supported through CommonSpirit's self-liquidity program discussed above. The bank letters of credit and the self-liquidity program ensure the availability of funds to purchase any bonds tendered that the remarketing agent is unable to remarket. The letters of credit to support the $150 million of VRDBs expire in March 2024.

Auction Rate Certificates – CommonSpirit has $240 million of auction rate certificates ("ARCs") that are remarketed weekly. The certificates are insured by Assured Guaranty. Holders of ARCs are required to hold the certificates until the remarketing agent can find a new buyer for any tendered certificates.

Notes Payable to Banks Under Credit Agreements – CommonSpirit maintains a $900 million syndicated line of credit facility for working capital, letters of credit, capital expenditures and other general corporate purposes. The amount outstanding under the syndicated credit facility was $156 million as of June 30, 2022. This credit facility expires in June 2023.

CommonSpirit maintains $190 million in dedicated lines of credit to support the organization's self-liquidity program, to be used to fund tenders of VRDBs and maturing principal of commercial paper due to a failed remarketing. The lines of credit expiration dates are August 2023 and December 2023. No amounts have been drawn.

CommonSpirit also maintains an $85 million single-bank line of credit facility to be used for the issuance of standby letters of credit. The credit facility expires in June 2023. No amounts have been drawn.

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

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

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

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

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

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

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

In December 2020, CommonSpirit increased a line of credit used to issue standby letters of credit from $35 million to $85 million. The line of credit is scheduled to expire in June 2023.

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

In March 2021, CommonSpirit renewed and extended two letters of credit issued by Dignity Health scheduled to expire in November 2021 to support VRDBs of $75 million each, to March 2024. This did not change the terms, provisions or classification of the VRDBs.

In June 2021, CommonSpirit redeemed in full the Colorado Health Facilities Authority Revenue Bonds (Catholic Health Initiatives) Series 2009A. The bonds were redeemed at par.

14. DERIVATIVE INSTRUMENTS

CommonSpirit's derivative instruments include 31 floating-to-fixed rate interest rate swaps and one basis swap as of June 30, 2022. CommonSpirit uses interest rate swaps to manage interest rate risk associated with outstanding variable rate debt. Under the floating-to-fixed rate swaps, CommonSpirit receives a percentage of LIBOR, plus a spread, and pays a fixed rate. The basis swap allows CommonSpirit to receive a percentage of LIBOR, plus a spread and pay a percentage of Securities Industry and Financial Markets Association ("SIFMA").

CommonSpirit's derivative instruments also include eight total return swaps as of June 30, 2022. CommonSpirit receives a fixed rate and pays a variable rate percentage of SIFMA, plus a spread. CommonSpirit uses these total return swaps to reduce interest expense associated with the fixed rate debt.

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 consolidated balance sheets as of June 30, 2022 and 2021 (in millions):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			2022	
Derivatives not designated as hedges:				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 2,003	$ (234)
Risk participation agreements	2025 - 2029 with extension options	SIFMA plus spread	497	-
Total return swaps	2024 - 2030	SIFMA plus spread	321	-
Total derivative instruments			2,821	(234)
Cash collateral			-	84
Derivative instruments, net			$ 2,821	$ (150)
			2021	
Derivatives not designated as hedges:				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 2,117	$ (473)
Risk participation agreements	2022 - 2025 with extension options	SIFMA plus spread	510	-
Total return swaps	2024 - 2030	SIFMA plus spread	322	1
Total derivative instruments			2,949	(472)
Cash collateral			-	185
Derivative instruments, net			$ 2,949	$ (287)

CommonSpirit held $2.0 billion notional amount of interest rate swaps and $818 million notional amount of total return swaps at June 30, 2022, which have a negative fair value of $234 million and a fair value deemed immaterial, respectively. CommonSpirit posted $84 million of collateral against the fair value of the interest rate swaps as of June 30, 2022.

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 $30 million as of June 30, 2022. 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 $1.8 billion notional amount of interest rate swaps that are not insured, of which the counterparties have various rights to terminate $306 million notional. These include the outstanding notional amounts of $100 million and $146 million at each five-year anniversary date commencing in March 2023 and September 2023, respectively. Swaps in the outstanding notional amounts of $60 million have mandatory puts in March 2028. The termination value would be the fair value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps with the optional and mandatory put options have a negative fair value of $35 million as of June 30, 2022. The remaining uninsured swaps in the notional amount of $1.5 billion have a negative fair value of $162 million as of June 30, 2022.

CommonSpirit has floating rate derivatives in the notional amount of $818 million as of June 30, 2022. These include $497 million of risk participation agreements which have a fair value deemed immaterial and $321 million notional of total return swaps with a fair value deemed immaterial as of June 30, 2022.

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

In June 2022, CommonSpirit novated risk participation agreements in the notional amount of $71 million to another counterparty.

In July 2022, CommonSpirit novated risk participation agreements in the notional amount of $132 million to another counterparty.

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

15. LEASES

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

The components of lease cost, net for the year ended June 30 are as follows (in millions):

	2022	2021
Operating lease cost	$ 298	$ 336
Variable lease cost	181	152
Short-term rent expense	81	69
Amortization of right-of-use assets	33	41
Interest on finance lease liabilities	10	11
Sublease income	(10)	(5)
Total lease cost, net	$ 593	$ 604

Following is supplemental consolidated balance sheet information related to leases as of June 30 (in millions):

Lease Type	**Balance Sheet Classification**	**2022**	**2021**
Operating Leases:			
Operating lease ROU assets	Right-of-use operating lease assets	$ 1,715	$ 1,892
Operating lease obligations - current	Other accrued liabilities - current	263	281
Operating lease obligations - long-term	Operating lease liabilities	1,626	1,801
Finance Leases:			
Finance lease ROU assets	Property and equipment, net	299	293
Current finance lease liabilities	Current portion of long-term debt	38	36
Long-term finance lease liabilities	Long-term debt, net of current portion	305	334

Supplemental cash flow and other information related to leases for the years ended June 30 are as follows (in millions):

	2022	2021
ROU assets obtained in exchange for new operating lease liabilities	$ 248	$ 371
ROU assets obtained in exchange for new finance lease liabilities	58	175
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	312	346
Operating cash flows from finance leases	10	11
Financing cash flows from finance leases	34	34
Weighted-average remaining lease term:		
Operating leases	9 years	11 years
Finance leases	18 years	19 years
Weighted-average discount rate:		
Operating leases	2.0%	2.0%
Finance leases	4.0%	4.0%

Commitments related to operating and finance leases for each of the next five years and thereafter as of June 30, 2022, are as follows (in millions):

	Operating	Finance	Total
2023	$ 323	$ 47	$ 370
2024	296	43	339
2025	275	39	314
2026	254	36	290
2027	197	28	225
Thereafter	938	261	1,199
Total minimum future lease payments	2,283	454	2,737
Less: Imputed Interest	(270)	(109)	(379)
Total lease liabilities	2,013	345	2,358
Less: held for sale liabilities	(124)	(2)	(126)
Less: current lease liabilities	(263)	(38)	(301)
Total lease liabilities	$ 1,626	$ 305	$ 1,931

16. INTEREST EXPENSE, NET

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

	2022	2021
Interest and fees on debt	$ 485	$ 470
Capitalized interest expense	(26)	(19)
Interest expense, net	$ 459	$ 451

17. RETIREMENT PROGRAMS

CommonSpirit maintains defined benefit pension plans and other postretirement benefit plans that cover most Dignity Health and CHI employees. Benefits for both types of plans are generally based on age, years of service and employee compensation.

Certain of CHI's plans were frozen in previous years, and benefits earned by employees through that time period remain in the retirement plans where employees continue to receive interest credits and vesting credits, if applicable.

Actuarial valuations are performed for all of the plans. These valuations are dependent on various assumptions. These assumptions include the discount rate and the expected rate of return on plan assets (for pension), which are important elements of expense and liability measurement. Other assumptions involve demographic factors such as retirement age, mortality, turnover, and the rate of compensation increases. CommonSpirit evaluates all assumptions in conjunction with the valuation updates and modifies them as appropriate. In the years ended June 30, 2022 and 2021, the actuarial gains and losses were primarily driven by the change in discount rate assumption.

Pension costs and other postretirement benefit costs are allocated over the service period of the employees in the plans. The principle underlying this accounting is that employees render service ratably over the period, and therefore, the effects in the accompanying consolidated statements of operations and changes in net assets follow the same pattern. Net actuarial gains and losses are amortized to expense on a plan-by-plan basis when they exceed the accounting corridor. The accounting corridor is a defined range within which amortization of net gains and losses is not required and is equal to 10% of the greater of the plan assets or benefit obligations. Gains or losses outside of the corridor are subject to amortization over the average employee future service period.

Contributions to the defined benefit pension plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Dignity Health management believes the majority of its plans qualify under a church plan exemption, and as such, are not subject to Employee Retirement Income Security Act ("ERISA") funding requirements. CommonSpirit's funding policy requires that, at a minimum, contributions equal the unfunded normal cost plus amortization of any unfunded actuarial accrued liability. Contributions to these funded plans are anticipated at $163 million in 2023, which exceeds the funding policy minimum contributions.

The accumulated benefit obligation exceeds plan assets for the defined benefit plans and postretirement benefit plans in the aggregate for the years ended June 30, 2022 and 2021. The following summarizes the benefit obligations and funded status for the defined benefit pension and postretirement benefit plans (in millions):

	2022	2021
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 14,389	$ 14,096
Service cost	406	396
Interest cost	329	305
Actuarial (gain) loss	(2,566)	148
Acquisitions and other	-	138
Settlements	(34)	(140)
Benefits paid	(650)	(554)
Benefit obligation at end of year	$ 11,874	$ 14,389
Accumulated benefit obligation	$ 11,416	$ 13,826
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 11,082	$ 8,887
Actual return on plan assets	(924)	2,565
Settlements	(26)	(133)
Employer contributions	240	226
Benefits paid	(650)	(554)
Acquisitions and other	-	91
Fair value of plan assets at end of year, net	$ 9,722	$ 11,082
Funded status	$ (2,152)	$ (3,307)

The change in net actuarial loss of $995 million is included in the statement of changes in net assets for the year ended June 30, 2022. The actuarial losses for the years ended June 30, 2022 and 2021, are $894 million and $1.9 billion, respectively.

The settlement component of net periodic benefit cost is recognized in the accompanying consolidated statements of operations and changes in net assets within nonoperating income (loss).

The following table summarizes the assumptions used to determine benefit obligations as of June 30:

	2022	2021
To determine benefit obligations:		
Discount rate	3.7% - 4.9%	1.4%-3.1%
Rate of compensation increase	3.8%	3.8%
Weighted-average interest credit rate for cash balance plans and other applicable plans	7.4%	4.4%
To determine net periodic benefit cost:		
Discount rate	0.5% - 3.1%	1.4%-3.0%
Expected return on plan assets	3.8% - 7.1%	4.4%-7.1%
Rate of compensation increase	3.8%	3.8%
Weighted-average interest credit rate for cash balance plans and other applicable plans	4.5% - 5.5%	4.5% - 5.5%

The following table summarizes the components of net periodic benefit cost recognized in the accompanying consolidated statements of operations and changes in net assets (in millions):

	2022	2021
Service cost	$ 406	$ 396
Interest cost	329	305
Expected return on plan assets	(733)	(602)
Settlements	13	44
Net prior service credit amortization	(1)	(1)
Net actuarial loss amortization	68	168
Net periodic benefit cost	$ 82	$ 310

The service cost amount above is recorded in salaries and benefits on the accompanying consolidated statements of operations and changes in net assets. All other costs of net periodic benefit cost above are reflected in nonoperating income (loss) in the consolidated statements of operations and changes in net assets.

The following represents the fair value of plan assets, net, measured on a recurring basis as of June 30 (in millions). See Note 8 for the definition of Levels 1 and 2 in the fair value hierarchy and investments valued using the NAV practical expedient and discussion regarding fair value measurement.

	2022		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Total**
Assets			
Cash and short-term investments	$ 479	$ 14	$ 493
U.S. government securities	329	24	353
U.S. corporate bonds	234	298	532
U.S. equity securities	795	2	797
Foreign government securities	-	10	10
Foreign corporate bonds	-	53	53
Foreign equity securities	1,024	1	1,025
Real estate	14	-	14
Other	8	-	8
Assets measured at fair value	$ 2,883	$ 402	3,285
Assets at NAV:			
U.S. government securities			120
U.S. corporate bonds			996
U.S. equity securities			563
Foreign corporate bonds			125
Foreign equity securities			1,682
Private equity			1,503
Hedge funds			1,074
Real estate			595
Total assets			$ 9,943
Other plan assets (liabilities)			
Due from brokers for unsettled investment trades			47
Due to brokers for unsettled investment trades			(268)
Fair value of plan assets, net			$ 9,722

	2021		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets			
Cash and short-term investments	$ 232	$ 222	$ 454
U.S. government securities	209	53	262
U.S. corporate bonds	302	397	699
U.S. equity securities	1,731	2	1,733
Foreign government securities	-	35	35
Foreign corporate bonds	-	145	145
Foreign equity securities	2,040	1	2,041
Real estate	25	-	25
Other	-	54	54
Assets measured at fair value	$ 4,539	$ 909	5,448
Assets at NAV:			
U.S. corporate bonds			627
U.S. equity securities			716
Foreign corporate bonds			138
Foreign equity securities			1,529
Private equity			1,133
Hedge funds			1,151
Real estate			430
Total assets			$ 11,172
Liabilities			
Foreign currency exchange contracts	-	51	51
Total liabilities	$ -	$ 51	$ 51
Other plan assets (liabilities)			
Due from brokers for unsettled investment trades			88
Due to brokers for unsettled investment trades			(127)
Fair value of plan assets, net			$ 11,082

The following table summarizes the weighted-average asset allocations by asset category for the pension plans:

	2022	2021
Cash and cash equivalents	5%	4%
U.S. government securities	5%	2%
U.S. corporate bonds	15%	12%
U.S. equity securities	14%	22%
Foreign corporate bonds	2%	3%
Foreign equity securities	27%	32%
Private equity	15%	10%
Other	17%	15%
Total	100%	100%

The asset allocation policy for the pension plans for 2022 is as follows: public equity, 49%; fixed income, 21%; private equity, 14%; hedge funds, 8%; real assets, 6%; and cash and opportunistic, 2%.

The asset allocation policy for the pension plans for 2021 is as follows: domestic fixed income, 12%; international fixed income, 2%; domestic equity, 32%; international equity, 26%; private equity, 10.5%; hedge funds, 9%; real assets, 6%; and cash and opportunistic, 2.5%.

CommonSpirit's investment strategy for the assets of the pension plans is designed to achieve returns to meet obligations and grow the assets of the portfolios longer term, consistent with a prudent level of risk. The strategy balances the liquidity needs of the pension plans with the long-term return goals necessary to satisfy future obligations. The target asset allocation is diversified across traditional and non-traditional asset classes. Diversification is also achieved through participation in U.S. and non-U.S. markets, market capitalization, and investment manager style and philosophy. The complementary investment styles and approaches used by both traditional and alternative investment managers are aimed at reducing volatility while capturing the equity premium from the capital markets over the long term. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition. Consistent with CommonSpirit's fiduciary responsibilities, the fixed income allocation generally provides for security of principal to meet near-term expenses and obligations. Periodic reviews of the market values and corresponding asset allocation percentages are performed to determine whether a rebalancing of the portfolio is necessary.

CommonSpirit's pension plan portfolio return assumptions for 2022 and 2021 were based on the long-term weighted-average returns of comparative market indices for the asset classes represented in the portfolio and expectations about future returns.

The following benefit payments, which reflect expected future service, are expected to be paid (in millions):

2023	$ 836
2024	978
2025	716
2026	740
2027	763
2028-2032	3,968
Total	$ 8,001

CommonSpirit maintains defined contribution retirement plans for most employees. Employer contributions to those plans of $407 million and $362 million for 2022 and 2021, respectively, included in salaries and benefits in the accompanying consolidated statements of operations and changes in net assets, are primarily based on a percentage of a participant's contribution.

18. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

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

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

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

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

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

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

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

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

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

The parties subsequently agreed to settle the litigation. In March 2022, the United States District Court for the Northern District of California granted final approval of the settlement agreement. The settlement resolves all claims asserted in the litigation and releases the named defendants and certain other releases in exchange for certain mandatory cash contributions to the DHPP over a five-year period, certain one-time payments, and non-monetary relief with respect to DHPP administration and accrued benefits protection, bringing the litigation to a full and final end. The terms of the settlement do not materially change the commitments Dignity Health has and continues to honor with respect to the DHPP. The settlement will have no impact on the financial position or results of operations of CommonSpirit.

Seismic standards – The State of California issued seismic safety standards in 1994 which have since been amended on several occasions. The regulations called for structural building upgrades to be in place by January 2013. Subsequent legislation extended the date of required improvements to 2030. Buildings improved or built to the new seismic standards may remain in an acute care service beyond 2030.

Each of the acute care service buildings at CommonSpirit's California facilities either: (1) already meets the standards in effect until 2030, (2) is not subject to these standards, (3) will not be used for acute care services beyond the extended deadline, or (4) is scheduled to undergo remediation before applicable deadline dates. The amount of capital required for meeting the 2030 standards, both structural or non-structural, is not yet determined, but is anticipated to be material.

In addition to the foregoing, in late 2014, the State of California created a new seismic performance category allowing buildings that were previously required to be decommissioned in 2030 to remain in use indefinitely if they could be retrofitted to meet certain new standards. CommonSpirit is undertaking the necessary evaluation of its buildings, to be completed by 2024, to test the viability of their continued use beyond 2030.

Long-term Contracts – CommonSpirit has entered into certain Master Services Agreements ("MSAs") with related parties for the purchase of revenue cycle management services that terminate in fiscal years 2031 and 2033. The agreements are amended from time to time and are subject to annual adjustments for inflation and achievement of certain performance levels, which reflect market terms. These amounts are recorded in purchased services and other in the accompanying statements of operations and changes in net assets. The MSAs are subject to significant penalties for cancellation without cause.

Purchase Commitments – CommonSpirit has entered into various agreements that require certain minimum purchases of goods and services, including management services agreements for information and clinical technology and sponsorship agreements, at levels consistent with normal business requirements. Excluding the long-term contracts noted above, outstanding unconditional purchase commitments were approximately $378 million at June 30, 2022.

19. FUNCTIONAL EXPENSES

CommonSpirit provides health care services, including inpatient, outpatient, ambulatory, long-term care and community-based services to individuals within the various geographic areas supported by its facilities. Expenses for these program services represent costs that are controllable by operational leadership. Support services include administration, financial services and purchasing, financial planning and budgeting, information technology, risk management, public relations, human resources, cash, debt and investment management, legal, mission services, and other functions that are supported centrally for all of CommonSpirit and are driven by CommonSpirit leadership.

Following is a summary of the program and support services provided for the years ended June 30, 2022 and 2021 (in millions):

	2022			
	Program Services - Health care	Support Services - Management and Administrative	Support Services - Fundraising	Total Expenses
Salaries and benefits	$ 17,068	$ 1,076	$ 26	$ 18,170
Supplies	5,436	152	-	5,588
Purchased services and other	8,269	1,185	69	9,523
Depreciation and amortization	1,301	162	-	1,463
Interest expense	384	75	-	459
Total operating expenses	$ 32,458	$ 2,650	$ 95	$ 35,203

	2021			
	Program Services - Health care	Support Services - Management and Administrative	Support Services - Fundraising	Total Expenses
Salaries and benefits	$ 15,090	$ 890	$ 26	$ 16,006
Supplies	5,019	67	-	5,086
Purchased services and other	7,958	1,206	61	9,225
Depreciation and amortization	1,341	146	-	1,487
Interest expense	379	72	-	451
Total operating expenses	$ 29,787	$ 2,381	$ 87	$ 32,255

20. UNSPONSORED COMMUNITY BENEFIT EXPENSE (UNAUDITED)

Unsponsored community benefits are programs or activities that provide treatment and/or promote health and healing as a response to identified community needs. These benefits (a) generate a low or negative margin, (b) respond to the needs of special populations, such as persons living in poverty and other disenfranchised persons, (c) supply services or programs that would likely be discontinued, or would need to be provided by another nonprofit or government provider, if the decision was made on a purely financial basis, (d) respond to public health needs, and/or (e) involve education or research that improves overall community health.

The unpaid costs of Medicaid/Medi-Cal includes $225 million and $493 million in direct benefit expense related to the California provider fee program in 2022 and 2021, respectively, and direct offsetting revenue related to the program of $529 million and $1.0 billion for 2022 and 2021, respectively.

Benefits for the Poor include services provided to persons who are low-income or medically indigent and cannot afford to pay for health care services because they have insufficient resources and/or are uninsured or underinsured. Serving these populations helps to achieve health equity.

Benefits for the Broader Community refer to programs in the general communities that CommonSpirit serves, including but beyond those for low-income and vulnerable persons. Most services for the broader community are aimed at improving the health and welfare of the overall community. CommonSpirit provides services to nonprofit organizations that promote the total health of their local communities, including the development of and connection to health and social services, support for affordable housing and healthy food, increasing opportunities for jobs and job training, and expanding access to health care for uninsured and underinsured persons.

Financial Assistance (Charity Care) is free or discounted health services provided to persons who cannot afford to pay and who meet CommonSpirit's criteria for financial assistance.

Net Community Benefit, excluding the unpaid cost of Medicare, is the total cost incurred after deducting direct offsetting revenue from government programs, patients, and other sources of payment or reimbursement for services provided to program patients. Restricted revenue from grants, fees, and other sources of payment or reimbursement for services provided to patients, program participants and the community also are included in direct offsetting revenue. The comparable amount of net community benefit was $2 billion for 2021 and net community benefit, including the unpaid cost of Medicare, was $5 billion for 2021.

Following is a summary of CommonSpirit's community benefits for 2022, in terms of services to the poor and benefits for the broader community, which has been prepared in accordance with Internal Revenue Service Form 990, Schedule H and the CHA publication, *A Guide for Planning and Reporting Community Benefit* (dollars in millions):

	Unaudited			
	Total Benefit Expense	**Direct Offsetting Revenue**	**Net Community Benefit**	**% of Total Expenses**
Benefits for the poor:				
Traditional charity care	$ 473	$ -	$ 473	1.3%
Unpaid costs of Medicaid / Medi-Cal	4,948	(2,951)	1,997	5.7%
Other means-tested programs	79	(1)	78	0.2%
Community services:				
Community health services	84	(29)	55	0.2%
Subsidized health services	32	(5)	27	0.1%
Cash and in-kind contributions	58	-	58	0.2%
Community building activities	7	(1)	6	0.0%
Community benefit operations	12	-	12	0.0%
Total community services for the poor	193	(35)	158	0.5%
Total benefits for the poor	5,693	(2,987)	2,706	7.7%
Benefits for the broader community:				
Community services:				
Community health services	32	(6)	26	0.1%
Health professions education	321	(29)	292	0.8%
Subsidized health services	163	(56)	107	0.3%
Research	51	(44)	7	0.0%
Cash and in-kind contributions	5	-	5	0.0%
Community building activities	5	(1)	4	0.0%
Community benefit operations	16	-	16	0.1%
Total benefits for the broader community	593	(136)	457	1.3%
Total community benefits	$ 6,286	$ (3,123)	$ 3,163	9.0%
Unpaid costs of Medicare	4,217	(2,486)	1,731	4.9%
Total community benefits, including unpaid costs of Medicare	$ 10,503	$ (5,609)	$ 4,894	13.9%

* * *