This document is dated September 21, 2023

UNAUDITED ANNUAL REPORT

For the Years Ended
June 30, 2023 and 2022

The information in this report
has been provided by
CommonSpirit Health

COMMONSPIRIT HEALTH

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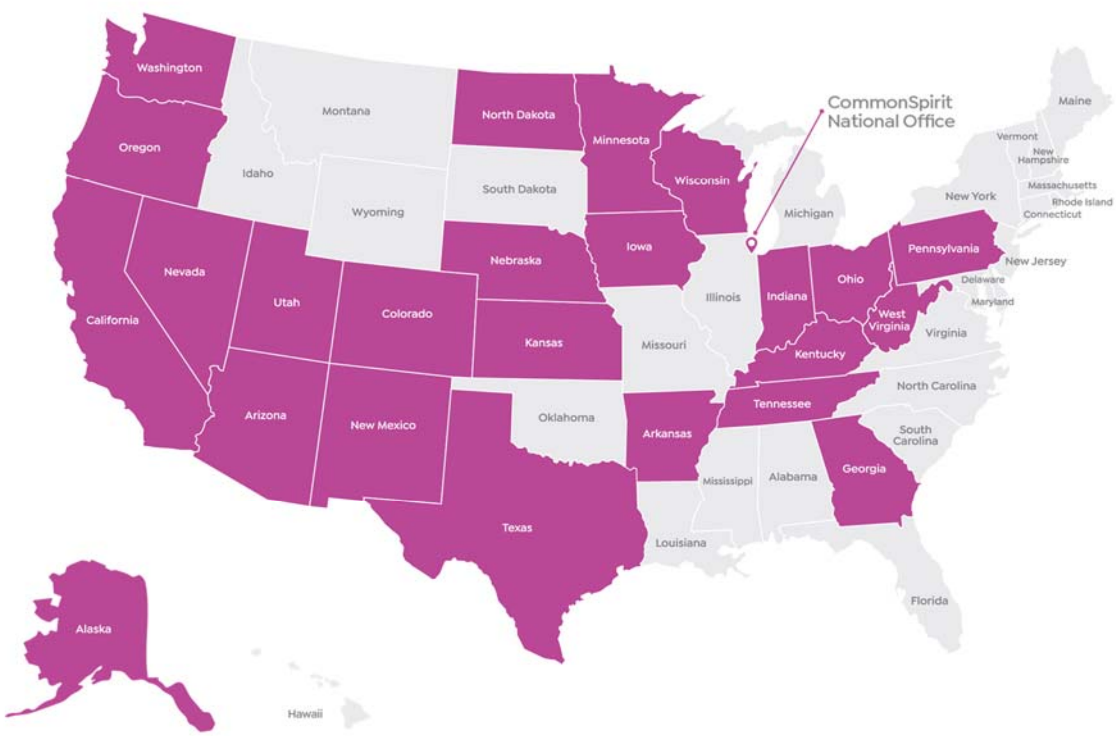
Management Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

CommonSpirit Health owns and operates health care facilities in 24 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations. CommonSpirit Health and substantially all of its direct affiliates and subsidiaries have been granted exemptions from federal income tax as charitable organizations under Section 501(c)(3) of the Internal Revenue Code. With its national office in Chicago, and a team of over 150,000 employees and over 25,000 physicians and advanced practice clinicians, as of September 21, 2023, CommonSpirit Health is comprised of approximately 2,200 care sites, including 142 hospitals, consisting of academic health centers, major teaching hospitals, and critical access facilities; community health services organizations; accredited nursing colleges; home health agencies; living communities; a medical foundation and other affiliated medical groups; and other facilities and services that span the inpatient and outpatient continuum of care. An additional 20 hospitals are operated through unconsolidated joint ventures. The 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, 2023 and 2022, in accordance with accounting principles generally accepted in the United States of America ("GAAP") and on a non-GAAP basis for EBITDA (earnings before interest, tax, depreciation and amortization, and nonoperating income). The non-GAAP financial measures are in addition to, not a substitute for, measures of financial performance prepared in accordance with GAAP.

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

Financial Highlights and Summary

CommonSpirit recorded an operating loss of $1.4 billion during the year ended June 30, 2023, compared to a $1.3 billion operating loss during the prior year. The results for the year ended June 30, 2023, include CARES Act Provider Relief Funding ("CARES PRF") of $265 million compared to $27 million in the prior year and net Employee Retention Credits ("ERC") under the CARES Act of $194 million compared to $67 million for the prior year. Prior year results also include $190 million in operating income related to a gain on sale of assets/joint-venture shares and $149 million in American Rescue Plan Act ("ARP") funds. Normalized for the California provider fee program, operating losses for the years ended June 30, 2023 and 2022, were $1.3 billion compared to $1.0 billion, respectively. Operating results reflect revenue challenges, the continued impact of labor shortages and inflation, a $160 million adverse impact from the Cybersecurity Incident, and the lingering effects of the pandemic, partially offset by improved volume levels and productivity.

Despite the growth in same-store adjusted admissions of 4.4% for the year ended June 30, 2023, over the same period in the prior year, revenue per adjusted admission on a normalized same-store basis decreased 1.7%, primarily due to reduced higher acuity COVID-19 volumes, a slight shift in payor mix, and revenue cycle challenges. Meanwhile, expenses continue to grow with same-store normalized salary cost per FTE increasing 2.5% over the same period in the prior year.

CommonSpirit's EBITDA decreased to $613 million for the year ended June 30, 2023, from $626 million during the prior year. The EBITDA margin for the year ended June 30, 2023, remained consistent with the prior year at 1.8%. Normalized for the California provider fee program, EBITDA for the year ended June 30, 2023, was $663 million with an EBITDA margin of 1.9%, compared to $883 million with an EBITDA margin of 2.6% during the prior year. The decrease is primarily related to the Cybersecurity Incident, declining acuity and rates, continued staffing and revenue yield challenges, special charges related to a reduction in force, asset impairments, and general inflation, partially offset by stimulus funding received during the current year, improved volume levels, and productivity.

For the year ended June 30, 2023, CommonSpirit's volumes on an adjusted admission basis improved and were close to pre-pandemic levels for many markets, and were favorable to the prior year by 2.0%. On a same-store basis, adjusted admissions were favorable to the prior year by 4.4%. Adjusted patient days for the year ended June 30, 2023, were lower than the prior year by 1.8%. The acute average length of stay (ALOS) of 4.96 days for the year ended June 30, 2023, was lower than the prior year of 5.16, primarily due to continued length-of-stay reduction efforts and a decrease in higher acuity COVID-19 volume levels.

Key Indicators Financial Summary					
	Years Ended June 30,				
($ in millions)	**2023**	**2023***	**2022**	**2022***	**Change****
	As Recorded	**As Adjusted**	**As Recorded**	**As Adjusted**	**As Adjusted Comparison**
EBITDA	$ 613	$ 663	$ 626	$ 883	$ (220)
Margin %	1.8%	1.9%	1.8%	2.6%	(0.7%)
Operating loss	$ (1,398)	$ (1,348)	$ (1,296)	$ (1,039)	$ (309)
Margin %	(4.1%)	(3.9%)	(3.8%)	(3.0%)	(0.9%)
Deficit of revenues over expenses	$ (259)	$ (209)	$ (1,847)	$ (1,590)	$ 1,381
Margin %	(0.7%)	(0.6%)	(5.6%)	(4.8%)	4.2%

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

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

In response to these difficult economic conditions, management has implemented a multiple-part improvement plan emphasizing the following areas:

- Growth: As noted above, in many markets, volume has returned to pre-pandemic levels. Specific initiatives include the implementation of internal referral systems, expansion of transfer centers, developing standard templates to increase capacity in the physician enterprise, and implementing various patient-facing tools to improve access to the delivery system. Due to the effectiveness of these ongoing efforts, patient transfer center activity increased 11.3% for fiscal year 2023 compared to the prior year.
- Revenue Yield: Efforts are underway to reduce clinical denials, assure accurate determination of patient status, and negotiate managed care contracts to reflect the higher inflationary environment.
- Labor and Productivity: In addition to ongoing productivity efforts, workforce reductions were implemented in the fourth quarter of 2023 resulting in a reduction of approximately 2,000 FTEs in ancillary, support, and overhead functions. This was partially offset by an increase in clinical staff due to higher volume levels achieved during the fourth quarter of 2023. The organization has also reduced its reliance on contract labor and internal premium pay programs. On a same-store basis, contract labor hours as a percentage of total labor hours have decreased from 4.5% for the fourth quarter of 2023 to 3.9% for the first month of 2024, with total contract labor spend reducing by 15.8% in July 2023 compared to the prior three-month trend, and by 43.3% compared to the peak in February 2022. Part of the reduction in contract labor is due to enhanced recruitment and retention efforts. Over the past several months, for example, more registered nurses have joined CommonSpirit than have left the organization.
- Length of Stay: Elevated length of stay that has arisen as a residual effect of the pandemic has limited capacity and placed a strain on staffing resources. The organization has a system-wide focus on improving placement for patients being discharged to home as well as those patients needing access to post-acute services. Overall, acute patient length of stay for 2023 improved by 3.9% relative to 2022, and by 9.6% from the peak of the pandemic.
- Other Value Capture Efforts: Focus continues on standardization of supply and purchased service expense, reduction in office space, and standardization of physician professional fee contracts.

These efforts are continuing in fiscal year 2024 and the full benefit of the labor improvements will be realized in 2024. Goals have been established and additional plans implemented for all of the areas noted above.

In February 2023, CommonSpirit and AdventHealth announced that they have agreed to transition to direct management of their respective care sites that comprised Centura Health (the "Transition"). Following the Transition, CommonSpirit will directly operate and manage its hospitals and affiliated clinics in Colorado, western Kansas and Utah, and AdventHealth will directly operate and manage its Adventist hospitals and their affiliated clinics in

Colorado. The Transition was finalized in August 2023, and is not expected to have a material effect on the financial condition or operations of CommonSpirit, taken as a whole.

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

In May 2022, CommonSpirit acquired two hospital facilities, one in western Kansas and one in northern Colorado. The acquired facilities support the mission and strategy to expand the scope and quality of care in those rural and surrounding communities, and were managed by Centura Health pursuant to the then existing JOA. The purchase price is immaterial to the consolidated financial statements.

In September 2022, CommonSpirit sold the facilities and assets of MercyOne, a regional health system in Iowa, to Trinity Health for a gross purchase price of $613 million. MercyOne had operated under a JOA between Trinity Health and CommonSpirit. A net loss on sale of $23 million was recognized in the year ended June 30, 2023. As of June 30, 2022, certain assets and liabilities of MercyOne are classified as held for sale, within other current assets and other accrued liabilities - current, respectively, in the accompanying consolidated balance sheet.

Same-store results reported herein exclude the impact of the acquisition of two facilities in Kansas and Colorado, the Utah transaction, and the divestiture of MercyOne, as noted above.

California Provider Fee Program

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

California Provider Fee Program			
	Years Ended June 30,		
($ in millions)	**2023**	**2022**	**Change**
California Provider Fee as Recorded			
Net patient and premium revenues	$ 968	$ 528	$ 440
Operating expenses	462	225	237
Provider Fee net income	$ 506	$ 303	$ 203
Normalized California Provider Fee			
Net patient and premium revenues	$ 1,065	$ 1,042	$ 23
Operating expenses	509	481	28
Provider Fee net income	$ 556	$ 561	$ (5)
Impact of Normalizing California Provider Fee			
Net patient and premium revenues	$ 97	$ 514	$ (417)
Operating expenses	47	256	(209)
Provider Fee net income	$ 50	$ 258	$ (208)

With the approval of the provider fee program in September 2022, CommonSpirit recorded provider fee net income totaling $500 million ($250 million related to the six-month period ended December 31, 2022, and $250 million related to the six-month period ended June 30, 2022). CommonSpirit recorded $303 million in net provider fee income during the year ended June 30, 2022, related to the six-month period ended December 31, 2021.

Cybersecurity Incident

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

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

Results of Operations

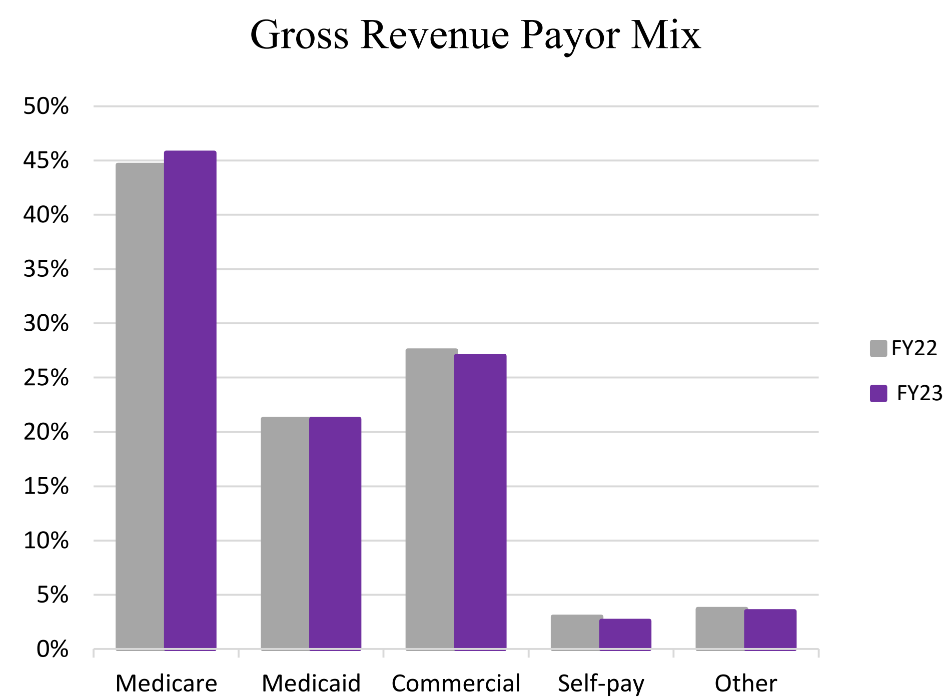
Operating Revenues and Volume Trends

Net patient and premium revenues increased $614 million, or 1.9% over the prior year for the year ended June 30, 2023. Normalizing the California provider fee revenues, net patient and premium revenue increased $198 million, or 0.6%. On a same-store basis, normalized net patient and premium revenues increased $811 million, or 2.6%, over the prior year. Same-store normalized net patient and premium revenue per adjusted admission decreased 1.7% over the prior year. The decrease is primarily due to lower acuity, an unfavorable shift in service and payor mix, payor behavior affecting collections, and the estimated impact of the Cybersecurity Incident.

Volumes	Years Ended June 30,			
	2023	2022	Change	%
Acute admissions	785,788	787,225	(1,437)	(0.2%)
Adjusted admissions	1,624,468	1,592,036	32,432	2.0%
Acute inpatient days	3,897,584	4,061,688	(164,104)	(4.0%)
Adjusted patient days	8,440,056	8,591,412	(151,356)	(1.8%)
Acute average length of stay	4.96	5.16	(0.20)	(3.9%)
Outpatient visits	26,511,815	28,133,835	(1,622,020)	(5.8%)
ED visits	3,919,548	3,873,484	46,064	1.2%
Gross outpatient revenue as a % of total gross patient services revenue	51.4%	50.4%	1.0%	1.0%

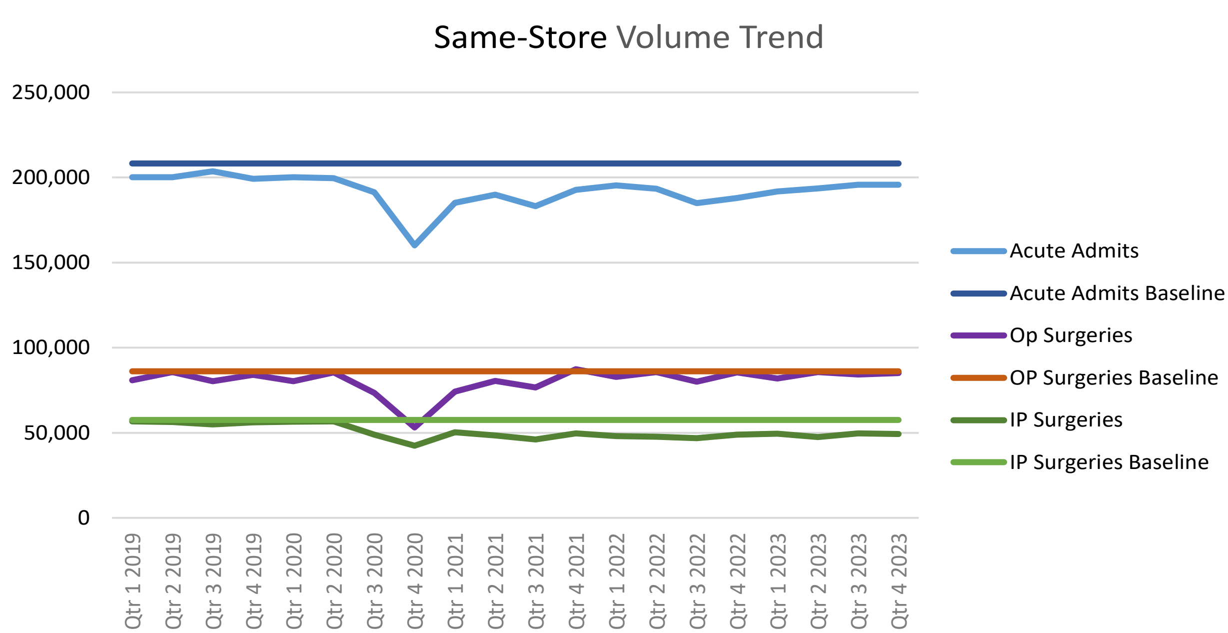
Same-Store Volumes	Years Ended June 30,			
	2023	2022	Change	%
Acute admissions	776,817	761,636	15,181	2.0%
Adjusted admissions	1,604,952	1,537,826	67,126	4.4%
Acute inpatient days	3,857,090	3,912,100	(55,010)	(1.4%)
Adjusted patient days	8,351,242	8,275,629	75,613	0.9%
Acute average length of stay	4.97	5.14	(0.17)	(3.3%)
Outpatient visits	26,025,681	26,160,008	(134,327)	(0.5%)
ED visits	3,869,986	3,786,852	83,134	2.2%
Gross outpatient revenue as a % of total gross patient services revenue	51.4%	50.3%	1.1%	1.1%

Payor mix based on gross revenues for the year ended June 30, 2023, has softened compared to the prior year. The following chart represents the gross revenue payor mix for consolidated operations for the years ended June 30, 2023 and 2022:



Same-store adjusted admissions increased 4.4% during year ended June 30, 2023, compared to the same period in the prior year, as COVID-19 cases declined and hospitals experienced increases in other volume.

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



All other operating revenues decreased $15 million, or 0.7%, from the prior year for the year ended June 30, 2023. Same-store other operating revenues increased $180 million, or 8.6%, primarily due to CARES PRF grant revenue totaling $265 million recorded during the year ended June 30, 2023, compared to $27 million for the prior year, net ERC funds of $194 million recorded during the year ended June 30, 2023, compared to $67 million in the prior year, an increase of $64 million in revenue from health-related activities, net, and higher pharmaceutical revenues, partially offset by a decrease due to a prior year gain on sale of assets/joint-venture shares totaling $190 million and $149 million in ARP funds recorded in the prior year. The increase in revenue from health-related activities, net, is primarily related to investment gains recorded by equity method investments as a result of the financial market performance and improvements in operations.

Operating Revenues					
	Years Ended June 30,				
($ in millions)	**2023**	**2023***	**2022**	**2022***	**Change****
	As Recorded	**As Adjusted**	**As Recorded**	**As Adjusted**	**As Adjusted Comparison**
Net patient and premium revenues	$ 32,260	$ 32,357	$ 31,646	$ 32,159	$ 198
All other operating revenues	2,246	2,246	2,261	2,261	(15)
Total operating revenues	$ 34,506	$ 34,603	$ 33,907	$ 34,420	$ 183

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

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

Operating Revenues by Division

The following tables present operating revenues by division for the years ended June 30, 2023 and 2022:

Division Operating Revenues					
	Years Ended June 30,				
($ in millions)	2023	2023**	2022	2022**	Change***
	As Recorded	As Adjusted	As Recorded	As Adjusted	As Adjusted Comparison
Southern California	$ 6,854	$ 6,924	$ 6,043	$ 6,400	$ 524
Northern California	5,530	5,557	5,132	5,288	269
Pacific Northwest	4,530	4,530	4,401	4,401	129
Southwest	4,424	4,424	4,431	4,431	(7)
Southeast	3,818	3,818	3,838	3,838	(20)
Midwest	3,055	3,055	2,939	2,939	116
Colorado	3,086	3,086	2,906	2,906	180
Texas	2,724	2,724	2,645	2,645	79
Iowa	119	119	1,123	1,123	(1,004)
National Business Lines*	353	353	366	366	(13)
Other	3	3	6	6	(3)
Subtotal Divisions	34,496	34,593	33,830	34,343	250
Corporate Services	10	10	77	77	(67)
CommonSpirit Total	$ 34,506	$ 34,603	$ 33,907	$ 34,420	$ 183

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

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

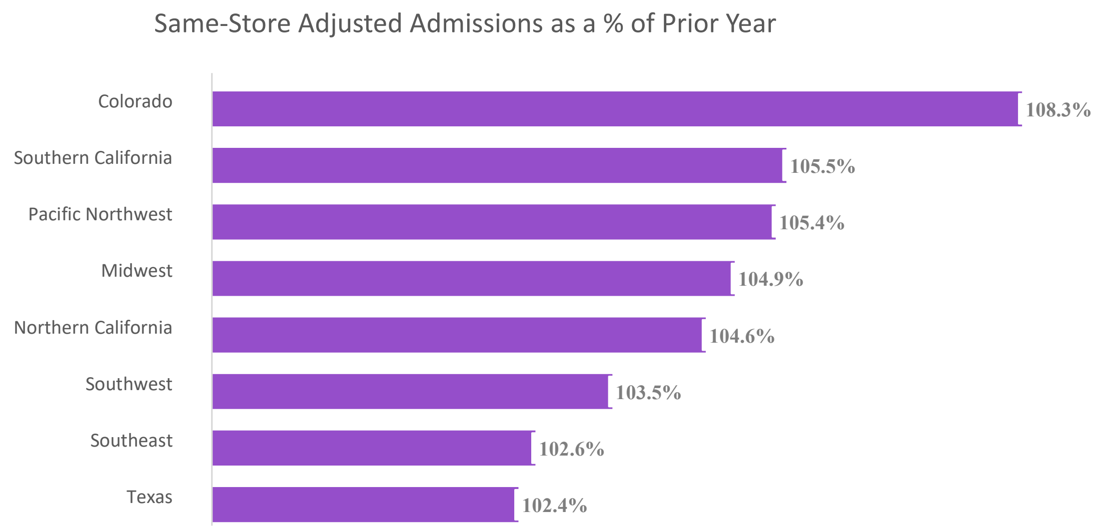
**** Comparing June 30, 2023, as adjusted to the prior year as adjusted.*

Following are the significant division performance drivers related to operating revenues normalized for the California Provider Fee, compared to prior year for the year ended June 30, 2023:

- Southern California Division – normalized operating revenues increased $524 million from the prior year, primarily due to CARES PRF and ERC funds, and a 5.5% increase in adjusted admissions, partially offset by lower acuity.
- Northern California Division – normalized operating revenues increased $269 million from the prior year, primarily due to CARES PRF and ERC funds, and a 4.6% increase in adjusted admissions, partially offset by lower acuity.
- Pacific Northwest Division – operating revenues increased $129 million from the prior year, primarily due to CARES PRF, ERC funds, and FEMA funds, stable payor mix, partially offset by the cybersecurity incident. Adjusted admissions increased from the prior year by 5.4%.
- Midwest Division - operating revenues increased $116 million, primarily due to CARES PRF and ERC funds and a 4.9% increase in adjusted admissions, partially offset by the cybersecurity incident and lower acuity.
- Colorado Division – operating revenues increased $180 million from the prior year, primarily due to the acquisition of the two facilities in Kansas and Colorado and the Utah transaction, and higher volumes, partially offset by lower acuity. Same-store adjusted admissions increased from the prior year by 8.3%.
- Texas Division – operating revenues increased $79 million from the prior year, primarily due to CARES PRF, ERC funds, and FEMA funds, partially offset by the cybersecurity incident and lower acuity. Adjusted admissions increased from the prior year by 2.4%.

- Iowa - operating revenues decreased $1.0 billion from the prior year, primarily due to the MercyOne transaction.

The table below reflects the same-store adjusted admissions (excluding the impact of the acquisition of the two facilities in Kansas and Colorado, the Utah transaction, and the divestiture of MercyOne) as a percentage of prior year, for the year ended June 30, 2023:



Uncompensated Care ($ in millions)	Years Ended June 30, 2023	 2022	 Change
Uncompensated Care:			
Charity care, at customary charges	$ 1,996	$ 1,990	$ 6
Charity care, at cost, net	$ 469	$ 473	$ (4)
Charity care, at cost, as a percentage of total expenses	1.3%	1.3%	0.0%
Unpaid cost of Medicaid / Medi-Cal, net	$ 1,904	$ 1,997	$ (93)
Unpaid cost of Medicare, net	$ 2,086	$ 1,731	$ 355
Net Community Benefit Expense			
Total community service for the poor	$ 141	$ 158	$ (17)
Total benefits for the broader community	$ 419	$ 457	$ (38)
Total community benefits	$ 2,937	$ 3,163	$ (226)
Total community benefits including unpaid cost of Medicare	$ 5,023	$ 4,894	$ 129

Operating Expenses

Salaries and benefits increased $122 million, or 0.7%, over the prior year, for the year ended June 30, 2023. On a same-store basis, salaries and benefits increased $558 million, or 3.2%, over the prior year. Salaries and benefits per adjusted admission on a same-store basis decreased 1.1%, primarily due to lower contract labor as the labor supply shortage softened and retention and hiring efforts were realized, and improvements in productivity and length-of-stay, partially offset by inflation.

Supplies decreased $49 million, or 0.9%, during the year ended June 30, 2023, compared to the prior year. On a same-store basis, supplies increased $101 million, or 1.9%, over the prior year. The increase is primarily due to higher than anticipated inflation and higher volumes. Supplies per adjusted admission on a same-store basis decreased 2.4%, compared to the prior year. The decrease is primarily due to lower pharmaceuticals and laboratory supplies, partially offset by higher inflation.

Purchased services and other increased $330 million, or 3.4%, for the year ended June 30, 2023, compared to the prior year, when normalizing for the California provider fee program costs. On a normalized same-store basis, purchased services and other increased $575 million, or 6.1%, primarily due to higher medical fees, insurance costs, utilities, professional fees, out-of-network costs, special charges primarily related to severance for reductions in force, travel costs, and inflationary pressures, partially offset by lower advertising/marketing and building lease costs.

Expense Management and Productivity				
	Years Ended June 30,			
	2023	**2023***	**2022**	**2022***
	As Recorded	**As Adjusted**	**As Recorded**	**As Adjusted**
Expense Management:				
Supply expense as a % of net patient and premium revenue	17.2%	17.1%	17.7%	17.4%
Purchased services and other as a % of net patient and premium revenue	31.2%	31.2%	30.1%	30.4%
Capital expense as a % of net patient and premium revenue	6.2%	6.2%	6.1%	6.0%
Non-capital cost per adjusted admission	$ 20,864	$ 20,893	$ 20,905	$ 21,065
Productivity:				
Salaries, wages and benefits as a % of net patient and premium revenue	56.7%	56.5%	57.4%	56.5%
Number of FTEs	131,088	131,088	134,036	134,036
FTEs per adjusted admission	25.99	25.99	27.41	27.41

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

Same-Store Expense Management and Productivity

	Years Ended June 30, 2023	2023*	2022	2022*
	As Recorded	As Adjusted	As Recorded	As Adjusted
Expense Management:				
Supply expense as a % of net patient and premium revenue	17.2%	17.1%	17.5%	17.2%
Purchased services and other as a % of net patient and premium revenue	30.8%	30.8%	29.8%	30.1%
Capital expense as a % of net patient and premium revenue	6.2%	6.2%	6.1%	6.0%
Non-capital cost per adjusted admission	$ 20,894	$ 20,924	$ 20,868	$ 21,035
Productivity:				
Salaries, wages and benefits as a % of net patient and premium revenue	56.8%	56.6%	57.2%	56.3%
Number of FTEs	129,543	129,543	128,746	128,746
FTEs per adjusted admission	26.14	26.14	27.14	27.14

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

Operating Expenses

($ in millions)	Years Ended June 30, 2023	2023*	2022	2022*	Change**
	As Recorded	As Adjusted	As Recorded	As Adjusted	As Adjusted Comparison
Salaries and benefits	$ 18,292	$ 18,292	$ 18,170	$ 18,170	$ 122
Supplies	5,539	5,539	5,588	5,588	(49)
Purchased services and other	10,062	10,109	9,523	9,779	330
Depreciation and amortization	1,438	1,438	1,463	1,463	(25)
Interest expense, net	573	573	459	459	114
Total operating expenses	$ 35,904	$ 35,951	$ 35,203	$ 35,459	$ 492

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

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

Nonoperating Results

CommonSpirit recorded investment gains, net, of $1.0 billion during the year ended June 30, 2023, compared to investment losses, net, totaling $971 million during the prior year, due to a rebound in the financial markets.

Income tax expense was $34 million during the year ended June 30, 2023, compared to $72 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 $79 million during the year ended June 30, 2023, compared to $179 million during the prior year.

Net periodic postretirement costs amounted to $64 million of income during the year ended June 30, 2023, compared to $324 million during the prior year.

Nonoperating Results	Years Ended June 30,		
($ in millions)	2023	2022	Change
Investment income (loss), net	$ 1,034	$ (971)	$ 2,005
Income tax expense	(34)	(72)	38
Change in fair value and cash payments of interest rate swaps	79	179	(100)
Other components of net periodic postretirement costs	64	324	(260)
Other	(4)	(11)	7
Total nonoperating income (loss), net	$ 1,139	$ (551)	$ 1,690

Balance Sheet Metrics

The following table provides key balance sheet metrics for CommonSpirit:

Key Balance Sheet Metrics ($ in millions)	June 30, 2023	June 30, 2022	Change
Consolidated Balance Sheet Summary			
Total assets	$ 51,872	$ 50,314	$ 1,558
Total liabilities	$ 30,733	$ 29,285	$ 1,448
Total net assets	$ 21,139	$ 21,029	$ 110
Financial Position Ratios			
Unrestricted cash and investments	$ 15,456	$ 16,247	$ (791)
Days cash on hand	164	176	(12)
Total debt	$ 18,360	$ 15,427	$ 2,933
Debt to capitalization	49.2%	45.1%	4.1%

Liquidity

Unrestricted cash and investments were $15.5 billion at June 30, 2023, and $16.2 billion at June 30, 2022. The decrease is primarily due to 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 inflationary pressures, and continued concerns of a looming recession.

Liquidity and Capital Resources ($ in millions)	June 30, 2023	June 30, 2022	Change
Cash	$ 1,677	$ 2,592	$ (915)
Short-term investments	539	596	(57)
Long-term investments, excluding assets limited as to use	13,240	13,059	181
Total unrestricted cash and investments	$ 15,456	$ 16,247	$ (791)

Capital Resources

Cash used by operating activities totaled $995 million for the year ended June 30, 2023, compared to cash provided of $724 million for the prior year. Significant activity for the year ended June 30, 2023, includes the following:

- Investments increased $246 million during the year ended June 30, 2023, compared to a decrease of $4.0 billion during the prior year, due to the improvements in investment market performance.
- Medicare advances to be withheld from future Medicare fee-for-service payments decreased $807 million during the year ended June 30, 2023, compared to a $1.7 billion decrease for the prior year.
- Accounts receivable, net, increased $423 million during the year ended June 30, 2023, compared to a $345 million increase for the prior year.
- Accounts payable, net, decreased $120 million during the year ended June 30, 2023, compared to a $170 million decrease for the prior year.
- Accrued salaries and benefits decreased $352 million during the year ended June 30, 2023, compared to $110 million decrease for the prior year.
- Prepaids and other current assets increased $328 million during the year ended June 30, 2023, compared to a decrease of $5 million for the prior year, primarily related to ERC funds receivable.

Cash used in investing activities totaled $1.4 billion for the years ended June 30, 2023 and 2022, primarily related to the following:

- Capital expenditures were $1.3 billion during the years ended June 30, 2023, compared to $1.5 billion for the prior year. 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 $560 million during the year ended June 30, 2023, compared to $276 million during the prior year, primarily due to the Iowa transaction.
- Business acquisitions were $706 million during the year ended June 30, 2023, compared to $138 million during the prior year, primarily due to the Utah transaction and the acquisition of two facilities in Colorado and Kansas.
- Cash distributions from health-related activities were $153 million during the year ended June 30, 2023, compared to $86 million during the prior year.
- Investments in health-related activities were $109 million during the year ended June 30, 2023, compared to $105 million during the prior year.

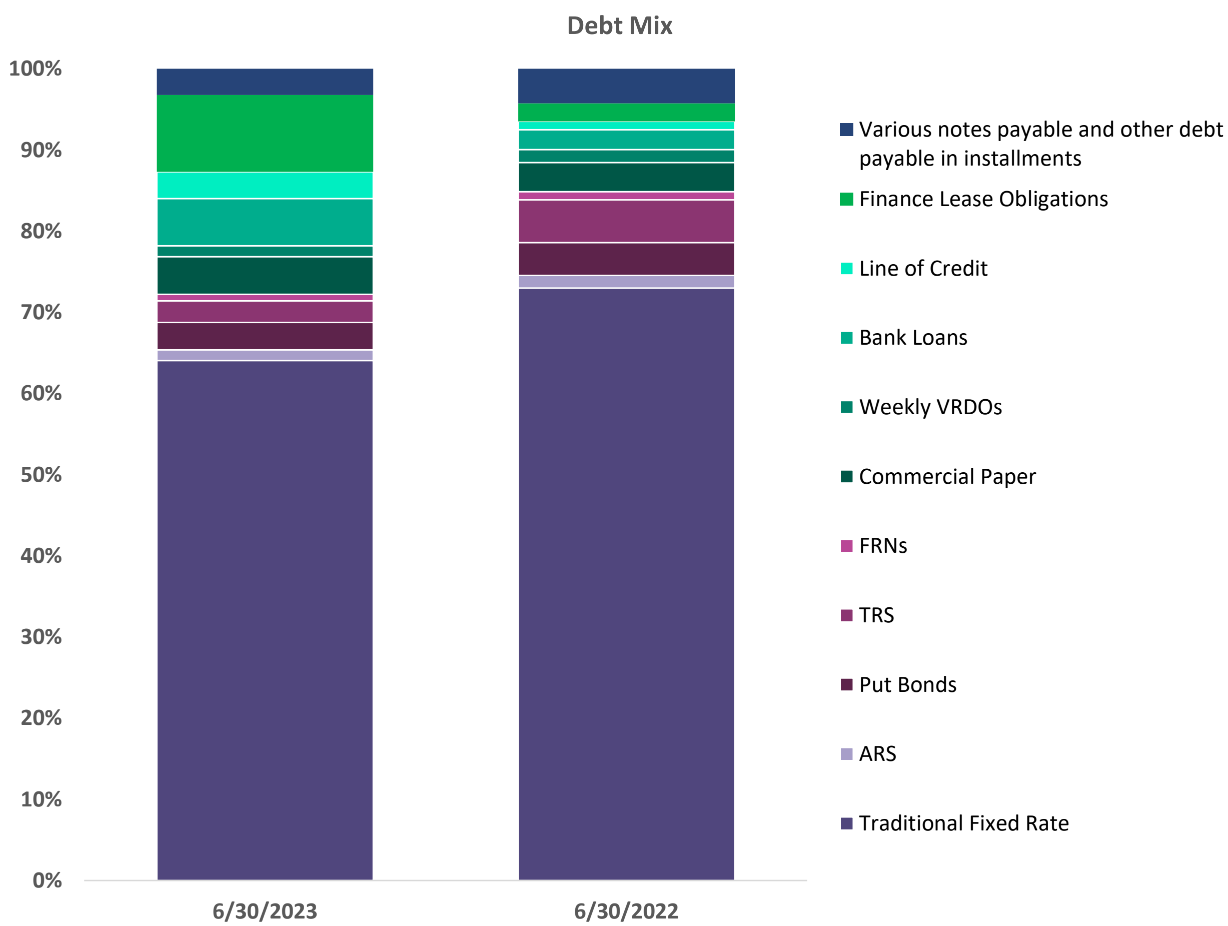
Cash provided by financing activities totaled $1.4 billion for the year ended June 30, 2023, compared to cash used of $59 million for the prior year, primarily due to the following:

- Net borrowings of debt were $1.5 billion during the year ended June 30, 2023, which includes a draw on the working capital line of credit to address collection shortfalls in the wake of the Cybersecurity Incident, and funding certain acquisitions, compared to net repayments of $93 million during the prior year.

Debt Portfolio

The CommonSpirit Obligated Group represents approximately 87% of consolidated revenues of CommonSpirit as of June 30, 2023. The debt portfolio remains well diversified, with a high proportion of long-term fixed rate debt providing stability.

The chart below depicts CommonSpirit's debt mix as of June 30, 2023, as compared to June 30, 2022:



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. CommonSpirit 2026 provides flexibility for our diverse operations and communities across 24 states to come together around a common direction and creates a path to maintaining long-term sustainability for the organization.

CommonSpirit 2026 reflects how we will deliver on our promise and is encapsulated in the form of three pillars, Our People, Our Excellence and Our Future, as described below. Each of these pillars includes a range of initiatives, which are typically long-term in nature. Metrics within each pillar and for specific initiatives have been developed and are reported to the CommonSpirit Board on a regular basis. Examples of activity through June 30, 2023, are noted below.

Our People: Nurture our people by creating an environment and culture in which our diverse workforce can thrive while living their calling. Nurturing and investing in our employees and providers is the greatest strength CommonSpirit has with a focus on their well-being and development while creating a safe and caring environment to bring out their best. CommonSpirit is focusing on system redesign, new care models, and technologies that align with clinicians' interests, respond to increasing patient demands, and make CommonSpirit a clinician's first choice of partner. CommonSpirit is also investing in attracting and retaining leaders who find purpose in their work, and building competencies that reflect CommonSpirit's focus on well-being across a continuum of care and the enhanced importance of an agile, collaborative culture. CommonSpirit has a range of programs, initiatives and areas of focus to support our workforce. Some programs of particular focus are highlighted below:

- *Nursing.* The national nursing shortage, exacerbated by high turnover related to the COVID-19 pandemic, is expected to continue. In response, CommonSpirit is focused on bolstering its nursing workforce. This includes formation of a national nurse residency program ("NPR"), as well as recruitment, retention, and development efforts. The national strategy for nurse residency, which is anticipated to train approximately 1,000 nurses within the first year, with a goal of expanding the NRP each year thereafter. CommonSpirit has five hospitals with national accreditation by the American Nurses Credentialing Center Practice Transition Accreditation Program. As of August 2023, 67 training sites launched across several CommonSpirit markets where new graduate nurses are hired. As of June 30, 2023, 196 nurse residents were enrolled, 1,726 preceptors have enrolled in their respective training areas, and 309 educators, managers and learning system administrators are actively engaged with the learning platform provided by the organization's Global Education. Since the beginning of the program in February 2023, the aggregated retention rate is over 97%.

- *Employee Wellness.* CommonSpirit has put in place a range of programs to support employee wellness, resilience and retention. MyWellness, a holistic wellness program that uses a mix of technology and supportive programs was developed in fiscal 2022, to help support an employee in their physical, emotional, social, financial and spiritual journey. As of June 30, 2023, MyWellness has nearly 65% of eligible employees enrolled with nearly 67% of those enrolled actively engaged with the program, exceeding the goal of 50%. In December 2022, CommonSpirit launched a new mental health program, partnering with Lyra, to connect employees and their families to mental health coaches or therapists. Previously there were over 13 different vendors offering these services. For those who participate, 98.1% of CommonSpirit's employees are matched with a provider instantly and the first available session is offered within two days. Employees are providing an average satisfaction score of 4.7/5 for those that have engaged with the program.

- *Training and Development.* As a large, national organization, CommonSpirit has a variety of locations and roles within the system, which provides opportunities for growth for our employees. One piece of CommonSpirit's retention strategy has been to offer employees professional development to grow their careers within CommonSpirit. As of June 2023, CommonSpirit offers employees more than 54,000 career development courses, books, and events on topics in leadership and communication at no cost. Additionally, through CommonSpirit's tuition reimbursement program, eligible employees can earn a degree for as little as zero out-of-pocket expense. Top education programs among CommonSpirit employees in 2023 are nursing, healthcare administration, business administration and IT. More than half of the tuition reimbursement program participants are seeking nursing degrees in a variety of specialties and at all levels. CommonSpirit also continues to develop programs that advance veterans and underrepresented groups, as well as workforce development programs that enable us to grow our future leaders, through leadership academies that help build leadership pipelines in key clinical and operational service lines.

- *Employee Engagement and Retention.* CommonSpirit engages its employees through its MyVoice Employee Experience Survey, with an 86% participation rate of surveyed employees. Some of the areas that showed improvement over 2022 were: Employee Engagement with an overall score of 4.04, compared to 3.96 in 2022 and the National Health Care Average of 4.01; Resilience scoring 4.18 compared to 4.08 in 2022 and the National Health Care Average of 4.13, CommonSpirit Well-Being score of 4.35, compared to 4.29 in 2022 and Culture of Safety score of 3.93, compared to 3.88 in 2022. In addition, CommonSpirit tracks the twelve month rolling Resignation Rate KPI (voluntary, non-retirement exits), which was 13.8% pre-pandemic. As of June 30, 2023, the rate was 14.9%, demonstrating 15 months of continuous improvement since the resignation peak of 17.6%, which occurred in the first quarter of fiscal 2022.

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. CommonSpirit seeks to excel in consistent clinical excellence by rapidly scaling best practices from innovators in and outside of CommonSpirit to create a high quality, consumer–centric patient experience, 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, and strengthen the balance sheet and improve CommonSpirit's margin through optimizing the portfolio of patient care sites, reducing operating expenditures, and increasing capital efficiency. These efforts are focused through a range of initiatives including:

- *Operating company model.* CommonSpirit is organized as a single operating company model that facilitates identifying, standardizing and scaling best practices across the System. At the corporate level, common services and practices include centralized financial services and purchasing, supply chain, corporate financial planning, budget and capital allocation processes, and centralized cash, debt and investment management. Other functions that are coordinated centrally, with varying degrees of local implementation, include clinical quality and patient safety, managed care strategies and contracting, strategic innovation and partnerships, community health strategies, marketing management, advocacy, and communications. System-wide performance metrics have been established utilizing standardized data sources and are being used to track a range of metrics in clinical quality and patient experience, growth, engagement, financial performance, service to the community, and other areas. Several examples of national programs that are being scaled across the industry include:

    - *Clinical Command Centers*, which enable our divisions to advance unified clinical standards, offer enhanced services and new ways to deliver care, and more efficiently manage resources across larger geographies within CommonSpirit. The Clinical Command Centers provide communication, coordination and clinical services, including remote patient monitoring, virtual care services, coordination of inter- and intra-facility transfers, staffing and care transition management, and other services. CommonSpirit has six Clinical Command Centers providing centralized services across our Divisions, three of which provide these services across state lines. Two of the Clinical Command Centers (Pacific Northwest and Arizona) are able to virtually transfer patients to each other, maximizing productivity and services. Services offered through the Clinical Command Centers include Virtual Care Continuum RNs that serve patients in five states.

    - *A National Transfer Center and Bed Operations* consolidation with one platform is live in four states. An operational dashboard through this standard platform was deployed to manage patient flow, new volume, and out-of-network repatriation, and decrease the cost of operations. This technology is scaling with multiple uses for leaders and clinical team members at all levels including specialty bed tracking, Virtual Care Continuum RN use for admission, discharge, transfer of patients, remote patient monitoring, readmission management, and multidisciplinary rounds with care coordination, nursing, providers and the care team.

    - *Virtual companion services* are offered in 40 locations across ten states, which has helped to improve quality and patient safety through fall reduction and sentinel events prevention, and improved transitions of care, decreasing readmissions and length of stay in specific locations. During fiscal year 2023, the Virtual Companion has monitored 11,704 patients, a total of 94,000 hours, and saved $19.4 million in operations, 63,000 fall preventions (mitigated $46,000 per claim paid on a patient fall) and overall 81,000 adverse events have been prevented through this enhanced monitoring.

- *Clinical Quality and Patient Satisfaction.* CommonSpirit tracks 14 Quality and Patient Safety ("QPS") Performance measures and achieved the goals it established for all but 1 of the 14 measures in fiscal year 2023. The average percentile of all 14 QPS goals for fiscal year 2023 is the 60th percentile. The three priority goals (sepsis mortality, hospital acquired infections, and hypertension and diabetes management) achieved an average of the 79th percentile. The overall results across the 14 measures have improved care for over 92,000 patients and a total annualized cost savings of nearly $17.7 million. CommonSpirit tracks patient experience against the industry established Healthcare Net Promoter Scores ("NPS"). CommonSpirit's overall NPS for medical practice, ambulatory surgery, emergency department, home health, and inpatient services improved from a baseline of 65.6 to 66.3 in fiscal year 2023 in comparison, the average NPS score for Healthcare is 58.

- *Financial Sustainability.* Maintaining financial strength is a critical component of excellence and supports the ministry's achievement of its strategic objectives. As part of this, CommonSpirit strives to maintain strong operating performance and a prudent capital structure, as well as 'A' category credit ratings that support capital access. In September 2022, Fitch upgraded its credit rating on CommonSpirit to 'A-', and Standard & Poor's affirmed its 'A-' rating, both with Stable outlooks. Moody's Investor Service maintained its 'Baa1' rating on CommonSpirit and maintained its Positive outlook. CommonSpirit continues to make progress on its journey toward reducing costs and realizing run rate savings to achieve a more sustainable long-term future. Like many other health systems, CommonSpirit has experienced many headwinds, both industry wide and unique to CommonSpirit, and is adapting its cost structure to operate in today's economic reality. In addition to wage and inflation challenges, in October 2022, CommonSpirit experienced a cybersecurity attack which caused short-term disruptions in patient services in some of CommonSpirit's locations and significant disruption in claims processing and collections. Despite some of these headwinds, CommonSpirit achieved the following in 2023, which helps form a foundation of our long-term financial sustainability, including:

    - Synergies and operating improvement: Management exceeded its goal in synergies realization and operational best practices during fiscal year 2023. A significant portion of the fiscal 2023 plan was driven by optimization of operational functions in the areas of labor productivity, pharmacy, physician enterprise, clinical supplies, purchased services and ancillary services.

    - Adjusting our portfolio in areas where the community is better served with another partner – a recent example is MercyOne, which closed in 2022.

    - Working to address labor inflation and labor management, achieving an approximate 43% reduction in contract labor in July 2023 from the peak in February 2022.

    - Demonstrating strong capital access, successfully issuing $1.3 billion in taxable and tax-exempt bonds in October 2022 during a time with very volatile market conditions.

- *Net Zero Commitment.* 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 22-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 ("ESG") initiatives. CommonSpirit's fiscal year 2023 Sustainability Report is expected to be completed before the end of the calendar year. The 2021 report can be found on the CommonSpirit.org website.

Our Future: CommonSpirit aims to cultivate an ecosystem that is consumer-centered and committed to meeting the holistic needs of each consumer and improving the health of our communities. This includes serving as a reputable leader in Catholic health care through active engagement, servant leadership, and measurable impact in the communities CommonSpirit serves; implementing a patient-centered, personalized care experience that is easy to access, understand and navigate, and is grounded in consumer journeys – with a focus on a broad range of access points and care modalities; scaling integrated care across the continuum with strong provider alignment and an ecosystem of partners and owned assets; advancing 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, and becoming an at-scale adopter of value-based arrangements through enhanced population health capabilities and a broader continuum of care. Some key initiatives that support this work include:

- *Physician Enterprise and Clinical Integration* - Leveraging our scale to improve clinical integration, care coordination and access for a seamless customer experience. We have built a national physician enterprise, which is advancing national connection centers, revenue cycle teams, population health data and technology, clinical standards, and quality platforms, to foster a system approach to clinical integration, patient experience and quality.
    - CommonSpirit's Patient Connection Centers are an example of initiatives to enhance "front door" access for patients to access care in our facilities. The Patient Connection Centers are designed to create a single point of access for the 38 million calls we receive across the organization (previously managed differently across 1,100 locations) to deliver best practices in appointment scheduling, authorization and referral management, nurse triage, and prescription refills. CommonSpirit now has five regional hubs that use our national infrastructure to help coordinate care and improve network integrity. Patient Connection Center calls are answered faster, with 90% of calls addressing customer needs in significantly less time than the national average, and 92% of the time, patient needs are resolved with that first phone call, well ahead of national averages. The Patient Connection Centers improve efficiency for our caregivers and support teams, including better coordination between front and back offices, and lead to improvement in both patient access and physician productivity.
- *Growth, Diversification and Expansion of the Continuum of Care.* CommonSpirit is committed to strengthening the health of the communities we serve, through development and expansion of integrated delivery networks in the markets we serve, as appropriate. Strengthening the system overall is also a focus, which includes optimizing CommonSpirit's portfolio of care sites and geographies to reach more communities, or at times partner with others to better serve our communities. Specific actions in 2023 include:
    - Enhancing critical service offerings such as behavioral health, where CommonSpirit announced a partnership with LifePoint for inpatient, partial hospitalization and outpatient behavioral health partnerships launching four locations in the next year, including Arizona, Northern California, Texas and Tennessee, with plans to further grow the partnership into an additional 6 to 8 locations (through acquisition and new build) during fiscal year 2024-2028.
    - Expanding its network of differentiated care sites through commitments such as four additional One Medical primary care sites in Arizona, and an additional Emerus micro hospital in Nevada (both planned for FY24) and two new urgent care sites currently in process in Tacoma, WA in partnership with Intuitive.
    - Geographic diversification through the acquisition of Steward Health's operations in Utah, which includes five hospitals, over 40 medical group clinics (140+ physicians), a clinically integrated provider network, and interests in JV imaging centers and urgent care sites. We have identified opportunities to further scale the market by improving access, quality, payor partnerships, competitiveness, and delivering on profitable organic growth. The acquisition provides development opportunities along the I-70 corridor (Denver to Salt Lake City) and the I-15 corridor (Las Vegas to Salt Lake City).
    - Investment in two hospitals to enhance CommonSpirit's Colorado market, including a facility in northern Colorado and western Kansas, to expand the scope and quality of care in rural and surrounding communities.

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Exhibit I

Consolidated Financial Statements as of and for the Years Ended June 30, 2023 and 2022
With Report of Independent Auditors

(Attached)

COMMONSPIRIT HEALTH

Consolidated Financial Statements as of
and for the Years Ended June 30, 2023 and 2022
With Report of Independent Auditors

COMMONSPIRIT HEALTH

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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, 2023 and 2022, 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, 2023 and 2022, 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 21, 2023

COMMONSPIRIT HEALTH

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2023 AND 2022 (in millions)

Assets	**2023**	**2022**
Current assets:		
Cash and cash equivalents	$ 1,677	$ 2,592
Short-term investments	539	596
Patient accounts receivable, net	4,899	4,472
Provider fee receivable	931	693
Other current assets	2,733	3,296
Total current assets	10,779	11,649
Long-term investments	16,483	16,087
Property and equipment, net	17,189	15,876
Right-of-use operating lease assets	1,676	1,715
Ownership interests in health-related activities	3,114	3,038
Other long-term assets, net	2,631	1,949
Total assets	$ 51,872	$ 50,314

(Continued)

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2023 AND 2022 (in millions)

Liabilities and Net Assets	**2023**	**2022**
Current liabilities:		
Current portion of long-term debt	$ 1,966	$ 1,619
Demand bonds subject to short-term liquidity arrangements	247	247
Accounts payable	1,342	1,481
Accrued salaries and benefits	1,512	1,831
Provider fee payable	342	225
Medicare advances	-	793
Other accrued liabilities - current	3,473	3,435
Total current liabilities	8,882	9,631
Other liabilities - long-term:		
Self-insured reserves and claims - long-term	1,138	1,066
Pension and other postretirement benefit liabilities	2,255	2,501
Derivative instruments	77	150
Operating lease liabilities	1,586	1,626
Other accrued liabilities - long-term	648	750
Total other liabilities - long-term	5,704	6,093
Long-term debt, net of current portion	16,147	13,561
Total liabilities	30,733	29,285
Net assets:		
Without donor restrictions - attributable to CommonSpirit Health	18,960	18,808
Without donor restrictions - noncontrolling interests	1,062	1,079
With donor restrictions	1,117	1,142
Total net assets	21,139	21,029
Total liabilities and net assets	$ 51,872	$ 50,314

See notes to consolidated financial statements.

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2023 AND 2022 (in millions)

	2023	2022
Operating revenues:		
Net patient revenue	$ 30,866	$ 30,490
Premium revenue	1,394	1,156
Revenue from health-related activities, net	203	139
Other operating revenue	1,961	2,038
Contributions	82	84
Total operating revenues	34,506	33,907
Operating expenses:		
Salaries and benefits	18,292	18,170
Supplies	5,539	5,588
Purchased services and other	10,062	9,523
Depreciation and amortization	1,438	1,463
Interest expense, net	573	459
Total operating expenses	35,904	35,203
Operating loss	(1,398)	(1,296)
Nonoperating income (loss):		
Investment income (loss), net	1,034	(971)
Income tax expense	(34)	(72)
Change in fair value and cash payments of interest rate swaps	79	179
Other components of net periodic postretirement costs	64	324
Other	(4)	(11)
Total nonoperating income (loss), net	1,139	(551)
Deficit of revenues over expenses	$ (259)	$ (1,847)
Less excess (deficit) of revenues over expenses attributable to noncontrolling interests	55	(1)
Deficit of revenues over expenses attributable to CommonSpirit Health	$ (314)	$ (1,846)

(Continued)

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2023 AND 2022 (in millions)

	Without Donor Restrictions			
	Attributable to CommonSpirit Health	Noncontrolling Interests	With Donor Restrictions	Total Net Assets
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
Excess (deficit) of revenue over expenses	(314)	55	-	(259)
Contributions	-	-	122	122
Net assets released from restrictions for capital	50	-	(50)	-
Net assets released from restrictions for operations and other	-	-	(68)	(68)
Change in funded status of pension and other postretirement benefit plans	452	-	-	452
Other	(36)	(72)	(29)	(137)
Increase (decrease) in net assets	152	(17)	(25)	110
Balance, June 30, 2023	$ 18,960	$ 1,062	$ 1,117	$ 21,139

See notes to consolidated financial statements.

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022 (in millions)

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ 110	$ (869)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	1,438	1,463
Changes in equity of health-related entities	(267)	(189)
Deconsolidation of joint venture	-	51
Noncash special charges and other	47	52
Change in fair value of swaps	(99)	(238)
Change in funded status of pension and other postretirement benefit plans	(452)	(995)
Pension cash contributions	(1)	(19)
Changes in certain assets and liabilities:		
Accounts receivable, net	(423)	(345)
Prepaid and other current assets	(328)	5
Changes in broker receivables/payables for unsettled investment trades	68	206
Provider fee assets and liabilities	(121)	277
Accounts payable	(120)	(170)
Accrued salaries and benefits	(352)	(110)
Medicare advances	(807)	(1,719)
Other accrued liabilities	252	(26)
Self-insured reserves and claims - long-term	(10)	44
Other, net	316	(704)
Cash used in operating activities before net change in investments	(749)	(3,286)
Net (increase) decrease in investments	(246)	4,010
Cash provided by (used in) operating activities	(995)	724

(Continued)

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022 (in millions)

	2023	2022
Cash flows from investing activities:		
Purchases of property and equipment	$ (1,288)	$ (1,486)
Investments in health-related activities	(109)	(105)
Business acquisitions, net of cash acquired	(706)	(138)
Proceeds from asset sales	560	276
Cash distributions from health-related activities	153	86
Other, net	21	(35)
Cash used in investing activities	(1,369)	(1,402)
Cash flows from financing activities:		
Borrowings	2,717	118
Repayments	(1,198)	(211)
Swaps cash collateral received	25	101
Distributions to noncontrolling interests	(158)	(110)
Contribution by noncontrolling interests	63	43
Cash provided by (used in) financing activities	1,449	(59)
Net decrease in cash and cash equivalents	(915)	(737)
Cash and cash equivalents at beginning of year	2,592	3,329
Cash and cash equivalents at end of year	$ 1,677	$ 2,592
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 568	$ 473
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through finance lease or note payable	$ 1,454	$ 33
Investments in health-related activities	$ 76	$ 21
Accrued purchases of property and equipment	$ 99	$ 73

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying 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.

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; other operating revenues; fair value of acquired assets and assumed liabilities in business combinations; recorded values of depreciable and amortizable assets, investments and goodwill; reserves for self-insured workers' compensation and professional and general liabilities; contingent liabilities; and assumptions for measurement of pension and other postretirement benefit liabilities. Management bases its estimates on historical experience and various other assumptions that it believes are reasonable under the particular circumstances. Actual results could differ from those estimates.

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. See Note 6.

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, private equities, hedge funds, 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 80.6% and 80.7% of the CommonSpirit Health Operating Investment Pool, LLC ("CSH OIP"), as stated at June 30, 2023 and June 30, 2022, respectively, 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, over the shorter of the useful life of the asset or the lease term.

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, excess insurance receivables, community investment loans, broker receivables and payables for 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 (loss), 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, 2023 and 2022, 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 Accounting Standards Update ("ASU") No. 2015-14, *Revenue From Contracts with Customers (Topic 606)*, and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

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

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

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

Medicare: Payments for inpatient services are generally made on a prospectively determined rate based on clinical diagnosis. Certain facilities receive cost-based reimbursement. Hospital outpatient services are generally paid based on prospectively determined rates. Physician services are paid based upon established fee schedules.

Medicaid: Payments for inpatient services are generally made on a prospectively determined rate based on clinical diagnosis or on a per case or per diem basis. Hospital outpatient services and physician services are paid based upon established fee schedules, a cost basis reimbursement methodology, or discounts from established charges.

Commercial: Payments for inpatient and outpatient services provided to patients covered under commercial insurance policies are paid using a variety of payment methodologies, including per diem and case rates.

Self-Pay and Other: Payment agreements with uninsured or underinsured patients, along with other responsible entities, including institutions, other hospitals and other government payors, are based on a variety of payment methodologies.

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

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 2023 and 2022. 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 2023 and 2022 was $487 million and $473 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 Act"), including the Provider Relief Funds ("CARES PRF") and Employee Retention Credits ("ERC"), American Rescue Plan Act of 2021 ("ARP Rural") funds, 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.

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, 2023 and 2022. Of these net assets with donor restrictions, endowment net assets totaled $302 million and $295 million in 2023 and 2022, 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.

CommonSpirit's taxable entities did not have any material unrecognized income tax expense as of June 30, 2023 and 2022. 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, other components of net periodic postretirement costs, and the nonoperating component of Joint Operating Agreement ("JOA") income share adjustments.

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

Related Parties - CommonSpirit includes institutions that participate in student financial assistance programs authorized by Title IV of the Higher Education Act of 1965 (Title IV, HEA Program). In order to participate in Title IV, HEA Program, the institutions must comply with standards outlined in 34 C.F.R. 668 Subpart B. As required under this standard the institutions participating in this program have policies in place regarding the identification and disclosure of any transactions with related parties and do not have any material related-party transactions for the year ended June 30, 2023 and 2022.

Subsequent Events – CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal year and September 21, 2023, the date the consolidated financial statements were issued. See Notes 3 and 13.

3. ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

Colorado **–** In February 2023, CommonSpirit and AdventHealth announced that they have agreed to transition to direct management of their respective care sites that comprised Centura Health (the "Transition"). Following the Transition, CommonSpirit will directly operate and manage its hospitals and affiliated clinics in Colorado, western Kansas and Utah, and AdventHealth will directly operate and manage its Adventist hospitals and their affiliated clinics in Colorado. The Transition was finalized in August 2023, and is not expected to have a material effect on the financial condition or operations of CommonSpirit, taken as a whole.

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

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

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

In 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 were managed by Centura Health pursuant to the then existing JOA. The purchase price is immaterial to the consolidated financial statements.

Iowa – In September 2022, CommonSpirit sold the facilities and assets of MercyOne, a regional health system in Iowa, to Trinity Health for a gross purchase price of $613 million. MercyOne had operated under a JOA between Trinity Health and CommonSpirit. A net loss on sale of $23 million was recognized in the year ended June 30, 2023. As of June 30, 2022, certain assets and liabilities of MercyOne are classified as held for sale, within other current assets and other accrued liabilities - current, respectively, in the accompanying consolidated balance sheet.

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, 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 provided stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. For the years ended June 30, 2023 and 2022, $265 million and $27 million, respectively, has been recognized within other operating revenue as earned.

Additional relief to address the continued impact of COVID-19 was provided through the American Rescue Plan Act of 2021 ("ARP Rural"). For the years ended June 30, 2023 and 2022, CommonSpirit has received approximately $2 million and $149 million, respectively, of ARP Rural funds in the form of grants recorded as other operating revenues in the consolidated statements of operations and changes in net assets.

Prior to June 30, 2022, CommonSpirit received $2.8 billion in funds under the Medicare Accelerated and Advance Payment Program. These payments were advances that were recouped by withholding future Medicare fee-for-service payments for claims until the full accelerated payment had been recouped. As of June 30, 2023, no amounts are recorded as a liability related to Medicare advances. As of June 30, 2022, $793 million was recorded as a current liability in Medicare advances.

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 both December 2021 and December 2022.

For the years ended June 30, 2023 and 2022, CommonSpirit recorded $194 million and $67 million, respectively, net of expenses, of ERC revenue. These payroll tax credits relate to qualified wages paid from March 13, 2020, through September 30, 2021, and are recorded in other operating revenue in the consolidated statements of operations and changes in net assets.

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

5. NET PATIENT AND PREMIUM 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:

	2023	2022
Inpatient services	49%	50%
Outpatient services	51%	50%

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):

	2023	2022
Government	$ 16,087	$ 15,480
Contracted	12,415	12,787
Self-pay and other	2,364	2,223
Net patient revenue	$ 30,866	$ 30,490

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 net patient and premium revenues by service line are as follows for the years ended June 30 (in millions):

	2023	2022
Hospitals	$ 28,455	$ 27,712
Physician organizations	3,027	3,171
Long-term care and home care	268	295
Other	510	468
Total net patient and premium revenue	$ 32,260	$ 31,646

6. OTHER CURRENT ASSETS

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

	2023	2022
Inventories	$ 819	$ 795
Receivables, other than patient accounts receivable	883	583
Broker receivables for unsettled investment trades	535	576
Assets held for sale	-	908
Prepaid expenses	440	372
Other	56	62
Total other current assets	$ 2,733	$ 3,296

7. CASH AND INVESTMENTS

CommonSpirit's cash and investments include consolidated membership interests in the CSH OIP as of June 30, 2023 and 2022. 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):

	2023	2022
Cash and cash equivalents	$ 1,677	$ 2,592
Short-term investments	539	596
Long-term investments	16,483	16,087
Total cash and investments	18,699	19,275
Less:		
Held for self-insured claims	1,885	1,758
Under bond indenture agreements for debt service	66	78
Donor-restricted	589	579
Other	703	613
Total assets limited as to use	3,243	3,028
Unrestricted cash and investments	$ 15,456	$ 16,247

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):

	2023			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets				
Cash and short-term investments	$ 1,961	$ 258	$ -	$ 2,219
U.S. government securities	911	673	-	1,584
U.S. corporate bonds	44	598	-	642
U.S. equity securities	1,867	1	-	1,868
Foreign government securities	-	72	-	72
Foreign corporate bonds	4	224	-	228
Foreign equity securities	1,769	5	-	1,774
Asset-backed securities	-	172	-	172
Private equity	5	-	73	78
Multi-strategy hedge funds	1	-	-	1
Real estate	28	7	-	35
Community Investment Program	-	-	155	155
Other investments	169	267	-	436
Assets measured at fair value	$ 6,759	$ 2,277	$ 228	9,264
Assets at NAV				9,435
Total assets				$ 18,699
Liabilities				
Derivative instruments	$ -	$ 135	$ -	$ 135
Other	2	-	97	99
Total liabilities	$ 2	$ 135	$ 97	$ 234

	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

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 $561 million and $56 million as of June 30, 2023 and 2022, respectively.

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

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

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

		NAV Practical Expedient	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private equity	(1)	$ 1,416	$ 1,388	-	-
Multi-strategy hedge funds	(2)	2,298	-	Daily, Weekly, Monthly, Quarterly, Semi-annually, Annually	1 - 90 days
Real estate	(3)	1,194	134	Quarterly	45 - 90 days
Commingled funds - debt securities	(4)	1,077	78	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	3,450	-	Daily, Weekly, Bi-Weekly, Monthly, Quarterly	1 - 90 days
Total		$ 9,435	$ 1,600		

(1) This category includes private equity funds that specialize in providing capital to a variety of investment groups, including, but not limited to, venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at June 30, 2023, to be over the next 15 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, 2023:

Percentage of the Value of Category (2)			**Redemption**	**Redemption**	**Redemption**
Total	**Subtotal**	**Redemption Frequency**	**Notice Period**	**Locked Up Until (if applicable)**	**Gate % of Account (if applicable)**
6.8%	6.8%	Annually	60 days	up to 2 years	up to 50.0%
47.9%	2.3%	Quarterly	45 days	up to 2 years	up to 20.0%
	30.0%	Quarterly	55- 65 days	up to 2 years	up to 12.5% - 25.0%
	15.6%	Quarterly	90 days	up to 1 year	up to 12.5% - 25.0%
31.0%	19.9%	Monthly	30 - 45 days	-	up to 16.7% - 25.0%
	11.1%	Monthly	90 days	-	up to 20.0%
3.4%	3.4%	Weekly	3 days	-	-
1.6%	1.6%	Daily	1 day	-	-
9.3%	9.3%	None	None	up to 2 years	-

(3) This category includes investments in real estate funds that invest primarily in institutional-quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts. Investments representing 17% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at June 30, 2023, to be over the next 15 years.

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

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

9. PROPERTY AND EQUIPMENT, NET

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

	2023	2022
Land and improvements	$ 2,100	$ 2,098
Buildings	15,488	13,182
Equipment	10,432	9,783
Total	28,020	25,063
Add: Construction in progress	2,202	2,418
Less: Accumulated depreciation	(13,033)	(11,605)
Property and equipment, net	$ 17,189	$ 15,876

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 Joint Operating Companies ("JOC"). 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, 2023 and 2022, CommonSpirit has investment interests of 65% and 50% in JOCs based in Colorado and Ohio, respectively. As of June 30, 2022, CommonSpirit had an investment interest of 50% in a JOC based in Iowa. CommonSpirit's interests in the JOCs are included in ownership interests in health-related activities in the accompanying consolidated balance sheets and totaled $326 million and $523 million at June 30, 2023 and 2022, 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. See Note 3.

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, 2023 and 2022. Conifer provides revenue cycle services and health information management solutions for a portion of CommonSpirit's acute care operations.

- CommonSpirit's ownership interest in Premier Health was 22% as of June 30, 2023 and 2022.

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):

	2023			
	Hospitals	**JOCs**	**Other**	**Total**
Total assets	$ 2,557	$ 1,046	$ 2,697	$ 6,300
Total liabilities	1,501	447	192	2,140
Total net assets	1,056	599	2,505	4,160
Total operating revenues, net	2,038	547	1,266	3,851
Excess (deficit) of revenues over expenses	(100)	(181)	362	81
Investment at June 30 recorded in ownership interests in health-related activities	214	326	970	1,510
Income (loss) recorded in revenue from health-related activities, net	(43)	(92)	76	(59)

	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)

Other than the investments described above, ownership interests totaling $1.6 billion and $1.4 billion as of June 30, 2023 and 2022, 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):

	2023	2022
Notes receivable, primarily secured	$ 56	$ 50
Goodwill	962	358
Intangible assets - definite-lived, net	123	120
Intangible assets - indefinite-lived	661	657
Donor-restricted assets	517	521
Other	312	243
Total other long-term assets, net	$ 2,631	$ 1,949

Goodwill is measured as of the effective date of a business combination as the excess of the aggregate of the fair value of consideration transferred over the fair value of the tangible and intangible assets acquired and liabilities assumed. See Note 3.

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

Goodwill and intangible assets whose lives are indefinite are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist. $12 million of impairment on goodwill and intangibles was recorded for the year ended June 30, 2023. No impairment on goodwill or intangible assets was recorded for the year ended June 30, 2022.

The aggregate amortization expense related to intangible assets is $10 million and $11 million for the year ended June 30, 2023 and 2022, 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 $9 million in 2024, $8 million in 2025, 2026, 2027 and 2028, and $82 million thereafter.

12. OTHER ACCRUED LIABILITIES - CURRENT

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

	2023	2022
Construction retention and contracts payable	$ 71	$ 140
Liabilities held for sale	-	250
Liabilities due to medical groups and physicians	74	76
Capitation claims	115	110
Due to government agencies	75	119
Accrued interest expense	166	144
Operating lease liabilities	264	263
Self-insured reserves and claims	453	467
Broker payables for unsettled investments trades	975	948
Due to unconsolidated affiliates	50	62
Other	1,230	856
Total other accrued liabilities - current	$ 3,473	$ 3,435

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 87% and 85% of consolidated revenues of CommonSpirit as of June 30, 2023 and 2022, respectively.

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

	2023	2022
Under the CommonSpirit MTI:		
Fixed rate debt:		
Fixed rate revenue bonds payable in installments through 2053; interest at 3.00% to 7.00%	$ 4,954	$ 4,938
Fixed rate taxable bonds payable in installments through 2065; interest at 1.55% to 6.46%	7,748	7,747
Taxable term loan payable in 2025; interest at 2.95%	250	250
Total fixed rate debt	12,952	12,935
Variable rate debt:		
Direct purchase bonds payable in installments through 2029; interest set at prevailing market rates (5.11% at June 30, 2023)	90	101
Floating rate notes payable with mandatory tender through 2025; interest set at prevailing market rates (5.41% at June 30, 2023)	153	153
Variable rate demand bonds payable in installments through 2047; interest set at prevailing market rates (2.30% to 4.30% at June 30, 2023)	247	247
Auction rate certificates payable in installments through 2042; interest set at prevailing market rates (4.01% to 4.50% at June 30, 2023)	240	240
Variable rate term loans payable through 2024; (5.77% to 6.09% at June 30, 2023)	695	-
Bank line of credit maturing in 2028; interest set at prevaling market rates (6.00% at June 30, 2023)	606	156
Commercial paper notes with maturities ranging from 6 to 210 days at June 30, 2023; interest set at prevailing market rates (5.25% to 5.95% at June 30, 2023)	851	553
Total variable rate debt	2,882	1,450
Total debt under CommonSpirit MTI	15,834	14,385
Other:		
Various notes payable and other debt payable in installments	789	699
Finance lease obligations	1,737	343
Total debt	18,360	15,427
Less amounts classified as current	(1,966)	(1,619)
Less demand bonds subject to short-term liquidity arrangements	(247)	(247)
Total long-term debt	$ 16,147	$ 13,561

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 Debt
2024	$ 1,879	$ 97	$ 1,976
2025	1,645	-	1,645
2026	858	-	858
2027	442	-	442
2028	1,229	-	1,229
Thereafter	9,976	150	10,126
Subtotal	16,029	247	16,276
Finance lease obligations	1,737	-	1,737
Premium and Issuance cost, net	347	-	347
Total	$ 18,113	$ 247	$ 18,360

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 2024, 2027, 2040, 2041, 2042, 2052 and 2064 as of June 30, 2023. 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 Secured Overnight Financing Rate ("SOFR"), 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 of the four series of VRDBs are backed by bank letters of credit, while the remaining two series of VRDBs are supported through CommonSpirit's self-liquidity program (as 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. CommonSpirit maintains bank letters of credit of $150 million as credit enhancement for the VRDBs to ensure the availability of funds to purchase any bonds tendered that the remarketing agent is unable to remarket. CommonSpirit has $97 million in VRDBs that are not supported through bank letters of credit but through the self-liquidity program. The letters of credit to support the $150 million of VRDBs, which can be used anytime, expire in March 2024.

Variable Rate Taxable Loan – CommonSpirit has two taxable variable rate term loans that bear interest at variable rates based on the Secured Overnight Financing Rate ("SOFR"), plus a spread. The two loans are due in April 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 $606 million as of June 30, 2023. This credit facility expires in March 2028.

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 $35 million single-bank line of credit facility to be used for the issuance of standby letters of credit. The credit facility expires in March 2028. No amounts have been drawn.

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

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

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

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

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

In March 2023, CommonSpirit renewed its $900 million syndicated line of credit. This credit facility expires March 2028.

In March 2023, CommonSpirit renewed and renegotiated its single bank line of credit facility used to issue standby letters of credit. The credit facility amount was reduced from $85 million to $35 million and will expire in March 2028.

In April 2023, CommonSpirit entered into two short-term loans of $350 million and $345 million with two separate banks to fund certain acquisitions.

In May 2023, CommonSpirit renewed the $90 million Colorado Health Facilities Authority Variable Rate Direct Placement bonds, Series 2013C to December 2028.

In May 2023, CommonSpirit redeemed in full $9 million of the Colorado Health Facilities Authority Variable Rate bonds, Series 2015A.

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

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

***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.

14. DERIVATIVE INSTRUMENTS

CommonSpirit's derivative instruments include 31 floating-to-fixed rate interest rate swaps and one basis swap as of June 30, 2023. 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 SOFR, plus a spread, and pays a fixed rate. The basis swap allows CommonSpirit to receive a percentage of SOFR, plus a spread and pay a percentage of Securities Industry and Financial Markets Association ("SIFMA").

CommonSpirit's derivative instruments also include seven total return swaps as of June 30, 2023. 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, 2023 and 2022 (in millions):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			2023	
Derivatives not designated as hedges:				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 1,877	$ (135)
Total return swaps	2024 - 2030	SIFMA plus spread	485	-
Total derivative instruments			2,362	(135)
Cash collateral			-	58
Derivative instruments, net			$ 2,362	$ (77)
			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)

CommonSpirit held $1.9 billion notional amount of interest rate swaps and $485 million notional amount of total return swaps at June 30, 2023, which have a negative fair value of $135 million and a fair value deemed immaterial, respectively. CommonSpirit posted $58 million of collateral against the fair value of the interest rate swaps as of June 30, 2023.

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

CommonSpirit has $160 million notional of interest rate swaps that are insured and have a negative fair value of $20 million as of June 30, 2023. In the event the insurer is downgraded below specified minimum credit rating, the counterparties have the right terminate the swaps if CommonSpirit Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If both the insurer and CommonSpirit Health is downgraded below a specified minimum credit rating, the counterparties have the right to terminate the swaps.

CommonSpirit has $1.7 billion notional amount of interest rate swaps that are not insured, of which the counterparties have various rights to terminate $264 million notional. These include the outstanding notional amounts of $104 million and $100 million at each five-year anniversary date commencing in September 2023 and March 2028, 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 $21 million as of June 30, 2023. The remaining uninsured swaps in the notional amount of $1.5 billion have a negative fair value of $94 million as of June 30, 2023.

CommonSpirit has total return swaps in the notional amount of $485 million with a fair value deemed immaterial as of June 30, 2023.

In December 2022, CommonSpirit terminated a risk participation agreement in the notional amount of $295 million. The risk participation agreement was terminated at par and no gain or loss was realized. The underlying bonds, the California Health Facilities Financing Authority Revenue Bonds, Series 2014B were redeemed in full in conjunction with the termination of the risk participation agreement.

In April 2023, CommonSpirit oversaw the transition from London Interbank Offered Rate (LIBOR) to Secured Overnight Financing Rate (SOFR) based floating rate payments, which became effective on June 30, 2023. CommonSpirit effected the transition on a portfolio wide basis by adhering to the International Swaps and Derivatives Association 2020 Interbank Offered Rates Fallback Protocol.

In May 2023, CommonSpirit renewed a total return swap in the notional amount of $255 million to March 2030.

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

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

	2023	2022
Operating lease cost	$ 301	$ 298
Variable lease cost	101	181
Short-term rent expense	71	81
Amortization of right-of-use assets	53	33
Interest on finance lease liabilities	13	10
Sublease income	(13)	(10)
Total lease cost, net	$ 526	$ 593

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

Lease Type	**Balance Sheet Classification**	**2023**	**2022**
Operating Leases:			
Operating lease ROU assets	Right-of-use operating lease assets	$ 1,676	$ 1,715
Operating lease obligations - current	Other accrued liabilities - current	264	263
Operating lease obligations - long-term	Operating lease liabilities	1,586	1,626
Finance Leases:			
Finance lease ROU assets	Property and equipment, net	1,700	299
Current finance lease liabilities	Current portion of long-term debt	88	38
Long-term finance lease liabilities	Long-term debt, net of current portion	1,649	305

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

	2023	2022
ROU assets obtained in exchange for new operating lease liabilities	$ 222	$ 248
ROU assets obtained in exchange for new finance lease liabilities	1,449	58
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	316	312
Operating cash flows from finance leases	21	10
Financing cash flows from finance leases	53	34
Weighted-average remaining lease term:		
Operating leases	9 years	9 years
Finance leases	16 years	18 years
Weighted-average discount rate:		
Operating leases	2.3%	2.0%
Finance leases	3.8%	4.0%

Commitments related to operating and finance leases for each of the next five years and thereafter as of June 30, 2023, are as follows (in millions):

	Operating	Finance	Total
2024	$ 294	$ 152	$ 446
2025	281	147	428
2026	246	147	393
2027	193	143	336
2028	159	135	294
Thereafter	943	1,592	2,535
Total minimum future lease payments	2,116	2,316	4,432
Less: Imputed Interest	(266)	(579)	(845)
Total lease liabilities	1,850	1,737	3,587
Less: current lease liabilities	(264)	(88)	(352)
Total long-term lease liabilities	$ 1,586	$ 1,649	$ 3,235

16. INTEREST EXPENSE, NET

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

	2023	2022
Interest and fees on debt	$ 613	$ 485
Capitalized interest expense	(40)	(26)
Interest expense, net	$ 573	$ 459

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, 2023 and 2022, the actuarial gains 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. CommonSpirit 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 $174 million in 2024, 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, 2023 and 2022. The following summarizes the benefit obligations and funded status for the defined benefit pension and postretirement benefit plans (in millions):

	2023	**2022**
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 11,874	$ 14,389
Service cost	313	406
Interest cost	523	329
Actuarial gain	(512)	(2,566)
Settlements	(45)	(34)
Benefits paid	(628)	(650)
Benefit obligation at end of year	$ 11,525	$ 11,874
Accumulated benefit obligation	$ 11,080	$ 11,416
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 9,722	$ 11,082
Actual return on plan assets	540	(924)
Settlements	(22)	(26)
Employer contributions	104	240
Benefits paid	(628)	(650)
Fair value of plan assets at end of year, net	$ 9,716	$ 9,722
Funded status	$ (1,809)	$ (2,152)

The change in net actuarial loss of $452 million is included in the statement of changes in net assets for the year ended June 30, 2023. The actuarial losses for the years ended June 30, 2023 and 2022, are $442 million and $894 million, 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:

	2023	2022
To determine benefit obligations:		
Discount rate	4.5% - 5.4%	3.7% - 4.9%
Rate of compensation increase	4.0%	3.8%
Weighted-average interest credit rate for cash balance plans and other applicable plans	7.4%	7.4%
To determine net periodic benefit cost:		
Discount rate	4.3% - 5.0%	0.5% - 3.1%
Expected return on plan assets	3.4% - 7.2%	3.8% - 7.1%
Rate of compensation increase	3.8%	3.8%
Weighted-average interest credit rate for cash balance plans and other applicable plans	5.0% - 9.2%	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):

	2023	2022
Service cost	$ 313	$ 406
Interest cost	528	329
Expected return on plan assets	(659)	(733)
Settlements	14	13
Net prior service credit amortization	(1)	(1)
Net actuarial loss amortization	54	68
Net periodic benefit cost	$ 249	$ 82

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. Amounts reported do not include noncash collateral of $524 million and $32 million as of June 30, 2023 and 2022, respectively.

	2023		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets			
Cash and short-term investments	$ 193	$ 8	$ 201
U.S. government securities	763	51	814
U.S. corporate bonds	245	457	702
U.S. equity securities	721	1	722
Foreign government securities	-	24	24
Foreign corporate bonds	-	80	80
Foreign equity securities	988	2	990
Asset-backed securities	-	3	3
Real estate	8	-	8
Other	1	14	15
Assets measured at fair value	$ 2,919	$ 640	3,559
Assets at NAV:			
U.S. government securities			320
U.S. corporate bonds			813
U.S. equity securities			675
Foreign corporate bonds			85
Foreign equity securities			1,585
Private equity			1,440
Hedge funds			862
Real estate			516
Total assets			$ 9,855
Other plan assets (liabilities)			
Due from brokers for unsettled investment trades			36
Due to brokers for unsettled investment trades			(175)
Fair value of plan assets, net			$ 9,716

	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

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

	2023	2022
Cash and cash equivalents	2%	5%
U.S. government securities	12%	5%
U.S. corporate bonds	15%	15%
U.S. equity securities	14%	14%
Foreign corporate bonds	2%	2%
Foreign equity securities	26%	27%
Private equity	15%	15%
Other	14%	17%
Total	100%	100%

The asset allocation policy for the pension plans for 2023 is as follows: public equity, 45%; fixed income, 28%; private equity, 15%; hedge funds, 5%; real assets, 5%; and cash and opportunistic, 2%.

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%.

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 2023 and 2022 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):

2024	$ 1,217
2025	728
2026	739
2027	761
2028	778
2029 - 2033	4,044
Total	$ 8,267

CommonSpirit maintains defined contribution retirement plans for most employees. Employer contributions to those plans of $409 million and $407 million for 2023 and 2022, 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.

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

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

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

Seismic standards **–** The State of California issued seismic safety standards in 1994, with the final seismic upgrade requirements to be in place by 2030, of which the timelines have been amended on several occasions. The regulations called for a specific classification of structural building upgrades to be in place by January 2013. Buildings retrofitted 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 and/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's Office of Statewide Health Planning and Development department created a new seismic performance category allowing buildings that were previously required to be upgraded to meet the 2030 standards or decommissioned by 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 $494 million at June 30, 2023.

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, 2023 and 2022 (in millions):

	2023			
	Program Services - Health care	Support Services - Management and Administrative	Support Services - Fundraising	Total Expenses
Salaries and benefits	$ 17,079	$ 1,189	$ 24	$ 18,292
Supplies	5,375	164	-	5,539
Purchased services and other	8,953	1,049	60	10,062
Depreciation and amortization	1,270	168	-	1,438
Interest expense	477	96	-	573
Total operating expenses	$ 33,154	$ 2,666	$ 84	$ 35,904

	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

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 $462 million and $225 million in direct benefit expense related to the California provider fee program in 2023 and 2022, respectively, and direct offsetting revenue related to the program of $968 million and $529 million for 2023 and 2022, 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 $3 billion for 2022 and net community benefit, including the unpaid cost of Medicare, was $5 billion for 2022.

Following is a summary of CommonSpirit's community benefits for 2023, 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	$ 487	$ (18)	$ 469	1.3%
Unpaid costs of Medicaid / Medi-Cal	9,058	(7,154)	1,904	5.3%
Other means-tested programs	17	(13)	4	0.0%
Community services:				
Community health services	91	(31)	60	0.2%
Subsidized health services	33	(11)	22	0.1%
Cash and in-kind contributions	44	-	44	0.1%
Community building activities	4	(1)	3	0.0%
Community benefit operations	12	-	12	0.0%
Total community services for the poor	184	(43)	141	0.4%
Total benefits for the poor	9,746	(7,228)	2,518	7.0%
Benefits for the broader community:				
Community services:				
Community health services	29	(7)	22	0.1%
Health professions education	381	(90)	291	0.8%
Subsidized health services	137	(64)	73	0.2%
Research	53	(43)	10	0.0%
Cash and in-kind contributions	15	(1)	14	0.1%
Community building activities	5	(1)	4	0.0%
Community benefit operations	5	-	5	0.0%
Total benefits for the broader community	625	(206)	419	1.2%
Total community benefits	$ 10,371	$ (7,434)	$ 2,937	8.2%
Unpaid costs of Medicare	8,627	(6,541)	2,086	5.8%
Total community benefits, including unpaid costs of Medicare	$ 18,998	$ (13,975)	$ 5,023	14.0%

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