CommonSpirit™

This document is dated November 15, 2022

UNAUDITED QUARTERLY REPORT

For the Three-Month Periods Ended
September 30, 2022 and 2021

The information in this report
has been provided by
CommonSpirit Health

COMMONSPIRIT HEALTH

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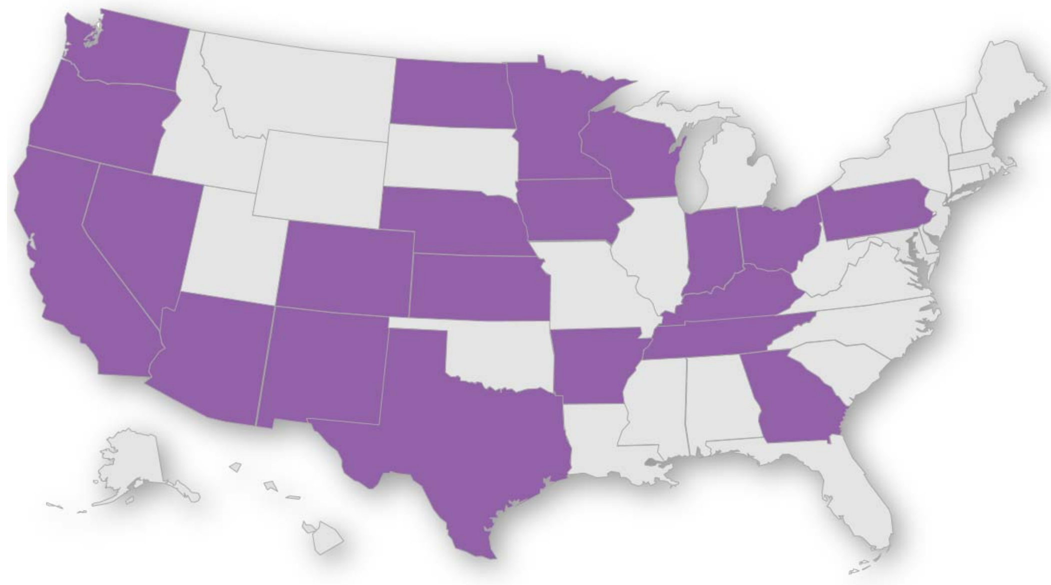
Management Discussion and Analysis of Financial Condition and Results of Operations

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 21 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations that are exempt from federal and state income taxes. With its national office in Chicago, and a team of over 150,000 employees and over 25,000 physicians and advanced practice clinicians, as of September 30, 2022, CommonSpirit Health is comprised of approximately 2,200 care sites, including 138 hospitals, consisting of academic health centers, major teaching hospitals, and critical access facilities; community health services organizations; accredited nursing colleges; home health agencies; living communities; a medical foundation and other affiliated medical groups; and other facilities and services that span the inpatient and outpatient continuum of care. The unaudited condensed consolidated financial statements in Exhibit I include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit", or the "System").



Forward-Looking Statements

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

CommonSpirit has presented its operating results for the three-month periods ended September 30, 2022 and 2021, in accordance with accounting principles generally accepted in the United States of America ("GAAP") and on a non-

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

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

COVID-19 Pandemic

After more than two years of managing the COVID-19 pandemic, CommonSpirit continues to utilize protocols, tracking and monitoring systems and other methods to manage COVID-19 as it appears to be transitioning to endemic status. Through September 30, 2022, the COVID-19 census across CommonSpirit continues to decrease since the latest peak in July 2022 to slightly below 500 cases in late September 2022. Consistent with national trends, the seriously ill are still primarily those who are unvaccinated or have underlying health issues.

CommonSpirit continues to closely monitor COVID-19 case trends nationwide and developments with regard to emerging variants. While cases are expected to fluctuate nationally, overall hospitalization rates may remain near current levels in the near term. However, public experts predict significant increases in viral respiratory diseases, including COVID-19, influenza and respiratory syncytial virus (RSV), in the fall and winter months. CommonSpirit continues to believe that the best defense against severe illness of COVID-19 is to be up-to-date with all doses of the vaccine, and strongly encourage boosters for its staff, patients, and community members.

Staffing is an ongoing challenge due to COVID-19 illness and exposures and remains a pressing issue across the industry. CommonSpirit closely monitors Centers for Disease Control and Prevention ("CDC") guidelines related to illness and exposure management, and the organization is poised to manage any subsequent surges, should they occur.

CommonSpirit is focused on maintaining appropriate staffing at its care sites, including the acceleration of the hiring and onboarding processes, judiciously utilizing traveling nurses, and in some locations, retraining or moving staff between care sites. Fatigue and burnout among health care workers continues to be a major challenge currently facing CommonSpirit and the nation. Supporting staff resilience, focusing on well-being and working to expand the health care workforce are key strategic priorities for the organization. CommonSpirit has established internal programs focused on staff retraining, wellness, and resilience, and is aggressively working to identify new staff in key specialty areas. This focus, along with industry trends, have resulted in positive results of hires over terminations over the three most recent quarters compared to negative results over the prior seven quarters.

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

Operational Impact

The operational impact of the COVID-19 pandemic has been significant over the past few years, and the return to normal operations has been slow. Although COVID-19 positive patient census remains lower than at June 30, 2022, and outpatient surgeries are near pre-pandemic levels, inpatient volumes have still not fully recovered, and uncertainty of the nation's economy is likely to continue to impact patient volumes going forward.

Barring any subsequent surges in COVID-19 cases, the current challenges to the organization are continued labor shortages, resulting in higher overtime and contract labor usage at higher rates, and higher costs due to inflation. Same store adjusted admissions increased 2.0% during the three-month period ended September 30, 2022, compared to the same period in the prior year, as COVID-19 cases declined and non-COVID-19 cases returned, albeit at a slower rate. Same store inpatient surgeries increased 2.8% during the three-month period ended September 30, 2022, compared to the same period in the prior year, and outpatient revenues increased 6.5%. The System remains focused on revenue yields and management of expenses.

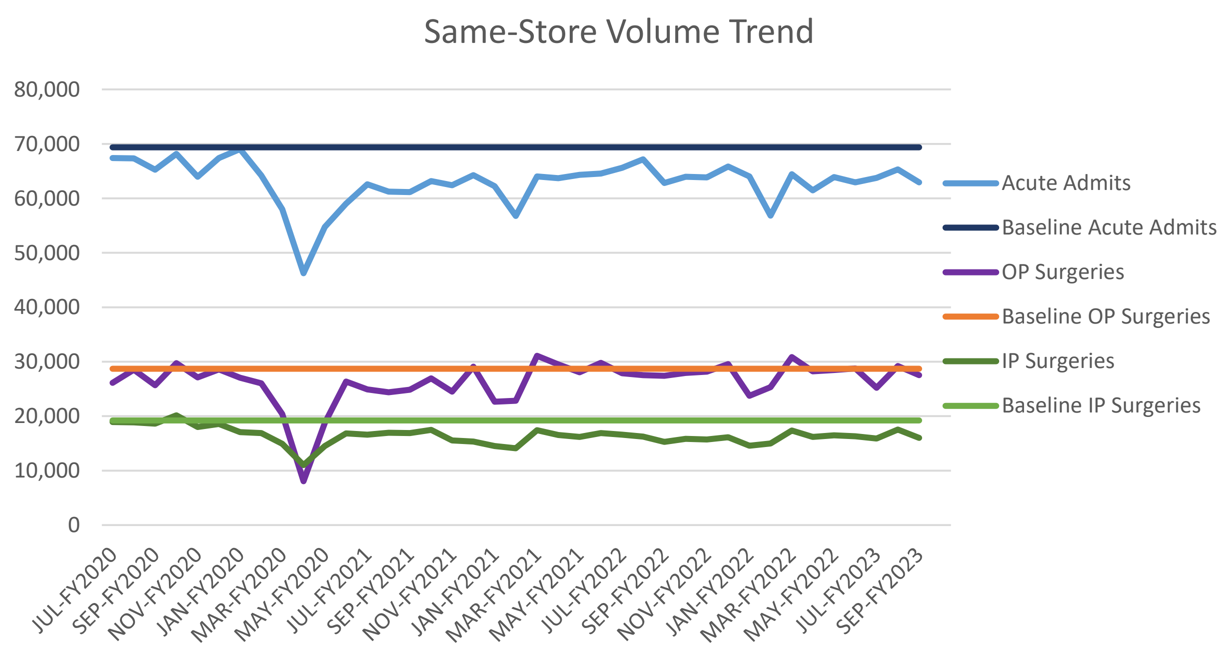
The organization has taken steps to mitigate the evolving financial and operational challenges on the System. Leadership believes the System's size and geographic diversity have helped smooth the impact of the crisis on the System. Specifically:

- Expense and Liquidity Management – CommonSpirit had been on a path to improving efficiency and realizing synergies as part of its alignment, primarily in the areas of vendor consolidation and vendor management, the creation of a single GPO, productivity improvements, insourcing various functions and consolidating other functions. As the industry grapples with escalating salary costs for travelers and staff alike due to staffing issues brought on by COVID-19 and exacerbated by increasing inflationary pressures, CommonSpirit has developed programs to encourage retention and has created internal float pools and an internal registry.

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

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

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



Governmental Support

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") provides stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. For the three-month periods ended September 30, 2022 and 2021, $259 million and $2 million has been recorded in other operating revenues in the consolidated statements of operations and changes in net assets, respectively. These funds are not required to be repaid upon attestation and compliance with certain terms and conditions.

To date, CommonSpirit received $2.8 billion in funds under the Medicare Accelerated and Advance Payment Program. As of September 30, 2022, $2.5 billion has been repaid, and $262 million is recorded in current liabilities related to these Medicare advances.

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

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

In total, the funds received under the Medicare Accelerated and Advance Payment Program and the Paycheck Protection Program and Health Care Enhancement Act represent 5 days cash on hand as of September 30, 2022, and 11 days as of June 30, 2022.

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

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. As such, during the three-month period ended September 30, 2022, CommonSpirit recorded provider fee net income totaling $325 million ($125 million related the three-month period ended September 30, 2022, and $250 million related to the six-month period ended June 30, 2022). CommonSpirit recorded $130 million in net provider fee income during the three-month period ended September 30, 2021. CommonSpirit will record approximately $42 million in monthly provider fee net income through December 2022. As a result of the CMS approval timing, EBITDA, operating revenues, and expenses for the three-month period ended September 30, 2022, has been adjusted where indicated in this report to normalize the 2022 California provider fee program revenue and expenses.

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

Impact of Normalizing California Provider Fee	Three-Month Periods Ended September 30,	
($ in millions)	2022	2021
Net patient and premium revenues	$ (486)	$ -
Operating expenses	(236)	-
Provider Fee net income	$ (250)	$ -

Normalized California Provider Fee Program ($ in millions)	Three-Month Periods Ended September 30, 2022*	2021	Change
Net patient and premium revenues	$ 243	$ 258	$ (15)
Operating expenses	118	128	(10)
Provider Fee net income	$ 125	$ 130	$ (5)

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

Financial Highlights and Summary

CommonSpirit recorded operating income of $23 million for the three-month period ended September 30, 2022, compared to operating income of $34 million for the same period in the prior year. Normalized for the California provider fee program, operating losses for the three-month period ended September 30, 2022, were $227 million, compared to a $34 million operating gain for the same period in the prior year. CommonSpirit EBITDA continues to be impacted by the pandemic, labor shortages, and inflation. The current fiscal year has experienced continued increases in expense levels along with revenue challenges associated with an unfavorable shift in payor mix, declining acuity, and lower revenue yields.

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 Joint Operating Agreement ("JOA") between Trinity Health and CommonSpirit. An estimated loss on sale of $34 million was recognized in September 2022. 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 February 2022, CommonSpirit entered into a definitive agreement to acquire two hospital facilities, one in western Kansas and one in northern Colorado, and the transaction was finalized in May 2022. The acquired facilities support the mission and strategy to expand the scope and quality of care in those rural and surrounding communities, and will be managed by Centura Health pursuant to an existing JOA. The purchase price is immaterial to the consolidated financial statements.

CommonSpirit's EBITDA decreased to $495 million for three–month period ended September 30, 2022, from $503 million during the same period in the prior year. The EBITDA margin for the three-month period ended September 30, 2022, decreased to 5.5% from 5.9% for the same period in the prior year. Normalized for the California provider fee program, EBITDA for the three-month period ended September 30, 2022, was $245 million with an EBITDA margin of 2.9%, compared to $503 million with an EBITDA margin of 5.9%, during the same period in the prior year. The decrease is primarily related to an unfavorable shift in payor mix, declining acuity, continued staffing and revenue yield challenges, and general inflation.

For the three-month period ended September 30, 2022, CommonSpirit's volumes on an adjusted admission basis improved from the lower volumes during the earlier peaks of the pandemic, and were favorable to the same period in the prior year by 0.9%. On a same-store basis, adjusted admissions were favorable to the same period in the prior year by 2.0%. Adjusted patient days for the three-month period ended September 30, 2022, were lower than the same period in the prior year by 3.2%. The acute average length of stay (ALOS) of 4.97 days for the three-month period ended September 30, 2022, was lower than the same period in the prior year of 5.18, primarily due to stabilization of COVID-19 volumes.

Key Indicators Financial Summary				
	Three-Month Periods Ended September 30,			
($ in millions)	2022	2022*	2021	Change**
	As Recorded	As Adjusted	As Recorded	As Adjusted Comparison
EBITDA	$ 495	$ 245	$ 503	$ (258)
Margin %	5.5%	2.9%	5.9%	(3.0%)
Operating income (loss)	$ 23	$ (227)	$ 34	$ (261)
Margin %	0.3%	(2.7%)	0.4%	(3.1%)
Excess (deficit) of revenues over expenses	$ (413)	$ (383)	$ 302	$ (685)
Margin %	(4.9%)	(4.6%)	3.5%	(8.1%)

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

*** Comparing the three-month period ended September 30, 2022, as adjusted, to the same period in the prior year as recorded.*

Results of Operations

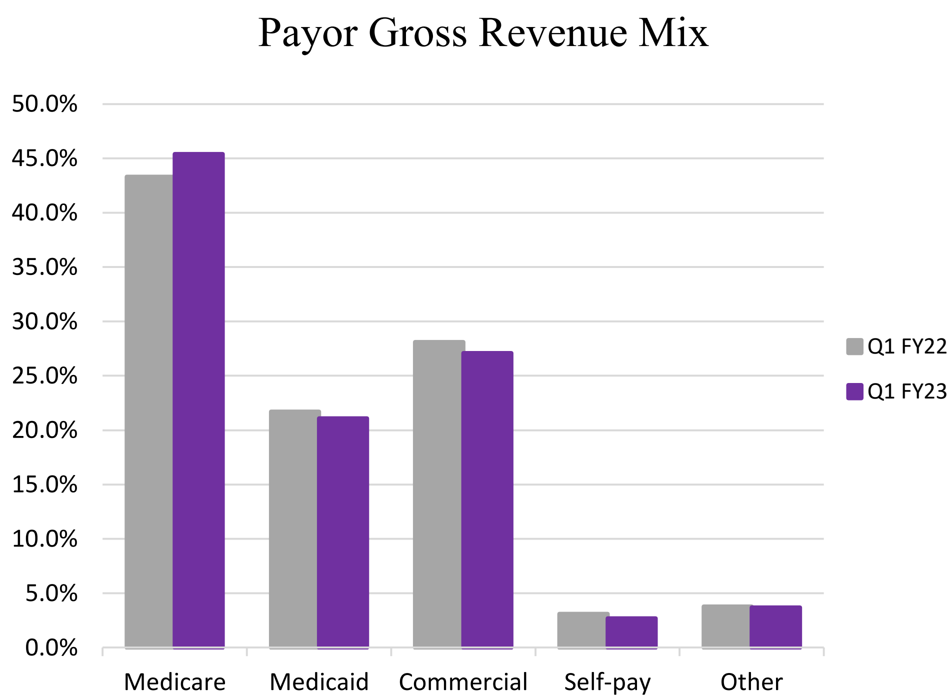
Operating Revenues and Volume Trends

Net patient and premium revenues increased $391 million, or 4.9%, over the same period in the prior year for the three-month period ended September 30, 2022. Normalizing the California provider fee revenues for the current three-month period ended September 30, 2022, net patient and premium revenue decreased $95 million, or 1.2%. Normalized net patient and premium revenue per adjusted admission decreased 2.0% during the three-month period ended September 30, 2022. This decrease is primarily due to lower COVID-19 volumes and acuity, unfavorable shift in payor and service mix, and the MercyOne transaction.

Volumes	Three-Month Periods Ended September 30,			
	2022	2021	Change	% Change
Acute admissions	196,698	202,467	(5,769)	(2.8%)
Adjusted admissions	407,542	404,069	3,473	0.9%
Acute inpatient days	977,527	1,048,002	(70,475)	(6.7%)
Adjusted patient days	2,025,355	2,091,525	(66,170)	(3.2%)
Acute average length of stay	4.97	5.18	(0.21)	(4.1%)
Outpatient visits	6,733,761	7,113,946	(380,185)	(5.3%)
ED visits	987,330	1,001,833	(14,503)	(1.4%)
Gross outpatient revenue as a % of total gross patient services revenue	51.7%	49.9%	1.8%	1.8%

Same-Store Volumes	Three-Month Periods Ended September 30, 2022	2021	Change	% Change
Acute admissions	192,133	195,678	(3,545)	(1.8%)
Adjusted admissions	397,673	389,995	7,678	2.0%
Acute inpatient days	952,837	1,009,762	(56,925)	(5.6%)
Adjusted patient days	1,972,164	2,012,499	(40,335)	(2.0%)
Acute average length of stay	4.96	5.16	(0.20)	(3.9%)
Outpatient visits	6,403,101	6,588,489	(185,388)	(2.8%)
ED visits	968,156	978,741	(10,585)	(1.1%)
Gross outpatient revenue as a % of total gross patient services revenue	51.7%	49.8%	1.9%	1.9%

Payor mix based on gross revenues for the three-month period ended September 30, 2022, has softened compared to the prior year. The following chart represents the payor gross revenue mix for consolidated operations for the three-month periods ended September 30, 2022 and 2021:



All other operating revenues increased $71 million, or 12.7%, from the prior year for the three-month period ended September 30, 2022, primarily due to CARES PRF grant revenue totaling $259 million, compared to $2 million for the same period in the prior year, partially offset by lower ERC grant revenues, lower revenue from health-related activities, and the reduction of revenues due to the MercyOne transaction. MercyOne total revenues decreased to $115 million for the three-month period ended September 30, 2022, from $289 million for the same period in the prior year. The decrease in revenue from health-related activities, net, is primarily related to investment losses recorded by equity method investments as a result of the financial market performance.

Operating Revenues	Three-Month Periods Ended September 30,			
($ in millions)	2022	2022*	2021	Change**
	As Recorded	As Adjusted	As Recorded	As Adjusted Comparison
Net patient and premium revenues	$ 8,381	$ 7,895	$ 7,990	$ (95)
All other operating revenues	630	630	559	71
Total operating revenues	$ 9,011	$ 8,525	$ 8,549	$ (24)

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

*** Comparing the three-month period ended September 30, 2022, as adjusted, to the same period in the prior year as recorded.*

Uncompensated Care	Three-Month Periods Ended September 30,		
($ in millions)	2022	2021	Change
Uncompensated Care:			
Charity care, at customary charges	$ 543	$ 564	$ (21)
Charity care, at cost, net	$ 139	$ 139	$ -
Charity care, at cost, as a percentage of total expenses	1.5%	1.6%	(0.1%)
Implicit price concessions	$ 369	$ 464	$ (95)

Charity care at customary charges for the three-month period ended September 30, 2022, is slightly lower than the same period in the prior year as a result of the continued impact of the pandemic on volumes.

Operating Expenses

Salaries and benefits increased $219 million, or 5.1%, over the prior year, for the three-month period ended September 30, 2022, with salaries and benefits per adjusted admission increasing 4.2%, primarily due to high registry and contract labor costs, higher staffing costs due to overtime and inflationary pressures, and CommonSpirit's premium pay and retention programs.

Supplies decreased $65 million, or 4.6%, during the three-month period ended September 30, 2022, compared to the same period in the prior year. The decrease is primarily due to lower pharmaceuticals, and laboratory and medical supplies, partially offset by higher inflation.

Purchased services and other increased $80 million, or 3.4%, when normalizing for the California provider fee program costs, for the three-month period ended September 30, 2022, compared to the same period in the prior year, primarily due to higher medical fees and inflationary pressures, partially offset by lower repairs and maintenance fees and lower expenses due to the MercyOne transaction.

Expense Management and Productivity

	Three-Month Periods Ended September 30,		
	2022	2022*	2021
	As Recorded	As Adjusted	As Recorded
Expense Management:			
Supply expense as a % of net patient and premium revenue	16.1%	17.1%	17.7%
Purchased services and other as a % of net patient and premium revenue	31.8%	30.8%	29.4%
Capital expense as a % of net patient and premium revenue	5.6%	6.0%	5.9%
Non-capital cost per adjusted admission	$ 20,897	$ 20,318	$ 19,912
Productivity:			
Salaries, wages and benefits as a % of net patient and premium revenue	53.6%	56.9%	53.5%
Number of FTEs	133,002	133,002	133,201
FTEs per adjusted admission	26.72	26.72	27.07

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

Operating Expenses

($ in millions)	2022	2022*	2021	Change**
	Three-Month Periods Ended September 30,			
	As Recorded	As Adjusted	As Recorded	As Adjusted Comparison
Salaries and benefits	$ 4,496	$ 4,496	$ 4,277	$ 219
Supplies	1,353	1,353	1,418	(65)
Purchased services and other	2,667	2,431	2,351	80
Depreciation and amortization	359	359	353	6
Interest expense, net	113	113	116	(3)
Total operating expenses	$ 8,988	$ 8,752	$ 8,515	$ 237

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

*** Comparing the three-month periods ended September 30, 2022, as adjusted to the same period in the prior year as recorded.*

Nonoperating Results

CommonSpirit recorded investment losses, net, of $517 million during the three-month period ended September 30, 2022, compared to investment income, net, totaling $185 million during the same period in the prior year, due to a decline in the financial markets.

The change in market value and cash payments of interest rate swaps was a favorable result of $48 million during the three-month period ended September 30, 2022, compared to $20 million during the same period in the prior year.

Net periodic postretirement costs amounted to $46 million of income during the three-month period ended September 30, 2022, compared to $71 million during the same period in the prior year.

Nonoperating Results	Three-Month Periods Ended September 30,		
($ in millions)	2022	2021	Change
Investment income (loss), net	$ (517)	$ 185	$ (702)
Income tax expense	(5)	(6)	1
Change in fair value and cash payments of interest rate swaps	48	20	28
Other components of net periodic postretirement costs	46	71	(25)
Other	(8)	(2)	(6)
Total nonoperating income (loss), net	$ (436)	$ 268	$ (704)

Operating Revenues by Division

The following tables present operating revenues by division for the three-month periods ended September 30, 2022 and 2021:

Division Operating Revenues	Three-Month Periods Ended September 30,			
($ in millions)	2022	2022**	2021	Change***
	As Recorded	As Adjusted	As Recorded	As Adjusted Comparison
Southern California	$ 1,996	$ 1,651	$ 1,577	$ 74
Northern California	1,478	1,337	1,319	18
Pacific Northwest	1,147	1,147	1,105	42
Southwest	1,054	1,054	1,089	(35)
Southeast	952	952	944	8
Midwest	755	755	742	13
Colorado	717	717	701	16
Texas	675	675	696	(21)
Iowa	115	115	289	(174)
National Business Lines*	109	109	90	19
Other	8	8	13	(5)
Subtotal Divisions	9,006	8,520	8,565	(45)
Corporate Services	5	5	(16)	21
CommonSpirit Total	$ 9,011	$ 8,525	$ 8,549	$ (24)

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

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

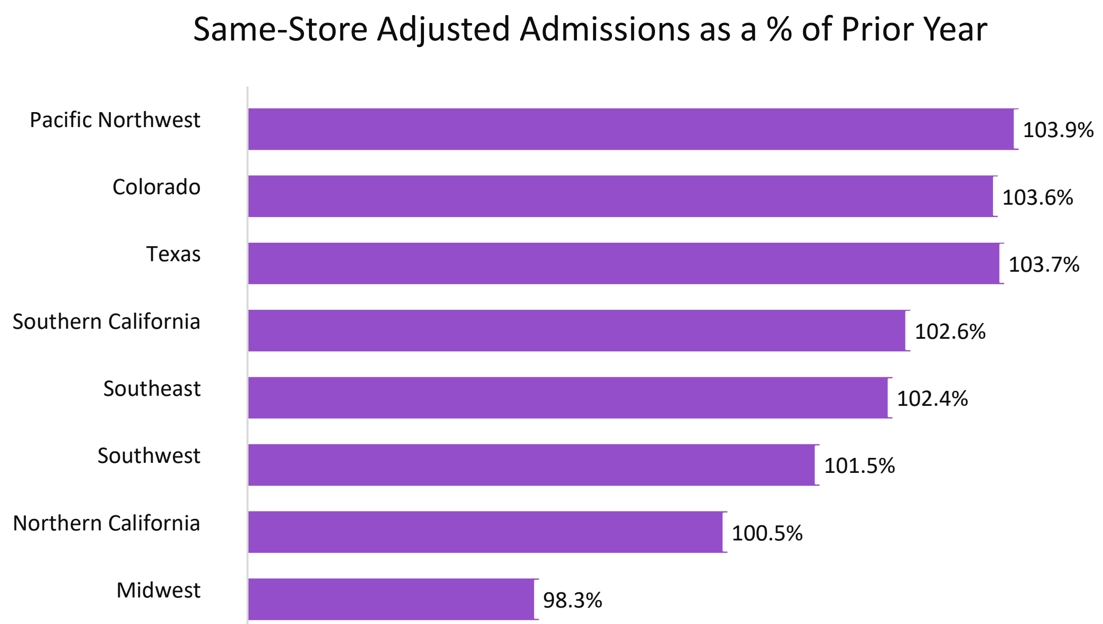
****Comparing the three-month periods ended September 30, 2022, as adjusted to the same period in the prior year as recorded.*

Following are the significant division performance drivers related to operating revenues normalized for the California Provider Fee, compared to same period in the prior year for the three-month period ended September 30, 2022:

- Southern California Division – normalized operating revenues increased $74 million from the same period in the prior year, primarily due to Cares PRF revenue and higher volumes. Adjusted admissions increased from the same period in the prior year by 2.6%.
- Pacific Northwest Division – operating revenues increased $42 million from the same period in the prior year, primarily due to Cares PRF revenue and higher volumes, partially offset by softer payor mix and lower acuity. Adjusted admissions increased from the same period in the prior year by 3.9%.
- Southwest Division – operating revenues decreased $35 million from the same period in the prior year, primarily due to an unfavorable shift in payor mix and lower revenues from health-related activities, partially offset by higher volumes and Cares PRF revenue. Adjusted admissions increased from the same period in the prior year by 1.5%.
- Texas Division – operating revenues decreased $21 million from the same period in the prior year, primarily due to an unfavorable shift in payor mix, partially offset by Cares PRF revenues. Adjusted admissions increased from the same period in the prior year by 3.7%.

- Northern California Division – normalized operating revenues increased $18 million from the same period in the prior year, primarily due to Cares PRF revenue and a 0.5% increase in adjusted admissions, partially offset by softer payor mix.
- Colorado Division – operating revenues increased $16 million from the same period in the prior year, primarily due to a 3.7% increase in same store adjusted admissions, partially offset by unfavorable shift in payor mix.
- Iowa Division – operating revenues decreased $174 million from the same period in the prior year, primarily due to the sale of all facilities in this division.

The table below reflects the same-store adjusted admissions (excluding the impact of the affiliation with two facilities in Kansas and Colorado and the divestiture of MercyOne) as a percentage of the same period in the prior year, for the three-month period ended September 30, 2022:



Balance Sheet Metrics

The following table provides key balance sheet metrics for CommonSpirit:

Key Balance Sheet Metrics ($ in millions)	September 30, 2022	June 30, 2022	Change
Consolidated Balance Sheet Summary			
Total assets	$ 48,885	$ 50,314	$ (1,429)
Total liabilities	$ 28,327	$ 29,285	$ (958)
Total net assets	$ 20,558	$ 21,029	$ (471)
Financial Position Ratios			
Unrestricted cash and investments	$ 15,199	$ 16,247	$ (1,048)
Days cash on hand	162	176	(14)
Total debt	$ 15,402	$ 15,427	$ (25)
Debt to capitalization	45.6%	45.1%	0.5%

Liquidity

Unrestricted cash and investments were $15.2 billion at September 30, 2022, and $16.2 billion at June 30, 2022. The decrease is primarily due to negative investment returns, the recoupment of Medicare advances, and changes in operating cash flows. CommonSpirit is actively monitoring liquidity, given the operational disruption related to COVID-19, continued concerns of a looming recession, and general inflation.

Liquidity and Capital Resources ($ in millions)	September 30, 2022	June 30, 2022	Change
Cash	$ 2,359	$ 2,592	$ (233)
Short-term investments	494	596	(102)
Long-term investments, excluding assets limited as to use	12,346	13,059	(713)
Total unrestricted cash and investments	$ 15,199	$ 16,247	$ (1,048)

Capital Resources

Cash used in operating activities totaled $481 million for the three-month period ended September 30, 2022, compared to $499 million for the same period in the prior year. Significant activity for the three-month period ended September 30, 2022, includes the following:

- Investments decreased $847 million during the three-month period ended September 30, 2022, compared to a decrease of $110 million during the same period in the prior year, due to weaker investment market performance in the current year.
- Medicare advances to be withheld from future Medicare fee-for-service payments decreased $530 million during the three-month period ended September 30, 2022, compared to a decrease of $326 million during the same period in the prior year.
- Provider fee assets and liabilities, net, increased $354 million during the three-month period ended September 30, 2022, compared to an increase of $107 million during the same period in the prior year.
- Accounts receivable, net, increased $98 million during the three-month period ended September 30, 2022, compared to an increase of $487 million during the same period in the prior year.
- Accounts payable, net, decreased $43 million during the three-month period ended September 30, 2022, compared to a decrease of $468 million during the same period in the prior year.
- Prepaid and other current assets increased $193 million during the three-month period ended September 30, 2022, compared to a decrease of $4 million during the same period in the prior year.
- Other accrued liabilities increased $156 million during the three-month period ended September 30, 2022, compared to an increase of $248 million during the same period in the prior year.

Cash provided by investing activities totaled $284 million for the three-month period ended September 30, 2022, compared to cash used of $386 million for the same period in the prior year, primarily due to the following:

- Capital expenditures were $204 million during the three-month periods ended September 30, 2022, compared to $381 million during the same period in 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 asset sales were $508 million during the three-month periods ended September 30, 2022, primarily related to the divestiture of MercyOne.
- Cash distributions from health-related activities were $28 million during the three-month period ended September 30, 2022, compared to $40 million during the same period in the prior year.

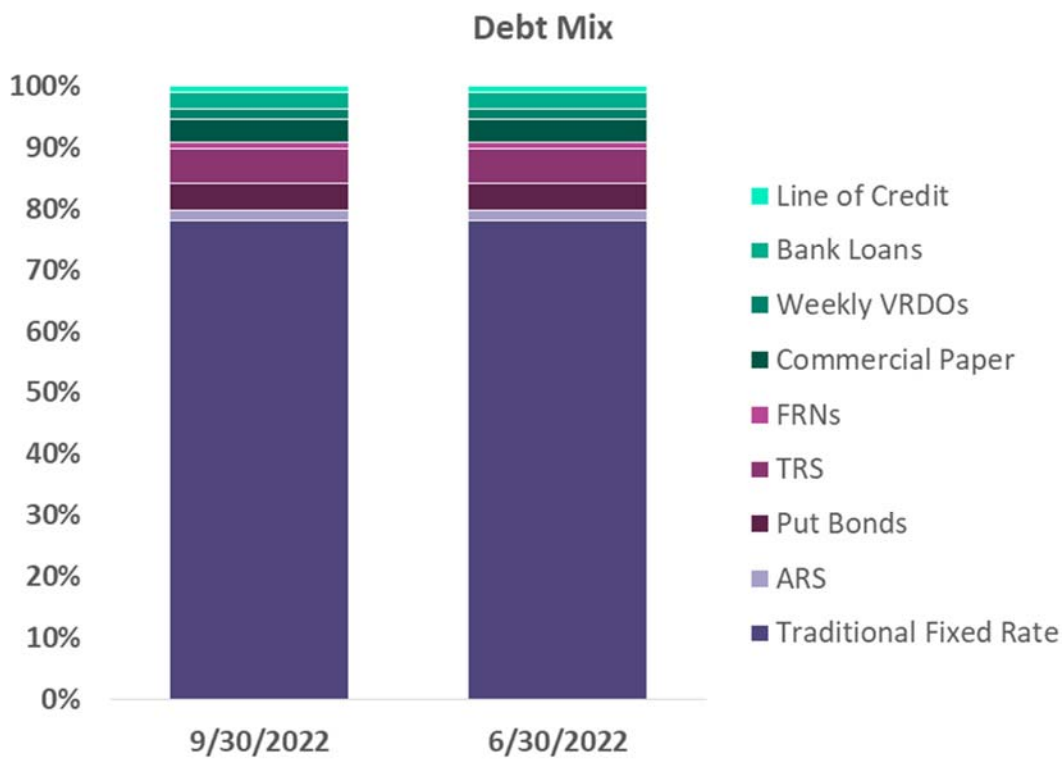
Cash used in financing activities totaled $36 million for the three-month period ended September 30, 2022, compared to $64 million for the same period in the prior year, primarily due to the following:

- Net repayments of debt were $22 million during the three-month period ended September 30, 2022, compared to $20 million during the same period in the prior year.

Debt Portfolio

The CommonSpirit Obligated Group represents approximately 86% of consolidated revenues of CommonSpirit as of September 30, 2022. The debt portfolio remains well diversified, with a high proportion of long-term fixed rate debt providing stability.

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



In October 2022, CommonSpirit issued $807 million of taxable fixed rate bonds, the proceeds of which were used to refund $800 million of taxable fixed rate bonds and pay cost of issuance expenses, and issued $497 million of tax-exempt fixed rate bonds, the proceeds of which were used to reimburse for prior capital expenditures and to fund future capital expenditures.

Strategic Focus and Priorities

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

CommonSpirit 2026 is how we will deliver on our promise and is encapsulated in the form of three pillars, Our People, Our Excellence and Our Future, as 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 first quarter fiscal year 2023 activity through September 30, 2022, 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.
- Focus on system redesign, new care models, and technologies that align with clinicians' interests, respond to increasing patient demands, and make CommonSpirit a clinician's first choice of partner.
- Attract and retain leaders who find purpose in their work, and build competencies that reflect CommonSpirit's focus on well-being across a continuum of care and the enhanced importance of an agile, collaborative culture.

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. In alignment with a national strategy for nurse residency, a multidisciplinary project team developed a national nurse residency program ("NRP"), which is currently anticipated to train approximately 1,000 nurses by the end of fiscal year 2023, with a goal of expanding the NRP each year thereafter. The NRP utilizes preceptors, in collaboration with unit leaders, clinical educators and mentors, to support nurse residents through the first two years of their careers at CommonSpirit. Key components of the NRP include well-being practices and skills development, career planning and coaching, evidence-based practices, assimilation and culture alignment, professionalism and leadership development. CommonSpirit will be monitoring several key performance indicators to monitor the success of the NRP, including costs, value add, health of the program and advocacy. The NRP has hired seven Division directors who have completed orientation and are participating in site assessments for each Division facility. The new expected launch of approximately 40 facilities is February 2023.

In addition, CommonSpirit has established a virtually integrated care model in which care is delivered bedside by a combination of virtual nursing services and in-person care teams. This model enables flexible staffing at the hospital and more efficient use of nursing resources by leveraging a virtual nurse for tasks such as admission and dismissal of patients, education of patients and families, fielding phone calls from various departments and coordinating the plan of care to achieve the targeted length of stay for a given patient, allowing bedside caregivers to perform duties where an in-person presence is needed. During fiscal year 2023, CommonSpirit expects to expand this model into five new nursing units in its Southeast and Pacific Northwest Divisions. CommonSpirit plans to implement at least 200 units throughout its hospitals over the next four to five years.

CommonSpirit's Practice Environment of the Future is clinically led, operationally enhanced, and technologically accelerated, scaling nationally common performance platforms, workflows and design standards that emphasize a synergetic focus on our patients, family, and employees in environments of care that encourage healing and compassion.

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

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

CommonSpirit is organized under 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.

CommonSpirit utilizes Press Ganey Associates, Inc. to externally benchmark patient satisfaction performance in its acute care hospitals, using the Hospital Consumer Assessment of Healthcare Providers and Systems ("HCAHPS"), and in its ambulatory care facilities utilize the CommonSpirit Health Medical Practice Survey. A composite is used for nine HCAHPS measures for acute care, and a composite of four questions for ambulatory care. Facility and Division level goals have been set from a performance baseline and progress toward goals is reported by each entity every month. For fiscal year 2022, CommonSpirit maintained its performance in acute care, improved in virtual care, and decreased in medical practice. Early results for fiscal year 2023 demonstrate a positive trajectory in medical practice.

As part of CommonSpirit's commitment to excellence and an expression of its mission and values, in November 2021, the organization announced an industry-leading commitment to achieve net-zero greenhouse gas emissions by 2040 with an interim target to cut operational emissions in half by 2030. As one of the nation's largest, most diverse and leading health systems, CommonSpirit's pledge will impact the climate crisis by delivering more sustainable, resilient, and climate-smart health care across its 21-state footprint. CommonSpirit is focused on systematic efforts to track and report on its Net Zero initiatives as well as other Environmental, Social and Governance (ESG) initiatives. CommonSpirit incorporated a new ESG disclosure section as part of its 2022 public bond offering. CommonSpirit's FY 2022 Sustainability Report is expected to be completed around calendar year-end 2022. The 2021 report can be found on the CommonSpirit.org website.

Financial sustainability 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 also maintained its Positive outlook, indicating the potential for a higher rating should the organization improve its financial operations and maintain balance sheet strength as planned.

CommonSpirit continues to make progress toward its original synergy goal of $2 billion. A total of over $1.3 billion in synergies has been achieved since the formation of CommonSpirit Health in 2019 in areas such as vendor consolidation and vendor management, creation of a single GPO, productivity improvements, insourcing various functions and consolidating other functions. Management has set a goal of $500 million in synergies realization and operational best practice implementation for fiscal 2023. The largest areas of synergy potential include purchased service and real estate optimization, ancillary services standardization, pharmaceutical spend management, and continued improvements in labor productivity, supply chain, and revenue cycle operations.

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

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

During the first quarter of fiscal 2023, CommonSpirit directed an effort to identify targeted investments focusing on driving near term growth of the System's Integrated Delivery Networks. Examples include providing connections to all practice management tools and electronic health records ("EHRs") through Patient Connection Centers ("PCC") across the System creating a single view, enabling efficient responses to patients from any PCC, and implementing and optimizing Cerner and EPIC referral management tools embedded in CommonSpirit's EHRs to enhance network integrity.

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

CommonSpirit continues to build upon cross-disciplinary Population Health capabilities, to leverage and accelerate existing investments, and innovate to drive value-based care transformation across CommonSpirit, ignited by the shifting reimbursement landscape. Value-based agreements ("VBAs") contain reimbursement provisions linked to successfully achieving measures designed to improve quality of care, the patient experience, physician and payor alignment, and the cost of health care of an attributed population. As of September 30, 2022, CommonSpirit provides care for approximately 2.3 million people attributed to VBAs. Approximately 50% of these lives are in downside risk, signaling a robust commitment to value-based care. National, coordinated initiatives focused on VBA performance, including improving our population health capabilities and targeted programming at high risk populations, have shown early success. CommonSpirit's accountable care organizations (ACOs) provided 13% more annual wellness visits than the previous year. The increase in visits allows CommonSpirit's providers to proactively address health concerns, while enabling patients to receive appropriate preventive clinical services. CommonSpirit saw an overall 23% improvement across the System in diabetes management, focusing on engaging and educating patients in self-management. These types of initiatives contributed to the success in the CMS ACO programs over the past 4 years, driving over $320 million in shared savings to Medicare and over $200 million in earned shared savings to CommonSpirit through fiscal year 2021, achieving a 95% average quality score. This success is reflected across all of CommonSpirit's VBAs, which have increased their incentive revenue by over 3% year over year. Long-term performance and capacity building initiatives, such as development of an All Payer Value-Based Claims database to provide a holistic view of CommonSpirit's value-based populations, national initiatives to build climate resilient communities, and VBA quality metric standardization projects are well underway.

Exhibit I

Unaudited Condensed Consolidated Financial Statements as of and for the Three-Month Periods Ended September 30, 2022 and 2021

(Attached)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

For the Three-Month Periods Ended September 30, 2022 and 2021

COMMONSPIRIT HEALTH

TABLE OF CONTENTS

COMMONSPIRIT HEALTH

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2022 AND JUNE 30, 2022
(in millions)

Assets	As of September 30, 2022 (Unaudited)	As of June 30, 2022
Current assets:		
Cash and cash equivalents	$ 2,359	$ 2,592
Short-term investments	494	596
Patient accounts receivable, net	4,573	4,472
Provider fee receivable	1,362	693
Other current assets	2,323	3,296
Total current assets	11,111	11,649
Long-term investments	15,401	16,087
Property and equipment, net	15,710	15,876
Right-of-use operating lease assets	1,699	1,715
Ownership interests in health-related activities	3,012	3,038
Other long-term assets, net	1,952	1,949
Total assets	$ 48,885	$ 50,314

COMMONSPIRIT HEALTH

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2022 AND JUNE 30, 2022
(in millions)

Liabilities and Net Assets	**As of September 30, 2022 (Unaudited)**	**As of June 30, 2022**
Current liabilities:		
Current portion of long-term debt	$ 1,616	$ 1,619
Demand bonds subject to short-term liquidity arrangements	247	247
Accounts payable	1,439	1,481
Accrued salaries and benefits	1,859	1,831
Provider fee payables	540	225
Medicare advances	262	793
Other accrued liabilities - current	2,821	3,435
Total current liabilities	8,784	9,631
Other liabilities - long-term:		
Self-insured reserves and claims	1,087	1,066
Pension and other postretirement benefit liabilities	2,483	2,501
Derivative instruments	96	150
Operating lease liabilities	1,611	1,626
Other accrued liabilities - long-term	727	750
Total other liabilities - long-term	6,004	6,093
Long-term debt, net of current portion	13,539	13,561
Total liabilities	28,327	29,285
Net assets:		
Without donor restrictions - attributable to CommonSpirit Health	18,405	18,808
Without donor restrictions - noncontrolling interests	1,044	1,079
With donor restrictions	1,109	1,142
Total net assets	20,558	21,029
Total liabilities and net assets	$ 48,885	$ 50,314

See notes to unaudited condensed consolidated financial statements.

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021 (in millions)

	Three-Month Periods Ended September 30, 2022	Three-Month Periods Ended September 30, 2021
Operating revenues:		
Net patient revenue	$ 8,035	$ 7,699
Premium revenue	346	291
Revenue from health-related activities, net	16	70
Other operating revenue	600	469
Contributions	14	20
Total operating revenues	9,011	8,549
Operating expenses:		
Salaries and benefits	4,496	4,277
Supplies	1,353	1,418
Purchased services and other	2,667	2,351
Depreciation and amortization	359	353
Interest expense, net	113	116
Total operating expenses	8,988	8,515
Operating income	23	34
Nonoperating income (loss):		
Investment income (loss), net	(517)	185
Income tax expense	(5)	(6)
Change in fair value and cash payments of interest rate swaps	48	20
Other components of net periodic postretirement costs	46	71
Other	(8)	(2)
Total nonoperating income (loss), net	(436)	268
Excess (deficit) of revenues over expenses	$ (413)	$ 302
Less excess (deficit) of revenues over expenses attributable to noncontrolling interests	(16)	33
Excess (deficit) of revenues over expenses attributable to CommonSpirit Health	$ (397)	$ 269

(Continued)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021 (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
Excess of revenues over expenses	269	33	-	302
Contributions	-	-	30	30
Net assets released from restrictions for capital	6	-	(6)	-
Net assets released from restrictions for operations and other	-	-	(17)	(17)
Other	5	(15)	2	(8)
Increase in net assets	280	18	9	307
Balance, September 30, 2021	$ 19,926	$ 1,205	$ 1,074	$ 22,205
Balance, June 30, 2022	$ 18,808	$ 1,079	$ 1,142	$ 21,029
Deficit of revenues over expenses	(397)	(16)	-	(413)
Contributions	-	-	21	21
Net assets released from restrictions for capital	6	-	(6)	-
Net assets released from restrictions for operations and other	-	-	(13)	(13)
Other	(12)	(19)	(35)	(66)
Decrease in net assets	(403)	(35)	(33)	(471)
Balance, September 30, 2022	$ 18,405	$ 1,044	$ 1,109	$ 20,558

See notes to unaudited condensed consolidated financial statements.

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021 (in millions)

	Three-Month Periods Ended September 30, 2022	2021
Cash flows from operating activities:		
Change in net assets	$ (471)	$ 307
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	359	353
Changes in equity of health-related entities	(71)	(70)
Net (gain) loss on sales of facilities and investments in unconsolidated organizations	51	(1)
Change in fair value of swaps	(58)	(36)
Noncash adjustments of pension and other postretirement benefit plans	(41)	-
Pension cash contributions	-	(11)
Changes in certain assets and liabilities:		
Accounts receivable, net	(98)	(487)
Accounts payable	(43)	(468)
Self-insured reserves and claims	(68)	24
Accrued salaries and benefits	13	(97)
Changes in broker receivables/payables for unsettled investment trades	(48)	48
Provider fee assets and liabilities	(354)	(107)
Medicare advances	(530)	(326)
Other accrued liabilities	156	248
Prepaid and other current assets	(193)	4
Other, net	68	10
Cash used in operating activities before net change in investments	(1,328)	(609)
Net decrease in investments	847	110
Cash used in operating activities	(481)	(499)

(Continued)

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021
(in millions)

	Three-Month Periods Ended September 30, 2022	2021
Cash flows from investing activities:		
Purchases of property and equipment	(204)	(381)
Investments in health-related activities	(14)	(15)
Business acquisitions, net of cash acquired	-	3
Proceeds from asset sales, net	508	(1)
Cash distributions from health-related activities	28	40
Other, net	(34)	(32)
Cash provided by (used in) investing activities	284	(386)
Cash flows from financing activities:		
Borrowings	1	-
Repayments	(23)	(20)
Swaps cash collateral received (posted)	4	(25)
Distributions to noncontrolling interests	(74)	(14)
Contribution by noncontrolling interests	56	(5)
Cash used in financing activities	(36)	(64)
Net decrease in cash and cash equivalents	(233)	(949)
Cash and cash equivalents at beginning of period	2,592	3,329
Cash and cash equivalents at end of period	$ 2,359	$ 2,380
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 98	$ 94
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through finance lease or note payable	$ 6	$ 9
Investments in health-related activities	$ 8	$ 16
Accrued purchases of property and equipment	$ 47	$ 70

See notes to unaudited condensed consolidated financial statements.

1. ORGANIZATION

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

CommonSpirit Health owns and operates health care facilities in 21 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations that are exempt from federal and state income taxes. As of September 30, 2022, CommonSpirit Health is comprised of approximately 2,200 care sites, consisting of 138 hospitals, including academic health centers, major teaching hospitals, and critical access facilities, community health services organizations, accredited nursing colleges, home health agencies, living communities, a medical foundation and other affiliated medical groups, and other facilities and services that span the inpatient and outpatient continuum of care. CommonSpirit Health also has offshore and onshore captive insurance companies. The accompanying unaudited condensed consolidated financial statements include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit").

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying unaudited condensed consolidated financial statements of CommonSpirit were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the accounts of all wholly-owned affiliates and affiliates over which CommonSpirit exercises control or has a controlling financial interest, after elimination of intercompany transactions and balances. These unaudited condensed consolidated financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, refer to the audited consolidated financial statements as of and for the years ended June 30, 2022 and 2021. Operating results for the three-months period ended September 30, 2022, are not necessarily indicative of the results to be expected for the year ending June 30, 2023.

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

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

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

Subsequent changes that are determined to be the result of an adverse change in a third-party payor's ability to pay are recorded as bad debt expense in purchased services and other in the accompanying unaudited condensed consolidated statements of operations and changes in net assets. Bad debt expense for 2022 and 2021 was not significant.

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

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

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

Subsequent Events – CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal quarter and November 15, 2022, the date the condensed consolidated financial statements were issued. See Notes 10 and 15.

3. ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

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

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

4. COVID-19 PANDEMIC

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

The CARES Act Provider Relief Funds ("CARES PRF") funds provide stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. For the three-month periods ended September 30, 2022 and 2021, CommonSpirit has received approximately $259 million and $3 million, respectively, under CARES PRF in the form of grants as reimbursement through the Public Health and Social Services Emergency Fund for lost revenues attributable to COVID-19. These funds are not required to be repaid upon attestation and compliance with certain terms and conditions. For the three-month periods ended September 30, 2022 and 2021, $259 million and $2 million, respectively, has been recognized within other operating revenue as earned. As of September 30, 2022 and June 30, 2022, $9 million of deferred revenue is included within other accrued liabilities - current, in the condensed consolidated balance sheets. CommonSpirit will continue to monitor the terms and conditions of CARES PRF funding and the impact of the pandemic on revenues and expenses.

Additional relief to address the continued impact of COVID-19 was provided through the American Rescue Plan Act of 2021 ("ARP Rural"), in addition to the CARES PRF funds. For the year ended June 30, 2022, CommonSpirit has received approximately $149 million ARP Rural funds in the form of grants recorded as other operating revenues. No additional ARP funds have been received in fiscal year 2023.

To date, CommonSpirit also received $2.8 billion in funds under the Medicare Accelerated and Advance Payment Program, which was received in the entirety prior to fiscal year 2023. These payments are advances that are currently being recouped by withholding future Medicare fee-for-service payments for claims, until such time as the full accelerated payment has been recouped. As of September 30, 2022 and June 30, 2022, the terms and conditions in effect at that time prescribed that any outstanding balance remaining after 29 months from date of receipt are subject to interest of 4%. As such, as of September 30, 2022, $262 million is recorded as a current liability in Medicare advances. As of June 30, 2022, $793 million was recorded as a current liability in Medicare advances, and $32 million was recorded in current liabilities held for sale.

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

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

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

5. NET PATIENT REVENUE

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

	Three-Month Periods Ended September 30, 2022	2021
Government	$ 4,461	$ 3,850
Contracted	2,963	3,125
Self-pay and other	611	724
	$ 8,035	$ 7,699

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

6. OTHER CURRENT ASSETS

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

	As of September 30, 2022	As of June 30, 2022
Inventories	$ 799	$ 795
Receivables, other than patient accounts receivable	724	583
Broker receivables for unsettled investment trades	289	576
Assets held for sale	-	908
Prepaid expenses	452	372
Other	59	62
Total other current assets	$ 2,323	$ 3,296

7. CASH AND INVESTMENTS

CommonSpirit's cash and investments include consolidated membership interests in the CommonSpirit Health Operating Investment Pool, LLC ("CSH OIP") as of September 30, 2022 and June 30, 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):

	As of September 30, 2022	As of June 30, 2022
Cash and cash equivalents	$ 2,359	$ 2,592
Short-term investments	494	596
Long-term investments	15,401	16,087
Total cash and investments	18,254	19,275
Less:		
Held for self-insured claims	1,712	1,758
Under bond indenture agreements for debt service	107	78
Donor-restricted	574	579
Other	662	613
Total assets limited as to use	3,055	3,028
Unrestricted cash and investments	$ 15,199	$ 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 net asset value ("NAV") practical expedient on a recurring basis as of September 30, 2022 and June 30, 2022, respectively (in millions):

	September 30, 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	$ 2,701	$ 273	$ -	$ 2,974
U.S. government securities	836	484	-	1,320
U.S. corporate bonds	72	541	-	613
U.S. equity securities	1,531	2	-	1,533
Foreign government securities	-	71	-	71
Foreign corporate bonds	4	182	-	186
Foreign equity securities	1,356	1	-	1,357
Asset-backed securities	-	147	-	147
Private equity	-	-	74	74
Real estate	28	1	-	29
Community Investment Program	-	-	132	132
Other investments	151	230	-	381
Assets measured at fair value	$ 6,679	$ 1,932	$ 206	8,817
Assets at NAV				9,437
Total assets				$ 18,254
Liabilities				
Derivative instruments	$ -	$ 176	$ -	$ 176
Other	2	-	92	94
Total liabilities	$ 2	$ 176	$ 92	$ 270

	June 30, 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 condensed consolidated balance sheets.

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

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

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

The fair value of collateral held under securities lending program is classified as Level 2. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include noncash collateral of $486 million and $56 million as of September 30, 2022 and June 30, 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.

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

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

The following table and explanations identify attributes relating to the nature and risk of investments for which fair value is determined using a calculated NAV as of September 30, 2022 (in millions):

		NAV Practical Expedient	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private equity	(1)	$ 1,347	$ 663	-	-
Multi-strategy hedge funds	(2)	3,024	-	Weekly, Monthly, Quarterly, Semi-annually, Annually	3 - 100 days
Real estate	(3)	1,316	67	Quarterly	45 - 90 days
Commingled funds - debt securities	(4)	943	51	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	2,807	-	Daily, Weekly, Bi-Weekly, Monthly, Bi-Monthly, Quarterly	2 - 90 days
Total		$ 9,437	$ 781		

(1) This category includes private equity funds that specialize in providing capital to a variety of investment groups, including, but not limited to, venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at September 30, 2022, to be over the next 11 years.

(2) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term, risk-adjusted absolute returns. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. The following table reflects the various redemption frequencies, notice periods, and any applicable lock-up periods or gates to redemption as of September 30, 2022:

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)**
13.3%	13.3%	Annually	60 days	up to 3 years	up to 50.0%
0.2%	0.2%	Semi-annually	75 -90 days	up to 2 years	-
37.8%	2.1%	Quarterly	30 - 45 days	up to 2 years	up to 20.0%
	21.4%	Quarterly	55 - 65 days	up to 2 years	up to 10.0% - 50.0%
	14.3%	Quarterly	90+ days	-	up to 12.5% - 25.0%
43.7%	35.8%	Monthly	30 - 50 days	-	up to 16.7 - 25.0%
	7.9%	Monthly	60 - 90 days	-	up to 20.0%
4.3%	4.3%	Weekly	3 days	-	-
0.7%	0.7%	Daily	1 day	-	-

(3) This category includes investments in real estate funds that invest primarily in institutional-quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts. Investments representing 15% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at September 30, 2022, to be over the next 10 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 20% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at September 30, 2022, to be over the next six years.

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

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

9. OTHER LONG-TERM ASSETS, NET

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

	As of September 30, 2022	As of June 30, 2022
Notes receivable, primarily secured	$ 47	$ 50
Goodwill	358	358
Intangible assets - definite-lived, net	117	120
Intangible assets - indefinite-lived	657	657
Donor-restricted assets	524	521
Other	249	243
Total other long-term assets, net	$ 1,952	$ 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.

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

Goodwill and intangible assets whose lives are indefinite are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist.

The aggregate amortization expense related to intangible assets is $3 million for the three-month periods ended September 30, 2022 and 2021, and is recorded in depreciation and amortization in the accompanying unaudited condensed consolidated statements of operations and changes in net assets.

10. DEBT

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.

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.

11. DERIVATIVE INSTRUMENTS

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

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			As of September 30, 2022	
Derivatives not designated as hedges				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 1,925	$ (159)
Risk participation agreements	2025	SIFMA plus spread	295	-
Total return swaps	2024 - 2030	SIFMA plus spread	522	(17)
Total derivative instruments			2,742	(176)
Cash collateral			-	80
Derivative instruments, net			$ 2,742	$ (96)
			As of June 30, 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 $817 million notional amount of total return swaps at September 30, 2022, which have a negative fair value of $159 million and negative fair value of $17 million, respectively. CommonSpirit posted $80 million of collateral against the fair value of the interest rate swaps as of September 30, 2022.

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

CommonSpirit has $160 million notional of interest rate swaps that are insured and have a negative fair value of $21 million as of September 30, 2022. In the event the insurer is downgraded below a specified minimum credit rating, the counterparties have the right to terminate the swaps if CommonSpirit Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If both the insurer and CommonSpirit Health are downgraded below a specified minimum credit rating, the counterparties have the right to terminate the swaps.

CommonSpirit has $1.8 billion notional amount of interest rate swaps that are not insured, of which the counterparties have various rights to terminate $264 million notional. These include the outstanding notional amounts of $100 million and $104 million at each five-year anniversary date commencing in March 2023 and September 2023, respectively. Swaps in the outstanding notional amounts of $60 million have mandatory puts in March 2028. The termination value would be the fair value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps with the optional and mandatory put options have a negative fair value of $23 million as of September 30, 2022. The remaining uninsured swaps in the notional amount of $1.5 billion have a negative fair value of $136 million as of September 30, 2022.

CommonSpirit has floating rate derivatives in the notional amount of $817 million as of September 30, 2022. These include $295 million of risk participation agreements which have a fair value deemed immaterial and $522 million notional of total return swaps with a fair value deemed immaterial as of September 30, 2022.

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

12. LEASES

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

Following is supplemental condensed consolidated balance sheet information related to leases as of September 30, 2022 and June 30, 2022 (in millions):

Lease Type	Balance Sheet Classification	As of September 30, 2022	As of June 30, 2022
Operating Leases:			
Operating lease ROU assets	Right-of-use operating lease assets	$ 1,699	$ 1,715
Operating lease obligations - current	Other accrued liabilities - current	259	263
Operating lease obligations - long-term	Other liabilities: Operating lease liabilities	1,611	1,626
Finance Leases:			
Finance lease ROU assets	Property and equipment, net	$ 294	$ 299
Current finance lease liabilities	Current portion of long-term debt	37	38
Long-term finance lease liabilities	Long-term debt, net of current portion	301	305

13. INTEREST EXPENSE, NET

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

	Three-Month Periods Ended September 30,	
	2022	2021
Interest and fees on debt	$ 122	$ 121
Capitalized interest expense	(9)	(5)
Interest expense, net	$ 113	$ 116

14. RETIREMENT PROGRAMS

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

	Three-Month Periods Ended September 30,	
	2022	2021
Service cost	$ 184	$ 206
Other nonservice net benefit credits	(46)	(71)
Retirement and postretirement plans expense	$ 138	$ 135

15. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

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

General – The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, the rules governing licensure, accreditation, controlled substances, privacy, government program participation, government reimbursement, antitrust, anti-kickback, prohibited referrals by physicians, false claims, and in the case of tax-exempt organizations, the requirements of tax exemption. Management believes CommonSpirit is materially in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to future governmental interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Certain CommonSpirit entities have been contacted by governmental agencies regarding alleged violations of Medicare practices for certain services. Additionally, certain CommonSpirit entities have identified and self-disclosed potential instances of noncompliance with applicable regulations. In the opinion of management after consultation with legal counsel, the ultimate outcome of these matters will not have a material adverse effect on CommonSpirit's 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 or about October 2, 2022, CommonSpirit Health experienced an IT security attack 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 ensure continuity of care. CommonSpirit followed existing protocols for system outages, which include taking certain systems offline, such as electronic health records. CommonSpirit's impacted facilities also took steps to mitigate the disruption and maintain continuity of care, though certain patient appointments and procedures were rescheduled. To further assist and support its cybersecurity team in the investigation and response process, CommonSpirit has engaged leading cybersecurity specialists and notified law enforcement and the United States Department of Health and Human Services. Currently, through the investigation and response process to date, CommonSpirit does not believe any of the financial accounting and reporting systems were penetrated by the attacker. Given the relative newness of the incident and the inherent uncertainties in matters of this type, CommonSpirit is not yet able to determine the outcome or whether the incident will have a material impact on its financial position.

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