



**This document is dated February 15, 2022**

---

UNAUDITED QUARTERLY REPORT

For the Three and Six-Month Periods Ended  
December 31, 2021 and 2020

---

The information in this report  
has been provided by  
CommonSpirit Health

# COMMONSPIRIT HEALTH

## TABLE OF CONTENTS

---

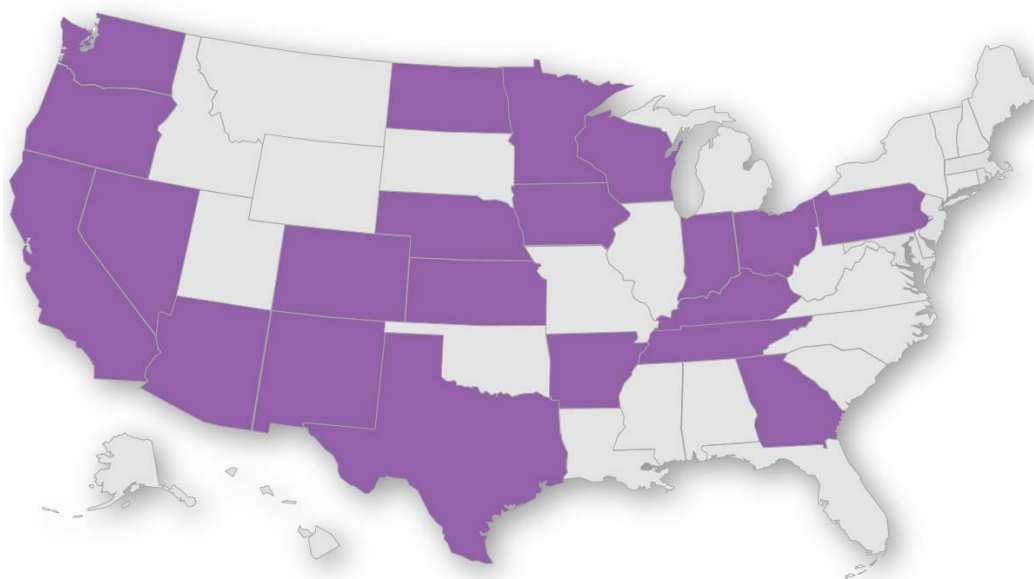
|  | <b>Page</b> |
|--|-------------|
| MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  | 1           |
| - Overview   | 1           |
| - Forward-Looking Statements   | 1           |
| - COVID-19 Pandemic  | 2           |
| - California Provider Fee Program  | 5           |
| - Financial Highlights and Summary   | 6           |
| Results of Operations  | 7           |
| - Operating Revenues and Volume Trends   | 7           |
| - Operating Expenses   | 10          |
| - Nonoperating Results   | 11          |
| - Operating Revenues by Division   | 13          |
| Balance Sheet Metrics  | 15          |
| - Liquidity  | 16          |
| - Capital Resources  | 16          |
| - Debt Portfolio   | 17          |
| Strategic Focus and Priorities   | 18          |
| Exhibit I – Unaudited Condensed Consolidated Financial Statements as of and for the Three and Six-Month Periods Ended December 31, 2021 and 2020 | 21          |

# 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, CommonSpirit Health is comprised of more than 1,500 care sites, including 140 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 and six-month periods ended December 31, 2021 and 2020, in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and on

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

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

## **COVID-19 Pandemic – Response and Impact on Operations**

After nearly two years of managing COVID-19, the Omicron variant is once again stretching health care systems across the country to capacity. At CommonSpirit, COVID-19 admissions declined for much of the second quarter after the peak of the Delta variant, but ramped up quickly beginning in late December, eventually exceeding the January 2021 peak by more than 8% by late January 2022, placing pressure on the organization's workforce. As the pandemic has evolved, the high transmissibility of the Omicron variant has led to greater workforce challenges nationwide, including our caregivers and other employees, as well as the industries relied upon daily. Although the vaccination rate across the organization is extremely high, many staff have been required to be placed on leave under CDC guidelines. CommonSpirit has applied its learnings and preparation over the past two years and has managed well through this latest surge.

After the peaks and valleys in the COVID-19 census related to the Delta variant, the census increased again to almost 2,200 as of December 31, 2021, subsequently increasing markedly in late January 2022 to almost 4,500. While the Omicron variant has spread widely, CommonSpirit is seeing trends in its hospitals similar to the nationwide trend, where the seriously ill are mostly those who are unvaccinated or have underlying health issues. In the face of this, CommonSpirit perseveres in service of its communities and its mission.

Following are a number of steps CommonSpirit took to address the Omicron wave:

**Continuing to encourage vaccines and boosters** - CommonSpirit believes the best defense against severe illness of COVID-19 is to have three doses of the vaccine. CommonSpirit continues to strongly encourage boosters for its staff, patients, and community members.

**Provide appropriate staffing** - CommonSpirit is working to provide appropriate staffing at its care sites, including acceleration of the hiring and onboarding processes, leveraging traveling nurse lists, and in some locations, retraining or moving staff between care sites. CommonSpirit is also encouraging staff to work additional hours through various incentive programs and is reducing turnover through retention programs. Each of CommonSpirit's Divisions and facilities similarly assess individual staffing plans on an ongoing basis to best address local needs.

**Closely monitoring cases** - All CommonSpirit Divisions are using sophisticated surveillance tools to closely monitor case counts in their communities served and at their care sites. Procedures are in place to change visitation policies and the availability of non-urgent services, among other measures as necessary, to keep patients and staff as safe as possible. At the same time, CommonSpirit is urging patients not to delay needed care for ongoing health conditions.

**Supporting CommonSpirit staff** - Fatigue and burnout among health care workers are some of the most pressing challenges currently facing CommonSpirit and the nation. Supporting staff resilience and working to expand the health care workforce are key strategic priorities for the organization. CommonSpirit has established internal programs focused on staff retraining, wellness and resilience, and is aggressively working to identify new staff in key specialty areas. CommonSpirit is also focused on the long-term pipeline and has developed new graduate medical education ("GME") relationships and residency programs, with the goal of being a leading GME partner.

### **Operational Impact**

The pandemic continues to create financial challenges for health care providers, particularly with labor shortages resulting in higher overtime and registry usage. As CommonSpirit continues to manage through the COVID-19 pandemic, the organization has taken steps to mitigate the evolving financial and operational challenges on the System.

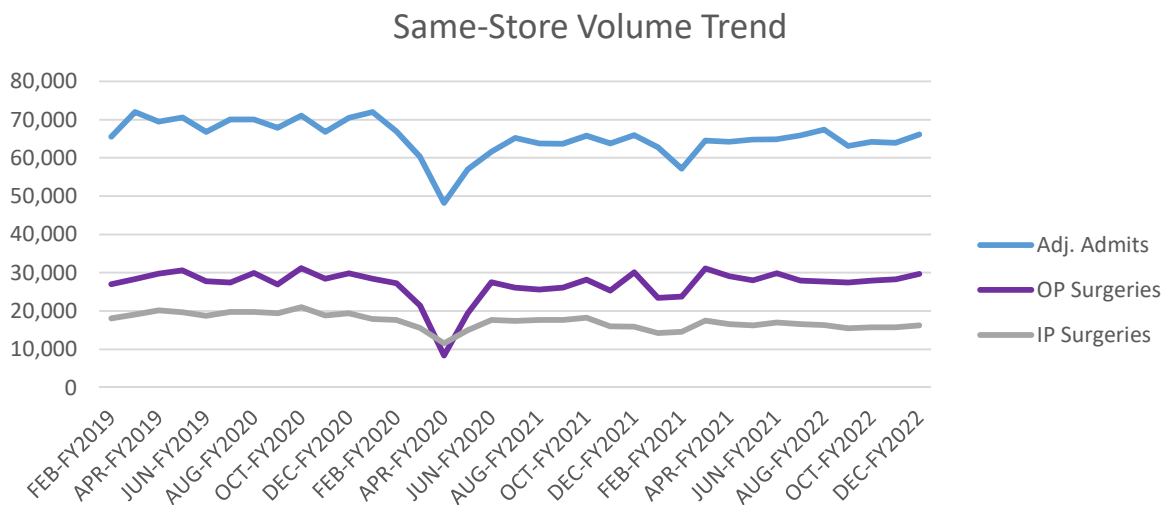
Leadership believes the System’s size and geographic diversity have helped to smooth the impact of the crisis on the System. Specifically:

- Expense and Liquidity Management – CommonSpirit had been on a path to improving efficiency and realizing synergies as part of its alignment, and was well positioned to take a disciplined approach to expense management during the pandemic. As the industry continues to grapple with escalating salary costs for travelers and staff alike, particularly with increased supplemental pay, 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 required for most COVID-19 patients, 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:



As of December 2021, charge volume has recovered to about 3.0% above pre-COVID-19 pandemic levels, reflecting higher acuity in many of the patients present at CommonSpirit’s health care facilities.

## Governmental Support

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) provides stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. Through December 31, 2021, CommonSpirit has received approximately \$1.5 billion in CARES Act Provider Relief Funds (“CARES PRF”) in the form of grants as reimbursement through the Public Health and Social Services Emergency Fund for health care expenses and lost revenues attributable to COVID-19. These provider relief payments are recorded as other operating revenues, as earned. For the six-month periods ended December 31, 2021 and 2020, \$14 million and \$484 million has been recorded in other operating revenues in the unaudited condensed consolidated statements of operations and changes in net assets, respectively, and a combined total of \$1.5 billion was recognized during fiscal years 2021 and 2020. The organization has applied for CARES PRF Phase IV distributions and expects to receive additional funds within the next few months. 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 (the “Medicare advances”), of which \$2.6 billion was received as of June 30, 2020, and the remainder in fiscal year 2021. No additional funds have been received in fiscal year 2022. These payments are advances that will be recouped by withholding future Medicare fee-for-service payments for claims until such time as the full accelerated payment has been recouped. As of December 31, 2021, \$922 million has been repaid, of which \$647 million was repaid during the six-month period ended December 31, 2021. Approximately \$110 million per month is expected to be recouped going forward, based on historical experience. As of December 31, 2021, \$1.9 billion is recorded in current liabilities related to these Medicare advances.

CommonSpirit had deferred \$416 million in employer payroll taxes through December 31, 2021, pursuant to the Paycheck Protection Program and Health Care Enhancement Act, of which \$208 million was repaid in December 2021, and \$208 is recorded in accrued salaries and benefits within current liabilities.

CommonSpirit recorded \$64 million of Employee Retention Credits under the CARES Act during the six-month period ended December 31, 2021. These funds relate to qualified wages paid between April 1, 2020, and June 30, 2020, and are recorded within other operating revenue.

In total, the funds received under the Medicare Accelerated and Advance Payment Program and the Paycheck Protection Program and Health Care Enhancement Act represent 23 days cash on hand as of December 31, 2021, and 35 days as of June 30, 2021.

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 changes in volumes, payor mix, service mix, or care sites arising from the COVID-19 pandemic.

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

| <b>CARES PRF Funding</b> |                         |                         |                              |                             |                                   |  |
|--------------------------|-------------------------|-------------------------|------------------------------|-----------------------------|-----------------------------------|--|
| (\$ in millions)         | Six-Month Periods Ended |                         |                              | As of December 31, 2021     |                                   |  |
|                          | December 31,            |                         | Deferred Revenue (Liability) | Cumulative CARES PRF Grants | Cumulative Medicare Advances, net |  |
| 2021                     | 2020                    | Other Operating Revenue |                              |                             |                                   |  |
| Northern California      | \$ 1                    | \$ 40                   | \$ 2                         | \$ 240                      | \$ 334                            |  |
| Southwest                | 1                       | 13                      | -                            | 135                         | 179                               |  |
| Southern California      | -                       | 29                      | 2                            | 258                         | 305                               |  |
| Pacific Northwest        | -                       | 8                       | 1                            | 172                         | 235                               |  |
| Southeast                | 2                       | 22                      | 4                            | 230                         | 243                               |  |
| Midwest                  | -                       | 23                      | 5                            | 161                         | 220                               |  |
| Colorado                 | 8                       | 28                      | 3                            | 123                         | 125                               |  |
| Texas                    | -                       | 22                      | -                            | 141                         | 143                               |  |
| Iowa                     | -                       | 20                      | -                            | 48                          | 68                                |  |
| National Business Lines* | -                       | 2                       | 1                            | 16                          | 11                                |  |
| Subtotal Divisions       | 12                      | 207                     | 18                           | 1,524                       | 1,863                             |  |
| Corporate Services       | 2                       | 277                     | (1)                          | 23                          | -                                 |  |
| CommonSpirit Total       | \$ 14                   | \$ 484                  | \$ 17                        | \$ 1,547                    | \$ 1,863                          |  |

\* Includes Home Care and Senior Living Business Lines.

## California Provider Fee Program

In February 2020, the Centers for Medicare and Medicaid Services (“CMS”) approved the State Plan Amendment (“SPA”) and allocation model previously submitted by the State of California for the 30-month provider fee program beginning July 1, 2019. Following is a summary of the revenue and expenses recorded related to the program:

| <b>California Provider Fee Program</b> |                           |        |         |                         |        |        |
|--|---------------------------|--------|---------|-------------------------|--------|--------|
| (\$ in millions)                       | Three-Month Periods Ended |        |         | Six-Month Periods Ended |        |        |
|  | December 31,              |        | Change  | December 31,            |        | Change |
| 2021                                   | 2020                      | 2021   |         | 2020                    |        |        |
| Net patient and premium revenues       | \$ 258                    | \$ 254 | \$ 4    | \$ 517                  | \$ 508 | \$ 9   |
| Operating expenses                     | 128                       | 111    | 17      | 256                     | 238    | 18     |
| Provider Fee net income                | \$ 130                    | \$ 143 | \$ (13) | \$ 261                  | \$ 270 | \$ (9) |

With the culmination of the current program as of December 31, 2021, the State of California has submitted a SPA to CMS for approval of a new 12-month provider fee program beginning January 1, 2022. CMS approval of the new program is expected to be received before June 30, 2022.

## Financial Highlights and Summary

CommonSpirit recorded operating losses of \$81 million and \$47 million, during the three and six-month periods ended December 31, 2021, respectively, compared to an operating income of \$363 million and \$530 million for the same periods in the prior year. Excluding CARES PRF grant revenues, operating losses for the three and six-month periods ended December 31, 2021, were \$93 million and \$61 million, respectively, compared to operating income of \$70 million and \$46 million for the same periods in the prior year.

Effective November 1, 2020, Yavapai Regional Medical Center (“YRMC”) became affiliated with CommonSpirit as a subsidiary of Dignity Community Care, a consolidated affiliate of CommonSpirit. YRMC owns and operates a 134-bed acute care hospital in Prescott, Arizona, a 72-bed acute care hospital in Prescott Valley, Arizona, and several other primary and specialty care facilities located throughout Prescott and Prescott Valley. As a result of the affiliation, a contribution of the excess of unrestricted assets over liabilities of \$509 million was recognized as a contribution from business combination in fiscal year 2021, and the favorable financial results of YRMC are included in the accompanying unaudited condensed consolidated financial statements as of the effective date.

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

CommonSpirit’s EBITDA decreased to \$442 million for the three-month period ended December 31, 2021, from \$837 million during the same period in the prior year. The EBITDA margin for the three-month period ended December 31, 2021, decreased to 5.0% from 10.1% for the same period in the prior year. Excluding CARES PRF grant revenues, EBITDA for the three-month period ended December 31, 2021, was \$430 million with an EBITDA margin of 4.8%, compared to \$544 million with an EBITDA margin of 6.8% during the same period in the prior year.

CommonSpirit’s EBITDA decreased to \$944 million for the six-month period ended December 31, 2021, from \$1.5 billion during the same period in the prior year. The EBITDA margin for the six-month period ended December 31, 2021, decreased to 5.4% from 9.2% for the same period in the prior year. Excluding CARES PRF grant revenues, EBITDA for the six-month period ended December 31, 2021, was \$930 million with an EBITDA margin of 5.3%, compared to \$995 million with an EBITDA margin of 6.4% during the same period in the prior year.

For the three and six-month periods ended December 31, 2021, CommonSpirit’s volumes on an adjusted admission basis improved from the lower volumes during earlier peaks of the pandemic, and were favorable to the same periods in the prior year by 4.3% and 6.2%, respectively. On a same-store basis, adjusted admissions were favorable to the same periods in the prior year by 1.5% and 2.7%, respectively. Adjusted patient days for the three and six-month periods ended December 31, 2021, were higher than the same periods in the prior year by 9.6% and 12.4%, respectively. The acute average length of stay (ALOS) of 5.31 days and 5.24 days, for the three and six-month periods ended December 31, 2021, was higher than the prior year of 5.05 and 4.95 days, respectively, primarily due to higher acuity and placement issues due to lack of availability of skilled nursing beds for both COVID-19 and non-COVID-19 patients.



| Key Indicators Financial Summary              |                           |          |            |
|---|---------------------------|----------|------------|
| (\$ in millions)                              | Three-Month Periods Ended |          |            |
|   | December 31,              |          |            |
|   | 2021                      | 2020     | Change     |
| EBITDA  | \$ 442                    | \$ 837   | \$ (395)   |
| Margin %                                      | 5.0%                      | 10.1%    | (5.1%)     |
| EBITDA - excluding CARES PRF                  | \$ 430                    | \$ 544   | \$ (114)   |
| Margin % - excluding CARES PRF                | 4.8%                      | 6.8%     | (2.0%)     |
| Operating income (loss)                       | \$ (81)                   | \$ 363   | \$ (444)   |
| Margin %                                      | (0.9%)                    | 4.4%     | (5.3%)     |
| Operating income (loss) - excluding CARES PRF | \$ (93)                   | \$ 70    | \$ (163)   |
| Margin % - excluding CARES PRF                | (1.0%)                    | 0.9%     | (1.9%)     |
| Excess of revenues over expenses              | \$ 138                    | \$ 2,073 | \$ (1,935) |
| Margin %                                      | 1.5%                      | 21.9%    | (20.4%)    |

| Key Indicators Financial Summary              |                         |          |            |
|---|-------------------------|----------|------------|
| (\$ in millions)                              | Six-Month Periods Ended |          |            |
|   | December 31,            |          |            |
|   | 2021                    | 2020     | Change     |
| EBITDA  | \$ 944                  | \$ 1,479 | \$ (535)   |
| Margin %                                      | 5.4%                    | 9.2%     | (3.8%)     |
| EBITDA - excluding CARES PRF                  | \$ 930                  | \$ 995   | \$ (65)    |
| Margin % - excluding CARES PRF                | 5.3%                    | 6.4%     | (1.1%)     |
| Operating income (loss)                       | \$ (47)                 | \$ 530   | \$ (577)   |
| Margin %                                      | (0.3%)                  | 3.3%     | (3.6%)     |
| Operating income (loss) - excluding CARES PRF | \$ (61)                 | \$ 46    | \$ (107)   |
| Margin % - excluding CARES PRF                | (0.4%)                  | 0.3%     | (0.7%)     |
| Excess of revenues over expenses              | \$ 439                  | \$ 2,890 | \$ (2,451) |
| Margin %                                      | 2.5%                    | 16.2%    | (13.7%)    |

## Results of Operations

### Operating Revenues and Volume Trends

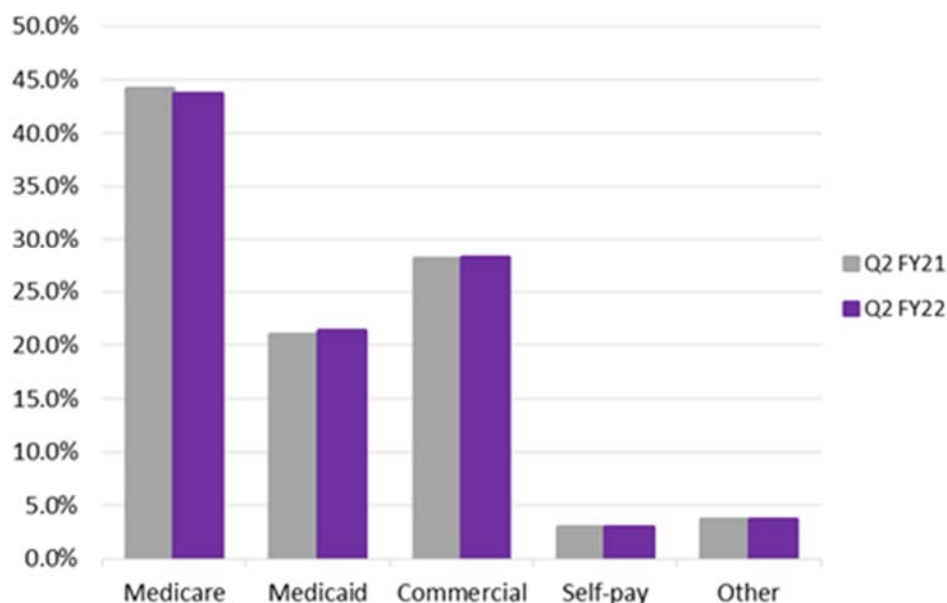
Net patient and premium revenues increased \$701 million, or 9.3%, and increased \$1.6 billion, or 10.8%, over the same periods in the prior year for the three and six-month periods ended December 31, 2021, respectively. The increase is primarily due to higher volume levels, rate changes, acuity, the YRMC and VMHS affiliations, and stable payor mix. Outpatient volume has returned at a greater rate than inpatient volume with outpatient surgeries above pre-pandemic levels. This partially reflects the continued shift of the site of care change from inpatient to outpatient. Additionally, there was a resurgence in ED volume during the three-month period ended December 31, 2021. Net patient and premium revenue per adjusted admission increased 4.8% and 4.3% during the three and six-month periods ended December 31, 2021, respectively. This increase is primarily due to higher acuity, rate changes and stable payor mix.

| Volumes  | Three-Month Periods  |           |             | Six-Month Periods    |            |             |
|--|----------------------|-----------|-------------|----------------------|------------|-------------|
|  | Ended                |           | %<br>Change | Ended                |            | %<br>Change |
|  | December 31,<br>2021 | 2020      |             | December 31,<br>2021 | 2020       |             |
| Acute admissions   | 200,073              | 197,674   | 1.2%        | 402,540              | 390,453    | 3.1%        |
| Adjusted admissions  | 396,134              | 379,705   | 4.3%        | 800,176              | 753,382    | 6.2%        |
| Acute inpatient days   | 1,061,880            | 998,475   | 6.4%        | 2,109,882            | 1,933,238  | 9.1%        |
| Adjusted patient days  | 2,102,470            | 1,917,935 | 9.6%        | 4,194,064            | 3,730,196  | 12.4%       |
| Acute average length of stay   | 5.31                 | 5.05      | 5.1%        | 5.24                 | 4.95       | 5.9%        |
| Outpatient visits  | 7,036,222            | 6,393,166 | 10.1%       | 14,150,169           | 12,574,136 | 12.5%       |
| ED visits  | 959,137              | 813,096   | 18.0%       | 1,960,970            | 1,622,274  | 20.9%       |
| Gross outpatient revenue as a % of<br>total gross patient services revenue | 49.5%                | 47.9%     | 1.6%        | 49.7%                | 48.2%      | 1.5%        |

| Same-Store Volumes   | Three-Month Periods  |           |             | Six-Month Periods    |            |             |
|--|----------------------|-----------|-------------|----------------------|------------|-------------|
|  | Ended                |           | %<br>Change | Ended                |            | %<br>Change |
|  | December 31,<br>2021 | 2020      |             | December 31,<br>2021 | 2020       |             |
| Acute admissions   | 194,368              | 195,589   | (0.6%)      | 390,792              | 388,368    | 0.6%        |
| Adjusted admissions  | 381,172              | 375,492   | 1.5%        | 769,162              | 749,161    | 2.7%        |
| Acute inpatient days   | 1,026,739            | 989,629   | 3.7%        | 2,040,800            | 1,924,392  | 6.0%        |
| Adjusted patient days  | 2,013,523            | 1,899,888 | 6.0%        | 4,016,731            | 3,712,146  | 8.2%        |
| Acute average length of stay   | 5.28                 | 5.06      | 4.3%        | 5.22                 | 4.96       | 5.2%        |
| Outpatient visits  | 6,662,960            | 6,337,350 | 5.1%        | 13,390,479           | 12,518,320 | 7.0%        |
| ED visits  | 936,325              | 802,818   | 16.6%       | 1,913,785            | 1,611,996  | 18.7%       |
| Gross outpatient revenue as a % of<br>total gross patient services revenue | 49.0%                | 47.9%     | 1.1%        | 49.2%                | 48.2%      | 1.0%        |

Payor mix based on gross revenues for the three and six-month periods ended December 31, 2021, is relatively stable, compared to the same periods in the prior year, despite the COVID-19 pandemic. The following chart represents the payor gross revenue mix for consolidated operations for the six-month periods ended December 31, 2021 and 2020:

### Payor Gross Revenue Mix



All other operating revenues decreased \$103 million and \$153 million, or 13.8% and 11.3%, over the same periods in the prior year for the three and six-month periods ended December 31, 2021, respectively, primarily due to CARES PRF grant revenue totaling \$12 million and \$14 million, for the three and six-month periods ending December 31, 2021, respectively, compared to \$293 million and \$484 million for the same periods in the prior years, partially offset by higher pharmaceutical revenues. Excluding the provider relief CARES PRF grants, all other operating revenues increased \$178 million and \$317 million, or 39.5% and 36.5%, over the same periods in the prior year, respectively. The increase is primarily due to a \$146 million pre-tax gain on sale of joint-venture shares recorded in the three-month period ended December 31, 2021.

| Operating Revenues<br>(\$ in millions) | Three-Month Periods Ended<br>December 31, |                 |               | Six-Month Periods Ended<br>December 31, |                  |                 |
|--|---|-----------------|---------------|---|------------------|-----------------|
|  | 2021                                      | 2020            | Change        | 2021                                    | 2020             | Change          |
| Net patient and premium revenues       | \$ 8,238                                  | \$ 7,537        | \$ 701        | \$ 16,228                               | \$ 14,650        | \$ 1,578        |
| All other operating revenues           | <u>641</u>                                | <u>744</u>      | <u>(103)</u>  | <u>1,199</u>                            | <u>1,352</u>     | <u>(153)</u>    |
| Total operating revenues               | <u>\$ 8,879</u>                           | <u>\$ 8,281</u> | <u>\$ 598</u> | <u>\$ 17,427</u>                        | <u>\$ 16,002</u> | <u>\$ 1,425</u> |

| <b>Uncompensated Care</b> |   |      |        |   |      |        |
|---------------------------|---|------|--------|---|------|--------|
| (\$ in millions)          | Three-Month Periods Ended<br>December 31, |      |        | Six-Month Periods Ended<br>December 31, |      |        |
|                           | 2021                                      | 2020 | Change | 2021                                    | 2020 | Change |

#### **Uncompensated Care:**

|   |        |        |        |          |          |        |
|---|--------|--------|--------|----------|----------|--------|
| Charity care, at customary charges                          | \$ 519 | \$ 432 | \$ 87  | \$ 1,083 | \$ 1,066 | \$ 17  |
| Charity care, at cost, net                                  | \$ 135 | \$ 110 | \$ 25  | \$ 273   | \$ 270   | \$ 3   |
| Charity care, at cost, as a percentage<br>of total expenses | 1.5%   | 1.4%   | (0.1%) | 1.6%     | 1.7%     | 0.1%   |
| Implicit price concessions                                  | \$ 388 | \$ 322 | \$ 66  | \$ 852   | \$ 679   | \$ 173 |

#### **Operating Expenses**

Salaries and benefits increased \$673 million and \$1.3 billion, or 17.2% and 16.8%, over the same periods in the prior year, for the three and six-month periods ended December 31, 2021, respectively, with salaries and benefits per adjusted admission increasing 12.3% and 9.9%, respectively, primarily due to high registry and contract labor costs, higher staffing costs due to CommonSpirit's premium pay and retention programs, overtime, higher length of stay and acuity due to COVID-19, and the YRMC and VMHS affiliations.

Supplies increased \$152 million and \$353 million, or 11.6% and 13.9%, during the three and six-month periods ended December 31, 2021, compared to the same periods in the prior year, respectively. The increase is primarily due to increased supplies related to higher acuity (which impacted pharmaceutical, laboratory and other supply costs), the YRMC and VMHS affiliations, additional supplies required for COVID-19 preparedness, and general inflation.

Purchased services and other increased \$168 million and \$335 million, or 7.6% for both the three and six-month periods ended December 31, 2021, compared to the same periods in the prior year, primarily due to the YRMC and VMHS affiliations, higher medical fees, and higher insurance costs, partially offset by lower out-of-network costs.

## Expense Management and Productivity

|  | Three-Month Periods Ended |      |  | Six-Month Periods Ended |      |  |
|--|---------------------------|------|--|-------------------------|------|--|
|  | December 31,              |      |  | December 31,            |      |  |
|  | 2021                      | 2020 |  | 2021                    | 2020 |  |

### Expense Management:

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Supply expense as a % of net patient and premium revenue               | 17.8%     | 17.5%     | 17.8%     | 17.3%     |
| Purchased services and other as a % of net patient and premium revenue | 28.9%     | 29.4%     | 29.2%     | 30.0%     |
| Capital expense as a % of net patient and premium revenue              | 6.3%      | 6.3%      | 6.1%      | 6.5%      |
| Non-capital cost per adjusted admission                                | \$ 21,299 | \$ 19,604 | \$ 20,599 | \$ 19,277 |

### Productivity:

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Salaries, wages and benefits as a % of net patient and premium revenue | 55.7%   | 51.9%   | 54.6%   | 51.8%   |
| Number of FTEs   | 134,855 | 125,728 | 134,028 | 123,721 |
| FTEs per adjusted admission  | 27.98   | 27.31   | 27.52   | 27.22   |

## Operating Expenses

| (\$ in millions)              | Three-Month Periods Ended |                 |                 | Six-Month Periods Ended |                  |                 |
|-------------------------------|---------------------------|-----------------|-----------------|-------------------------|------------------|-----------------|
|                               | December 31,              |                 |                 | December 31,            |                  |                 |
|                               | 2021                      | 2020            | Change          | 2021                    | 2020             | Change          |
| Salaries and benefits         | \$ 4,586                  | \$ 3,913        | \$ 673          | \$ 8,862                | \$ 7,590         | \$ 1,272        |
| Supplies                      | 1,468                     | 1,316           | 152             | 2,886                   | 2,533            | 353             |
| Purchased services and other  | 2,383                     | 2,215           | 168             | 4,735                   | 4,400            | 335             |
| Depreciation and amortization | 404                       | 360             | 44              | 756                     | 730              | 26              |
| Interest expense, net         | 119                       | 114             | 5               | 235                     | 219              | 16              |
| Total operating expenses      | <u>\$ 8,960</u>           | <u>\$ 7,918</u> | <u>\$ 1,042</u> | <u>\$ 17,474</u>        | <u>\$ 15,472</u> | <u>\$ 2,002</u> |

## Nonoperating Results

CommonSpirit recorded investment income, net, of \$217 million and \$401 million during the three and six-month periods ended December 31, 2021, compared to investment income, net, totaling \$1.2 billion and \$1.8 billion during the same periods in the prior year, respectively, due to much more favorable financial markets in the prior year.

CommonSpirit recorded a loss on early extinguishment of debt of \$12 million during the three-month period ended December 31, 2020, related to the debt restructuring in 2020.

Income tax expense was \$70 million and \$76 million during the three and six-month periods ended December 31, 2021, compared to \$20 million and \$30 million during the same periods in the prior year, respectively.

The change in market value and cash payments of interest rate swaps was a favorable result of \$2 million and \$22 million during the three and six-month periods ended December 31, 2021, compared to \$30 million and \$42 million during the same periods in the prior year, respectively.

Contribution from business combination amounted to a gain of \$509 million during the three-month period ended December 31, 2020, as a result of the affiliation with YRMC.

Net periodic postretirement costs amounted to \$71 million and \$142 million of income during the three and six-month periods ended December 31, 2021, compared to \$14 million and \$29 million during the same periods in the prior year, respectively.

| <b>Nonoperating Results</b>                                      |   |                 |                   |   |                 |                   |
|--|---|-----------------|-------------------|---|-----------------|-------------------|
| (\$ in millions)   | Three-Month Periods Ended<br>December 31, |                 |                   | Six-Month Periods Ended<br>December 31, |                 |                   |
|  | 2021                                      | 2020            | Change            | 2021                                    | 2020            | Change            |
| Investment income, net   | \$ 217                                    | \$ 1,186        | \$ (969)          | \$ 401                                  | \$ 1,813        | \$ (1,412)        |
| Loss on early extinguishment of debt                             | -   | (12)            | 12                | -                                       | (12)            | 12                |
| Income tax expense   | (70)                                      | (20)            | (50)              | (76)                                    | (30)            | (46)              |
| Change in fair value and cash payments<br>of interest rate swaps | 2   | 30              | (28)              | 22                                      | 42              | (20)              |
| Contribution from business combination                           | -   | 509             | (509)             | -                                       | 509             | (509)             |
| Other components of net periodic<br>postretirement costs         | 71  | 14              | 57                | 142                                     | 29              | 113               |
| Other  | (1)                                       | 3               | (4)               | (3)                                     | 9               | (12)              |
| Total nonoperating income, net                                   | <u>\$ 219</u>                             | <u>\$ 1,710</u> | <u>\$ (1,491)</u> | <u>\$ 486</u>                           | <u>\$ 2,360</u> | <u>\$ (1,874)</u> |

## Operating Revenues by Division

The following tables present operating revenues by division for the three and six-month periods ended December 31, 2021 and 2020:

| Division Operating Revenues<br>(\$ in millions) | Three-Month Periods Ended<br>December 31, |                 |               |
|---|---|-----------------|---------------|
|   | 2021                                      | 2020            | Change        |
| Southern California                             | \$ 1,648                                  | \$ 1,549        | \$ 99         |
| Northern California                             | 1,327                                     | 1,255           | 72            |
| Pacific Northwest                               | 1,118                                     | 761             | 357           |
| Southwest                                       | 1,115                                     | 1,033           | 82            |
| Southeast                                       | 1,001                                     | 925             | 76            |
| Midwest   | 762                                       | 769             | (7)           |
| Colorado  | 744                                       | 670             | 74            |
| Texas   | 659                                       | 639             | 20            |
| Iowa  | 290                                       | 286             | 4             |
| National Business Lines*                        | 87  | 91              | (4)           |
| Other   | (8)                                       | 5               | (13)          |
| Subtotal Divisions                              | <u>8,743</u>                              | <u>7,983</u>    | <u>760</u>    |
| Corporate Services                              | 136                                       | 298             | (162)         |
| CommonSpirit Total                              | <u>\$ 8,879</u>                           | <u>\$ 8,281</u> | <u>\$ 598</u> |

\* Includes Home Care and Senior Living Business Lines.

| <b>Division Operating Revenues</b> |   |                  |                 |        |
|------------------------------------|---|------------------|-----------------|--------|
| (\$ in millions)                   | Six-Month Periods Ended<br>December 31, |                  |                 | Change |
|                                    | 2021                                    | 2020             |                 |        |
| Southern California                | \$ 3,225                                | \$ 3,065         | \$ 160          |        |
| Northern California                | 2,646                                   | 2,527            | 119             |        |
| Pacific Northwest                  | 2,222                                   | 1,527            | 695             |        |
| Southwest                          | 2,204                                   | 1,892            | 312             |        |
| Southeast                          | 1,944                                   | 1,816            | 128             |        |
| Midwest                            | 1,504                                   | 1,503            | 1               |        |
| Colorado                           | 1,445                                   | 1,336            | 109             |        |
| Texas                              | 1,355                                   | 1,264            | 91              |        |
| Iowa                               | 579                                     | 581              | (2)             |        |
| National Business Lines*           | 178                                     | 190              | (12)            |        |
| Other                              | 4                                       | 13               | (9)             |        |
| Subtotal Divisions                 | <u>17,306</u>                           | <u>15,714</u>    | <u>1,592</u>    |        |
| Corporate Services                 | <u>121</u>                              | <u>288</u>       | <u>(167)</u>    |        |
| CommonSpirit Total                 | <u>\$ 17,427</u>                        | <u>\$ 16,002</u> | <u>\$ 1,425</u> |        |

\* Includes Home Care and Senior Living Business Lines.

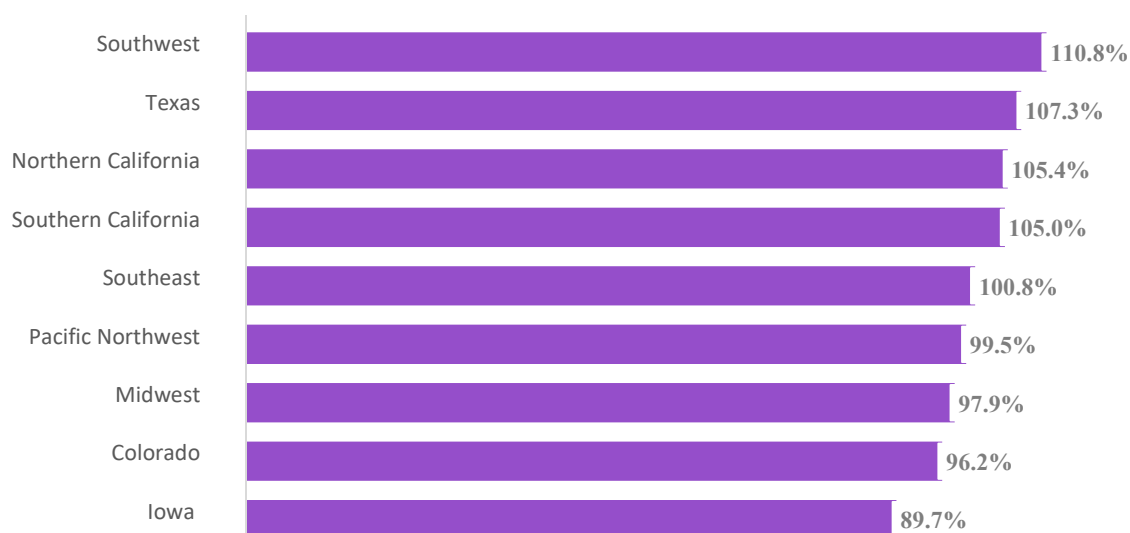
Following are the significant division performance drivers related to operating revenues compared to prior year for the six-month period ended December 31, 2021:

- Pacific Northwest Division – operating revenues increased \$695 million from the same period in the prior year, primarily due to higher acuity and additional revenue of \$634 million related to the affiliation of VMHS effective January 1, 2021. Same-store adjusted admissions decreased from the prior year by 0.5%.
- Southwest Division – operating revenues increased \$312 million from the same period in the prior year, primarily due to higher acuity, higher volumes, and additional revenue of \$164 million related to the affiliation of YRMC effective November 1, 2020, and \$39 million of additional provider fee revenue in Arizona due to the timing of approval compared to the prior year. Same-store adjusted admissions increased from the prior year by 10.8%.
- Southern California Division – operating revenues increased \$160 million from the same period in the prior year, primarily due to higher volumes and a stable payor mix. Adjusted admissions increased from the prior year by 5.0%.
- Southeast Division - operating revenues increased \$128 million from the same period in the prior year, primarily due to higher commercial payor mix, and higher outpatient volume. Adjusted admissions increased from the prior year by a 0.8%.
- Northern California – operating revenues increased \$119 million from the same period in the prior year, primarily due to higher acuity and stable payor mix, and a 5.4% increase in adjusted admissions.
- Colorado Division – operating revenues increased \$109 million from the same period in the prior year, primarily due to higher acuity, partially offset by a 3.8% decrease in adjusted admissions.
- Texas Division – operating revenues increased \$91 million from the same period in the prior year, primarily due to higher acuity, a 7.3% increase in adjusted admissions, and a stable payor mix.



The table below reflects the same-store adjusted admissions (excluding the impact of the affiliations with YRMC and VMHS) as a percentage of prior year, for the six-month period ended December 31, 2021:

### Same-Store Adjusted Admissions as a % of Prior Year



## Balance Sheet Metrics

The following table provides key balance sheet metrics for CommonSpirit:

| Key Balance Sheet Metrics                 |                      |                  |            |
|---|----------------------|------------------|------------|
| (\$ in millions)                          | December 31,<br>2021 | June 30,<br>2021 | Change     |
| <b>Consolidated Balance Sheet Summary</b> |                      |                  |            |
| Total assets                              | \$ 53,844            | \$ 54,876        | \$ (1,032) |
| Total liabilities                         | \$ 31,472            | \$ 32,978        | \$ (1,506) |
| Total net assets                          | \$ 22,372            | \$ 21,898        | \$ 474     |
| <b>Financial Position Ratios</b>          |                      |                  |            |
| Unrestricted cash and investments         | \$ 18,978            | \$ 20,663        | \$ (1,685) |
| Days cash on hand                         | 212                  | 245              | (33)       |
| Total debt                                | \$ 15,502            | \$ 15,542        | \$ (40)    |
| Debt to capitalization                    | 43.6%                | 44.2%            | (0.6%)     |

## Liquidity

Unrestricted cash and investments were \$19.0 billion at December 31, 2021, and \$20.7 billion at June 30, 2021. The decrease is primarily due to the recoupment of Medicare advances, payments of deferred payroll taxes, and changes in operating cash flows. CommonSpirit continues to actively monitor liquidity, given the operational disruption related to COVID-19.

| Liquidity and Capital Resources                           |                      |                  |                   |
|---|----------------------|------------------|-------------------|
| (\$ in millions)  | December 31,<br>2021 | June 30,<br>2021 | Change            |
| Cash  | \$ 2,866             | \$ 3,329         | \$ (463)          |
| Short-term investments                                    | 971                  | 1,124            | (153)             |
| Long-term investments, excluding assets limited as to use | <u>15,141</u>        | <u>16,210</u>    | <u>(1,069)</u>    |
| Total unrestricted cash and investments                   | <u>\$ 18,978</u>     | <u>\$ 20,663</u> | <u>\$ (1,685)</u> |

## Capital Resources

Cash provided by operating activities totaled \$39 million for the six-month period ended December 31, 2021, compared to cash used of \$279 million for the same period in the prior year. Significant activity for the six-month period ended December 31, 2021, includes the following:

- Investments decreased \$1.1 billion during the six-month period ended December 31, 2021, compared to an increase of \$3.4 billion during the same period in the prior year, primarily due to weaker investment market performance.
- Medicare advances to be withheld from future Medicare fee-for-service payments decreased \$647 million during the six-month period ended December 31, 2021, compared to an increase of \$23 million during the same period in the prior year, due to recoupments during the current period.
- Accounts receivable, net, increased \$424 million during the six-month period ended December 31, 2021, compared to \$436 million during the same period in the prior year.
- Accounts payable decreased \$128 million during the six-month period ended December 31, 2021, compared to \$6 million during the same period in the prior year.

Cash used in investing activities totaled \$400 million for the six-month period ended December 31, 2021, compared to \$675 million for the same period in the prior year, primarily due to the following:

- Capital expenditures were \$643 million during the six-month periods ended December 31, 2021, compared to \$599 million during the same period in the prior year. Such capital expenditures primarily relate to expansion and renovation of existing facilities, equipment and systems additions and replacements, and various other capital improvements.
- Proceeds from asset sales were \$271 million during the six-month periods ended December 31, 2021, compared to \$91 million during the same period in the prior year.
- Cash distributions from health-related activities were \$58 million during the six-month period ended December 31, 2021, compared to \$42 million during the same period in the prior year.
- Investments in health-related activities were \$51 million during the six-month period ended December 31, 2021, compared to \$75 million during the same period in the prior year.

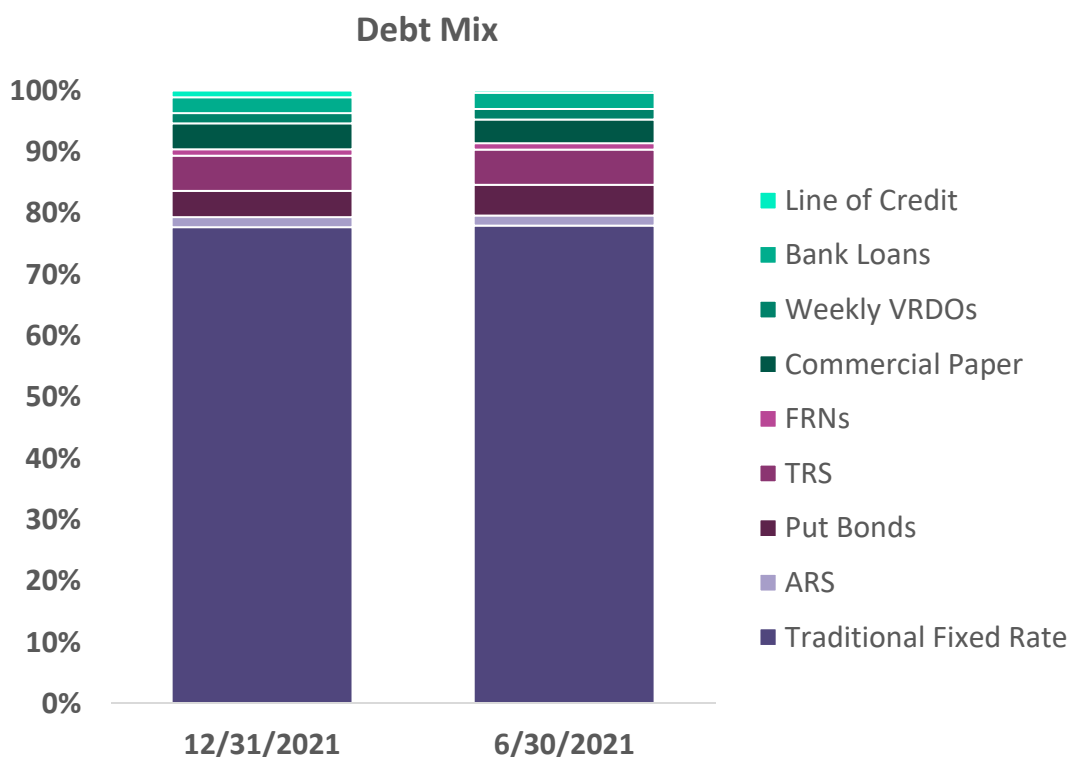
Cash used in financing activities totaled \$102 million for the six-month period ended December 31, 2021, compared to \$182 million for the same period in the prior year, primarily due to the following:

- Net repayments of debt were \$50 million during the six-month period ended December 31, 2021, compared to \$176 million during the same period in the prior year.

### Debt Portfolio

CommonSpirit’s Obligated Group is comprised of the former Dignity Health Obligated Group and CHI entities (collectively, the “CommonSpirit Obligated Group”). The CommonSpirit Obligated Group represents approximately 87% of consolidated revenues of CommonSpirit as of December 31, 2021. The bond portfolio remains well diversified, with a high proportion of long-term fixed rate debt providing stability.

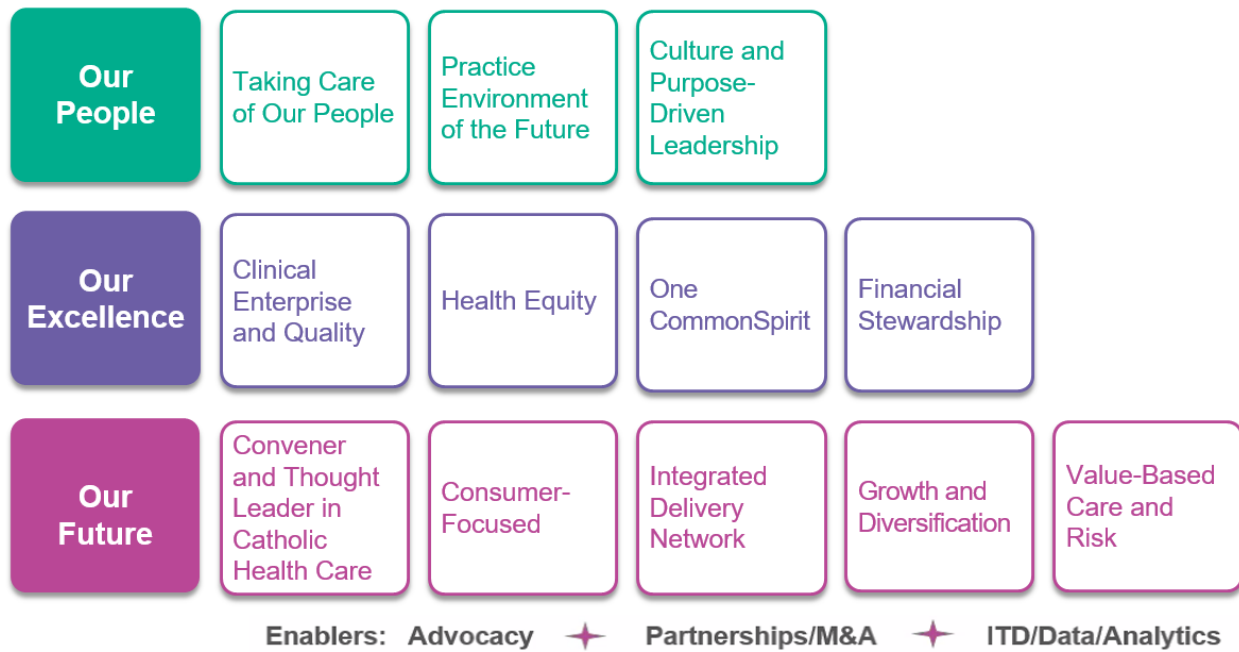
The chart below depicts CommonSpirit’s debt mix as of December 31, 2021, as compared to June 30, 2021:



## Strategic Focus and Priorities

CommonSpirit recently 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 healthcare to meet the evolving needs of our communities and consumers, particularly given the rapidly changing healthcare landscape and the disruption of the COVID-19 pandemic. CommonSpirit 2026 provides flexibility for our diverse operations and communities across 21 states to come together around a common direction and creates a path to maintaining long-term sustainability for the organization.

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



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

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

CommonSpirit believes in addressing both the near-term caregiver shortages, as well as addressing the root cause of these shortages through increasing the pipeline, including CommonSpirit’s development of a national nurse residency program, and a virtual nursing program. The virtual nursing program uses RNs in remote locations to relieve onsite RNs from administrative tasks, and a new model that utilizes new team members to include pharmacists, LPNs, nursing assistants and paramedics in patient care. The use of these new team members supplements the limited number of RNs as virtual nurses can assist with the supervision and education of non-

licensed personnel. The virtual nursing program is live in six CommonSpirit locations with plans to roll these programs out at 130 locations systemwide over the next 18 months.

Developing the workforce of the future also encompasses physician training and development strategies. CommonSpirit has established important partnerships with leading universities and academic medical centers, including Morehouse School of Medicine, Baylor College of Medicine, and Creighton University, and Virginia Mason, to help build a pipeline of diverse and culturally appropriate caregivers to meet the needs of the communities we serve. To further this work, in November 2021, CommonSpirit Health and Morehouse School of Medicine announced the development of three undergraduate and four graduate medical education sites that will address two of the most pressing challenges in health care – a shortage of diverse clinicians and the need for more equitable health care. The announcement launches the first phase of the More in Common Alliance, a 10-year, \$100 million initiative to increase cultural competency and expand representation to improve both access and quality of care patients receive. First phase sites include undergraduate training opportunities at CommonSpirit hospitals in Chattanooga, Tenn., Lexington, Ky., and Seattle, Wash., and post-graduate residencies and fellowships in California in Bakersfield, Los Angeles, Santa Cruz, and Ventura County.

***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 healthcare 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.

During the quarter ended December 31, 2021, CommonSpirit received an upgrade from Standard & Poor's to "A-", and Moody's and Fitch improved CommonSpirit's outlook to positive. This reflects an important recognition of the achievements CommonSpirit made to transform the organization and position CommonSpirit for the future, while caring for approximately 100,000 people with COVID who have been admitted to CommonSpirit hospitals since the start of the pandemic.

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

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

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

As part of its work to expand access to patient-centered, personalized care, CommonSpirit continues to invest in virtual care through video visits, online health assessments, pre-visit screening, and other means to deliver care to

our communities. Virtual care extends across the continuum of care (virtual nursing, pharmacy, ICU, health at home, palliative care and other applications). Since the onset of the COVID-19 pandemic through December 31, 2021, CommonSpirit provided approximately 2.1 million virtual visits.

CommonSpirit continues to build upon cross-disciplinary Population Health capabilities, to leverage and accelerate existing investments, and innovate to drive value-based care transformation across CommonSpirit, ignited by the shifting reimbursement landscape. Value-based agreements (“VBAs”) contain reimbursement provisions linked to successfully achieving measures designed to improve quality of care, the patient experience, and the cost of health care of an attributed population. As of December 31, 2021, CommonSpirit provides care for approximately 2.7 million people attributed to VBAs, of which nearly 50% are in downside risk, signaling a robust commitment to value-based care. National, coordinated initiatives focused on VBA performance have shown early success. CommonSpirit’s accountable care organizations (ACOs) provided 12% more annual wellness visits than the prior year period. The increase in visits allows CommonSpirit’s providers to proactively address health concerns while enabling patients to receive appropriate preventative clinical services. These types of initiatives contributed to the success in the Center for Medicare and Medicaid Services ACO programs during fiscal year 2020, driving \$136 million shared savings to Medicare and \$70 million in earned shared savings to CommonSpirit, achieving a 98% average quality score. This work is supported by the development of an all payor value-based claims source database, to provide an unprecedented view of CommonSpirit’s value-based populations.

## **Exhibit I**

Unaudited Condensed Consolidated Financial Statements as of and for the Three and Six-Month  
Periods Ended December 31, 2021 and 2020

(ATTACHED)

**COMMONSPIRIT HEALTH**

**UNAUDITED CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**For the Three and Six-Month Periods Ended December 31, 2021 and 2020**



# COMMONSPIRIT HEALTH

## TABLE OF CONTENTS

---

### QUARTERLY FINANCIAL STATEMENTS

|   |      |
|---|------|
| Condensed Consolidated Balance Sheets as of December 31, 2021 (unaudited) and<br>June 30, 2021  | 2-3  |
| Unaudited Condensed Consolidated Statements of Operations and Changes in<br>Net Assets for the Three and Six-Month Periods Ended December 31, 2021 and 2020 | 4-6  |
| Unaudited Condensed Consolidated Statements of Cash Flows for the<br>Six-Month Periods Ended December 31, 2021 and 2020                                     | 7-8  |
| Notes to Unaudited Condensed Consolidated Financial Statements  | 9-24 |

# COMMONSPIRIT HEALTH

## CONDENSED CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2021 AND JUNE 30, 2021 (in millions)

---

|  | As of<br>December 31,<br>2021<br>(Unaudited) | As of<br>June 30,<br>2021 |
|--|--|---------------------------|
| <b>Assets</b>                                    |  |                           |
| Current assets:                                  |  |                           |
| Cash and cash equivalents                        | \$ 2,866                                     | \$ 3,329                  |
| Short-term investments                           | 971  | 1,124                     |
| Patient accounts receivable, net                 | 4,732  | 4,323                     |
| Provider fee receivable                          | 1,331  | 1,151                     |
| Other current assets                             | <u>2,439</u>                                 | <u>2,354</u>              |
| Total current assets                             | <u>12,339</u>                                | <u>12,281</u>             |
| Long-term investments                            | 18,513                                       | 19,497                    |
| Property and equipment, net                      | 16,109                                       | 16,274                    |
| Right-of-use operating lease assets              | 1,893  | 1,892                     |
| Ownership interests in health-related activities | 3,113  | 3,141                     |
| Other long-term assets, net                      | <u>1,877</u>                                 | <u>1,791</u>              |
| Total assets                                     | <u>\$ 53,844</u>                             | <u>\$ 54,876</u>          |

(Continued)

# COMMONSPIRIT HEALTH

## CONDENSED CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2021 AND JUNE 30, 2021 (in millions)

|  | As of<br>December 31,<br>2021<br>(Unaudited) | As of<br>June 30,<br>2021 |
|--|--|---------------------------|
| <b>Liabilities and Net Assets</b>                                |  |                           |
| Current liabilities:   |  |                           |
| Current portion of long-term debt                                | \$ 953                                       | \$ 754                    |
| Demand bonds subject to short-term liquidity arrangements        | 247  | 247                       |
| Accounts payable   | 1,552  | 1,705                     |
| Accrued salaries and benefits                                    | 1,525  | 1,994                     |
| Provider fee payables  | 478  | 405                       |
| Medicare advances  | 1,863  | 1,422                     |
| Other accrued liabilities - current                              | 2,954  | 2,931                     |
| Total current liabilities  | <u>9,572</u>                                 | <u>9,458</u>              |
| Other liabilities - long-term:                                   |  |                           |
| Self-insured reserves and claims                                 | 1,054  | 1,024                     |
| Pension and other postretirement benefit liabilities             | 3,727  | 3,761                     |
| Derivative instruments   | 228  | 287                       |
| Operating lease liabilities                                      | 1,795  | 1,801                     |
| Medicare advances - long-term                                    | -  | 1,088                     |
| Other accrued liabilities - long-term                            | 794  | 1,018                     |
| Total other liabilities - long-term                              | <u>7,598</u>                                 | <u>8,979</u>              |
| Long-term debt, net of current portion                           | <u>14,302</u>                                | <u>14,541</u>             |
| Total liabilities  | <u>31,472</u>                                | <u>32,978</u>             |
| Net assets:  |  |                           |
| Without donor restrictions - attributable to CommonSpirit Health | 20,042                                       | 19,646                    |
| Without donor restrictions - noncontrolling interests            | 1,204  | 1,187                     |
| With donor restrictions  | 1,126  | 1,065                     |
| Total net assets   | <u>22,372</u>                                | <u>21,898</u>             |
| Total liabilities and net assets                                 | <u>\$ 53,844</u>                             | <u>\$ 54,876</u>          |

See notes to unaudited condensed consolidated financial statements.

# COMMONSPIRIT HEALTH

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2021 AND 2020 (in millions)

|   | Three-Month Periods Ended<br>December 31, |                 | Six-Month Periods Ended<br>December 31, |                 |
|---|---|-----------------|---|-----------------|
|   | 2021                                      | 2020            | 2021                                    | 2020            |
| Operating revenues:   |   |                 |   |                 |
| Net patient revenue   | \$ 7,959                                  | \$ 7,242        | \$ 15,658                               | \$ 14,056       |
| Premium revenue   | 279                                       | 295             | 570                                     | 594             |
| Revenue from health-related activities, net                                       | 54  | 93              | 125                                     | 169             |
| Other operating revenue   | 571                                       | 638             | 1,038                                   | 1,154           |
| Contributions   | <u>16</u>                                 | <u>13</u>       | <u>36</u>                               | <u>29</u>       |
| Total operating revenues  | <u>8,879</u>                              | <u>8,281</u>    | <u>17,427</u>                           | <u>16,002</u>   |
| Operating expenses:   |   |                 |   |                 |
| Salaries and benefits   | 4,586                                     | 3,913           | 8,862                                   | 7,590           |
| Supplies  | 1,468                                     | 1,316           | 2,886                                   | 2,533           |
| Purchased services and other  | 2,383                                     | 2,215           | 4,735                                   | 4,400           |
| Depreciation and amortization   | 404                                       | 360             | 756                                     | 730             |
| Interest expense, net   | <u>119</u>                                | <u>114</u>      | <u>235</u>                              | <u>219</u>      |
| Total operating expenses  | <u>8,960</u>                              | <u>7,918</u>    | <u>17,474</u>                           | <u>15,472</u>   |
| Operating income (loss)   | (81)                                      | 363             | (47)                                    | 530             |
| Nonoperating income:  |   |                 |   |                 |
| Investment income, net  | 217                                       | 1,186           | 401                                     | 1,813           |
| Loss on early extinguishment of debt  | -   | (12)            | -                                       | (12)            |
| Income tax expense  | (70)                                      | (20)            | (76)                                    | (30)            |
| Change in fair value and cash payments<br>of interest rate swaps                  | 2   | 30              | 22                                      | 42              |
| Contribution from business combination  | -   | 509             | -                                       | 509             |
| Other components of net periodic<br>postretirement costs                          | 71  | 14              | 142                                     | 29              |
| Other   | <u>(1)</u>                                | <u>3</u>        | <u>(3)</u>                              | <u>9</u>        |
| Total nonoperating income, net  | <u>219</u>                                | <u>1,710</u>    | <u>486</u>                              | <u>2,360</u>    |
| Excess of revenues over expenses  | <u>\$ 138</u>                             | <u>\$ 2,073</u> | <u>\$ 439</u>                           | <u>\$ 2,890</u> |
| Less excess of revenues over expenses attributable<br>to noncontrolling interests | <u>20</u>                                 | <u>127</u>      | <u>52</u>                               | <u>144</u>      |
| Excess of revenues over expenses attributable to<br>CommonSpirit Health           | <u>\$ 118</u>                             | <u>\$ 1,946</u> | <u>\$ 387</u>                           | <u>\$ 2,746</u> |

(Continued)

## COMMONSPIRIT HEALTH

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2021 AND 2020 (in millions)

|  | Without Donor Restrictions          |                          |                         | Total Net Assets |
|--|-------------------------------------|--------------------------|-------------------------|------------------|
|  | Attributable to CommonSpirit Health | Noncontrolling Interests | With Donor Restrictions |                  |
| Balance, September 30, 2020                                    | \$ 13,118                           | \$ 417                   | \$ 890                  | \$ 14,425        |
| Excess of revenues over expenses                               | 1,946                               | 127                      | -                       | 2,073            |
| Contributions  | -                                   | -                        | 32                      | 32               |
| Contributions from business combinations                       | -                                   | 573                      | 5                       | 578              |
| Net assets released from restrictions for capital              | 6                                   | -                        | (6)                     | -                |
| Net assets released from restrictions for operations and other | -                                   | -                        | (6)                     | (6)              |
| Loss from discontinued operations, net                         | (1)                                 | -                        | -                       | (1)              |
| Other  | 13                                  | (21)                     | 14                      | 6                |
| Increase in net assets   | <u>1,964</u>                        | <u>679</u>               | <u>39</u>               | <u>2,682</u>     |
| Balance, December 31, 2020                                     | <u>\$ 15,082</u>                    | <u>\$ 1,096</u>          | <u>\$ 929</u>           | <u>\$ 17,107</u> |
| Balance, September 30, 2021                                    | \$ 19,926                           | \$ 1,205                 | \$ 1,074                | \$ 22,205        |
| Excess of revenues over expenses                               | 118                                 | 20                       | -                       | 138              |
| Contributions  | -                                   | -                        | 46                      | 46               |
| Net assets released from restrictions for capital              | 10                                  | -                        | (10)                    | -                |
| Net assets released from restrictions for operations and other | -                                   | -                        | (21)                    | (21)             |
| Loss from discontinued operations, net                         | (9)                                 | -                        | -                       | (9)              |
| Other  | (3)                                 | (21)                     | 37                      | 13               |
| Increase (decrease) in net assets                              | <u>116</u>                          | <u>(1)</u>               | <u>52</u>               | <u>167</u>       |
| Balance, December 31, 2021                                     | <u>\$ 20,042</u>                    | <u>\$ 1,204</u>          | <u>\$ 1,126</u>         | <u>\$ 22,372</u> |

(Continued)

## COMMONSPIRIT HEALTH

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2021 AND 2020 (in millions)

|  | Without Donor Restrictions          |                          |                         | Total Net Assets |
|--|-------------------------------------|--------------------------|-------------------------|------------------|
|  | Attributable to CommonSpirit Health | Noncontrolling Interests | With Donor Restrictions |                  |
| Balance, June 30, 2020   | \$ 12,317                           | \$ 419                   | \$ 859                  | \$ 13,595        |
| Excess of revenues over expenses                               | 2,746                               | 144                      | -                       | 2,890            |
| Contributions  | -                                   | -                        | 54                      | 54               |
| Contribution from business combination                         | -                                   | 573                      | 5                       | 578              |
| Net assets released from restrictions for capital              | 10                                  | -                        | (10)                    | -                |
| Net assets released from restrictions for operations and other | -                                   | -                        | (18)                    | (18)             |
| Other  | 9                                   | (40)                     | 39                      | 8                |
| Increase in net assets   | 2,765                               | 677                      | 70                      | 3,512            |
| Balance, December 31, 2020                                     | <u>\$ 15,082</u>                    | <u>\$ 1,096</u>          | <u>\$ 929</u>           | <u>\$ 17,107</u> |
| Balance, June 30, 2021   | \$ 19,646                           | \$ 1,187                 | \$ 1,065                | \$ 21,898        |
| Excess of revenues over expenses                               | 387                                 | 52                       | -                       | 439              |
| Contributions  | -                                   | -                        | 76                      | 76               |
| Net assets released from restrictions for capital              | 16                                  | -                        | (16)                    | -                |
| Net assets released from restrictions for operations and other | -                                   | -                        | (37)                    | (37)             |
| Loss from discontinued operations, net                         | (12)                                | -                        | -                       | (12)             |
| Other  | 5                                   | (35)                     | 38                      | 8                |
| Increase in net assets   | 396                                 | 17                       | 61                      | 474              |
| Balance, December 31, 2021                                     | <u>\$ 20,042</u>                    | <u>\$ 1,204</u>          | <u>\$ 1,126</u>         | <u>\$ 22,372</u> |

See notes to unaudited condensed consolidated financial statements.

# COMMONSPIRIT HEALTH

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2021 AND 2020 (in millions)

|   | Six-Month Periods Ended<br>December 31, |          |
|---|---|----------|
|   | 2021                                    | 2020     |
| Cash flows from operating activities:   |   |          |
| Change in net assets  | \$ 474                                  | \$ 3,512 |
| Adjustments to reconcile change in net assets to cash provided by (used in) operating activities: |   |          |
| Loss on early extinguishment of debt  | -                                       | 12       |
| Depreciation and amortization   | 756                                     | 730      |
| Changes in equity of health-related entities  | (121)                                   | (172)    |
| Contribution from business combination  | -                                       | (509)    |
| Net assets related to business combination  | -                                       | (5)      |
| Net loss on sales of facilities and investments in unconsolidated organizations                   | (2)                                     | (11)     |
| Noncash operating expenses related to restructuring, impairment and other losses                  | 5                                       | -        |
| Change in fair value of swaps   | (47)                                    | (79)     |
| Pension cash contributions  | (11)                                    | (4)      |
| Changes in certain assets and liabilities:  |   |          |
| Accounts receivable, net  | (424)                                   | (436)    |
| Accounts payable  | (128)                                   | (6)      |
| Self-insured reserves and claims  | 10                                      | (83)     |
| Accrued salaries and benefits   | (468)                                   | (34)     |
| Changes in broker receivables/payables for unsettled investment trades                            | (33)                                    | 76       |
| Provider fee assets and liabilities   | (107)                                   | (238)    |
| Medicare advances   | (647)                                   | 23       |
| Other accrued liabilities   | (6)                                     | (10)     |
| Prepaid and other current assets  | (28)                                    | (62)     |
| Other, net  | (299)                                   | 414      |
| Cash provided by (used in) operating activities before net change in investments                  | (1,076)                                 | 3,118    |
| Net (increase) decrease in investments  | 1,115                                   | (3,397)  |
| Cash provided by (used in) operating activities   | 39                                      | (279)    |

(Continued)

# COMMONSPIRIT HEALTH

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2021 AND 2020 (in millions)

|  | Six-Month Periods Ended<br>December 31, |                 |
|--|---|-----------------|
|  | 2021                                    | 2020            |
| Cash flows from investing activities:                                    |   |                 |
| Purchases of property and equipment                                      | (643)                                   | (599)           |
| Investments in health-related activities                                 | (51)                                    | (75)            |
| Business acquisitions, net of cash acquired                              | 3                                       | -               |
| Proceeds from asset sales  | 271                                     | 91              |
| Cash distributions from health-related activities                        | 58                                      | 42              |
| Other, net   | <u>(38)</u>                             | <u>(134)</u>    |
| Cash used in investing activities  | <u>(400)</u>                            | <u>(675)</u>    |
| Cash flows from financing activities:                                    |   |                 |
| Borrowings   | 104                                     | 2,346           |
| Repayments   | (154)                                   | (2,522)         |
| Loss on early extinguishment of debt                                     | -                                       | (12)            |
| Swaps cash collateral posted   | (12)                                    | 45              |
| Distributions to noncontrolling interests                                | (31)                                    | (39)            |
| Contribution by noncontrolling interests                                 | <u>(9)</u>                              | <u>-</u>        |
| Cash used in financing activities  | <u>(102)</u>                            | <u>(182)</u>    |
| Net decrease in cash and cash equivalents                                | (463)                                   | (1,136)         |
| Cash and cash equivalents at beginning of period                         | <u>3,329</u>                            | <u>5,927</u>    |
| Cash and cash equivalents at end of period                               | <u>\$ 2,866</u>                         | <u>\$ 4,791</u> |
| Supplemental disclosures of cash flow information:                       |   |                 |
| Cash paid for interest, net of capitalized interest                      | <u>\$ 238</u>                           | <u>\$ 216</u>   |
| Supplemental schedule of noncash investing and financing activities:     |   |                 |
| Property and equipment acquired through finance lease<br>or note payable | <u>\$ 25</u>                            | <u>\$ 136</u>   |
| Investments in health-related activities                                 | <u>\$ 47</u>                            | <u>\$ 40</u>    |
| Accrued purchases of property and equipment                              | <u>\$ 58</u>                            | <u>\$ 83</u>    |

See notes to unaudited condensed consolidated financial statements.



# COMMONSPIRIT HEALTH

## 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. CommonSpirit Health is comprised of more than 1,500 care sites, consisting of 140 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.

***Reclassification*** – Certain reclassifications and changes in presentation were made in the 2020 consolidated financial statements to conform to the 2021 presentation of the statement of cash flows. This is a result of the reassessment of financial statement presentation methodology regarding the classification of underlying investments due to ongoing integration efforts related to the affiliation between Dignity Health and Catholic Health Initiatives (“CHI”), including the consolidation of its investments into the CommonSpirit Health Operating Investments Pool, LLC in October 2020. These changes to the presentation of total cash and cash equivalents were reflected in the June 30, 2021, consolidated audited financial statements, impacting the beginning balance and net (increase) decrease in investments in the unaudited condensed consolidated statement of cash flows for the six-month period ended December 31, 2020. These reclassifications did not have any impact on net assets or changes in net assets.

In the three-month period ended December 31, 2021, CommonSpirit reclassified assets and liabilities previously held for sale as ministries in North Dakota and Minnesota no longer met the requirements as held for sale. The assets and liabilities were classified as held for sale, within other current assets and other accrued liabilities - current, respectively, in the audited consolidated balance sheet as of June 30, 2021, but have been reclassified for all periods presented to the respective financial statement line items in the accompanying condensed consolidated financial statements. Additional depreciation expense related to the reclassification was recorded in the three-month period ended December 31, 2021, and is immaterial to the unaudited condensed consolidated financial statements.

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

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

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

**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 related 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 the six-month periods ended December 31, 2021 and 2020, 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.

**Recent Accounting Pronouncements** – In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20) Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, which applies to employer sponsored defined benefit pension and other postretirement plans. The amendments modify, remove and add certain disclosure requirements. The guidance is effective for CommonSpirit for the annual period ended June 30, 2022. CommonSpirit is evaluating the effect on the consolidated financial statements.

**Subsequent Events** – CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal quarter and February 15, 2022, the date the unaudited condensed consolidated financial statements were issued. See Note 3.

### 3. ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

**Yavapai Regional Medical Center** – In November 2020, a consolidated affiliate of CommonSpirit, Dignity Community Care (“DCC”), and Yavapai Community Hospital Association, dba Yavapai Regional Medical Center (“YRMC”), an Arizona nonprofit corporation, effected a business combination which transferred the sole membership of YRMC and its applicable subsidiaries to DCC for no cash consideration. YRMC owns and operates two acute care hospitals, a regional wellness center, an imaging center, a network of primary and specialty physician clinics, and a fundraising foundation in the Prescott, Arizona area. The transaction resulted in the recognition of a \$509 million gain, recorded as contribution from business combination in nonoperating income (loss) in the accompanying condensed consolidated statements of operations and changes in net assets, and \$5 million was recorded as contribution from business combination for net assets with donor restrictions, calculated as the fair value of the excess of identifiable assets acquired over liabilities assumed, determined based on Level 3 inputs, including estimated cash flows and probability weighted performance assumptions. The gain on business combination was recorded in the three-month period ended December 31, 2020.

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

|  |               |
|--|---------------|
| Current assets                         | \$ 226        |
| Long-term investments                  | 124           |
| Property and equipment, net            | 272           |
| Other long-term assets, net            | 63            |
| Current liabilities                    | (33)          |
| Other liabilities - long-term          | (7)           |
| Long-term debt, net of current portion | <u>(131)</u>  |
| Total contribution of net assets       | <u>\$ 514</u> |

**Virginia Mason Health System** – In January 2021, CommonSpirit formed a new integrated health system through the creation of a Joint Operating Company (“JOC”), Virginia Mason Franciscan Health (“VMFH”), a Washington nonprofit corporation, bringing together CommonSpirit Franciscan Health System and Virginia Mason Health System (“VMHS”). With the addition of an acute hospital and other care sites from VMHS, VMFH now operates eleven hospitals and nearly 300 sites of care within the Pacific Northwest. The JOC is a controlled subsidiary of CommonSpirit. The gain on business combination was recorded in the three-month period ended March 31, 2021.

**Other** – In February 2022, CommonSpirit entered into a definitive agreement to acquire two hospital facilities, one in western Kansas and one in northern Colorado, for \$135 million. The acquired facilities will 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 our existing Joint Operating Agreement. The transaction is subject to customary closing terms and conditions and is scheduled to complete by the end of the fiscal year.

In the three-month period ended December 31, 2021, CommonSpirit reclassified the assets and liabilities previously held for sale as ministries in North Dakota and Minnesota no longer met the requirements as held for sale. See reclassification of assets and liabilities previously held for sale in Note 2.

#### 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 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. CommonSpirit received approximately \$478 million and \$1.1 billion in fiscal years 2021 and 2020, respectively, of which \$690 million and \$826 million was recognized in fiscal years 2021 and 2020, respectively, within other operating revenues, under the CARES Act in the form of provider relief grants as reimbursement through the Public Health and Social Services Emergency Fund for lost revenues attributable to COVID-19 (“CARES PRF”). An additional \$13 million and \$16 million was received in the three and six-month periods ending December 31, 2021, respectively. These payments are recorded as other operating revenues, as earned. These funds are not required to be repaid upon attestation and compliance with certain terms and conditions. For the six-month periods ended December 30, 2021 and 2020, \$14 million and \$484 million, respectively, has been recognized within other operating revenue. As of December 31, 2021, and June 30, 2021, \$17 million and \$15 million, respectively, 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 the CARES PRF funding and the impact of the pandemic on revenues and expenses.

To date, CommonSpirit has also received \$2.8 billion in funds under the Medicare Accelerated and Advance Payment Program, of which \$2.6 billion was received as of June 30, 2020, and the remainder in fiscal year 2021. No additional funds have been received in fiscal year 2022. These payments are advances that will be recouped by withholding future Medicare fee-for-service payments for claims until such time as the full accelerated payment has been recouped. As of December 31, 2021, and June 30, 2021, the terms and conditions in effect prescribe that any outstanding balance remaining after 29 months from date of receipt are subject to interest of 4%. As such, the full balance of \$1.9 billion is recorded as a current liability in Medicare advances, as of December 31, 2021. As of June 30, 2021, \$1.4 billion was recorded as a current liability in Medicare advances, and \$1.1 billion was recorded in Medicare advances – long-term.

CommonSpirit had deferred approximately \$416 million of employer payroll taxes through December 31, 2021, pursuant to the Paycheck Protection Program and Health Care Enhancement Act, of which \$208 million was paid in December 2021, and \$208 million is recorded as a current liability in accrued salaries and benefits.

CommonSpirit recorded \$64 million of Employee Retention Credits under the CARES Act 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 |                 | Six-Month Periods Ended |                  |
|--------------------|---------------------------|-----------------|-------------------------|------------------|
|                    | December 31,              |                 | December 31,            |                  |
|                    | 2021                      | 2020            | 2021                    | 2020             |
| Government         | \$ 3,996                  | \$ 3,647        | \$ 7,846                | \$ 7,109         |
| Contracted         | 3,413                     | 3,045           | 6,538                   | 5,848            |
| Self-pay and other | 550                       | 550             | 1,274                   | 1,099            |
|                    | <u>\$ 7,959</u>           | <u>\$ 7,242</u> | <u>\$ 15,658</u>        | <u>\$ 14,056</u> |

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. CASH AND INVESTMENTS

CommonSpirit's cash and investments include consolidated membership interests in the CommonSpirit Health Operating Investment Pool, LLC as of December 31, 2021, and June 30, 2021. Short-term and long-term investments also include assets limited as to use set aside by CommonSpirit for future long-term purposes as outlined below (in millions):

|  | As of December 31,<br>2021 | As of June 30,<br>2021 |
|--|----------------------------|------------------------|
| Cash and cash equivalents                        | \$ 2,866                   | \$ 3,329               |
| Short-term investments                           | 971                        | 1,124                  |
| Long-term investments                            | <u>18,513</u>              | <u>19,497</u>          |
| Total cash and investments                       | <u>22,350</u>              | <u>23,950</u>          |
| Less:  |                            |                        |
| Held for self-insured claims                     | 1,894                      | 1,888                  |
| Under bond indenture agreements for debt service | 87                         | 85                     |
| Donor-restricted                                 | 627                        | 607                    |
| Other  | <u>764</u>                 | <u>707</u>             |
| Total assets limited as to use                   | <u>3,372</u>               | <u>3,287</u>           |
| Unrestricted cash and investments                | <u>\$ 18,978</u>           | <u>\$ 20,663</u>       |

## 7. FAIR VALUE MEASUREMENTS

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

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

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

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

The following represents assets and liabilities measured at fair value or at the net asset value (“NAV”) practical expedient on a recurring basis as of December 31, 2021, and June 30, 2021, respectively (in millions):

|                                 | <b>December 31, 2021</b>   |  |  |                  |
|---------------------------------|--|--|--|------------------|
|                                 | <b>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Instruments<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Total</b>     |
| <b>Assets</b>                   |  |  |  |                  |
| Cash and short-term investments | \$ 3,257   | \$ 148   | \$ -   | \$ 3,405         |
| U.S. government securities      | 1,362  | 277  | -  | 1,639            |
| U.S. corporate bonds            | 91   | 982  | -  | 1,073            |
| U.S. equity securities          | 2,299  | 3  | -  | 2,302            |
| Foreign government securities   | -  | 166  | -  | 166              |
| Foreign corporate bonds         | 1  | 536  | -  | 537              |
| Foreign equity securities       | 2,312  | 1  | -  | 2,313            |
| Asset-backed securities         | -  | 139  | -  | 139              |
| Private equity                  | -  | -  | 54   | 54               |
| Real estate                     | 46   | 1  | -  | 47               |
| Community Investment Program    | -  | -  | 136  | 136              |
| Other investments               | 193  | 220  | -  | 413              |
| Assets measured at fair value   | <u>\$ 9,561</u>  | <u>\$ 2,473</u>  | <u>\$ 190</u>  | <u>12,224</u>    |
| Assets at NAV                   |  |  |  | 10,126           |
| Total assets                    |  |  |  | <u>\$ 22,350</u> |
| <b>Liabilities</b>              |  |  |  |                  |
| Derivative instruments          | \$ -   | \$ 425   | \$ -   | \$ 425           |
| Other                           | 3  | -  | 92   | 95               |
| Total liabilities               | <u>\$ 3</u>  | <u>\$ 425</u>  | <u>\$ 92</u>   | <u>\$ 520</u>    |

**June 30, 2021**

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

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 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 \$84 million and \$209 million as of December 31, 2021, and June 30, 2021, respectively.



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

Investments that are measured using the NAV per share practical expedient have not been classified in the fair value hierarchy. The NAV amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the condensed 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 December 31, 2021 (in millions):

|                                      |     | NAV<br>Practical<br>Expedient | Unfunded<br>Commitments | Redemption<br>Frequency (If<br>Currently Eligible)               | Redemption<br>Notice<br>Period |
|--------------------------------------|-----|-------------------------------|-------------------------|--|--------------------------------|
| Private equity                       | (1) | \$ 1,318                      | \$ 607                  | -  | -                              |
| Multi-strategy hedge funds           | (2) | 2,935                         | -                       | Weekly, Monthly,<br>Quarterly, Annually                          | 3 - 90 days                    |
| Real estate                          | (3) | 1,007                         | 178                     | Quarterly  | 45 - 90 days                   |
| Commingled funds - debt securities   | (4) | 1,625                         | 39                      | Daily, Monthly, Quarterly  | 1 - 90 days                    |
| Commingled funds - equity securities | (5) | 3,241                         | -                       | Daily, Weekly, Bi-<br>Weekly, Monthly, Bi-<br>Monthly, Quarterly | 2 - 90 days                    |
| Total                                |     | <u>\$ 10,126</u>              | <u>\$ 824</u>           |  |                                |

- (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 December 31, 2021, 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 December 31, 2021:

| Percentage of the Value<br>of Category (2) |          | Redemption<br>Frequency | Redemption<br>Notice<br>Period | Redemption<br>Locked Up Until<br>(if applicable) | Redemption<br>Gate % of Account<br>(if applicable) |
|--|----------|-------------------------|--------------------------------|--|--|
| Total                                      | Subtotal |                         |                                |  |  |
| 6.0%                                       | 5.1%     | Annually                | 60 days                        | up to 2 years                                    | up to 50.0%  |
|  | 0.9%     | Annually                | 75 days                        | -  | -  |
| 30.5%                                      | 3.7%     | Quarterly               | 45 days                        | up to 2 years                                    | up to 20.0%  |
|  | 16.5%    | Quarterly               | 55 - 65 days                   | up to 2 years                                    | up to 10.0% - 50.0%                                |
|  | 10.3%    | Quarterly               | 90 days                        | -  | up to 12.5% - 25.0%                                |
| 48.7%                                      | 5.5%     | Monthly                 | 5 days                         | -  | up to 20.0%  |
|  | 35.8%    | Monthly                 | 30 - 45 days                   | -  | up to 16.7% - 20.0%                                |
|  | 7.4%     | Monthly                 | 60 - 90 days                   | -  | up to 20.0%  |
| 14.8%                                      | 14.8%    | Weekly                  | 3 days                         | -  | -  |

- (3) This category includes investments in real estate funds that invest primarily in institutional-quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts. Investments representing 17.2% 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 December 31, 2021, to be over the next 11 years.
- (4) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets. Also included in this category are commingled fixed income funds that provide capital in a variety of mezzanine debt, distressed debt and other special debt securities situations. Investments representing approximately 10.7% 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 December 31, 2021, to be over the next four years.
- (5) This category includes investments in commingled funds that invest primarily in domestic or foreign equity securities with multiple investment strategies. A majority of the funds attempt to match or exceed the returns of specific equity indices.

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

## 8. OTHER LONG-TERM ASSETS, NET

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

|   | As of December 31,<br>2021 | As of June 30,<br>2021 |
|---|----------------------------|------------------------|
| Notes receivable, primarily secured     | \$ 51                      | \$ 55                  |
| Goodwill                                | 301                        | 287                    |
| Intangible assets - definite-lived, net | 116                        | 122                    |
| Intangible assets - indefinite-lived    | 660                        | 660                    |
| Donor-restricted assets                 | 487                        | 451                    |
| Other                                   | 262                        | 216                    |
|   | <u>1,877</u>               | <u>1,791</u>           |
| Total other long-term assets, net       | <u>\$ 1,877</u>            | <u>\$ 1,791</u>        |

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 and \$3 million for the three-month periods ended December 31, 2021 and 2020, respectively, and \$6 million and \$5 million for the six-month periods ended December 31, 2021 and 2020, respectively. Amortization expense is recorded in depreciation and amortization in the unaudited condensed consolidated statements of operations and changes in net assets.

## 9. DEBT

The CommonSpirit's Obligated Group that is comprised of the former Dignity Health Obligated Group and CHI entities (collectively, the "CommonSpirit Obligated Group").

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

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

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

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

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

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

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

In December 2020, CommonSpirit increased a line of credit used to issue standby letters of credit from \$35 million to \$85 million.

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

## 10. DERIVATIVE INSTRUMENTS

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

|                                      | <b>Maturity<br/>Date of<br/>Derivatives</b> | <b>Interest<br/>Rate</b> | <b>Notional<br/>Amount<br/>Outstanding</b> | <b>Fair<br/>Value</b> |
|--------------------------------------|---|--------------------------|--|-----------------------|
| <b>As of December 31, 2021</b>       |   |                          |  |                       |
| Derivatives not designated as hedges |   |                          |  |                       |
| Interest rate swaps                  | 2024 - 2047                                 | 3.2% - 4.0%              | \$ 2,048                                   | \$ (426)              |
|                                      | 2022 - 2025<br>with extension               | SIFMA plus               |  |                       |
| Risk participation agreements        | options                                     | spread                   | 510  | -                     |
|                                      |   | SIFMA plus               |  |                       |
| Total return swaps                   | 2022 - 2030                                 | spread                   | 322  | 1                     |
| Total derivative instruments         |   |                          | 2,880                                      | (425)                 |
| Cash collateral                      |   |                          | -  | 197                   |
| Derivative instruments, net          |   |                          | <u>\$ 2,880</u>                            | <u>\$ (228)</u>       |
| <b>As of June 30, 2021</b>           |   |                          |  |                       |
| Derivatives not designated as hedges |   |                          |  |                       |
| Interest rate swaps                  | 2024 - 2047                                 | 3.2% - 4.0%              | \$ 2,117                                   | \$ (473)              |
|                                      | 2022 - 2025<br>with extension               | SIFMA plus               |  |                       |
| Risk participation agreements        | options                                     | spread                   | 510  | -                     |
|                                      |   | SIFMA plus               |  |                       |
| Total return swaps                   | 2024 - 2030                                 | spread                   | 322  | 1                     |
| Total derivative instruments         |   |                          | 2,949                                      | (472)                 |
| Cash collateral                      |   |                          | -  | 185                   |
| Derivative instruments, net          |   |                          | <u>\$ 2,949</u>                            | <u>\$ (287)</u>       |

CommonSpirit held \$2.0 billion notional amount of interest rate swaps and \$832 million notional amount of floating rate derivatives at December 31, 2021, which have a negative fair value of \$426 million and fair value of \$1 million, respectively. CommonSpirit posted \$197 million of collateral against the fair value of the interest rate swaps as of December 31, 2021.

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 \$55 million as of December 31, 2021. In the event the insurer is downgraded below specified minimum credit rating, the counterparties have the right terminate the swaps if CommonSpirit Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If both the insurer and CommonSpirit Health are downgraded below a specified minimum credit rating, the counterparties have the right to terminate the swaps.

CommonSpirit has \$1.9 billion notional amount of interest rate swaps that are not insured, of which the counterparties have various rights to terminate \$306 million notional. These include the outstanding notional amounts of \$100 million and \$146 million at each five-year anniversary date commencing in March 2023 and September 2023, respectively. Swaps in the outstanding notional amounts of \$60 million have mandatory puts in March 2028. The termination value would be the fair value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps with the optional and mandatory put options have a negative fair value of \$66 million as of December 31, 2021. The remaining uninsured swaps in the notional amount of \$1.6 billion have a negative fair value of \$305 million as of December 31, 2021.

CommonSpirit has floating rate derivatives in the notional amount of \$832 million as of December 31, 2021. These include \$510 million of risk participation agreements which have a fair value deemed immaterial and \$322 million notional of total return swaps with a fair value of \$1 million as of December 31, 2021.

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

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

## **11. LEASES**

CommonSpirit enters into operating and finance leases primarily for buildings and equipment and determines if an arrangement is a lease at inception of the contract. For leases with terms greater than 12 months, CommonSpirit records the related right-of-use 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 December 31, 2021, and June 30, 2021 (in millions):

| Lease Type                              | Balance Sheet Classification                   | As of<br>December 31,<br>2021 | As of<br>June 30,<br>2021 |
|---|--|-------------------------------|---------------------------|
| <b>Operating Leases:</b>                |  |                               |                           |
| Operating lease ROU assets              | Right-of-use operating lease assets            | \$ 1,893                      | \$ 1,892                  |
| Operating lease obligations - current   | Other accrued liabilities - current            | 287                           | 281                       |
| Operating lease obligations - long-term | Other liabilities: Operating lease liabilities | 1,795                         | 1,801                     |
| <b>Finance Leases:</b>                  |  |                               |                           |
| Finance lease ROU assets                | Property and equipment, net                    | \$ 286                        | \$ 292                    |
| Current finance lease liabilities       | Current portion of long-term debt              | 39                            | 36                        |
| Long-term finance lease liabilities     | Long-term debt, net of current portion         | 325                           | 334                       |

## 12. INTEREST EXPENSE, NET

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

|                              | Three-Month Periods Ended<br>December 31, |               | Six-Month Periods Ended<br>December 31, |               |
|------------------------------|---|---------------|---|---------------|
|                              | 2021                                      | 2020          | 2021                                    | 2020          |
| Interest and fees on debt    | \$ 124                                    | \$ 124        | \$ 246                                  | \$ 238        |
| Capitalized interest expense | (5)                                       | (10)          | (11)                                    | (19)          |
| Interest expense, net        | <u>\$ 119</u>                             | <u>\$ 114</u> | <u>\$ 235</u>                           | <u>\$ 219</u> |

## 13. RETIREMENT PROGRAMS

Total expense for all CommonSpirit retirement and postretirement 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 postretirement plans expense includes the following (in millions):

|   | Three-Month Periods Ended<br>December 31, |               | Six-Month Periods Ended<br>December 31, |               |
|---|---|---------------|---|---------------|
|   | 2021                                      | 2020          | 2021                                    | 2020          |
| Service cost                                | \$ 212                                    | \$ 189        | \$ 418                                  | \$ 382        |
| Other nonservice net benefit credits        | (71)                                      | (14)          | (142)                                   | (29)          |
| Retirement and postretirement plans expense | <u>\$ 141</u>                             | <u>\$ 175</u> | <u>\$ 276</u>                           | <u>\$ 353</u> |

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

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

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

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

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

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

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

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

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

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

The parties agreed in principle to resolve the litigation. An unopposed motion for approval of the terms of settlement was preliminarily approved by the court in October 2021. Various notifications, filings, and comments regarding the settlement have occurred or will occur over the next few months, with the final approval hearing on the settlement currently scheduled for March 2022. Management does not believe that the settlement will have a material adverse effect on the financial position or results of operations of CommonSpirit.

\* \* \*