

COMMONSPIRIT HEALTH

**Consolidated Financial Statements as of
and for the Years Ended June 30, 2024 and 2023
With Report of Independent Auditors**

COMMONSPIRIT HEALTH

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Report of Independent Auditors

The Board of Stewardship Trustees
CommonSpirit Health

Opinion

We have audited the consolidated financial statements of CommonSpirit Health (CommonSpirit), which comprise the consolidated balance sheets as of June 30, 2024 and 2023, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CommonSpirit at June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one

resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CommonSpirit's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CommonSpirit's ability to continue as a going concern for a reasonable period of time.

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

Other Information

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

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

Ernst & Young LLP

September 25, 2024

COMMONSPIRIT HEALTH

CONSOLIDATED BALANCE SHEETS JUNE 30, 2024 AND 2023 (in millions)

Assets	2024	2023
Current assets:		
Cash and cash equivalents	\$ 1,983	\$ 1,677
Short-term investments	300	539
Patient accounts receivable, net	5,407	4,899
Provider fee receivable	1,189	674
Other current assets	3,534	2,733
Total current assets	<u>12,413</u>	<u>10,522</u>
Long-term investments	16,879	16,483
Property and equipment, net	17,165	17,189
Right-of-use operating lease assets	1,687	1,676
Ownership interests in health-related activities	3,228	3,114
Other long-term assets, net	3,362	2,888
Total assets	<u>\$ 54,734</u>	<u>\$ 51,872</u>

(Continued)

COMMONSPIRIT HEALTH

CONSOLIDATED BALANCE SHEETS JUNE 30, 2024 AND 2023 (in millions)

Liabilities and Net Assets	2024	2023
Current liabilities:		
Current portion of long-term debt	\$ 1,006	\$ 1,966
Demand bonds subject to short-term liquidity arrangements	247	247
Accounts payable	1,456	1,342
Accrued salaries and benefits	1,688	1,512
Provider fee payable	643	268
Other accrued liabilities - current	<u>4,352</u>	<u>3,473</u>
Total current liabilities	<u>9,392</u>	<u>8,808</u>
Other liabilities - long-term:		
Self-insured reserves and claims - long-term	1,169	1,138
Pension and other postretirement benefit liabilities	1,991	2,255
Derivative instruments, net	70	77
Operating lease liabilities	1,582	1,586
Other accrued liabilities - long-term	<u>728</u>	<u>722</u>
Total other liabilities - long-term	<u>5,540</u>	<u>5,778</u>
Long-term debt, net of current portion	<u>17,550</u>	<u>16,147</u>
Total liabilities	<u>32,482</u>	<u>30,733</u>
Net assets:		
Without donor restrictions - attributable to CommonSpirit Health	20,043	18,960
Without donor restrictions - noncontrolling interests	1,012	1,062
With donor restrictions	<u>1,197</u>	<u>1,117</u>
Total net assets	<u>22,252</u>	<u>21,139</u>
Total liabilities and net assets	<u>\$ 54,734</u>	<u>\$ 51,872</u>

See notes to consolidated financial statements.

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2024 AND 2023 (in millions)

	2024	2023
Operating revenues:		
Net patient revenue	\$ 33,960	\$ 30,435
Premium revenue	1,509	1,393
Revenue from health-related activities, net	215	203
Other operating revenue	1,757	1,939
Contributions	76	81
Total operating revenues	<u>37,517</u>	<u>34,051</u>
Operating expenses:		
Salaries and benefits	19,132	17,988
Supplies	5,827	5,490
Purchased services and other	10,985	9,875
Depreciation and amortization	1,458	1,410
Interest expense, net	696	554
Total operating expenses	<u>38,098</u>	<u>35,317</u>
Operating loss	<u>(581)</u>	<u>(1,266)</u>
Nonoperating income:		
Investment income, net	1,508	1,033
Gain on early extinguishment of debt	8	-
Income tax expense	(35)	(34)
Change in fair value and cash payments of interest rate swaps	40	79
Other components of net periodic postretirement costs	(140)	61
Other	(3)	(5)
Total nonoperating income, net	<u>1,378</u>	<u>1,134</u>
Excess (deficit) of revenues over expenses	\$ 797	\$ (132)
Less excess of revenues over expenses attributable to noncontrolling interests	<u>116</u>	<u>55</u>
Excess (deficit) of revenues over expenses attributable to CommonSpirit Health	<u>\$ 681</u>	<u>\$ (187)</u>

(Continued)

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2024 AND 2023 (in millions)

	<u>Without Donor Restrictions</u>		<u>With</u>	<u>Total Net</u>
	<u>Attributable to</u>	<u>Noncontrolling</u>	<u>Donor</u>	
	<u>CommonSpirit</u>	<u>Interests</u>	<u>Restrictions</u>	<u>Assets</u>
	<u>Health</u>			
Balance, June 30, 2022	\$ 18,808	\$ 1,079	\$ 1,142	\$21,029
Excess (deficit) of revenue over expenses	(187)	55	-	(132)
Contributions	-	-	122	122
Net assets released from restrictions for capital	50	-	(50)	-
Net assets released from restrictions for operations and other	-	-	(68)	(68)
Change in funded status of pension and other postretirement benefit plans	452	-	-	452
Other	(163)	(72)	(29)	(264)
Increase (decrease) in net assets	152	(17)	(25)	110
Balance, June 30, 2023	\$ 18,960	\$ 1,062	\$ 1,117	\$21,139
Excess of revenue over expenses	681	116	-	797
Contributions	-	-	143	143
Net assets released from restrictions for capital	52	-	(52)	-
Net assets released from restrictions for operations and other	-	-	(96)	(96)
Change in funded status of pension and other postretirement benefit plans	618	-	-	618
Other	(268)	(166)	85	(349)
Increase (decrease) in net assets	1,083	(50)	80	1,113
Balance, June 30, 2024	<u>\$ 20,043</u>	<u>\$ 1,012</u>	<u>\$ 1,197</u>	<u>\$22,252</u>

See notes to consolidated financial statements.

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2024 AND 2023 (in millions)

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 1,113	\$ 110
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Gain on early extinguishment of debt	(8)	-
Depreciation and amortization	1,458	1,410
Changes in equity of health-related entities	(248)	(267)
Asset impairment of assets held for sale	180	-
Net gain on sales of assets and investments in unconsolidated organizations	(39)	-
Change in fair value of swaps	(38)	(99)
Change in funded status of pension and other postretirement benefit plans	(618)	(452)
Changes in certain assets and liabilities:		
Accounts receivable, net	(507)	(423)
Other current assets	(299)	(328)
Changes in broker receivables/payables for unsettled investment trades	(51)	68
Provider fee assets and liabilities	(140)	(121)
Accounts payable	105	(120)
Accrued salaries and benefits	125	(352)
Medicare advances	-	(807)
Other accrued liabilities	393	252
Self-insured reserves and claims - long-term	(34)	(10)
Other, net	(1)	390
Cash provided by (used in) operating activities before net change in investments	1,391	(749)
Net increase in investments	(9)	(246)
Cash provided by (used in) operating activities	1,382	(995)

(Continued)

COMMONSPIRIT HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2024 AND 2023 (in millions)

	2024	2023
Cash flows from investing activities:		
Purchases of property and equipment	\$ (1,270)	\$ (1,288)
Investments in health-related activities	(186)	(109)
Business acquisitions, net of cash acquired	(21)	(706)
Proceeds from asset sales	73	560
Cash distributions from health-related activities	125	153
Other, net	(7)	21
Cash used in investing activities	<u>(1,286)</u>	<u>(1,369)</u>
Cash flows from financing activities:		
Borrowings	4,350	2,717
Repayments	(4,016)	(1,198)
Swaps cash collateral received	27	25
Distributions to noncontrolling interests	(192)	(158)
Contribution by noncontrolling interests	33	63
Other	8	-
Cash provided by financing activities	<u>210</u>	<u>1,449</u>
Net increase (decrease) in cash and cash equivalents	306	(915)
Cash and cash equivalents at beginning of year	<u>1,677</u>	<u>2,592</u>
Cash and cash equivalents at end of year	<u>\$ 1,983</u>	<u>\$ 1,677</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	<u>\$ 667</u>	<u>\$ 568</u>
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through finance lease or note payable	<u>\$ 140</u>	<u>\$ 1,454</u>
Investments in health-related activities	<u>\$ 134</u>	<u>\$ 76</u>
Accrued purchases of property and equipment	<u>\$ 152</u>	<u>\$ 99</u>

See notes to consolidated financial statements.

COMMONSPIRIT HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2024 AND 2023

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.

CommonSpirit Health owns and operates health care facilities in 24 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations. CommonSpirit Health and substantially all of its direct affiliates and subsidiaries have been granted exemptions from federal income tax as charitable organizations under Section 501(c)(3) of the Internal Revenue Code. As of September 25, 2024, CommonSpirit Health is comprised of approximately 2,300 care sites, consisting of 137 hospitals, including academic health centers, major teaching hospitals, and critical access facilities, community health services organizations, accredited nursing colleges, home health agencies, living communities, a medical foundation and other affiliated medical groups, and other facilities and services that span the inpatient and outpatient continuum of care. An additional 21 hospitals are operated through unconsolidated joint ventures. CommonSpirit Health also has offshore and onshore captive insurance companies. The accompanying consolidated financial statements include CommonSpirit Health and its direct affiliates and subsidiaries (together, “CommonSpirit”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reclassifications – Certain reclassifications and changes in presentation were made in the 2023 consolidated financial statements to conform to the 2024 presentation. These changes include classification of amounts within the balance sheet, including provider fee receivable, provider fee payable, other long-term assets, net and other long term accrued liabilities, within the consolidated statement of operations and change in net assets, and within the statement of cash flows. These changes in presentation made are not material to the consolidated financial statements.

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

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

Inventories – Inventories, primarily consisting of pharmacy drugs and medical and surgical supplies, are stated at the lower of cost or net realizable value, determined using the first-in, first-out method. Inventories are recorded in other current assets in the accompanying consolidated balance sheets. See Note 6.

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

Assets and Liabilities Held for Sale – Assets and liabilities held for sale represent assets and liabilities that are expected to be sold within one year. A group of assets and liabilities expected to be sold within one year is classified as held for sale if it meets certain criteria. The assets and liabilities held for sale are measured at the lower of carrying value or fair value less cost to sell. Such valuations include estimates of fair values generally based upon firm offers, discounted cash flows and incremental direct costs to transact a sale (Level 2 and Level 3 inputs). These balances are recorded within other current assets and other accrued liabilities - current, respectively. See Notes 3, 6 and 12.

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

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

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

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

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

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

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

Liquidity – Cash and cash equivalents, short-term investments, patient and other accounts receivable, broker receivables, and provider fee receivables are the financial assets available to meet expected expenditure needs within the next year. Additionally, although intended to satisfy long-term obligations, management estimates that approximately 79.4% and 80.6% of the CommonSpirit Health Operating Investment Pool, LLC ("CSH OIP"), as stated as of June 30, 2024 and 2023, respectively, could be utilized within the next year, if needed. CommonSpirit also has credit facility programs, as described in Note 13, available to meet unanticipated liquidity needs.

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

Property and Equipment – Property and equipment are stated at cost if purchased and at fair market value upon receipt if acquired through a business combination or donated, or upon the date of impairment, if impaired. Depreciation of property and equipment is recorded using the straight-line method. Amortization of finance lease assets is included in depreciation expense, over the shorter of the useful life of the asset or the lease term.

Estimated useful lives by major classification are as follows:

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

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

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

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

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

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

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

Self-Insurance Plans – The liability for self-insured reserves and claims represents the estimated ultimate net cost of all reported and unreported losses incurred through June 30. Actuarial estimates of uninsured losses as of June 30, 2024 and 2023, have been accrued as liabilities and include an actuarial estimate for claims incurred but not reported ("IBNR"). CommonSpirit has insurance coverage in place for amounts in excess of the self-insured retention for workers' compensation and professional and general liabilities. The current and long-term portions of these liabilities are reflected accordingly in other accrued liabilities - current and other accrued liabilities - long-term in the accompanying consolidated balance sheets.

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

Patient Accounts Receivable and Net Patient Revenue – Patient service revenue is reported at the amounts that reflect the consideration CommonSpirit expects to be paid in exchange for providing patient care. These amounts

are due from patients, third-party payors (including health insurers and government programs) and others and include consideration for retroactive revenue adjustments due to settlement of audits and reviews. Generally, performance obligations for patients receiving inpatient acute care services and outpatient services are recognized over time as services are provided. Net patient revenue is primarily comprised of hospital and physician services.

Performance obligations are generally satisfied over a period of less than one year. As such, CommonSpirit has elected to apply the optional exemption provided in Financial Accounting Standards Board Accounting Standards Codification, *Revenue from Contracts with Customers*, and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

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

Subsequent changes that are determined to be the result of an adverse change in a third-party payor's ability to pay are recorded as bad debt expense in purchased services and other in the accompanying consolidated statements of operations and changes in net assets. Bad debt expense for 2024 and 2023 was not significant.

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

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

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

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

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

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

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

Financial Assistance (Charity Care) – Charity care is free or discounted health services provided to persons who cannot afford to pay and who meet CommonSpirit’s criteria for financial assistance. The amount of services written off as charity quantified at customary charges was \$2.1 billion and \$2.0 billion for 2024 and 2023, respectively. CommonSpirit estimates the cost of charity care by calculating a ratio of cost to usual and customary charges and applying that ratio to the usual and customary uncompensated charges associated with providing care to patients who qualify for charity care. This amount is not included in net patient revenue in the accompanying consolidated statements of operations and changes in net assets. The estimated cost of charity care associated with write-offs in 2024 and 2023 was \$559 million and \$487 million, respectively. See Note 20.

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

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

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

Total net assets with donor restrictions are \$1.2 billion and \$1.1 billion as of June 30, 2024 and 2023, respectively. Of these net assets with donor restrictions, endowment net assets totaled \$328 million and \$302 million in 2024 and 2023, respectively. Endowment assets, which are primarily to be used for equipment and expansion, research and education, or charity purposes, include donor-restricted funds that CommonSpirit must hold in perpetuity or for a donor-specified period. Changes in endowment net assets primarily relate to investment returns, contributions and appropriations for expenditures. CommonSpirit preserves the fair value of these gifts as of the date of donation unless otherwise stipulated by the donor. Donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure. CommonSpirit considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of CommonSpirit, and (7) the investment policies of CommonSpirit.

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

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

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

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

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

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

CommonSpirit’s taxable entities did not have any material unrecognized income tax expense as of June 30, 2024 or 2023. CommonSpirit reviews its tax positions quarterly and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated financial statements.

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

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

Special Charges – Included within purchased services and other are certain non-routine, nonrecurring costs that are unusual in nature. These costs, referred to as special charges, primarily relate to impairment of long-lived assets, certain contract termination costs, certain integration activities that are specific to long-term value capture efforts, and severance costs related to system-wide reductions in force. Amounts recorded for the periods ended June 30, 2024 and 2023, are not material to the consolidated financial statements.

Related Parties - CommonSpirit includes institutions that participate in student financial assistance programs authorized by Title IV of the Higher Education Act of 1965 (“Title IV, HEA Program”). In order to participate in Title IV, HEA Program, the institutions must comply with standards outlined in 34 C.F.R. 668 Subpart B. As required under this standard the institutions participating in this program have policies in place regarding the identification and disclosure of any transactions with related parties and do not have any material related-party transactions for the years ended June 30, 2024 or 2023.

Subsequent Events – CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal year and September 25, 2024, the date the consolidated financial statements were issued. See Notes 3 and 13.

3. ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

In February 2024, CommonSpirit entered into an agreement to transfer two hospitals, along with associated clinics in San Francisco, to The University of California- San Francisco Health. The associated assets and liabilities were classified as held for sale as of June 30, 2024, to be recorded as held for sale, within other current assets and other accrued liabilities – current, respectively, in the associated consolidated balance sheets. The transfer was finalized in August 2024 and the operations of the facilities held for sale are not material to the consolidated statement of operations and changes in net assets.

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

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

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

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

In September 2022, CommonSpirit sold the facilities and assets of MercyOne, a regional health system in Iowa, to Trinity Health for a gross purchase price of \$613 million. MercyOne had operated under a Joint Operating Agreement between Trinity Health and CommonSpirit. The transaction is not material to the consolidated statement of operations and changes in net assets.

4. COVID-19 PANDEMIC

The CARES PRF provided stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. For the years ended June 30, 2024 and 2023, \$0 and \$254 million, respectively, was recognized within other operating revenue as earned.

ERC of \$34 million, net, and \$189 million, net, were recorded in the years ended June 30, 2024 and 2023, respectively. These payroll tax credits relate to qualified wages paid from March 13, 2020 through September 30, 2021.

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

5. NET PATIENT AND PREMIUM REVENUE

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

	2024	2023
Inpatient services	48%	48%
Outpatient services	52%	52%

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

	2024	2023
Government	\$ 18,470	\$ 15,845
Contracted	13,042	12,251
Self-pay and other	<u>2,448</u>	<u>2,339</u>
Net patient revenue	<u>\$ 33,960</u>	<u>\$ 30,435</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.

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

	2024	2023
Hospitals	\$ 31,465	\$ 28,064
Physician organizations	3,196	2,986
Long-term care and home care	256	261
Other	<u>552</u>	<u>517</u>
Total net patient and premium revenue	<u>\$ 35,469</u>	<u>\$ 31,828</u>

6. OTHER CURRENT ASSETS

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

	2024	2023
Inventories	\$ 839	\$ 819
Receivables, other than patient accounts receivable	1,048	883
Broker receivables for unsettled investment trades	962	535
Assets held for sale	133	-
Prepaid expenses	468	440
Other	<u>84</u>	<u>56</u>
Total other current assets	<u>\$ 3,534</u>	<u>\$ 2,733</u>

7. CASH AND INVESTMENTS

CommonSpirit's cash and investments include consolidated membership interests in the CSH OIP as of June 30, 2024 and 2023. Short-term and long-term investments also include assets limited as to use set aside by CommonSpirit for future long-term purposes as outlined below as of June 30 (in millions):

	2024	2023
Cash and cash equivalents	\$ 1,983	\$ 1,677
Short-term investments	300	539
Long-term investments	16,879	16,483
Total cash and investments	<u>19,162</u>	<u>18,699</u>
Less:		
Held for self-insured claims	1,963	1,885
Under bond indenture agreements for debt service	102	66
Donor-restricted	596	589
Other	951	703
Total assets limited as to use	<u>3,612</u>	<u>3,243</u>
Unrestricted cash and investments	<u>\$ 15,550</u>	<u>\$ 15,456</u>

8. FAIR VALUE MEASUREMENTS

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

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

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

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

The following represents assets and liabilities measured at fair value or at the NAV practical expedient on a recurring basis as of June 30 (in millions):

	2024			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Cash and short-term investments	\$ 2,288	\$ 197	\$ -	\$ 2,485
U.S. government securities	792	888	-	1,680
U.S. corporate bonds	50	629	-	679
U.S. equity securities	1,586	1	-	1,587
Foreign government securities	-	71	-	71
Foreign corporate bonds	3	228	-	231
Foreign equity securities	1,464	3	-	1,467
Structured debt	-	478	-	478
Private equity	-	-	118	118
Multi-strategy hedge funds	30	-	-	30
Real estate	5	7	-	12
Community Investment Program	-	-	198	198
Other investments	217	9	-	226
Assets measured at fair value	<u>\$ 6,435</u>	<u>\$ 2,511</u>	<u>\$ 316</u>	9,262
Assets at NAV				<u>9,900</u>
Total assets				<u>\$ 19,162</u>
Liabilities				
Derivative instruments	\$ -	\$ 97	\$ -	\$ 97
Other	2	-	91	93
Total liabilities	<u>\$ 2</u>	<u>\$ 97</u>	<u>\$ 91</u>	<u>\$ 190</u>

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

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

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

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

The fair value of collateral held under securities lending program is classified as Level 2. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include noncash collateral of \$596 million and \$561 million as of June 30, 2024 and 2023, respectively.

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

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

The following table and explanations identify attributes relating to the nature and risk of investments for which fair value is determined using a calculated NAV as of June 30, 2024 (in millions):

		NAV Practical Expedient	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Private equity	(1)	\$ 1,590	\$ 1,695	-	-
Multi-strategy hedge funds	(2)	2,320	-	Daily, Weekly, Monthly, Quarterly, Semi-annually, Annually	1 - 90 days
Real estate	(3)	1,069	148	Quarterly	45 - 90 days
Commingled funds - debt securities	(4)	986	81	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	3,935	-	Daily, Weekly, Bi- Weekly, Monthly, Bi- Monthly, Quarterly	1 - 90 days
Total		<u>\$ 9,900</u>	<u>\$ 1,924</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 as of June 30, 2024, to be over the next 14 years.

- (2) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term, risk-adjusted absolute returns. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. The following table reflects the various redemption frequencies, notice periods and any applicable lock-up periods or gates to redemption as of June 30, 2024:

Percentage of the Value of Category (2)		Redemption Frequency	Redemption Notice Period	Redemption Locked Up Until (if applicable)	Redemption Gate % of Account (if applicable)
Total	Subtotal				
7.5%	7.5%	Annually	60 days	up to 2 years	up to 50.0%
44.8%	2.1%	Quarterly	45 days	up to 2 years	up to 20.0%
	30.3%	Quarterly	55- 65 days	up to 2 years	up to 12.5% - 50.0%
	12.4%	Quarterly	90 days	up to 1 year	up to 12.5% - 25.0%
31.8%	21.2%	Monthly	30 - 45 days	-	up to 16.7% - 20.0%
	10.6%	Monthly	90 days	-	up to 20.0%
4.6%	4.6%	Weekly	3 days	-	-
1.7%	1.7%	Daily	1 day	-	-
9.6%	9.6%	None	None	up to 2 years	-

- (3) This category includes investments in real estate funds that invest primarily in institutional-quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts. Investments representing 17% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated as of June 30, 2024, to be over the next 14 years.
- (4) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets. Also included in this category are commingled fixed income funds that provide capital in a variety of mezzanine debt, distressed debt and other special debt securities situations. Investments representing approximately 16% 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 as of June 30, 2024, to be over the next five 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. Investments representing approximately 67% of the value of investments in this category do not have provisions for redemptions during the life of these funds.

9. PROPERTY AND EQUIPMENT, NET

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

	2024	2023
Land and improvements	\$ 2,019	\$ 2,100
Buildings	15,705	15,488
Equipment	<u>11,195</u>	<u>10,432</u>
Total	28,919	28,020
Add: Construction in progress	2,558	2,202
Less: Accumulated depreciation	<u>(14,312)</u>	<u>(13,033)</u>
Property and equipment, net	<u>\$ 17,165</u>	<u>\$ 17,189</u>

10. OWNERSHIP INTERESTS IN HEALTH-RELATED ACTIVITIES

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

As of June 30, 2024, CommonSpirit has investment interests of 50% in JOCs based in Ohio. As of June 30, 2023, CommonSpirit has investment interests of 65% and 50% in JOCs based in Colorado and Ohio, respectively. CommonSpirit’s interests in the JOCs are included in ownership interests in health-related activities in the accompanying consolidated balance sheets and totaled \$236 million and \$326 million as of June 30, 2024 and 2023, respectively. CommonSpirit recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide varying levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization. See Note 3.

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

- CommonSpirit’s ownership interest in Conifer Health Solutions (“Conifer”) was 23.8% as of June 30, 2024 and 2023. Conifer provides revenue cycle services and health information management solutions for a portion of CommonSpirit’s acute care operations.
- CommonSpirit’s ownership interest in Premier Health was 22% as of June 30, 2024 and 2023.
- CommonSpirit’s ownership interest in Phoenix Children’s Hospital was 20% as of June 30, 2024 and 2023.
- CommonSpirit’s ownership interest in Mercy Care was 49.75% as of June 30, 2024 and 2023.

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

	2024			
	Hospitals	JOC	Other	Total
Total assets	\$ 5,605	\$ 750	\$ 4,341	\$ 10,696
Total liabilities	2,722	279	895	3,896
Total net assets	2,883	471	3,446	6,800
Total operating revenues, net	3,995	538	6,097	10,630
Excess (deficit) of revenues over expenses	315	(200)	486	601
Investment at June 30 recorded in ownership interests in health-related activities	590	236	1,329	2,155
Income (loss) recorded in revenue from health-related activities, net	65	(101)	111	75

	2023			
	Hospitals	JOCs	Other	Total
Total assets	\$ 5,242	\$ 1,046	\$ 4,109	\$ 10,397
Total liabilities	2,676	447	1,126	4,249
Total net assets	2,566	599	2,983	6,148
Total operating revenues, net	3,431	547	6,190	10,168
Excess (deficit) of revenues over expenses	156	(181)	518	493
Investment at June 30 recorded in ownership interests in health-related activities	529	326	1,207	2,062
Income (loss) recorded in revenue from health-related activities, net	(9)	(92)	163	62

Other than the investments described above, ownership interests totaling \$1.1 billion as of June 30, 2024 and 2023, are not material individually to the consolidated financial statements.

11. OTHER LONG-TERM ASSETS, NET

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

	2024	2023
Notes receivable, primarily secured	\$ 92	\$ 56
Provider fee receivable, long-term	675	257
Goodwill	964	962
Intangible assets - definite-lived, net	101	123
Intangible assets - indefinite-lived	672	661
Donor-restricted assets	573	517
Other	285	312
Total other long-term assets, net	<u>\$ 3,362</u>	<u>\$ 2,888</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. See Note 3.

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

Goodwill and intangible assets whose lives are indefinite are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist. \$12 million of impairment on goodwill and intangibles was recorded for the year ended June 30, 2023. No impairment on goodwill or intangible assets was recorded for the year ended June 30, 2024.

The aggregate amortization expense related to intangible assets is \$11 million and \$10 million for the years ended June 30, 2024 and 2023, respectively, and is recorded in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets. Estimated amortization expense related to intangible assets is \$7 million in 2025, 2026, 2027, 2028 and 2029, and \$66 million thereafter.

12. OTHER ACCRUED LIABILITIES – CURRENT

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

	2024	2023
Construction retention and contracts payable	\$ 58	\$ 71
Liabilities held for sale	53	-
Liabilities due to medical groups and physicians	68	74
Capitation claims	104	115
Due to government agencies	94	75
Accrued interest expense	164	166
Operating lease liabilities	269	264
Self-insured reserves and claims	459	453
Broker payables for unsettled investments trades	1,351	975
Due to unconsolidated affiliates	50	50
Third-party advances	363	-
Contract labor accrual	90	108
Medical fee accrual	152	117
Capital maintenance	141	132
Medical supplies	79	77
Other	857	796
Total other accrued liabilities - current	<u>\$ 4,352</u>	<u>\$ 3,473</u>

13. DEBT

The CommonSpirit Health Master Trust Indenture (“CommonSpirit MTI”) has an Obligated Group (“CommonSpirit Obligated Group”). The CommonSpirit Obligated Group represents approximately 88% and 87% of consolidated revenues of CommonSpirit as of June 30, 2024 and 2023, respectively.

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

	2024	2023
Under the CommonSpirit MTI:		
Fixed rate debt:		
Fixed rate revenue bonds payable in installments through 2055; interest at 3.00% to 7.00%	\$ 5,987	\$ 4,954
Fixed rate taxable bonds payable in installments through 2065; interest at 1.55% to 6.46%	8,470	7,748
Taxable term loan payable in 2025; interest at 2.95%	250	250
Total fixed rate debt	<u>14,707</u>	<u>12,952</u>
Variable rate debt:		
Direct purchase bonds payable in installments through 2029; interest set at prevailing market rates (5.23% at June 30, 2024)	90	90
Floating rate notes payable with mandatory tender through 2025; interest set at prevailing market rates (5.28% at June 30, 2024)	153	153
Variable rate demand bonds payable in installments through 2047; interest set at prevailing market rates (3.05% to 4.25% at June 30, 2024)	247	247
Auction rate certificates payable in installments through 2042; interest set at prevailing market rates (3.99% to 6.00% at June 30, 2024)	240	240
Variable rate term loans payable through 2027; (6.13% to 6.23% at June 30, 2024)	545	695
Bank line of credit maturing in 2028; interest set at prevailing market rates	-	606
Commercial paper notes with maturities ranging from 12 to 270 days at June 30, 2024; interest set at prevailing market rates (5.40% to 6.00% at June 30, 2024)	307	851
Total variable rate debt	<u>1,582</u>	<u>2,882</u>
Total debt under CommonSpirit MTI	<u>16,289</u>	<u>15,834</u>
Other:		
Various notes payable and other debt payable in installments	740	789
Finance lease obligations	1,774	1,737
Total debt	<u>18,803</u>	<u>18,360</u>
Less amounts classified as current	(1,006)	(1,966)
Less demand bonds subject to short-term liquidity arrangements	(247)	(247)
Total long-term debt	<u>\$ 17,550</u>	<u>\$ 16,147</u>

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

	Long-Term Debt Other Than Demand Bonds	Demand Bonds Subject to Short- Term Liquidity Arrangements	Total Debt
2025	\$ 902	\$ 97	\$ 999
2026	1,244	-	1,244
2027	645	-	645
2028	626	-	626
2029	228	-	228
Thereafter	12,699	150	12,849
Subtotal	16,344	247	16,591
Finance lease obligations	1,774	-	1,774
Premium and Issuance cost, net	438	-	438
Total	\$ 18,556	\$ 247	\$ 18,803

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

Fixed Rate Taxable Bonds – CommonSpirit has taxable fixed rate bonds that are due in October 2025, 2029, 2030, 2049, and 2050, November 2027, 2040, 2041, 2042, 2052 and 2064 and December 2031, 2034 and 2054 as of June 30, 2024. Early redemption of the debt, in whole or in part, may require a premium depending on market rates.

Fixed Rate Taxable Term Loan – CommonSpirit has a taxable fixed rate term loan due in April 2025, classified as current debt.

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

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

Variable Rate Direct Purchase Bonds – CommonSpirit has variable rate direct purchase bonds placed with holders that bear interest at variable rates determined monthly based upon a percentage of the Secured Overnight Financing Rate (“SOFR”), plus a spread. These bonds are subject to mandatory tender on predetermined dates.

Variable Rate Demand Bonds – CommonSpirit has variable rate bonds (“VRDBs”) that are remarketed weekly and may be put at the option of the holders. Two of the four series of VRDBs, totaling \$150 million are backed by bank letters of credit, while the remaining two series of VRDBs, totaling \$97 million are supported through CommonSpirit’s self-liquidity program (as discussed above). The bank letters of credit and the self-liquidity program ensure the availability of funds to purchase any bonds tendered that the remarketing agent is unable to remarket. The letters of credit supporting the VRDBs expire in March 2027.

Variable Rate Taxable Loan – CommonSpirit has two taxable variable rate term loans that bear interest at variable rates based on SOFR, plus a spread. The two loans are due in December 2025 and March 2027.

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

Notes Payable to Banks Under Credit Agreements – CommonSpirit maintains a \$900 million syndicated line of credit facility for working capital, letters of credit, capital expenditures and other general corporate purposes. There were no amounts outstanding under the syndicated line of credit as of June 30, 2024. This credit facility expires in March 2028.

CommonSpirit maintains a \$65 million of dedicated line of credit to support the organizations self-liquidity program, to be used to fund tenders of VRDBs and maturing principal of commercial paper due to a failed remarketing. The line of credit expires in June 2026. No amounts have been drawn.

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

2025 Financing Activity – In July 2024, CommonSpirit entered into a \$103 million term loan to redeem the Series 2019B-1 Washington Health Care Facilities Authority Revenue Bonds in full. The term loan is scheduled to mature July 2026.

In July 2024, CommonSpirit issued \$160 million of taxable commercial paper notes. Proceeds were used to finance the purchase of certain previously leased real estate.

In August 2024, CommonSpirit drew \$200 million on its syndicated line of credit for working capital purposes.

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

In August 2023, CommonSpirit entered into a \$265 million term loan to refinance the \$265 million draw on its syndicated line of credit. The term loan is scheduled to mature August 2024.

In December 2023, CommonSpirit renewed a \$65 million line of credit used to support its self-liquidity program scheduled to mature in December 2023, to June 2024.

In December 2023, CommonSpirit renewed a \$345 million term loan scheduled to mature in April 2024, to December 2025.

In February 2024, CommonSpirit renewed two letters of credit used to support two series of VRDBs of \$75 million each scheduled to expire in March 2024 to March 2027. This did not change the terms, provisions or classification of the VRDBs.

In March 2024, CommonSpirit drew \$150 million on its syndicated line of credit for working capital purposes.

In March 2024, CommonSpirit issued \$2.0 billion of taxable fixed rate bonds at par, with repayments of \$775 million, \$725 million and \$489 million to be made in December 2031, 2034 and 2054 respectively. Proceeds were used to refund \$545 million of commercial paper notes, \$265 million of taxable term loan, \$156 million of outstanding balances on its syndicated line of credit and pay cost of issuance expenses. Proceeds were also used to refund \$1.0 billion of taxable fixed rate bonds, which were placed in escrow, and the bonds were defeased.

In March 2024, CommonSpirit issued \$1.0 billion of tax-exempt fixed rate bonds, at a premium. Proceeds were used to refund \$600 million of short-term loans, refund \$19 million of tax-exempt fixed rate bonds and reimburse prior capital expenditures and fund future capital expenditures. The bonds mature in December 2054.

In March 2024, CommonSpirit entered into a \$250 million term loan. Proceeds were used to refund outstanding balances on its syndicated line of credit. The term loan is scheduled to mature December 2025.

In March 2024, CommonSpirit entered into a \$200 million term loan. Proceeds were used to refund outstanding balances on its syndicated line of credit. The term loan is scheduled to mature March 2027.

In May 2024, CommonSpirit repaid \$150 million of outstanding balances on its syndicated line of credit.

In June 2024, CommonSpirit renewed a \$65 million line of credit used to support its self-liquidity program scheduled to mature in June 2024, to June 2026.

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

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

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

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

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

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

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

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

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

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

14. DERIVATIVE INSTRUMENTS

CommonSpirit's derivative instruments include 30 floating-to-fixed rate interest rate swaps and one basis swap as of June 30, 2024. CommonSpirit uses interest rate swaps to manage interest rate risk associated with outstanding variable rate debt. Under the floating-to-fixed rate swaps, CommonSpirit receives a percentage of SOFR, plus a spread and pays a fixed rate. The basis swap allows CommonSpirit Health to receive a percentage of SOFR, plus a spread and pay a percentage of the Securities Industry and Financial Markets Association ("SIFMA") index.

CommonSpirit's derivative instruments also includes seven total return swaps as of June 30, 2024. CommonSpirit receives a fixed rate and pays a variable rate percentage of SIFMA, plus a spread. CommonSpirit uses these total return swaps to reduce interest expense associated with the underlying fixed rate debt.

The following table shows the outstanding notional amount of derivative instruments measured at fair value, net of credit value adjustments, as reported in the accompanying consolidated balance sheets as of June 30, 2024 and 2023 (in millions):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
2024				
Interest rate swaps	2025 - 2047	3.2% - 4.0%	\$ 1,793	\$ (97)
Total return swaps	2028 - 2030	SIFMA plus spread	<u>451</u>	<u>-</u>
Total derivative instruments			2,244	(97)
Cash collateral			<u>-</u>	<u>27</u>
Derivative instruments, net			<u>\$ 2,244</u>	<u>\$ (70)</u>
2023				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	\$ 1,877	\$ (135)
Total return swaps	2024 - 2030	SIFMA plus spread	<u>485</u>	<u>-</u>
Total derivative instruments			2,362	(135)
Cash collateral			<u>-</u>	<u>58</u>
Derivative instruments, net			<u>\$ 2,362</u>	<u>\$ (77)</u>

CommonSpirit's interest rate swaps mature between 2025 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 \$15 million as of June 30, 2024. 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 \$1.6 billion notional amount of interest rate swaps that are not insured, of which the counterparties have various rights to terminate \$256 million notional. These include the outstanding notional amounts of \$100 million and \$96 million at each five-year anniversary date commencing in March 2028 and September 2028, respectively. Swaps in the outstanding notional amounts of \$60 million have a mandatory put in March 2028. The termination value would be the fair value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps with the optional and mandatory put options have a negative fair value of \$15 million as of June 30, 2024. The remaining uninsured swaps in the notional amount of \$1.4 billion have a negative fair value of \$67 million as of June 30, 2024.

15. LEASES

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

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

	2024	2023
Operating lease cost	\$ 350	\$ 301
Variable lease cost	146	101
Short-term rent expense	27	71
Amortization of right-of-use assets	124	53
Interest on finance lease liabilities	61	13
Sublease income	(19)	(13)
Total lease cost, net	<u>\$ 689</u>	<u>\$ 526</u>

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

Lease Type	Balance Sheet Classification	2024	2023
Operating Leases:			
Operating lease ROU assets	Right-of-use operating lease assets	\$ 1,687	\$ 1,676
Operating lease obligations - current	Other accrued liabilities - current	269	264
Operating lease obligations - long-term	Operating lease liabilities	1,582	1,586
Finance Leases:			
Finance lease ROU assets	Property and equipment, net	\$ 1,680	\$ 1,700
Current finance lease liabilities	Current portion of long-term debt	104	88
Long-term finance lease liabilities	Long-term debt, net of current portion	1,670	1,649

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

	2024	2023
ROU assets obtained in exchange for new operating lease liabilities	\$ 357	\$ 222
ROU assets obtained in exchange for new finance lease liabilities	198	1,449
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	357	316
Operating cash flows from finance leases	61	21
Financing cash flows from finance leases	95	53
Weighted-average remaining lease term:		
Operating leases	11 years	9 years
Finance leases	14 years	16 years
Weighted-average discount rate:		
Operating leases	2.6%	2.3%
Finance leases	3.9%	3.8%

Commitments related to operating and finance leases for each of the next five years and thereafter as of June 30, 2024, are as follows (in millions):

	Operating	Finance	Total
2025	\$ 314	\$ 171	\$ 485
2026	298	168	466
2027	244	169	413
2028	203	165	368
2029	177	157	334
Thereafter	944	1,490	2,434
Total minimum future lease payments	2,180	2,320	4,500
Less: Imputed interest	(329)	(546)	(875)
Total lease liabilities	1,851	1,774	3,625
Less: current lease liabilities	(269)	(104)	(373)
Total long-term lease liabilities	<u>\$ 1,582</u>	<u>\$ 1,670</u>	<u>\$ 3,252</u>

16. INTEREST EXPENSE, NET

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

	2024	2023
Interest and fees on debt	\$ 731	\$ 593
Capitalized interest expense	<u>(35)</u>	<u>(39)</u>
Interest expense, net	<u>\$ 696</u>	<u>\$ 554</u>

17. RETIREMENT PROGRAMS

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

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

Actuarial valuations are performed for all of the plans. These valuations are dependent on various assumptions. These assumptions include the discount rate and the expected rate of return on plan assets (for pension), which are important elements of expense and liability measurement. Other assumptions involve demographic factors such as retirement age, mortality, turnover, and the rate of compensation increases. CommonSpirit evaluates all assumptions in conjunction with the valuation updates and modifies them as appropriate. In the years ended June 30, 2024 and 2023, the actuarial gains were primarily driven by the change in discount rate assumption.

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

Contributions to the defined benefit pension plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. CommonSpirit Health management believes the majority of its plans qualify under a church plan exemption, and as such, are not subject to Employee Retirement Income Security Act funding requirements. CommonSpirit's funding policy requires that, at a minimum, contributions equal the unfunded normal cost, and will result in the plans being fully funded using the long-term rate assumptions. Contributions to these funded plans are anticipated to be \$174 million in 2025, which exceeds the funding policy minimum contribution.

The accumulated benefit obligation exceeds plan assets for the defined benefit plans and postretirement benefit plans in the aggregate for the years ended June 30, 2024 and 2023.

The following summarizes the benefit obligations and funded status for the defined benefit pension and postretirement benefit plans (in millions):

	2024	2023
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 11,525	\$ 11,874
Service cost	296	313
Interest cost	578	523
Actuarial gain	(337)	(512)
Settlements	(498)	(45)
Benefits paid	<u>(698)</u>	<u>(628)</u>
Benefit obligation at end of year	<u>\$ 10,866</u>	<u>\$ 11,525</u>
Accumulated benefit obligation	<u>\$ 10,460</u>	<u>\$ 11,080</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 9,716	\$ 9,722
Actual return on plan assets	723	540
Settlements	(483)	(22)
Employer contributions	198	104
Benefits paid	(698)	(628)
Acquisitions and other	<u>(26)</u>	<u>-</u>
Fair value of plan assets at end of year, net	<u>\$ 9,430</u>	<u>\$ 9,716</u>
Funded status	<u>\$ (1,436)</u>	<u>\$ (1,809)</u>

The change in net actuarial gain of \$618 million is included in the statement of changes in net assets for the year ended June 30, 2024. The actuarial gain of \$176 million for the year ended June 30, 2024 and losses for the year ended June 30, 2023, are \$442 million.

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

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

	2024	2023
To determine benefit obligations:		
Discount rate	5.3% - 5.6%	4.5% - 5.4%
Rate of compensation increase	4.0%	4.0%
Weighted-average interest credit rate for cash balance plans and other applicable plans	5.4%	7.4%
To determine net periodic benefit cost:		
Discount rate	4.7% - 5.4%	4.3% - 5.0%
Expected return on plan assets	4.3% - 7.4%	3.4% - 7.2%
Rate of compensation increase	3.8% - 4.0%	3.8%
Weighted-average interest credit rate for cash balance plans and other applicable plans	5.0% - 10.7%	5.0% - 9.2%

The following table summarizes the components of net periodic benefit cost recognized in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30 (in millions):

	2024	2023
Service cost	\$ 296	\$ 313
Interest cost	578	531
Expected return on plan assets	(642)	(659)
Settlements	163	14
Net prior service credit amortization	(1)	(1)
Net actuarial loss amortization	<u>42</u>	<u>54</u>
Net periodic benefit cost	<u>\$ 436</u>	<u>\$ 252</u>

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

The following represents the fair value of plan assets, net, measured on a recurring basis as of June 30 (in millions). See Note 8 for the definition of Levels 1 and 2 in the fair value hierarchy and investments valued using the NAV practical expedient and discussion regarding fair value measurement. Amounts reported do not include noncash collateral of \$405 million and \$524 million as of June 30, 2024 and 2023, respectively.

	2024		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets			
Cash and short-term investments	\$ 307	\$ 3	\$ 310
U.S. government securities	941	50	991
U.S. corporate bonds	153	485	638
U.S. equity securities	711	-	711
Foreign government securities	-	53	53
Foreign corporate bonds	-	85	85
Foreign equity securities	861	2	863
Structured debt	-	30	30
Real estate	3	-	3
Other	-	12	12
Assets measured at fair value	2,976	720	3,696
Assets at NAV:			
U.S. government securities			6
U.S. corporate bonds			480
U.S. equity securities			672
Foreign corporate bonds			83
Foreign equity securities			1,950
Private equity			1,523
Hedge funds			814
Real estate			485
Total assets			<u>\$ 9,709</u>
Other plan assets (liabilities)			
Due from brokers for unsettled investment trades			22
Due to brokers for unsettled investment trades			<u>(301)</u>
Fair value of plan assets, net			<u>\$ 9,430</u>

	2023		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets			
Cash and short-term investments	\$ 193	\$ 8	\$ 201
U.S. government securities	763	51	814
U.S. corporate bonds	245	457	702
U.S. equity securities	721	1	722
Foreign government securities	-	24	24
Foreign corporate bonds	-	80	80
Foreign equity securities	988	2	990
Structured debt	-	13	13
Real estate	8	-	8
Other	1	4	5
Assets measured at fair value	<u>\$ 2,919</u>	<u>\$ 640</u>	3,559
Assets at NAV:			
U.S. government securities			320
U.S. corporate bonds			813
U.S. equity securities			675
Foreign corporate bonds			85
Foreign equity securities			1,585
Private equity			1,440
Hedge funds			862
Real estate			516
Total assets			<u>\$ 9,855</u>
Other plan assets (liabilities)			
Due from brokers for unsettled investment trades			36
Due to brokers for unsettled investment trades			<u>(175)</u>
Fair value of plan assets, net			<u>\$ 9,716</u>

The following table summarizes the weighted-average asset allocations by asset category for the pension plans as of June 30:

	2024	2023
Cash and cash equivalents	3%	2%
U.S. government securities	10%	12%
U.S. corporate bonds	12%	15%
U.S. equity securities	14%	14%
Foreign corporate bonds	2%	2%
Foreign equity securities	29%	26%
Private equity	16%	15%
Other	14%	14%
Total	<u>100%</u>	<u>100%</u>

The asset allocation policy for the pension plans for 2024 is as follows: public equity, 48%; fixed income, 23%; private equity, 16%; hedge funds, 6%; real assets, 5%; and cash and opportunistic, 2%.

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

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

CommonSpirit's pension plan portfolio return assumptions for 2024 and 2023 were based on the long-term weighted-average returns of comparative market indices for the asset classes represented in the portfolio and expectations about future returns.

The following benefit payments, which reflect expected future service, are expected to be paid during the years ended June 30 (in millions):

2025	\$ 735
2026	818
2027	865
2028	748
2029	767
2030 - 2034	<u>4,086</u>
Total	<u>\$ 8,019</u>

CommonSpirit maintains defined contribution retirement plans for most employees. Employer contributions to those plans of \$428 million and \$409 million for 2024 and 2023, respectively, included in salaries and benefits in the accompanying consolidated statements of operations and changes in net assets, are primarily based on a percentage of a participant's contribution.

18. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

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

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

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

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

The Cybersecurity Incident has had an estimated adverse financial impact of approximately \$160 million to date, which includes lost revenues from the associated business interruption, the costs incurred to remediate the issues and other related business expenses, and is exclusive of any potential insurance related recoveries. CommonSpirit's cyber insurers were immediately notified and CommonSpirit recorded insurance recoveries within unrestricted revenue of \$60 million during fiscal 2024. The insurance recovery process will continue through fiscal year 2025. CommonSpirit is unable to predict the final amount of insurance recoveries at this time.

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

Seismic Standards – The State of California issued seismic safety standards in 1994, with the final seismic upgrade requirements to be in place by 2030, of which the timelines have been amended on several occasions. The regulations called for a specific reclassification of structural building upgrades to be in place by January 2013. Buildings retrofitted or built to the new seismic standards may remain in an acute care service beyond 2030.

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

In addition to the foregoing, in late 2014, the State of California's Office of Statewide Health Planning and Development department created a new seismic performance category allowing buildings that were previously required to be upgraded to meet the 2030 standards or decommissioned by 2030 to remain in use indefinitely if

they could be retrofitted to meet certain new standards. CommonSpirit is undertaking the necessary evaluation of its buildings, to be completed by 2025, to test the viability of their continued use beyond 2030.

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

Purchase Commitments – CommonSpirit has entered into various agreements that require certain minimum purchases of goods and services, including management services agreements for information and clinical technology and sponsorship agreements, at levels consistent with normal business requirements. Excluding the long-term contracts noted above, outstanding unconditional purchase commitments were approximately \$668 million as of June 30, 2024.

19. FUNCTIONAL EXPENSES

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

Following is a summary of the program and support services provided for the years ended June 30, 2024 and 2023 (in millions):

	2024			
	Program	Support Services -	Support	
	Services -	Management and	Services -	
	Health care	Administrative	Fundraising	Total Expenses
Salaries and benefits	\$ 17,817	\$ 1,290	\$ 25	\$ 19,132
Supplies	5,612	215	-	5,827
Purchased services and other	9,883	1,053	49	10,985
Depreciation and amortization	1,350	108	-	1,458
Interest expense	555	141	-	696
Total operating expenses	<u>\$ 35,217</u>	<u>\$ 2,807</u>	<u>\$ 74</u>	<u>\$ 38,098</u>

	2023			
	Program	Support Services -	Support	
	Services -	Management and	Services -	
	Health care	Administrative	Fundraising	Total Expenses
Salaries and benefits	\$ 16,773	\$ 1,191	\$ 24	\$ 17,988
Supplies	5,326	164	-	5,490
Purchased services and other	8,767	1,048	60	9,875
Depreciation and amortization	1,242	168	-	1,410
Interest expense	458	96	-	554
Total operating expenses	<u>\$ 32,566</u>	<u>\$ 2,667</u>	<u>\$ 84</u>	<u>\$ 35,317</u>

20. UNSPONSORED COMMUNITY BENEFIT EXPENSE (UNAUDITED)

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

The unpaid costs of Medicaid/Medi-Cal include \$865 million and \$451 million in direct benefit expense related to the California provider fee program in 2024 and 2023, respectively, and direct offsetting revenue related to the program of \$1.8 billion and \$939 million for 2024 and 2023, respectively.

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

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

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

Net Community Benefit, excluding the unpaid cost of Medicare, is the total cost incurred after deducting direct offsetting revenue from government programs, patients, and other sources of payment or reimbursement for services provided to program patients. Restricted revenue from grants, fees and other sources of payment or reimbursement for services provided to patients, program participants and the community also are included in direct offsetting revenue.

Following is a summary of CommonSpirit's community benefits for 2024 for all operations, in terms of services to the poor and benefits for the broader community, which has been prepared in accordance with Internal Revenue Service Form 990, Schedule H and the CHA publication, *A Guide for Planning and Reporting Community Benefit* (dollars in millions):

	Unaudited			
	Total Benefit Expense	Direct Offsetting Revenue	Net Community Benefit	% of Total Expenses
Benefits for the poor:				
Traditional charity care	\$ 559	\$ -	\$ 559	1.4%
Unpaid costs of Medicaid / Medi-Cal	8,317	(6,904)	1,413	3.6%
Other means-tested programs	15	(13)	2	0.0%
Community services:				
Community health services	85	(31)	54	0.2%
Subsidized health services	87	(61)	26	0.1%
Cash and in-kind contributions	52	(4)	48	0.1%
Community building activities	4	(1)	3	0.0%
Community benefit operations	12	-	12	0.0%
Total community services for the poor	240	(97)	143	0.4%
Total benefits for the poor	9,131	(7,014)	2,117	5.4%
Benefits for the broader community:				
Community services:				
Community health services	40	(10)	30	0.1%
Health professions education	456	(95)	361	0.9%
Subsidized health services	141	(106)	35	0.1%
Research	60	(51)	9	0.0%
Cash and in-kind contributions	14	-	14	0.1%
Community building activities	4	(1)	3	0.0%
Community benefit operations	5	-	5	0.0%
Total benefits for the broader community	720	(263)	457	1.2%
Total community benefits	\$ 9,851	\$ (7,277)	\$ 2,574	6.6%
Unpaid costs of Medicare	8,026	(6,379)	1,647	4.3%
Total community benefits, including unpaid costs of Medicare	\$ 17,877	\$ (13,656)	\$ 4,221	10.9%

The comparable amount of net community benefit was \$3 billion for 2023, or \$5 billion including the unpaid cost of Medicare.

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