This document is dated May 14, 2021

UNAUDITED QUARTERLY REPORT

For the Three and Nine-Month Periods Ended
March 31, 2021 and 2020

The information in this report
has been provided by
CommonSpirit Health

COMMONSPIRIT HEALTH

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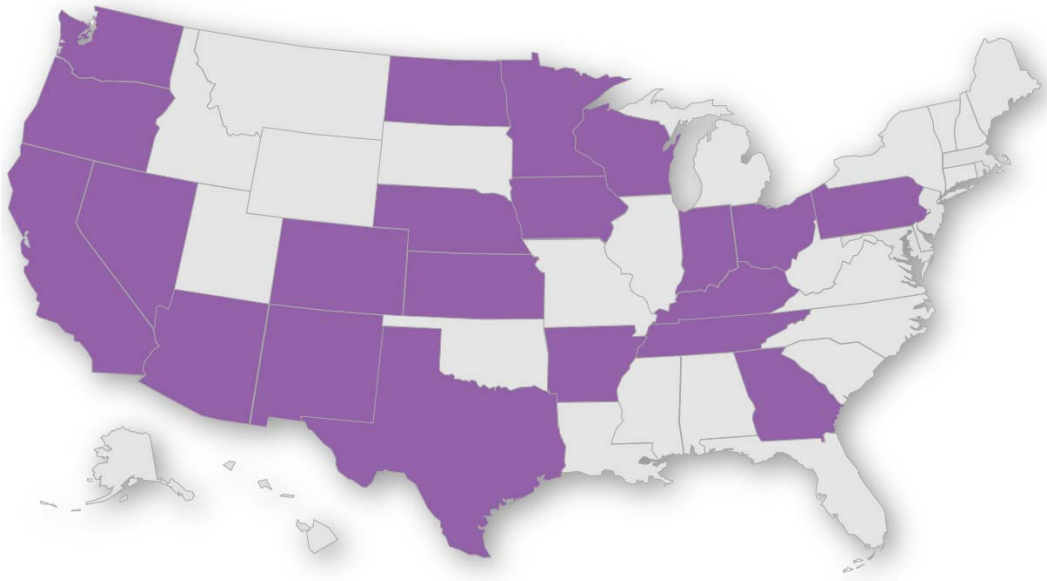
Management Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

CommonSpirit Health owns and operates health care facilities in 21 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations that are exempt from federal and state income taxes. With its national office in Chicago, and a team of approximately 149,000 employees and over 25,000 physicians and advanced practice clinicians, CommonSpirit Health is comprised of more than 1,000 care sites, including 140 hospitals, consisting of academic health centers, major teaching hospitals, and critical access facilities; community health services organizations; accredited nursing colleges; home health agencies; living communities; a medical foundation and other affiliated medical groups; and other facilities and services that span the inpatient and outpatient continuum of care. The accompanying unaudited condensed consolidated financial statements include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit", or the "System").



Forward-Looking Statements

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

CommonSpirit has presented its operating results for the three and nine-month periods ended March 31, 2021 and 2020, in accordance with accounting principles generally accepted in the United States of America ("GAAP") and on a non-GAAP basis for EBITDA (earnings before interest, tax, depreciation and amortization, and nonoperating income), operating revenues, and expenses adjusted to normalize the FY20 California provider fee program revenues and expenses as the program was approved by the Centers for Medicare and Medicaid ("CMS") in February 2020, resulting in nine

months of income recorded in the three-month period ended March 31, 2020. The non-GAAP financial measures are in addition to, not a substitute for, measures of financial performance prepared in accordance with GAAP.

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

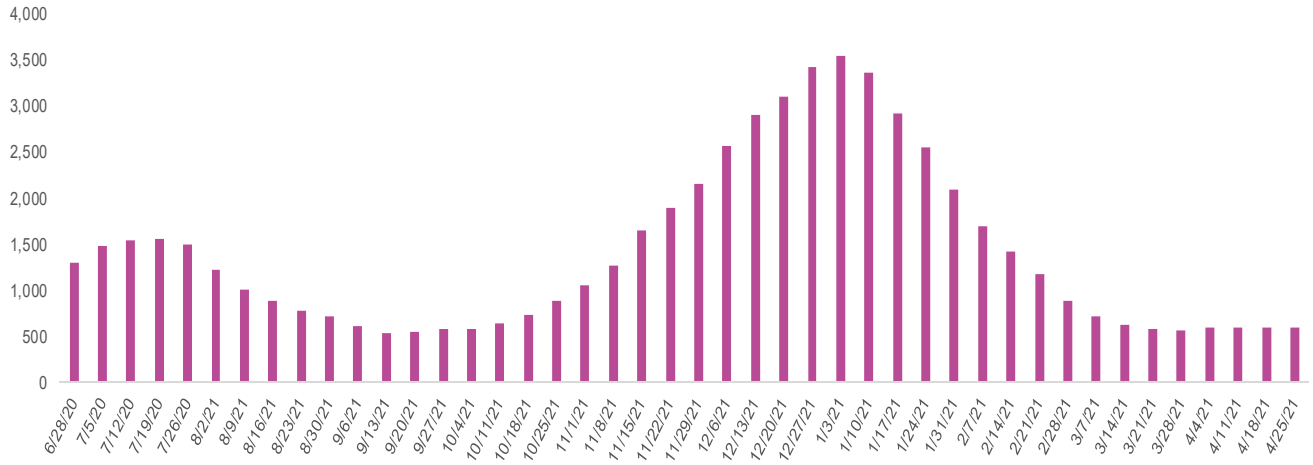
COVID-19 Pandemic –Response and Impact on Operations

Since the onset of the COVID-19 pandemic in early 2020, CommonSpirit took swift action to bring multi-disciplinary resources to clinical and operational readiness across the entire System to identify and resolve emerging issues within CommonSpirit's acute care and non-acute care sites. More than a year into the COVID-19 pandemic, these structures and services continue to support CommonSpirit's pandemic response.

Key components of CommonSpirit's approach include:

- A multidisciplinary national COVID-19 Task Force and national COVID-19 Command Center, led by CommonSpirit's Chief Medical Officer. The Task Force regularly assesses readiness at CommonSpirit's acute and ambulatory care facilities and provides standard, updated protocols and algorithms for screening, testing, triaging and isolating patients with actual or potential cases of COVID-19. Information is disseminated regularly to appropriate facilities and individuals across the System with important clinical and other information.
- The COVID-19 Response Integrated Surveillance and Insights System ("CRISIS") dashboard tracks data across the System daily, down to the facility level. This enables CommonSpirit to manage capacity, staffing, supplies and other resources at a System level. The CRISIS system is now being used to track vaccine implementation System-wide.
- A System-wide approach to addressing the demands on the organization, establishing an interdivisional distribution system deploying personal protective equipment ("PPE"), supplies, and ventilators across the divisions, and, as feasible, caregivers.
- A national, high-capacity COVID-19 testing laboratory located in Arizona opened in September 2020 to provide additional testing capacity.
- Internally developed predictive models that enabled the System to anticipate surges in particular geographies and plan staffing, PPE, testing and other resources as needed to meet community needs.

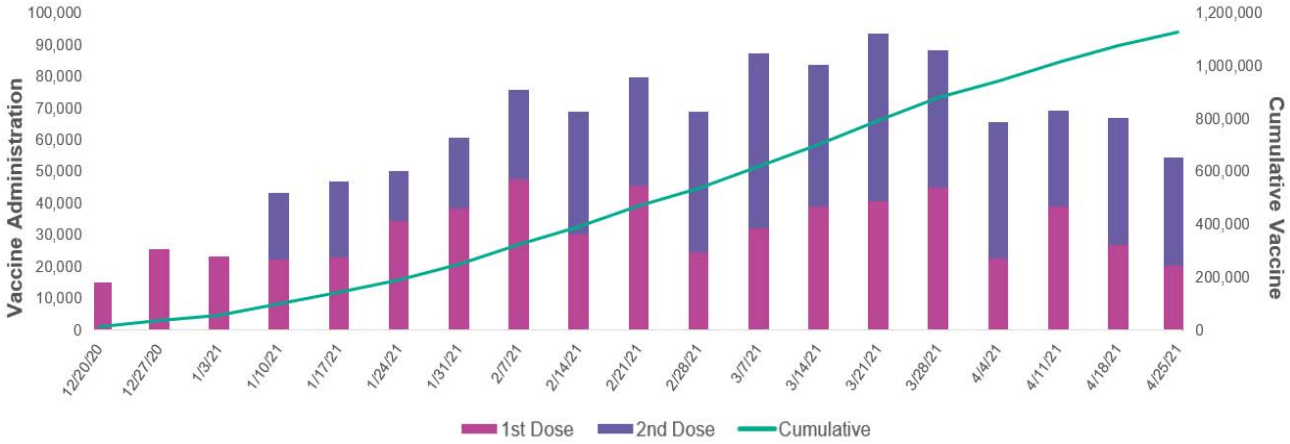
The System saw its COVID-19 inpatient census peak at 3,685 in early January 2021 at a level nearly triple the summer 2020 peak. During the third quarter of this fiscal year, the COVID-19 patient census declined nearly 85 percent across CommonSpirit, to 602 at March 31, 2021, and has remained steady through April 2021.



CommonSpirit currently has the resources to manage the COVID-19 patient volumes and is focusing on vaccine distribution as a major tool to combat the spread of COVID-19. System resources are organized to facilitate vaccine distribution, including:

- A multidisciplinary vaccine steering committee with representation from every division as well as the relevant national disciplines and subject matter experts.
- Specific accountabilities assigned for procurement, distribution, administration, prioritization, data and reporting, and internal and external communications across the System.
- Review of vaccine clinical trial data by internal infectious disease specialists and vaccine experts so CommonSpirit could knowledgably and confidently support widespread vaccination initiatives.
- Communications and multi-media materials to address vaccine hesitancy and encourage employees and communities to be vaccinated.

Over one hundred CommonSpirit locations have been approved by the CDC and local State Health Departments to administer COVID-19 vaccines. As of March 31, 2021, CommonSpirit administered over 900,000 vaccines, and 1.16 million vaccines have been administered as of April 30, 2021:



CommonSpirit enters the next phase of the pandemic with confidence stemming from considerable experience and expertise. Vaccination coverage continues to increase and COVID-19 cases continue to decline, but cases are not expected to cease altogether. A low, but steady, number of COVID-19 patients are anticipated for the long term. The Supply Chain team has increased on-hand PPE inventory through solidified domestic sources and through Dignity Bio-Life International, a joint venture in China. Testing resources and ventilators are plentiful. Clinical leaders continually update practices, procedures and guidelines based on new medical information and the latest guidance from local, state and federal public health officials. CommonSpirit continues to participate in clinical trials regarding vaccines and therapeutics.

At the beginning of the pandemic, CommonSpirit set three major goals: keep staff and patients safe; remain open and provide vital services to communities; and provide leadership. Through collaboration, innovation and agile decision-making, CommonSpirit has been successful in achieving these goals and will maintain these priorities going forward.

Virtual Health

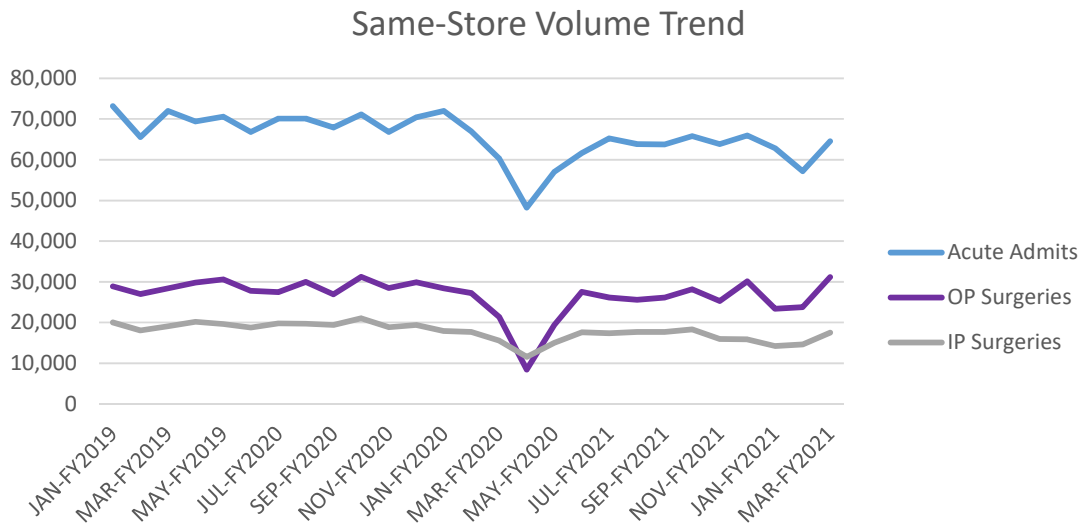
The virtual infrastructure and clinical capabilities developed by CommonSpirit provided the platform to immediately respond to the challenges posed by the COVID-19 pandemic and the shelter-in-place mandates. In March 2020, CommonSpirit rapidly expanded access to a range of virtual health options for its clinicians and patients. Virtual care through video visits, online health assessments, pre-visit screening, and other means has become increasingly critical in caring for its communities. Virtual care extends across the continuum of care (virtual ICU, health at home, palliative care and other applications).

Since the onset of the COVID-19 pandemic through March 31, 2021, CommonSpirit provided over 1.5 million virtual visits. This represents an average of over 5,700 visits per day, and more than a fifty-fold increase from pre-pandemic virtual visit volume. The demand for virtual visits persists, even after in-office visits have rebounded from their lows in April 2020. Virtual visits have stabilized during FY21 to approximately 15% of total visits, from a high of more than 37%

in April 2020. CommonSpirit anticipates that virtual visits will continue to be a key component of the health care delivery system into the future.

Operational Impact

The pandemic continues to create significant financial challenges for health care providers. With the cancellation of elective and non-emergent procedures that began in mid-March 2020 to allow for additional acute-care capacity for patients affected by the COVID-19 pandemic, CommonSpirit experienced lower volumes across the System, varying significantly by division. In mid-May 2020 when states began to permit health care facilities to resume elective procedures, CommonSpirit implemented initial re-opening phases following the guidance of federal, state and local public health agencies. During the peaks of COVID-19 cases over the past year, non-COVID-19 volumes declined, returning at a slower rate, particularly after the January 2021 peak as patients postponed care waiting to be vaccinated, seasonal flu and pneumonia were very low, and late-February winter storms hit the Midwest, Texas and South. The following table is a summary of key volume metrics experienced throughout the pandemic on a same-store basis.



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

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

- **Expense and Liquidity Management**. CommonSpirit had been on a path to improving efficiency and realizing synergies as part of its alignment, and was well positioned to take a disciplined approach to expense management during the pandemic. CommonSpirit initiated several near-term actions to mitigate some of the impact of the COVID-19 pandemic, including: temporary salary reductions through the end of December 31, 2020; flex time and furloughs; labor productivity management; renegotiation of certain vendor contracts to reflect lower patient volumes; reduction in non-essential costs; shifting to virtual care; and focusing on "re-opening". Additional actions include a rigorous capital review process and deferral of non-essential capital spending, draws on working capital lines of credit, and ongoing liquidity monitoring.

- **Revenue Diversification**. CommonSpirit's operations across 21 states create a strong geographic diversification of revenues for the System. As COVID-19 cases fluctuate across CommonSpirit's communities, certain divisions have thus far experienced a higher number of confirmed patients than other divisions, particularly in Southern California, Arizona and Texas. Other divisions have not experienced the same levels of positive COVID-19 patients and more quickly rebounded to volumes approaching pre-COVID-19 pandemic levels. Given the variation in re-opening trends, restrictions, and different disease transition rates among states, CommonSpirit anticipates that surges may ebb and flow across different geographies at different times, and the System's

geographic diversity may provide greater stability of revenue trends versus more geographically concentrated providers.

Governmental Support

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") provides stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. Through March 31, 2021, CommonSpirit has received approximately $1.5 billion under the CARES Act in the form of grants as reimbursement through the Public Health and Social Services Emergency Fund for healthcare expenses and lost revenues attributable to COVID-19. These payments are recorded as other operating revenues, as earned. During the three and nine-month periods ended March 31, 2021, $133 million and $617 million has been recorded in other operating revenues in the consolidated statements of operations and changes in net assets, respectively, and $826 million was recognized during the three-month period ended June 30, 2020. These funds are not required to be repaid upon attestation and compliance with certain terms and conditions.

CommonSpirit also received $2.8 billion in funds under the Medicare Accelerated and Advance Payment Program. These payments are advances that will be recouped by withholding future Medicare fee-for-service payments for claims until such time as the full accelerated payment has been recouped. As of March 31, 2021, the terms and conditions of recoupment are extended to 29 months from date of receipt, at which time remaining unpaid amounts are subject to interest of 4%. As of March 31, 2021, $1.2 billion is recorded in other accrued liabilities - current, and $1.6 billion is recorded in other liabilities - long-term.

Through March 31, 2021, CommonSpirit has deferred $416 million in employer payroll taxes pursuant to the Paycheck Protection Program and Health Care Enhancement Act, of which $208 million is recorded in accrued salaries and benefits within current liabilities, and $208 million is recorded in other accrued liabilities – long-term.

In total, the funds received under the Medicare Accelerated and Advance Payment Program and the Paycheck Protection Program and Health Care Enhancement Act represent 39 days cash on hand as of March 31, 2021.

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

The following table illustrates the detail of the CARES Act funding by division.

CARES Act Funding ($ in millions)	Nine-Months Ended March 31, 2021 Other Operating Revenue	As of March 31, 2021 Deferred Revenue (Liability)	As of March 31, 2021 Cumulative CARES Act Grants	As of March 31, 2021 Cumulative Medicare Advances
Southeast	$ 49	$ 67	$ 218	$ 365
Central California	6	21	76	180
Central Coast	3	-	28	166
Southwest	26	97	187	207
Southwest	35	118	291	553
Greater Sacramento	47	22	139	220
Northern California	21	10	86	263
Northern California	68	32	225	483
Pacific Northwest	78	16	171	348
Arizona	19	20	115	190
Fargo	8	21	52	48
Midwest	21	37	131	250
Midwest	29	58	183	298
Colorado	28	6	115	189
Texas	37	36	142	221
Iowa	20	8	48	101
National Business Lines*	4	4	15	26
Subtotal Divisions	367	365	1,523	2,774
Corporate Services	250	(289)	(4)	-
CommonSpirit Total	$ 617	$ 76	$ 1,519	$ 2,774

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

CommonSpirit experienced EBITDA improvement in the first three quarters of the fiscal year compared to losses experienced during the early months of the pandemic as volumes, expense management and productivity continue to improve each month.

Trend COVID-19 Impact ($ in millions)	Month of Mar 2020	Monthly Average per Quarter Jun 2020	Sep 2020	Dec 2020	Mar 2021	February Pre-COVID Run Rate*	Nine-Months Ended March 31, 2021	2020
Total operating revenues	$ 2,190	$ 2,380	$ 2,574	$ 2,760	$ 2,948	$ 2,518	$ 24,845	$ 22,439
EBITDA	$ (175)	$ 96	$ 214	$ 279	$ 344	$ 153	$ 2,512	$ 1,150
Margin %	(8.0%)	4.0%	8.3%	10.1%	11.7%	6.1%	10.1%	5.1%
EBITDA excluding CARES Act revenue and gain on sale of joint venture shares	$ (175)	$ (179)	$ 150	$ 182	$ 126	$ 153	$ 1,372	$ 1,150
Margin %	(8.0%)	(8.5%)	6.0%	6.8%	4.6%	6.1%	5.8%	5.1%
CARES Act revenue	$ -	$ 275	$ 64	$ 97	$ 44	$ -	$ 617	$ -

** Adjusted to normalize the FY20 California Provider Fee Program revenues and expenses.*

California Provider Fee Program

In February 2020, CMS approved the State Plan Amendment and allocation model previously submitted by the State of California for the 30-month provider fee program beginning July 1, 2019. As such, nine months of California provider fee net income was recorded during the three and nine-month periods ended March 31, 2020. As a result of the CMS approval timing, EBITDA, operating revenues, and expenses for FY20 have been adjusted for the three-month period where indicated on the report to normalize the FY20 California provider fee program revenues and expenses. During the three and nine-month periods ended March 31, 2021, $127 million and $396 million of net income was recorded related to the new program, compared to $119 million and $362 million of normalized provider fee net income during the same periods in the prior year, respectively. CommonSpirit recorded $254 million and $762 million of net patient revenue and $127 million and $366 million in purchased services and other expense for the three and nine-month periods ended March 31, 2021, respectively, compared to $242 million and $725 million of normalized provider fee revenues and $121 million and $364 million of normalized purchased services and other expense for the same periods in the prior year, respectively.

CommonSpirit also recorded a favorable net patient revenue true-up of $82 million during the nine-month period ended March 31, 2020, related to the prior California Provider Fee Program which expired June 30, 2019.

Normalized California Provider Fee Impact ($ in millions)	Q1	Q2	Q3	YTD
Net patient and premium revenues	$ 242	$ 242	$ (484)	$ -
Operating Expenses	$ 121	$ 121	$ (242)	$ -
EBITDA	$ 121	$ 121	$ (242)	$ -

Financial Highlights and Summary

For the three and nine-month periods ended March 31, 2021, CommonSpirit recorded operating income of $539 million and $1.1 billion compared to operating losses of $145 million and $332 million, respectively, for the same periods in the prior year. The results for the three and nine-month periods ended March 31, 2021, include $523 million in operating income related to a pre-tax gain on sale of joint venture shares. The operating loss normalized for the California provider fee program for the three-month period ended March 31, 2020, was $387 million.

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

Effective January 1, 2021, Franciscan Health System ("FHS"), Virginia Mason Health System ("VMHS"), and CommonSpirit Health, the sole member of FHS, completed an affiliation transaction, pursuant to which, among other things, CommonSpirit formed Virginia Mason Franciscan Health ("VMFH"), a Washington non-profit corporation. VMFH owns and operates Virginia Mason Medical Center ("VMMC"), Benaroya Research Institute ("BRI"), and other affiliates of FHS and VMMC. With the addition of VMMC, a 336-bed acute care hospital and other care sites from VMHS, VMFH operates 11 hospitals and nearly 300 cares sites within the Pacific Northwest. The agreement did not include consideration, and resulted in the recognition of a $517 million gain, recorded as contribution from business combination in nonoperating income (loss), and the financial results of the contributed entities are included in the accompanying condensed consolidated financial statements as of the effective date.

CommonSpirit's EBITDA (earnings before interest, tax, depreciation and amortization, and nonoperating income) increased to $1.0 billion for the three-month period ended March 31, 2021, from $134 million during the same period in the prior year normalized for the California provider fee program. The EBITDA margin for the three-month period ended March 31, 2021, increased to 11.7% from 1.8% for the same period in the prior year normalized for the California provider fee program. Excluding CARES Act grant revenues and the gain on sale of joint venture shares, EBITDA for the three-month period ended March 31, 2021, was $377 million with an EBITDA margin of 4.6%.

CommonSpirit's EBITDA increased to $2.5 billion for the nine-month period ended March 31, 2021, from $1.2 billion during the same period in the prior year. The EBITDA margin for the nine-month period ended March 31, 2021, increased to 10.1% from 5.1% for the same period in the prior year. Excluding CARES Act grant revenues and the gain on sale of joint venture shares, EBITDA for the nine-month period ended March 31, 2021, was $1.4 billion with an EBITDA margin of 5.8%.

For the three and nine-month periods ended March 31, 2021, CommonSpirit's volumes on an adjusted admission basis continued to improve from the lower volumes during the pandemic, but were still unfavorable to the same periods in the prior year by 6.2% and 8.8%, respectively. Adjusted patient days for the three and nine-month periods ended March 31, 2021, were higher than the same periods in the prior year by 5.3% and 1.5%, respectively. The acute average length of stay (ALOS) of 5.28 and 5.06 days for the three and nine-month periods ended March 31, 2021, was higher than the prior year of 4.70 and 4.55 days, respectively, primarily due to higher acuity and placement issues due to lack of availability of skilled nursing beds for both COVID and non-COVID patients.

Key Indicators Financial Summary ($ in millions)	Three-Month Periods Ended March 31, 2021 As Recorded	2020 As Recorded	2020* As Adjusted	Change** As Adjusted Comparison
EBITDA	$ 1,033	$ 376	$ 134	$ 899
Margin %	11.7%	4.8%	1.8%	9.9%
EBITDA - excluding gain on sale of joint venture shares and CARES Act revenue	$ 377	$ 376	$ 134	$ 243
Margin % - excluding gain on sale of joint venture shares and CARES Act revenue	4.6%	4.8%	1.8%	2.8%
Operating income (loss)	$ 539	$ (145)	$ (387)	$ 926
Margin %	6.1%	(1.9%)	(5.3%)	11.4%
Operating loss - excluding gain on sale of joint venture shares and CARES Act revenue	$ (117)	$ (145)	$ (387)	$ 270
Margin % - excluding gain on sale of joint venture shares and CARES Act revenue	(1.4%)	(1.9%)	(5.3%)	3.9%
Excess (deficit) of revenues over expenses	$ 1,709	$ (1,415)	$ (1,657)	$ 3,366
Margin %	18.0%	(21.1%)	(26.6%)	44.6%

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

** *Comparing the three-month period ended March 31, 2021, as recorded to the same period in the prior year as adjusted.*

Key Indicators Financial Summary ($ in millions)	Nine-Month Periods Ended March 31, 2021 As Recorded	2020 As Recorded	Change As Recorded Comparison
EBITDA	$ 2,512	$ 1,150	$ 1,362
Margin %	10.1%	5.1%	5.0%
EBITDA - excluding gain on sale of joint venture shares and CARES Act revenue	$ 1,372	$ 1,150	$ 222
Margin % - excluding gain on sale of joint venture shares and CARES Act revenue	5.8%	5.1%	0.7%
Operating income (loss)	$ 1,069	$ (332)	$ 1,401
Margin %	4.3%	(1.5%)	5.8%
Operating loss - excluding gain on sale of joint venture shares and CARES Act revenue	$ (71)	$ (332)	$ 261
Margin % - excluding gain on sale of joint venture shares and CARES Act revenue	(0.3%)	(1.5%)	1.2%
Excess (deficit) of revenues over expenses	$ 4,598	$ (1,094)	$ 5,692
Margin %	16.8%	(5.0%)	21.8%

Results of Operations

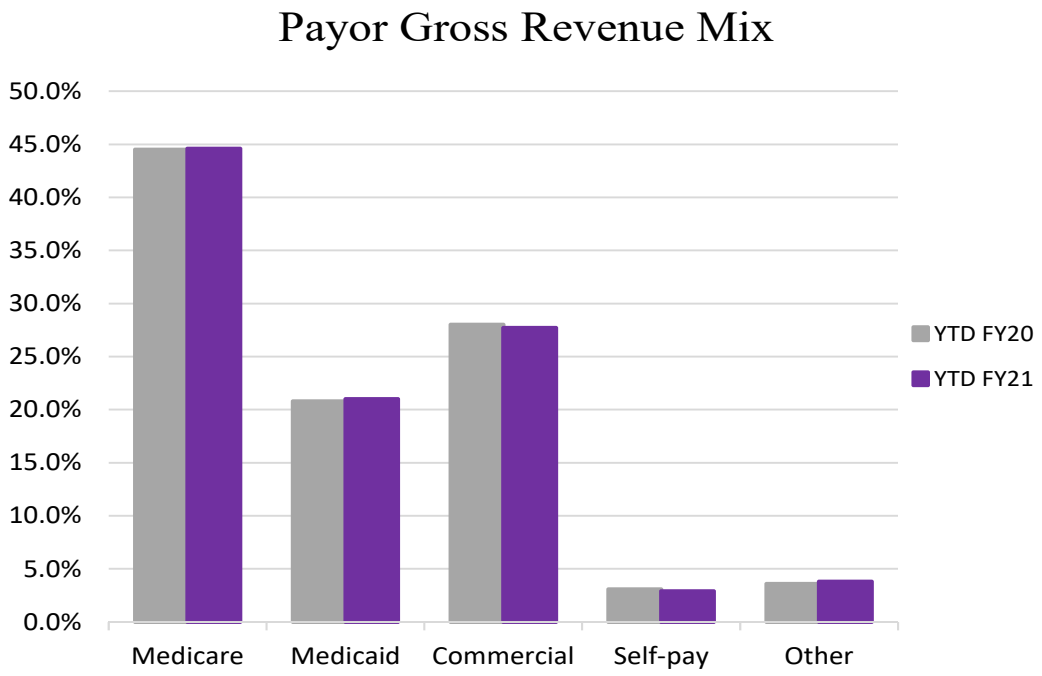
Operating Revenues and Volume Trends

Net patient and premium revenues increased $193 million, or 2.6%, and increased $917 million, or 4.3%, over the same periods in the prior year for the three and nine-month periods ended March 31, 2021, respectively. Normalizing the California provider fee revenues in the prior year three-month period ended March 31, 2020, net patient and premium revenues increased $677 million, or 9.7%. The increase is primarily due to stable payor mix and higher acuity, partially offset by improved but continued volume shortfalls resulting from the COVID-19 pandemic. Net patient and premium revenue per adjusted admission increased 16.9% and 14.3% during the three and nine-month periods ended March 31, 2021, respectively, when normalizing the California provider fee revenues. This increase is primarily due to rate changes, stable payor mix and higher acuity.

Volumes	Three-Month Periods Ended March 31,				Nine-Month Periods Ended March 31,			
	2021	2020	Change	%	2021	2020	Change	%
Acute admissions	190,145	199,257	(9,112)	(4.6%)	580,598	615,701	(35,103)	(5.7%)
Adjusted admissions	366,550	390,745	(24,195)	(6.2%)	1,119,919	1,228,000	(108,081)	(8.8%)
Acute inpatient days	1,004,216	937,205	67,011	7.2%	2,937,454	2,799,773	137,681	4.9%
Adjusted patient days	1,935,869	1,837,867	98,002	5.3%	5,666,073	5,584,075	81,998	1.5%
Acute average length of stay	5.28	4.70	0.58	12.3%	5.06	4.55	0.51	11.2%
Outpatient visits	6,721,609	6,365,912	355,697	5.6%	19,295,745	19,563,398	(267,653)	(1.4%)
ED visits	804,055	985,494	(181,439)	(18.4%)	2,426,329	2,985,794	(559,465)	(18.7%)
Gross outpatient revenue as a % of total gross patient services revenue	48.1%	49.0%	(0.9%)	(0.9%)	48.2%	49.9%	(1.7%)	(1.7%)

Same-Store Volumes	Three-Month Periods Ended March 31,				Nine-Month Periods Ended March 31,			
	2021	2020	Change	%	2021	2020	Change	%
Acute admissions	184,578	199,257	(14,679)	(7.4%)	572,946	615,701	(42,755)	(6.9%)
Adjusted admissions	352,283	390,745	(38,462)	(9.8%)	1,101,280	1,228,000	(126,720)	(10.3%)
Acute inpatient days	972,353	937,205	35,148	3.8%	2,896,745	2,799,773	96,972	3.5%
Adjusted patient days	1,855,818	1,837,867	17,951	1.0%	5,567,936	5,584,075	(16,139)	(0.3%)
Acute average length of stay	5.27	4.70	0.57	12.1%	5.06	4.55	0.51	11.2%
Outpatient visits	6,313,506	6,365,912	(52,406)	(0.8%)	18,831,826	19,563,398	(731,572)	(3.7%)
ED visits	786,064	985,494	(199,430)	(20.2%)	2,398,060	2,985,794	(587,734)	(19.7%)
Gross outpatient revenue as a % of total gross patient services revenue	47.6%	49.0%	(1.4%)	(1.4%)	48.0%	49.9%	(1.9%)	(1.9%)

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



All other operating revenues increased $845 million and $1.5 billion, or 250.0% and 142.4%, over the same periods in the prior year for the three and nine-month periods ended March 31, 2021, respectively, primarily due to CARES Act grant revenue totaling $133 million and $617 million, respectively, a $523 million pre-tax gain on sale of joint venture shares, favorable joint venture results, and higher grant and pharmaceuticals revenues, partially offset by lower cafeteria revenues. Excluding the CARES Act grants and the gain on sale of joint venture shares, other operating revenues increased $189 million and $349 million, or 55.9% and 33.4%, over the same periods in the prior year, respectively.

Operating Revenues ($ in millions)	Three-Month Periods Ended March 31,				Nine-Month Periods Ended March 31,		
	2021	2020	2020*	Change**	2021	2020	Change
	As Recorded	As Recorded	As Adjusted	As Adjusted Comparison	As Recorded	As Recorded	As Recorded Comparison
Net patient and premium revenues	$ 7,660	$ 7,467	$ 6,983	$ 677	$ 22,310	$ 21,393	$ 917
All other operating revenues	1,183	338	338	845	2,535	1,046	1,489
Total operating revenues	$ 8,843	$ 7,805	$ 7,321	$ 1,522	$ 24,845	$ 22,439	$ 2,406

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

** *Comparing the three-month period ended March 31, 2021, as recorded to the same period in the prior year as adjusted.*

Uncompensated Care ($ in millions)	Three-Month Periods Ended March 31, 2021	2020	Change	Nine-Month Periods Ended March 31, 2021	2020	Change
Uncompensated Care:						
Charity care, at customary charges	$ 477	$ 521	$ (44)	$ 1,543	$ 1,608	$ (65)
Charity care, at cost	$ 126	$ 140	$ (14)	$ 397	$ 407	$ (10)
Charity care, at cost, as a percentage of gross revenue	1.5%	1.8%	(0.3%)	1.7%	1.8%	(0.1%)
Implicit price concessions	$ 359	$ 421	$ (62)	$ 1,038	$ 1,229	$ (191)

Charity care at customary charges for the three and nine-month periods is lower than the same period in the prior year primarily due to low patient census as a result of the pandemic.

Operating Expenses

Salaries and benefits increased $399 million and $657 million, or 10.6% and 5.9%, over the same periods in the prior year, for the three and nine-month periods ended March 31, 2021, respectively, with salaries and benefits per adjusted admission increasing 17.9% and 16.1%, respectively, primarily due to reduced volume, high registry and contract labor costs, and higher length of stay and acuity due to COVID-19.

Supplies increased $104 million and $286 million, or 8.7% and 8.1%, during the three and nine-month periods ended March 31, 2021, compared to the same periods in the prior year, respectively. The increase is primarily due to increased supplies related to higher acuity (which impacted pharmaceutical, laboratory and other supply costs), additional supplies required for COVID-19 preparedness, particularly personal protective equipment, and general inflation.

Purchased services and other increased $137 million and $130 million, or 6.2% and 2.0%, for the three and nine-month periods ended March 31, 2021, respectively, compared to the same periods in the prior year when normalizing the California provider fee program costs recorded in FY20, primarily due to higher California provider fee expense, medical fees, and out of network costs, partially offset by lower insurance costs, consulting costs, repairs and maintenance, and travel expenses.

Special charges and other costs decreased $17 million and $29 million, or -100.0% and -50.0%, for the three and nine-month periods ended March 31, 2021, compared to the same periods in the prior year, respectively, primarily due to lower affiliation and restructuring related costs.

Expense Management and Productivity

	Three-Month Periods Ended March 31,			Nine-Month Periods Ended March 31,	
	2021	2020	2020*	2021	2020
Expense Management:	As Recorded	As Recorded	As Adjusted	As Recorded	As Recorded
Supply expense as a % of net patient and premium revenue	17.0%	16.0%	17.1%	17.2%	16.6%
Purchased services and other as a % of net patient and premium revenue	30.5%	32.7%	31.5%	30.1%	30.7%
Capital expense as a % of net patient and premium revenue	6.4%	7.0%	7.5%	6.5%	6.9%
Non-capital cost per adjusted admission	$ 21,308	$ 19,012	$ 18,393	$ 19,942	$ 17,336
Productivity:					
Salaries, wages and benefits as a % of net patient and premium revenue	54.5%	50.6%	54.1%	52.7%	51.9%
Number of FTEs	133,167	128,150	128,150	126,824	127,159
FTEs per adjusted admission	29.15	26.86	26.86	27.85	25.82

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

Operating Expenses

($ in millions)	Three-Month Periods Ended March 31, 2021	2020	2020*	Change**
	As Recorded	As Recorded	As Adjusted	As Adjusted Comparison
Salaries and benefits	$ 4,175	$ 3,776	$ 3,776	$ 399
Supplies	1,300	1,196	1,196	104
Purchased services and other	2,335	2,440	2,198	137
Depreciation and amortization	380	411	411	(31)
Interest expense, net	114	110	110	4
Special charges	-	17	17	(17)
Total operating expenses	$ 8,304	$ 7,950	$ 7,708	$ 596

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

** *Comparing the three-month period ended March 31, 2021, as recorded to the same period in the prior year as adjusted.*

Operating Expenses ($ in millions)	Nine-Month Periods Ended March 31, 2021 As Recorded	2020 As Recorded	Change Recorded Comparison
Salaries and benefits	$ 11,766	$ 11,109	$ 657
Supplies	3,833	3,547	286
Purchased services and other	6,705	6,575	130
Depreciation and amortization	1,110	1,140	(30)
Interest expense, net	333	342	(9)
Special charges	29	58	(29)
Total operating expenses	$ 23,776	$ 22,771	$ 1,005

Nonoperating Results

CommonSpirit recorded investment income, net, of $636 million and $2.4 billion during the three and nine-month periods ended March 31, 2021, compared to investment losses, net, totaling $1.1 billion and $535 million during the same periods in the prior year, respectively, due to strong financial markets.

CommonSpirit recorded a loss on early extinguishment of debt of $12 million during the nine-month period ended March 31, 2021, compared to $112 million during the nine-month period in the prior year, related to debt restructuring in 2021 and 2020.

Income tax expense was $103 million and $133 million during the three and nine-month periods ended March 31, 2021, compared to $6 million and $25 million during the same periods in the prior year, respectively. The increase is related to estimated tax on the gain on sale of joint venture shares.

The change in market value and cash payments of interest rate swaps was a favorable result of $103 million and $145 million during the three and nine-month periods ended March 31, 2021, compared to unfavorable results of $179 million and $191 million during the same periods in the prior year, respectively.

Contribution from business combination amounted to a gain of $517 million and $1.0 billion during the three and nine-month periods ended March 31, 2021, as a result of the affiliations with VMFH and YRMC, compared to gains of $0 million and $27 million during the same periods in the prior year, respectively.

Net periodic postretirement costs amounted to $15 million and $44 million of income during the three and nine-month periods ended March 31, 2021, compared to $29 million and $87 million during the same periods in the prior year, respectively.

Nonoperating Results ($ in millions)	Three-Month Periods Ended March 31, 2021	2020	Change	Nine-Month Periods Ended March 31, 2021	2020	Change
Investment income, net	$ 636	$ (1,098)	$ 1,734	$ 2,448	$ (535)	$ 2,983
Loss on early extinguishment of debt	-	-	-	(12)	(112)	100
Income tax expense	(103)	(6)	(97)	(133)	(25)	(108)
Change in fair value and cash payments of interest rate swaps	103	(179)	282	145	(191)	336
Contribution from business combination	517	-	517	1,026	27	999
Other components of net periodic postretirement costs	15	29	(14)	44	87	(43)
Other	2	(16)	18	11	(13)	24
Total nonoperating income (loss), net	$ 1,170	$ (1,270)	$ 2,440	$ 3,529	$ (762)	$ 4,291

Operating Revenues by Division

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

Division Operating Revenues ($ in millions)	Three-Month Periods Ended March 31, 2021	2020	2020*	Change**
	As Recorded	As Recorded	As Adjusted	As Adjusted Comparison
Southeast	$ 889	$ 779	$ 779	$ 110
Central California	616	640	538	78
Central Coast	386	415	361	25
Southwest	828	966	789	39
Southwest	1,830	2,021	1,688	142
Greater Sacramento	769	840	744	25
Northern California	547	573	519	28
Northern California	1,316	1,413	1,263	53
Pacific Northwest	1,088	700	700	388
Arizona	841	671	671	170
Fargo	105	101	101	4
Midwest	598	576	576	22
Midwest	703	677	677	26
Colorado	662	639	639	23
Texas	634	563	563	71
Iowa	276	254	254	22
National Business Lines***	88	99	99	(11)
Other	2	5	5	(3)
Subtotal Divisions	8,329	7,821	7,338	991
Corporate Services	514	(16)	(17)	531
CommonSpirit Total	$ 8,843	$ 7,805	$ 7,321	$ 1,522

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

** *Comparing the three-month period ended March 31, 2021, as recorded to the same period in the prior year as adjusted.*

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

Division Operating Revenues ($ in millions)	Nine-Month Periods Ended March 31, 2021	2020	Change
	As Recorded	As Recorded	As Recorded Comparison
Southeast	$ 2,705	$ 2,510	$ 195
Central California	1,758	1,646	112
Central Coast	1,117	1,090	27
Southwest	2,414	2,273	141
Southwest	5,289	5,009	280
Greater Sacramento	2,255	2,213	42
Northern California	1,588	1,584	4
Northern California	3,843	3,797	46
Pacific Northwest	2,615	2,209	406
Arizona	2,339	1,917	422
Fargo	320	319	1
Midwest	1,887	1,804	83
Midwest	2,207	2,123	84
Colorado	1,998	1,902	96
Texas	1,898	1,761	137
Iowa	857	801	56
National Business Lines*	278	296	(18)
Other	15	17	(2)
Subtotal Divisions	24,044	22,342	1,702
Corporate Services	801	97	704
CommonSpirit Total	$ 24,845	$ 22,439	$ 2,406

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

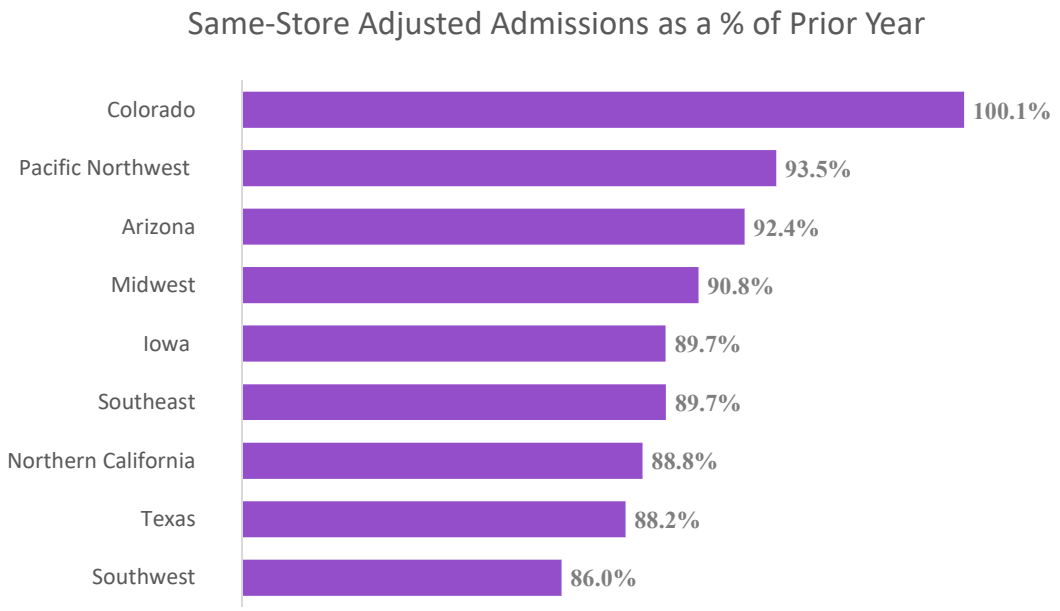
Following are the significant division performance drivers related to operating revenues compared to prior year for the nine-month period ended March 31, 2021:

- Southeast Division - operating revenues increased $195 million from the same period in the prior year primarily due to improved commercial payor mix, and $49 million of CARES Act grant revenues, partially offset by a 10.3% decrease in same-store adjusted admissions and lower surgical and outpatient volume.
- Southwest Division – operating revenues increased $280 million from the same period in the prior year primarily due to higher acuity, stable commercial payor mix, $35 million of CARES Act grant revenues, and a $21 million gain on sale of property, partially offset by a 14.0% decrease in same-store adjusted admissions and lower surgical and outpatient volume.
- Pacific Northwest Division - operating revenues increased $406 million from the same period in the prior year primarily due to $78 million of CARES Act grant revenues, stable commercial payor mix, higher outpatient volumes, and additional revenue of $292 million related to the affiliation of VMFH effective January 1, 2021, partially offset by a 6.5% decrease in same-store adjusted admissions.
- Arizona Division – operating revenues increased $422 million from the same period in the prior year primarily due to additional revenue of $169 million related to the affiliation of YRMC effective November 1, 2020, Arizona provider fee program revenues, higher acuity, favorable revenue from health-related joint venture activities,

graduate medical education revenue, and $19 million of CARES Act grant revenues, partially offset by a 7.6% decrease in same-store adjusted admissions and lower surgical volume.

- Midwest Division – operating revenues increased $84 million from the same period in the prior year primarily due to $29 million of CARES Act grant revenues and a $27 million increase in contract pharmacy revenues, partially offset by a 9.2% decrease in same-store adjusted admissions.
- Colorado Division – operating revenues increased $96 million from the same period in the prior year primarily due to higher acuity, strong operating performance at St. Anthony's Hospital, $28 million of CARES Act grant revenues and a 0.1% increase in same-store adjusted admissions.
- Texas Division – operating revenues increased $137 million from the same period in the prior year primarily due to higher acuity and $37 million of CARES Act grant revenues, partially offset by an 11.8% decrease in same-store adjusted admissions, and lower surgical and outpatient volumes.

The table below reflects the same-store adjusted admissions (excluding the impact of the affiliation with YRMC and VMFH) as a percentage of prior year, for the nine-month period ended March 31, 2021.



Balance Sheet Metrics

The following table provides key balance sheet metrics for CommonSpirit:

Key Balance Sheet Metrics ($ in millions)	March 31, 2021	June 30, 2020	Change
Consolidated Balance Sheet Summary			
Total assets	$ 53,713	$ 46,773	$ 6,940
Total liabilities	$ 34,826	$ 33,178	$ 1,648
Total net assets	$ 18,887	$ 13,595	$ 5,292
Financial Position Ratios			
Total cash and unrestricted investments	$ 20,142	$ 15,782	$ 4,360
Days cash on hand	244	202	42
Total debt	$ 15,583	$ 15,040	$ 543
Debt to capitalization	48.2%	55.0%	(6.8%)

Liquidity

Cash and unrestricted investments were $20.1 billion at March 31, 2021, and $15.8 billion at June 30, 2020. The increase is primarily due to strong investment returns, the sale of joint ventures shares, CARES Act revenue, the consolidation of the CommonSpirit Operating Investment Pool, LLC ("CSH OIP"), YRMC and VMHS, and favorable operating results, partially offset by financing activities. CommonSpirit is actively monitoring liquidity given the operational disruption related to COVID-19.

Liquidity and Capital Resources ($ in millions)	March 31, 2021	June 30, 2020	Change
Cash	$ 3,942	$ 5,674	$ (1,732)
Short-term investments	4,303	2,715	1,588
Designated for capital projects and other	11,897	7,393	4,504
Total	$ 20,142	$ 15,782	$ 4,360

Capital Resources

Cash used in operating activities totaled $1.8 billion for the nine-month period ended March 31, 2021, compared to cash provided of $60 million for the same period in the prior year. Significant activity for the nine-month period ended March 31, 2021, includes the following:

- Investments and assets limited as to use increased $5.9 billion during the nine-month period ended March 31, 2021, compared to a decrease of $821 million during the same period due to investment returns and the full consolidation of YRMC, VMHS and the CSH OIP.
- Accounts receivable, net, increased $673 million during the nine-month period ended March 31, 2021, compared to an increase of $83 million during the same period in the prior year.
- Provider Fee-related receivables, net of payables, increased $96 million during the nine-month period ended March 31, 2021, compared to $156 million during the same period in the prior year.
- Prepaid and other current assets increased $489 million during the nine-month period ended March 31, 2021, compared to $233 million during the same period in the prior year.

Cash provided by investing activities totaled $237 million for the nine-month period ended March 31, 2021, compared to cash used of $723 million for the same period in the prior year, primarily due to the following:

- Capital expenditures were $863 million during the nine-month period ended March 31, 2021, compared to $839 million during the same period in the prior year. Such capital expenditures primarily relate to expansion and renovation of existing facilities, equipment and systems additions and replacements, and various other capital improvements.
- Proceeds from the sale of assets were $918 million during the nine-month period ended March 31, 2021, compared to $219 million during the same period in the prior year.
- Cash distributions from health-related activities were $260 million during the nine-month period ended March 31, 2021, compared to $90 million during the same period in the prior year.
- Investments in health-related activities were $143 million during the nine-month period ended March 31, 2021, compared to $121 million during the same period in the prior year.

Cash used in financing activities totaled $158 million for the nine-month period ended March 31, 2021, compared to cash provided by financing activities of $943 million for the same period in the prior year, primarily due to the following:

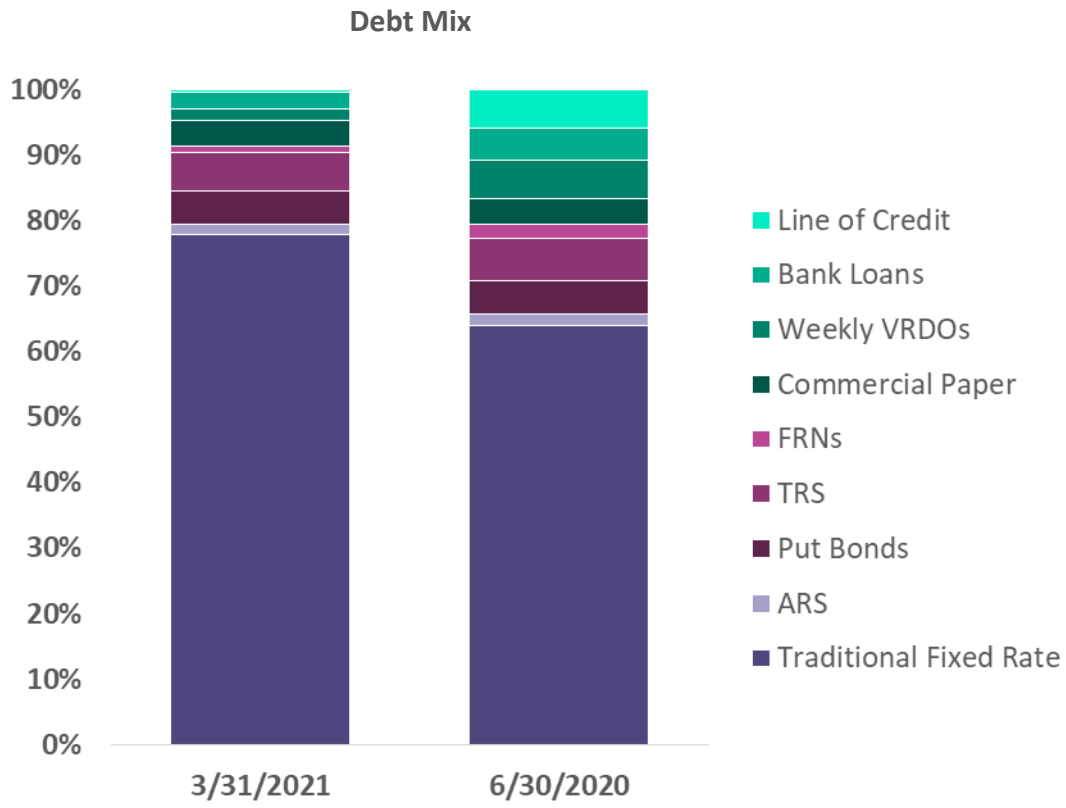
- Net repayments of debt were $191 million during the nine-month period ended March 31, 2021, compared to net borrowings of debt of $1.2 billion during the same period in the prior year, in connection with $800 million in repayments of line of credit draws in September 2020, the October 2020 financing, and the August 2019 financing.
- Debt extinguishment costs of $12 million during the nine-month period ended March 31, 2021, compared to $112 million during the same period in the prior year, related to the debt financings.

Debt Portfolio

As part of a debt consolidation plan, the debt previously issued by CHI and Dignity Health was consolidated into a single unified credit group and debt structure in August 2019 in connection with the issuance and sale of the 2019 tax-exempt and taxable bonds, under a new CommonSpirit Health Master Trust Indenture (the "CommonSpirit Health MTI"). The CommonSpirit Health MTI has an Obligated Group that is comprised of the former Dignity Health Obligated Group and CHI entities (collectively, the "CommonSpirit Obligated Group"). The CommonSpirit Obligated Group represents approximately 85% of consolidated revenues of CommonSpirit as of March 31, 2021.

CommonSpirit completed a $2.2 billion bond financing in October 2020 to restructure or refinance certain indebtedness, and finance and reimburse $750 million related to capital projects. The financing closed on October 28, 2020, and was comprised of $577 million in fixed rate tax-exempt bonds issued at a premium through the California Health Facilities Financing Authority, and $1.7 billion in taxable bonds issued by CommonSpirit Health. The 2020 financing served to generate net present-value savings from tax-exempt refinancings, achieve a favorable cost of capital on new borrowing, and reduce risk associated with short-term debt maturities. The bond portfolio remains well diversified, with a higher proportion of long-term fixed rate debt providing stability.

The chart below depicts CommonSpirit's debt mix as of March 31, 2021, as compared to June 30, 2020:



Strategic Focus and Priorities

CommonSpirit's vision of "a healthier future for all – inspired by faith, driven by innovation, and powered by our humanity" is embodied by the goal to transform health care in the United States by committing to building healthier communities, advocating for those who are poor and vulnerable, and innovating how and where healing can happen in order to extend care beyond traditional settings. The COVID-19 pandemic presents a range of challenges to meeting these goals, and management is focused on both near-term priorities to serve its patients and communities and protect its caregivers and other employees, as well as on longer-term strategic goals. The organization is embracing the challenge of the COVID-19 pandemic and, where appropriate, accelerating care transformation strategies to meet the needs of its communities.

CommonSpirit's strategic vision encompasses five transformative strategies: (1) advocate for healthy populations; (2) coordinate and customize care; (3) address unique needs of the communities it serves; (4) enhance consumer engagement; and (5) inspire the CommonSpirit workforce. These strategies have been translated by Lloyd Dean, CommonSpirit's CEO, into seven organizational imperatives that describe both strategic goals and near-term priorities. These imperatives, and recent progress in specific areas, are described below:

Mission-Driven Outreach: CommonSpirit will use its voice and continue to focus resources on the social determinants of health, particularly related to the needs of vulnerable populations and social justice issues. The disproportionate impact of the COVID-19 pandemic on communities of color, low-income communities and on those with complex health conditions highlights the urgency of this work. Some initiatives currently underway include:

- Innovative models and high-value community interventions to address health inequities in our communities through partnerships that promote access to care and address social determinants of health, to improve health outcomes particularly for vulnerable communities. Homeless Health Initiative ("HHI") is a System-wide strategy to address homelessness and related needs across the CommonSpirit footprint. HHI is focused on co-locating, coordinating and integrating health, behavioral health, safety and wellness services with housing and other social services, and creating better resources for providers to connect individuals to these services.
- CommonSpirit is addressing food insecurity by developing a System-wide strategy that builds on current partnerships in its communities and developing new collaborations to respond to the heightened need for access to food brought on by the COVID-19 pandemic. Through a multi-disciplinary approach, CommonSpirit's goal is to develop standardized practices that can be adopted System-wide.
- The Community Investment program provides access to capital, including below-market loans to community-based organizations focused on addressing social determinants of health. The program partners with organizations and channels financial resources to support access to jobs, safeguard the environment, access to capital, housing, food, education, and health care to help improve the health and health equity for people in low-income communities.

Consumer-Focused Integrated Care: CommonSpirit will work to win consumers' trust and confidence through reliable, safe and personalized care experiences. In particular, CommonSpirit will offer a coordinated, systemic and customizable approach to serve those with acute, chronic and complex conditions.

- CommonSpirit rapidly expanded and scaled a range of virtual care options as a means to meet the care needs of our patients. Virtual care, through video visits, online health assessments, pre-visit screening, and other means, has become increasingly critical as a convenient, accessible means to care for communities.
- CommonSpirit continues to focus on other non-hospital based services, to serve patients in the most appropriate, lowest cost settings and to protect patients at a time when disease transmission is of particular concern. For example, CommonSpirit Health at Home ("Health at Home") offers remote patient monitoring across its 27 locations in 11 states. For the nine-month period ended March 31, 2021, Health at Home has remotely, monitored nearly 5,275 patients and has deployed use of secure video technology across CommonSpirit's footprint to remotely provide nursing, therapy, and medical social services for a total of 28,452 virtual visits. Additionally, Health at Home implemented a medication delivery program in April 2020, and as of March 31, 2021, had served over 4,000 patients.
- CommonSpirit successfully launched "SNF at Home", a clinical program in Nebraska providing skilled home care, remote monitoring, advanced practice interventions, and ancillary services into one ecosystem to keep

skilled nursing facility patients at home for a reduced post-acute care cost, and reduced hospital length of stay. The long-term goal is to create a new payment methodology for this level of care with individual payers.
- Palliative care has also implemented virtual consults to allow greater access to patients during the pandemic, and work toward the appropriate post-acute care destination for patients.

Integrated Digital Services, Capabilities and Analytics: CommonSpirit is strategically investing in digital capabilities to enhance the patient experience and improve operational effectiveness.

- CommonSpirit believes a range of digital interactions and virtual care will be an increasingly important component of care delivery and consumer engagement. CommonSpirit has partnered with the Physician Enterprise to extend virtual health services to new specialties beyond just family and internal medicine. As an example, CommonSpirit has distributed more than 10,000 pieces of equipment to help providers deliver care virtually and build up network and software infrastructure to enable virtual health. A System-wide help desk was established for providers to expedite resolution of questions and targeted troubleshooting.
- Strategic planning efforts are being accelerated in virtual care modalities – from virtual visits to virtual ICU, health at home, palliative care, and other applications - as CommonSpirit considers the long-term implications on service delivery of the COVID-19 pandemic and the potential long-term behavioral and cultural changes that may result.

Diversified Growth: Growth remains a long-term focus for CommonSpirit. Complimenting CommonSpirit's care continuum, from virtual and primary care to acute, post-acute and in-home services, the System seeks to further diversify from a service line, access point, and revenue perspective through selected investments and partnerships. The System is frequently in dialogue with potential partners, building upon its successful track record in diversified investments and partnerships. During fiscal year 2021, CommonSpirit has expanded ambulatory surgical center relationships in several states and has a number of affiliation discussions in various stages that would provide greater geographic diversification and/or market infill.

One Inspired Team: CommonSpirit's employees and clinicians form the core of its mission delivery. CommonSpirit seeks to attract, retain and inspire leaders and caregivers who reflect its strategic vision and values. Now more than ever, CommonSpirit's caregivers and other employees are called upon to make sacrifices to care for its communities and ministry. CommonSpirit is focused on honoring our employees and celebrating the heroes that serve our patients at this time. CommonSpirit has taken a range of actions specifically to support employees during the pandemic, including: staff recruitment and resource procurement programs (i.e. redeployments, traveler staff and reemployment actions of retirees), flexible work arrangements through union leadership discussions, direct and indirect caregiver support, remote work and flex scheduling, EAP deployment and staff well-being programming.

At Scale Operational Excellence: CommonSpirit continues to focus on operational efficiencies, which are even more important in the face of disruption in service delivery related to the COVID-19 pandemic. Optimizing capital deployment is also a key area of focus.

- As an example, CommonSpirit's CRISIS dashboard continues to be an important tool that utilizes enterprise-wide data to track, on a daily basis, a range of operational and clinical data to effectively manage resources across the System to meet the rapidly changing demands of the COVID-19 pandemic and vaccine distribution efforts.
- The organization is similarly aligned on a set of Enterprise Metrics, a balanced scorecard that includes clinical quality, patient satisfaction, growth, financial performance, community benefit and other measures. Enterprise Metrics are set each year and reported to the Board on a quarterly basis.

Effective Financial Stewardship: Part of the vision for CommonSpirit is to create an efficient, financially stable platform in order to sustain its mission and ministry into the future. Effective financial stewardship is even more critical as the health care industry addresses the challenges of the COVID-19 pandemic and related economic pressures. CommonSpirit has reopened all facilities and services safely across its footprint and returning to pre-COVID-19 pandemic service levels has been a near-term priority. The organization also remains focused on managing financial performance and pursuing its path toward longer-term financial performance goals.

Integration and Synergy Realization

Despite the ongoing nature of the COVID-19 pandemic, management continues to make progress towards its original long-term financial goals for CommonSpirit, including achieving an eight percent operating EBITDA margin, maintaining days'

cash on hand of at least 150 days, and lowering total debt to capitalization to 45 percent or less. To support these long-term financial goals, CommonSpirit identified approximately $2 billion in merger-related synergies and performance excellence initiatives to be achieved over a multiyear time frame. Building on the results achieved in FY20, management has established a goal of $350-$400 million for the current fiscal year. For the nine-months ended March 31, 2021, CommonSpirit is on track to surpass its annual synergy goal. While full realization of synergies and operating improvements may be delayed beyond the initial 2023 goal due to operating disruption from the COVID-19 pandemic, leadership has affirmed these goals as a priority for the System.

Fiscal year 2021 initiatives include the acceleration of areas such as corporate labor reductions and consolidation of corporate and other real estate assets, as well as ongoing consolidation and insourcing in areas such as human resources, information technology, and revenue cycle. Operational best practice work is focused on supply chain (optimization of the single group purchasing organization), labor productivity, pharmacy, clinical engineering, revenue cycle and ancillary services. The Physician Enterprise exceeded expectations driven by the rapid pivot to virtual care revenue cycle initiatives and population health. In addition, the debt financing transactions, which closed in August 2019 and October 2020, respectively, produced additional net present value and cash flow savings, which were not included on the FY20 and FY21 synergy goals.

The organization reorganized its division structure, transitioning from 13 to 9 operating divisions in January 2021 in an effort to standardize best practices, more quickly scale new programs, and recognize operational efficiencies across the organization. Additional integration work that could potentially streamline the System and contribute to long-term sustainability includes a strategic portfolio assessment that is currently ongoing at the leadership and Board level.

COMMONSPIRIT HEALTH

UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

For the Three and Nine-Month Periods Ended March 31, 2021 and 2020

COMMONSPIRIT HEALTH

TABLE OF CONTENTS

COMMONSPIRIT HEALTH

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2021 AND JUNE 30, 2020
(in millions)

Assets	As of March 31, 2021 (Unaudited)	As of June 30, 2020
Current assets:		
Cash and cash equivalents	$ 3,942	$ 5,674
Short-term investments	4,303	2,715
Assets limited as to use	620	1,172
Patient accounts receivable, net	4,371	3,581
Broker receivables for unsettled investment trades	528	199
Provider fee receivable	1,239	1,142
Assets held for sale	422	-
Other current assets	1,655	1,622
Total current assets	17,080	16,105
Assets limited as to use:		
Designated assets for:		
Capital projects and other	11,897	7,393
Held for self-insured claims	1,756	1,557
Under bond indenture agreements for debt service	33	19
Donor-restricted	998	861
Other	748	597
Less amount required to meet current obligations	(620)	(1,172)
Assets limited as to use, net	14,812	9,255
Property and equipment, net	15,701	15,233
Right-of-use operating lease assets	1,868	1,828
Ownership interests in health-related activities	2,994	3,188
Goodwill	287	274
Intangible assets, net	785	700
Other long-term assets, net	186	190
Total assets	$ 53,713	$ 46,773

(Continued)

COMMONSPIRIT HEALTH

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2021 AND JUNE 30, 2020
(in millions)

Liabilities and Net Assets	As of March 31, 2021 (Unaudited)	As of June 30, 2020
Current liabilities:		
Current portion of long-term debt	$ 754	$ 1,079
Demand bonds subject to short-term liquidity arrangements	247	821
Accounts payable	1,387	1,436
Accrued salaries and benefits	1,686	1,460
Self-insured reserves and claims	437	407
Broker payables for unsettled investment trades	684	302
Liabilities held for sale	66	-
Provider fee payables	421	421
Operating lease liabilities	268	274
Other accrued liabilities - current	2,839	4,176
Total current liabilities	8,789	10,376
Other liabilities - long-term:		
Self-insured reserves and claims	1,045	1,129
Pension and other postretirement benefit liabilities	5,897	5,553
Derivative instruments	182	277
Operating lease liabilities	1,755	1,701
Other accrued liabilities - long-term	2,576	1,002
Total other liabilities - long-term	11,455	9,662
Long-term debt, net of current portion	14,582	13,140
Total liabilities	34,826	33,178
Net assets:		
Without donor restrictions - attributable to CommonSpirit Health	16,770	12,317
Without donor restrictions - noncontrolling interests	1,101	419
With donor restrictions	1,016	859
Total net assets	18,887	13,595
Total liabilities and net assets	$ 53,713	$ 46,773

See notes to unaudited condensed consolidated financial statements.

COMMONSPIRIT HEALTH

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

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2021	2020	2021	2020
Operating revenues:				
Net patient revenue	$ 7,355	$ 7,179	$ 21,411	$ 20,536
Premium revenue	305	288	899	857
Revenue from health-related activities, net	98	(11)	267	78
Other operating revenue	1,063	328	2,218	913
Contributions	22	21	50	55
Total operating revenues	8,843	7,805	24,845	22,439
Operating expenses:				
Salaries and benefits	4,175	3,776	11,766	11,109
Supplies	1,300	1,196	3,833	3,547
Purchased services and other	2,335	2,440	6,705	6,575
Depreciation and amortization	380	411	1,110	1,140
Interest expense, net	114	110	333	342
Special charges and other costs	-	17	29	58
Total operating expenses	8,304	7,950	23,776	22,771
Operating income (loss)	539	(145)	1,069	(332)
Nonoperating income (loss):				
Investment income (loss), net	636	(1,098)	2,448	(535)
Loss on early extinguishment of debt	-	-	(12)	(112)
Income tax expense	(103)	(6)	(133)	(25)
Change in fair value and cash payments of interest rate swaps	103	(179)	145	(191)
Contribution from business combination	517	-	1,026	27
Other components of net periodic postretirement costs	15	29	44	87
Other	2	(16)	11	(13)
Total nonoperating income (loss), net	1,170	(1,270)	3,529	(762)
Excess (deficit) of revenues over expenses	$ 1,709	$ (1,415)	$ 4,598	$ (1,094)
Less excess of revenues over expenses attributable to noncontrolling interests	49	32	192	94
Excess (deficit) of revenues over expenses attributable to CommonSpirit Health	$ 1,660	$ (1,447)	$ 4,406	$ (1,188)

(Continued)

COMMONSPIRIT HEALTH

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

	Without Donor Restrictions			
	Attributable to CommonSpirit Health	Noncontrolling Interests	With Donor Restrictions	Total Net Assets
Balance, December 31, 2019	$ 14,707	$ 525	$ 914	$ 16,146
Excess (deficit) of revenues over expenses	(1,447)	32	-	(1,415)
Change in accounting principle	-	-	-	-
Contributions	-	-	22	22
Net assets released from restrictions for capital	10	-	(10)	-
Net assets released from restrictions for operations and other	-	-	(7)	(7)
Loss from discontinued operations, net	(7)	-	-	(7)
Other	(2)	(16)	(74)	(92)
Increase (decrease) in net assets	(1,446)	16	(69)	(1,499)
Balance, March 31, 2020	13,261	541	845	14,647
Balance, December 31, 2020	$ 15,082	$ 1,096	$ 929	$ 17,107
Excess of revenues over expenses	1,660	49	-	1,709
Contributions	-	-	21	21
Contribution from business combination	-	-	68	68
Net assets released from restrictions for capital	12	-	(12)	-
Net assets released from restrictions for operations and other	-	-	(17)	(17)
Change in funded status of pension and other postretirement benefit plans	(1)	-	-	(1)
Loss from discontinued operations, net	(1)	-	-	(1)
Other	18	(44)	27	1
Increase in net assets	1,688	5	87	1,780
Balance, March 31, 2021	$ 16,770	$ 1,101	$ 1,016	$ 18,887

(Continued)

COMMONSPIRIT HEALTH

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

	Without Donor Restrictions			
	Attributable to CommonSpirit Health	Noncontrolling Interests	With Donor Restrictions	Total Net Assets
Balance, June 30, 2019	$ 14,428	$ 486	$ 877	$ 15,791
Excess (deficit) of revenues over expenses	(1,188)	94	-	(1,094)
Change in accounting principle	152	-	-	152
Contributions	-	-	78	78
Net assets released from restrictions for capital	28	-	(28)	-
Net assets released from restrictions for operations and other	-	-	(29)	(29)
Loss from discontinued operations, net	(171)	-	-	(171)
Other	12	(39)	(53)	(80)
Increase (decrease) in net assets	(1,167)	55	(32)	(1,144)
Balance, March 31, 2020	$ 13,261	$ 541	$ 845	$ 14,647
Balance, June 30, 2020	$ 12,317	$ 419	$ 859	13,595
Excess of revenues over expenses	4,406	192	-	4,598
Contributions	-	-	74	74
Contribution from business combination	-	573	73	646
Net assets released from restrictions for capital	22	-	(22)	-
Net assets released from restrictions for operations and other	-	-	(35)	(35)
Change in funded status of pension and other postretirement benefit plans	(1)	-	-	(1)
Gain from discontinued operations, net	-	-	-	-
Other	26	(83)	67	10
Increase in net assets	4,453	682	157	5,292
Balance, March 31, 2021	$ 16,770	$ 1,101	$ 1,016	$ 18,887

See notes to unaudited condensed consolidated financial statements.

COMMONSPIRIT HEALTH

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

	Nine-Month Periods Ended March 31,	
	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 5,292	$ (1,144)
Adjustments to reconcile change in net assets to cash used in operating activities:		
Loss on early extinguishment of debt	12	112
Depreciation and amortization	1,110	1,140
Changes in equity of health-related entities	(267)	(78)
Contribution from business combination	(1,026)	(27)
Net assets related to business combination	(73)	-
Net (gain) loss on disposal of assets	(75)	65
Noncash impact of change in accounting principle	-	(152)
Change in fair value of swaps	(202)	162
Change in funded status of pension and other postretirement benefit plans	1	(21)
Pension cash contributions	(4)	(24)
Changes in certain assets and liabilities:		
Accounts receivable, net	(673)	(83)
Accounts payable	(57)	(83)
Self-insured reserves and claims	(65)	(2)
Accrued salaries and benefits	208	(159)
Changes in broker receivables/payables for unsettled investment trades	53	(121)
Provider fee assets and liabilities	(96)	(156)
Other accrued liabilities	(1,556)	70
Prepaid and other current assets	(489)	(233)
Other, net	1,988	(27)
Cash provided by (used in) operating activities before net change in investments and assets limited as to use	4,081	(761)
Net (increase) decrease in investments and assets limited as to use	(5,892)	821
Cash provided by (used in) operating activities	(1,811)	60

(Continued)

COMMONSPIRIT HEALTH

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

	Nine-Month Periods Ended March 31,	
	2021	2020
Cash flows from investing activities:		
Purchases of property and equipment	(863)	(839)
Investments in health-related activities	(143)	(121)
Business acquisitions, net of cash acquired	208	(12)
Proceeds from asset sales	918	219
Cash distributions from health-related activities	260	90
Other, net	(143)	(60)
Cash provided by (used in) investing activities	237	(723)
Cash flows from financing activities:		
Borrowings	2,348	8,703
Repayments	(2,539)	(7,485)
Loss on early extinguishment of debt	(12)	(112)
Swaps cash collateral posted	107	(115)
Distributions to noncontrolling interests and other	(62)	(48)
Cash provided by (used in) financing activities	(158)	943
Net increase (decrease) in cash and cash equivalents	(1,732)	280
Cash and cash equivalents at beginning of period	5,674	1,569
Cash and cash equivalents at end of period	$ 3,942	$ 1,849
Components of cash and cash equivalents and investments at end of year:		
Cash and cash equivalents	$ 3,942	$ 1,849
Short-term investments	4,303	2,514
Designated assets for capital projects and other	11,897	6,820
Total	$ 20,142	$ 11,183
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 298	$ 295
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through finance lease or note payable	$ 150	$ 76
Investments in health-related activities	$ 106	$ 60
Accrued purchases of property and equipment	$ 78	$ 114

See notes to unaudited condensed consolidated financial statements.

1. ORGANIZATION

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

CommonSpirit Health owns and operates health care facilities in 21 states and is the sole corporate member (parent corporation) of other primarily nonprofit corporations that are exempt from federal and state income taxes. CommonSpirit Health is comprised of more than 1,000 care sites, consisting of 140 hospitals, including academic health centers, major teaching hospitals, and critical access facilities, community health services organizations, accredited nursing colleges, home health agencies, living communities, a medical foundation and other affiliated medical groups, and other facilities and services that span the inpatient and outpatient continuum of care. CommonSpirit Health also has offshore and onshore captive insurance companies. The accompanying condensed consolidated financial statements include CommonSpirit Health and its direct affiliates and subsidiaries (together, "CommonSpirit").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis for Presentation – The unaudited condensed consolidated financial statements of CommonSpirit as of March 31, 2021, and for the three and nine-month periods ended March 31, 2021 and 2020, should be read in conjunction with the audited financial statements of CommonSpirit as of and for the year ended June 30, 2020. Certain footnotes and disclosures that are required in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted as they substantially duplicate the disclosures contained in the annual financial statements.

Operating results for the three and nine-month periods ended March 31, 2021 and 2020, are not necessarily indicative of the results that may be expected for any future period or for a full fiscal year as revenues, expenses, assets, and liabilities can vary during each quarter of the year.

Use of Estimates – The preparation of financial statements in conformity with 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. Actual results could differ from those estimates.

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

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

Subsequent changes that are determined to be the result of an adverse change in a third-party payor's ability to pay are recorded as bad debt expense in purchased services and other in the accompanying condensed

consolidated statements of operations and changes in net assets. Bad debt expense for the three and nine-month periods ended March 31, 2021 and 2020 was not significant.

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

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

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

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

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

Net patient revenue includes estimated settlements under payment agreements with third-party payors. Settlements with third-party payors are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined. These settlements are estimated and evaluated based on the terms of the payment agreement with the payor, correspondence from the payor, and historical settlement activity. See Note 5.

Recent Accounting Pronouncements – In July 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-11, Leases (Topic 842), which enhanced ASU No. 2016-02, Leases (Topic 842), and amendments thereto. The guidance of these ASUs requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet and allows for an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements. The guidance was effective for CommonSpirit for the annual period ended June 30, 2020, and interim periods beginning July 1, 2019. The guidance was adopted using the modified retrospective approach. Prior period financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. CommonSpirit has elected the transition practical expedient package to carryforward historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. CommonSpirit recognized a $152 million cumulative effect transition adjustment increase to net assets without donor restrictions as of March 31, 2020, related to the adoption of ASU 2016-02. See Note 11.

Subsequent Events – CommonSpirit has evaluated subsequent events occurring between the end of the most recent fiscal quarter and May 14, 2021, the date the unaudited condensed consolidated financial statements were issued.

3. ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

Acquisitions – In November 2020, a consolidated affiliate of CommonSpirit, Dignity Community Care ("DCC"), and Yavapai Community Hospital Association, dba Yavapai Regional Medical Center ("YRMC"), an Arizona nonprofit corporation, effected a business combination which transferred the sole membership of YRMC and its applicable subsidiaries to DCC for no cash consideration. YRMC owns and operates two acute care hospitals, a regional wellness center, an imaging center, a network of primary and specialty physician clinics, and a fundraising foundation in the Prescott, Arizona area. The transaction resulted in the recognition of a $509 million gain, recorded as contribution from business combination in nonoperating income (loss) in the accompanying condensed consolidated statements of operations and changes in net assets, and $5 million was recorded as contribution from business combination for net assets with donor restrictions, calculated as the fair value of the

excess of identifiable assets acquired over liabilities assumed, determined based on Level 3 inputs, including estimated future cash flows and probability weighted performance assumptions.

In January 2021, CommonSpirit formed a new integrated health system through the creation of a Joint Operating Company, Virginia Mason Franciscan Health ("VMFH"), a Washington nonprofit corporation, bringing together CommonSpirit Franciscan Health System and Virginia Mason Health System ("VMHS"). With the addition of an acute hospital and other care sites from VMHS, VMFH now operates eleven hospitals and nearly 300 sites of care within the Pacific Northwest. The Joint Operating Company is a controlled subsidiary of CommonSpirit. Based on the terms of the JOC agreement, CommonSpirit will consolidate the operations of VMHS, and accounted for the business combination using the acquisition method of accounting. The agreement did not include consideration, and resulted in the recognition of a $517 million gain recorded as contribution from business combination in nonoperating income (loss) in the accompanying condensed consolidated statements of operations and changes in net assets, and $68 million was recorded as contribution from business combination for net assets with donor restrictions, calculated as the fair value of the excess of identifiable assets acquired over liabilities assumed, determined based on Level 3 inputs, including estimated future cash flows and probability weighted performance assumptions.

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

	YRMC	VMHS
Current assets	$ 226	$ 391
Assets limited as to use	124	423
Property and equipment, net	272	575
Intangible assets, net	58	32
Other long-term assets, net	5	128
Current liabilities	(33)	(251)
Other liabilities - long-term	(7)	(240)
Long-term debt, net of current portion	(131)	(473)
Total contribution of net assets	$ 514	$ 585

In January 2021, CommonSpirit entered into a nonbinding letter of intent with Essentia Health to negotiate a definitive affiliation agreement to transfer ownership of CommonSpirit's ministries in North Dakota and Minnesota. The CommonSpirit ministries in North Dakota and Minnesota include 13 critical access hospitals and one full service tertiary hospital, along with associated clinics and home health operations. The assets and liabilities are classified as held for sale in the accompanying condensed consolidated balance sheet. See detailed summary below.

In August 2019, a consolidated subsidiary of CommonSpirit, St. Joseph Health in Texas, acquired the assets of College Station Medical Center ("CSMC"). CSMC includes a 167-bed hospital, is a licensed Level III Trauma center, and has accredited services, which include joint replacement, chest pain, stroke, and sleep specialty services. The transaction resulted in the recognition of a $35 million gain, of which $27 million was recorded as of March 31, 2020, in the condensed consolidated statements of operations and changes in net assets, calculated as the fair value of the excess of identifiable assets acquired over liabilities assumed, determined based on Level 3 inputs, including estimated future cash flows and probability weighted performance assumptions.

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

In November 2019, CommonSpirit completed its divestiture of the acute care operations of Jewish Hospital and St. Mary's Healthcare, Inc. ("JHSMH") to the University of Louisville. The divestiture resulted in a total loss of $121 million, of which $114 million is reflected in loss from discontinued operations, net, in the accompanying

condensed consolidated statements operations and changes in net assets as of March 31, 2020, and $7 million is reflected in other operating revenue in the accompanying condensed consolidated statements of operations and changes in net assets for the three and nine-month periods ended March 31, 2020. Included in the loss and as part of the divestiture agreement, CommonSpirit committed to quarterly support payments to the University of Louisville over a four year period, totaling $40 million. As of March 31, 2021, the remaining future commitment is $24 million, of which the current portion of $10 million is recorded in other accrued liabilities - current, and the long term portion of $14 million is reflected in other accrued liabilities - long-term in the accompanying condensed consolidated balance sheet.

A summary of major classes of assets and liabilities held for sale is presented below (in millions):

	As of March 31, 2021
Other current assets	$ 22
Assets limited as to use, donor restricted	18
Property and equipment, net	278
Other long-term assets held for sale	104
Total assets held for sale	$ 422
Other accrued liabilities	$ 11
Other long-term liabilities held for sale	55
Total liabilities held for sale	$ 66

4. COVID-19 PANDEMIC

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

The CARES Act provides stimulus in the form of financial aid to cover extensive emergency funding to hospitals and providers through existing mechanisms to prevent, prepare for, and respond to COVID-19. Through March 31, 2021, CommonSpirit has received approximately $1.5 billion under the CARES Act in the form of grants as reimbursement through the Public Health and Social Services Emergency Fund for lost revenues attributable to COVID-19. These payments are recorded as other operating revenues, as earned. To date, $1.4 billion has been recognized within other operating revenue, of which $133 million and $617 million were recognized during the three and nine-month periods ended March 31, 2021, respectively, and $76 million is recorded as deferred revenue in other accrued liabilities-current in the condensed consolidated balance sheet as of March 31, 2021. CommonSpirit will continue to monitor the terms and conditions of the CARES Act funding and the impact of the pandemic on revenues and expenses. These funds are not required to be repaid upon attestation and compliance with certain terms and conditions.

CommonSpirit also received $2.8 billion in funds under the Medicare Accelerated and Advance Payment Program. These payments are advances that will be recouped by withholding future Medicare fee-for-service payments for claims until such time as the full accelerated payment has been recouped. As of March 31, 2021, the terms and conditions in effect prescribed that any outstanding balance remaining after 29 months from date of receipt are subject to interest of 4%. As such, $1.2 billion is recorded in other accrued liabilities - current, and $1.6 billion is recorded in other accrued liabilities - long-term.

CommonSpirit has deferred approximately $416 million of employer payroll taxes through March 31, 2021, pursuant to the Paycheck Protection Program and Health Care Enhancement Act, of which, $208 million is recorded in accrued salaries and benefits, and $208 million is recorded in other accrued liabilities - long-term.

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

5. NET PATIENT REVENUE

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

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2021	2020	2021	2020
Government	$ 3,823	$ 3,940	$ 10,932	$ 10,419
Contracted	2,912	2,726	8,760	8,603
Self-pay and other	620	513	1,719	1,514
	$ 7,355	$ 7,179	$ 21,411	$ 20,536

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

6. INVESTMENTS AND 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.

In April 2020, CommonSpirit formed the CommonSpirit Health Operating Investment Pool LLC (the "CSH OIP"), a consolidated entity, and beginning in October 2020, the investment portfolios of Dignity Health and its

related organizations and the assets of the CHI Operating Investment Program, L.P. (the "Program") were transferred to the CSH OIP. The formation of the CSH OIP included $573 million recorded in the three-month period ended December 31, 2020, as a contribution from business combination for net assets attributable to non-controlling interests, in the accompanying condensed consolidated statements of operations and changes in net assets.

The following represents CommonSpirit assets and liabilities, including CSH OIP, measured at fair value or at the net asset value ("NAV") practical expedient on a recurring basis and certain other assets accounted for under the equity method (in millions):

	March 31, 2021			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Cash and short-term investments	$ 471	$ 204	$ -	$ 675
U.S. government securities	1,144	577	-	1,721
U.S. corporate bonds	78	1,408	-	1,486
U.S. equity securities	3,083	3	-	3,086
Foreign government securities	-	248	-	248
Foreign corporate bonds	-	867	-	867
Foreign equity securities	2,586	1	-	2,587
Asset-backed securities	2	131	-	133
Private equity	-	1	65	66
Real estate	42	1	-	43
Community Investment Program	-	-	128	128
Other investments	184	190	-	374
Assets measured at fair value	$ 7,590	$ 3,631	$ 193	11,414
Assets at NAV:				
U.S. corporate bonds				1,616
U.S. equity securities				753
Foreign corporate bonds				239
Foreign equity securities				1,086
Private equity				999
Hedge funds				2,427
Real estate				690
Total assets				$ 19,224
Liabilities				
Derivative instruments	$ -	$ 428	$ -	$ 428
Other	3	-	84	87
Total liabilities	$ 3	$ 428	$ 84	$ 515

	As of June 30, 2020			
	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	$ 308	$ 106	$ -	$ 414
U.S. government securities	653	213	-	866
U.S. corporate bonds	51	513	-	564
U.S. equity securities	1,033	5	-	1,038
Foreign government securities	-	6	-	6
Foreign corporate bonds	1	87	-	88
Foreign equity securities	855	1	-	856
Asset-backed securities	-	31	-	31
Private equity	-	-	66	66
Real estate	7	1	-	8
DH Community Investment Program	-	-	83	83
Other investments	61	35	1	97
Assets measured at fair value	$ 2,969	$ 998	$ 150	4,117
Assets at NAV:				
U.S. corporate bonds				416
U.S. equity securities				198
Foreign corporate bonds				106
Foreign equity securities				619
Private equity				621
Hedge funds				1,269
Real estate				270
Total assets				$ 7,616
Liabilities				
Derivative instruments	$ -	$ 630	$ -	$ 630
Other	5	-	75	80
Total liabilities	$ 5	$ 630	$ 75	$ 710

Assets and liabilities measured at fair value on a recurring basis reflected in the table above are reported in short-term investments, assets limited as to use, current liabilities and other liabilities in the accompanying condensed consolidated balance sheets.

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

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

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

The fair value of collateral held under securities lending program is classified as Level 2. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include noncash collateral of $259 million and $127 million as of March 31, 2021 and June 30, 2020, respectively.

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

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

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 March 31, 2021 (in millions):

		As of March 31, 2021			
		NAV Practical Expedient	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Private equity	(1)	$ 999	$ 425	-	-
Multi-strategy hedge funds	(2)	2,427	-	Weekly, Monthly, Quarterly, Semi-annually, Annually	3 - 90 days
Real estate	(3)	690	76	Quarterly	60 - 90 days
Commingled funds - debt securities	(4)	1,855	13	Daily, Monthly, Quarterly	1 - 90 days
Commingled funds - equity securities	(5)	1,839	-	Daily, Weekly, Bi-Weekly, Monthly, Quarterly	2 - 90 days
Total		$ 7,810	$ 514		

(1) This category includes private equity funds that specialize in providing capital to a variety of investment groups, including, but not limited to, venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at March 31, 2021, to be over the next 12 years.

(2) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term, risk-adjusted absolute returns. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. The following table reflects the various redemption frequencies, notice periods, and any applicable lock-up periods or gates to redemption as of March 31, 2021:

Percentage of the Value of Category (2)		Redemption	Redemption Notice	Redemption Locked Up Until	Redemption Gate % of Account
Total	Subtotal	Frequency	Period	(if applicable)	(if applicable)
12.3%	11.4%	Annually	60 days	2 years	up to 25.0% - 50.0%
	0.9%	Annually	75 days	-	-
0.1%	0.1%	Semi-annually	75 - 90 days	2 years	-
37.5%	2.2%	Quarterly	30 - 45 days	2 years	up to 20.0%
	21.9%	Quarterly	55- 65 days	2 years	up to 10.0% - 25.0%
	13.4%	Quarterly	90 days	-	up to 12.5% - 25.0%
33.9%	6.7%	Monthly	5 days	-	up to 20.0%
	19.3%	Monthly	30 - 50 days	-	up to 16.7% - 20.0%
	7.9%	Monthly	60 - 90 days	-	up to 10.0% - 20.0%
16.2%	16.2%	Weekly	3 days	-	-

(3) This category includes investments in real estate funds that invest primarily in institutional-quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts. Investments representing 21% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at March 31, 2021, to be over the next 12 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 9% of the value of investments in this category do not have provisions for redemptions during the life of these funds. Distributions will be received as the underlying investments of the funds are liquidated, estimated at March 31, 2021, to be over the next four years.

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

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

The following represents assets and liabilities of the Program in its entirety, of which CHI held 89% as of June 30, 2020 measured at fair value or at the NAV practical expedient on a recurring basis and certain other assets accounted for under the equity method (in millions):

	June 30, 2020			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Short-term investments	$ 12	$ 366	$ -	$ 378
Commercial paper	-	128	-	128
Common stocks	1,961	1	-	1,962
Mutual funds and exchange-traded funds	27	-	-	27
Preferred stocks	7	-	-	7
Fixed-income funds	9	532	-	541
Corporate bonds	-	472	-	472
Asset-backed securities	-	371	-	371
U.S. government bonds:				
U.S. treasury inflation indexed bonds	36	-	-	36
U.S. treasury notes	109	-	-	109
Other	-	19	-	19
Foreign government bonds	-	59	-	59
CHI Direct Community Investment Program	-	-	51	51
Foreign currency exchange contracts	-	175	-	175
Term loans	-	169	1	170
Assets measured at fair value	$ 2,161	$ 2,292	$ 52	4,505
Assets at NAV:				
Hedge funds				285
Real estate				387
Venture capital/private equity				425
Total assets				$ 5,602
Liabilities - foreign currency exchange contracts	$ -	$ 176	$ -	$ 176

7. GOODWILL

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.

The changes in the carrying amount of goodwill are as follows (in millions):

	As of March 31, 2021	As of June 30, 2020
Balance at beginning of period	$ 274	$ 242
Addition from acquisitions	9	32
Acquisition accounting and other adjustments	4	-
Balance at end of period	$ 287	$ 274

8. INTANGIBLE ASSETS, NET

Intangible assets reported in the accompanying condensed consolidated balance sheets consist primarily of amounts for managed care contracts, trade names, management agreements, noncompete agreements, and other contracts related to certain business combinations accounted for under the acquisition method. Certain intangible assets have indefinite lives, and others are amortized over estimated useful lives ranging up to 25 years using the straight-line method. The aggregate amount of amortization expense related to intangible assets subject to amortization is $3 million and $3 million for the three-month periods ended March 31, 2021 and 2020, respectively and $8 million and $8 million for the nine-month periods ended March 31, 2021 and 2020, respectively.

Intangible assets, net, consist of the following (in millions):

	As of March 31, 2021			
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of Period	Amortization period
Trademarks	$ 645	$ -	$ 645	Indefinite
Trademark agreements	157	(53)	104	120 - 300 months
Noncompete agreements	16	(11)	5	24 months
Certificate of need	13	-	13	Indefinite
Other contracts	25	(7)	18	150 - 168 months
	$ 856	$ (71)	$ 785	

	As of June 30, 2020			
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of Period	Amortization period
Trademarks	$ 555	$ -	$ 555	Indefinite
Trademark agreements	156	(49)	107	120 - 300 months
Noncompete agreements	16	(9)	7	24 months
Certificate of need	13	-	13	Indefinite
Other contracts	23	(5)	18	150 - 168 months
	$ 763	$ (63)	$ 700	

The increase in trademarks during the nine-month period ended March 31, 2021, relates to the affiliations with YRMC and VMHS.

9. DEBT

As part of a debt consolidation plan and in conjunction with the issuance and sale of the 2019 tax-exempt and taxable bonds, the debt previously issued by CHI and Dignity Health was consolidated into a single unified credit group and debt structure in August 2019. The CHI Capital Obligation Document (the "COD") and the Dignity Health Master Trust Indenture were amended and restated, both to the new CommonSpirit Health Master Trust Indenture (the "CommonSpirit Health MTI"), with CHI and the Dignity Health Obligated Group each obtaining the necessary consents.

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

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

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

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

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

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

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

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

2020 Financing Activity – In July 2019, Dignity Health entered into $1.2 billion of bridge loans with three banks to advance refund certain CHI fixed rate bonds using acquisition financing treatment.

In August 2019, CommonSpirit issued $2.5 billion of tax-exempt fixed rate bonds, at a premium. Proceeds were used to refinance $1.1 billion of the bridge loans entered into in July 2019, refund $1.4 billion of tax-exempt fixed rate bonds that were placed in escrow and the bonds defeased, refund $322 million of commercial paper, and provide $106 million for general working capital purposes. The bonds mature in August 2044 and 2049.

In August 2019, CommonSpirit issued $621 million of tax-exempt put bonds, at a premium. Proceeds included $569 million of new money and were used to refund $161 million of tax-exempt fixed rate bonds, which were placed in escrow, and the bonds were defeased. The bonds mature in August 2049, with mandatory purchase dates in August 2024, 2025 and 2026.

In August 2019, CommonSpirit issued $3.3 billion of taxable fixed rate bonds at par, with repayments of $770 million, $915 million, $700 million (insured) and $930 million to be made in October 2024, 2029, 2049 (insured) and 2049, respectively. A portion of the proceeds were used to refund $1.5 billion of CHI tax-exempt fixed rate bonds, refinance $945 million of Dignity Health bank lines of credit, refinance $353 million of Dignity Health direct placement variable rate bank loans, refinance $338 million of Dignity Health taxable bonds, refinance $137 million of the bridge loans, refund $41 million of Dignity Health tax-exempt fixed rate bonds, refinance $5 million of commercial paper, and pay cost of issuance expenses. Refunded bonds were placed in escrow and were defeased. The bonds were sold at par and mature in October 2049.

In September 2019, CommonSpirit renewed and extended three letters of credit issued by Dignity Health in October 2015 to support VRDBs of $76 million, $60 million, and $60 million, to October 2022. This did not change the terms, provisions or classification of the VRDBs.

In November 2019, CommonSpirit renewed and extended a letter of credit issued by Dignity Health in December 2015 to support VRDBs of $57 million to December 2023. This did not change the terms, provisions or classification of the VRDBs.

In December 2019, CommonSpirit renewed a $65 million line of credit used to support its self-liquidity program scheduled to mature in December 2019, to December 2020.

In February 2020, CommonSpirit renewed and extended a letter of credit issued by Dignity Health in March 2018 to support VRDBs of $90 million to March 2023. This did not change the terms, provisions or classification of the VRDBs.

In February 2020, CommonSpirit drew $100 million on its syndicated line of credit for working capital purposes.

In March 2020, CommonSpirit renewed a $75 million line of credit used to support its self-liquidity program scheduled to mature in March 2020, to June 2020.

In March 2020, CommonSpirit drew $500 million on its syndicated line of credit for working capital purposes.

In April 2020, CommonSpirit drew $200 million on its syndicated line of credit for working capital purposes.

In April 2020, CommonSpirit refinanced a $250 million fully drawn line of credit scheduled to mature in August 2020, into a fixed rate term loan to mature in April 2025.

In April 2020, CommonSpirit provided for the redemption in full of $35 million of the County of Montgomery, Ohio Health Care and Multifamily Housing Improvement and Refunding Revenue Bonds, Series 2010 (St. Leonard) issued for the benefit of one of its affiliates using $31 million of proceeds from a draw on its syndicated line of credit and its own funds.

10. DERIVATIVE INSTRUMENTS

CommonSpirit has a portfolio of derivative agreements to hedge interest rate risk and manage cost of capital. All swaps held by the historical organizations are obligations to the CommonSpirit Health MTI, although they are kept in the name of the legacy organization. The following table shows the outstanding notional amount of derivative instruments held by CommonSpirit measured at fair value, net of credit value adjustments, as reported in the accompanying condensed consolidated balance sheets (in millions):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			March 31, 2021	
Derivatives not designated as hedges				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 2,117	$ (429)
Risk participation agreements	2022 - 2025 with extension options	SIFMA plus spread	510	-
Total return swap	2024 - 2030	SIFMA plus spread	349	1
Total derivative instruments			2,976	(428)
Cash collateral			-	246
Derivative instruments, net			$ 2,976	$ (182)
			June 30, 2020	
Derivatives not designated as hedges				
Interest rate swaps	2024 - 2047	3.2% - 4.0%	$ 2,189	$ (629)
Risk participation agreements	2022 - 2025, with extension options	SIFMA plus spread	510	-
Total return swaps	2021 - 2030	SIFMA plus spread	394	(1)
Total derivative instruments			3,093	(630)
Cash collateral			-	353
Derivative instruments, net			$ 3,093	$ (277)

CHI held $1.3 billion notional amount of interest rate swaps at March 31, 2021, which have a negative fair value of $260 million. CHI posted $246 million of collateral against the fair value of these swaps.

The CHI interest rate swaps mature between 2024 and 2047. CHI 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 the circumstances. All of 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, failure to comply with or perform obligations under the agreements, bankruptcy or insolvency, and defaults under other agreements (cross-default provision). The termination events include credit ratings dropping below Baa3/BBB- (Moody's/Standard & Poor's).

Based upon CHI's swap agreements in place as of March 31, 2021, a reduction in CHI's credit rating to BBB or below would obligate CHI to post additional cash collateral of $14 million. Generally, it is CHI's policy that all counterparties have an AA rating or better. The swap agreements generally require CHI to provide collateral if

CHI's liability, determined on a fair value basis, exceeds a specified threshold that varies based upon the rating of CHI's long-term indebtedness.

CHI has total return swaps in the notional amount of $79 million and a fair value of $0 million at March 31, 2021.

Of the $849 million notional amount of interest rate swaps held by Dignity Health at March 31, 2021, $160 million are insured and have a negative fair value of $50 million. In the event the insurer is downgraded below A2/A or A3/A- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps if Dignity Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If the insurer is downgraded below the thresholds noted above and Dignity Health is downgraded below Baa3/BBB- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps.

Dignity Health has $689 million of interest rate swaps that are not insured as of March 31, 2021. While Dignity Health has the right to terminate the swaps prior to maturity for any reason, counterparties have various rights to terminate, including swaps in the outstanding notional amount of $100 million at each five-year anniversary date commencing in March 2023 and swaps in the notional amount of $181 million at each five-year anniversary date commencing in September 2023. Swaps in the notional amounts of $68 million and $60 million have mandatory puts in March 2023 and March 2028, respectively. The termination value would be the fair value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps have a negative fair value of $64 million at March 31, 2021. The remaining uninsured interest rate swaps in the notional amount of $280 million have a negative fair value of $55 million as of March 31, 2021.

Dignity Health has floating rate derivatives in the notional amount of $780 million as of March 31, 2021. Risk participation agreements in the notional amount of $510 million have a fair value deemed immaterial as of March 31, 2021. Dignity Health has a total return swap in the notional amount of $270 million. The total return swap has a fair value of $1 million at March 31, 2021.

All of Dignity Health's 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, failure to comply with or perform obligations under the agreements, bankruptcy or insolvency, and defaults under other agreements (cross-default provision). Other than the insured swaps described above, the termination events include credit ratings dropping below Baa1/BBB+ (Moody's/Standard & Poor's) by either party on the notional amount of $181 million of swaps and below Baa3/BBB- on a notional amount of $1.3 billion, and Dignity Health's cash on hand dropping below 75 days.

In January 2021, CommonSpirit renewed a total return swap in the notional amount of $25 million to reduce interest expense associated with fixed rate debt. CommonSpirit receives a fixed rate and pays a variable rate of SIFMA plus a spread. The total return swap will expire in January 2024.

In February 2021, CommonSpirit extended the mandatory put date on the $60 million notional swap from March 2021 to March 2028.

As part of the August 2019 debt consolidation, all swaps and derivative bank counterparties consented to the CommonSpirit MTI.

11. LEASES

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

include an option to buy the underlying asset at or a short time prior to the termination of the lease. All such options are at CommonSpirit's discretion and are evaluated at the commencement of the lease, with only those that are reasonably certain of exercise included in determining the appropriate lease term and lease type.

Operating lease balances are included within discreet financial statement line items within the condensed consolidated balance sheets as of March 31, 2021, and June 30, 2020. Finance lease right of use assets, current lease liabilities and long-term lease liabilities as of March 31, 2021 are $293 million, $37 million, and $339 million, respectively. Finance lease right of use assets, current lease liabilities and long-term lease liabilities as of June 30, 2020, are $208 million, $30 million, and $225 million, respectively.

12. INTEREST EXPENSE, NET

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

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2021	2020	2021	2020
Interest and fees on debt	$ 120	$ 119	$ 358	$ 367
Capitalized interest expense	(6)	(9)	(25)	(25)
Interest expense, net	$ 114	$ 110	$ 333	$ 342

13. RETIREMENT PROGRAMS

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

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2021	2020	2021	2020
Service cost	$ 207	$ 176	$ 589	$ 526
Other nonservice net benefit credits	(15)	(29)	(44)	(87)
Retirement and postretirement plans expense	$ 192	$ 147	$ 545	$ 439

14. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

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

General – The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, the rules governing licensure, accreditation, controlled substances, privacy, government program participation, government reimbursement, antitrust, anti-kickback, prohibited referrals by physicians, false claims, and in the case of tax-exempt organizations, the requirements of tax exemption. Management believes CommonSpirit is materially in compliance with all applicable laws and

regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to future governmental interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Certain CommonSpirit entities have been contacted by governmental agencies regarding alleged violations of Medicare practices for certain services. In the opinion of management after consultation with legal counsel, the ultimate outcome of these matters will not have a material adverse effect on CommonSpirit's consolidated financial statements.

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

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

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

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

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

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

The parties have agreed in principle to resolve the litigation. An unopposed motion for approval of the terms of settlement is currently pending before the court for approval. Management does not believe that the proposed settlement will have a material adverse effect on the financial position or results of operations of CommonSpirit.

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